

The emergence of dogma

“Adam Smith’s analysis constitutes
a totally unsuitable starting point for building a theory of development.”

Robert Brenner

The emerging European countries draw to attention the inconsistencies of Economics. The special type of evolution generated by the integration contradicts the main assumptions which have hypothesis value for strategy and economical policies.

The exceptional character of the transformations implied by the integration process originates in the dislodging of equilibriums functionalized by the condition of underdevelopment. The historical accommodation to the persistence of crises circumscribed to the periphery was manifested as a second nature to development, with low equilibrium marks taken as normal performances of the system. Because efficiency-wise nothing more could be done, what has been realized was declared as a guideline for efficiency.

In an accommodating way, the equilibrium was fixed on entropic criteria in order to flatten disequilibrium. Anyhow, the disequilibrium was not perceived as a possible break-up with the low state of functioning of the economic system. The idea of the favorable disequilibrium – a sort of Schumpeterian destruction – has avoided the area of the working hypotheses for strategies.

Getting fixated in the periphery – reproducing poor performances – has thus occurred naturally. Coming out of the periphery seemed a heresy. In no other way can there be explained the absence from the projects of the theme of the escape from periphery, as a formula of the own national and regional assumed effort. The known forms of escape were limited to the individual solution of abandoning ship.

Being in the integrative European system’s trailer truly reveals the dimension of the state of periphery. But also the difficulties of justifying trends in the Economics’ array of explanations appear at their full scale. Separating the evolution of correlative terms, like the increase of salaries or the growth of productivity, is shaping to be the most uncomfortable challenge for the orthodoxy of Economics.

Chains of effects with no rational support multiply in economic theory. There is no doubt – or there should be less and less doubt – that the effects specific to integrative systems modify behaviors which seemed regularities to closed systems, as well as to semi-opened ones or even open ones as national economies were, at different stages. And this is even more poignant as an integrative system also includes the periphery.

The strong force of integrative systems – maybe until now demonstrated only by the European Union – has as a consequence the lifting of the periphery to the performance levels of the nucleus. The concrete expression of the strong force of the European Union means the burning of stages in order to the escape from periphery. It is obvious that this supposes the defiance of classical correlations: salaries grow faster than productivity.

The miracle is exactly due to the strong force of the system, also combined with the force of attraction – perceived including in its psychological dimension. The escape from periphery takes the shape of a creative destruction of the orthodox correlations with which Economics operates.

The overthrowing of economical knowledge in the field of correlations bears a compensational aspect which needs pointing out: the equity trends are implacably accompanied by the rationality trends. The unbeatable example is that the tendency of growing the salaries faster than the increase in productivity has as a flip-side the tendency of an accelerated increase of prices compared to the increase of salaries. If the speed of convergence of salaries is greater than the speed of convergence of productivity, the speed of convergence of prices is bigger than the speed of convergence of salaries.

The escape from periphery as a project of integration into the E.U. looks like a receding advancement: two steps forwards, one step backwards! What matters, essentially, is not the number of steps but the speed to which they are executed, for the advancement from the periphery towards the nucleus – as a level of performance – to take place according to people’s expectations, as a sense of cohesion.

In the interval defined by the escape from periphery the norms of interpreting dictionary economical knowledge are being abrogated.

Replacing the familiarity of equilibrium with the option for favorable disequilibrium, the only one in concordance with creative destruction, revolutionizes a state of spirit which would otherwise reproduce the state of underdevelopment.

There where surplus exists, the market manifests itself between parentheses or not at all.

Hic igitur lapis non est lapis.

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Compulsory Purchase in the Transitional Countries of Central and Eastern Europe

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***Abstract.** Until the ending of Communist rule in Central and Eastern Europe, the objective of compulsory purchase was the achievement of a socialist society in which the ownership of the means of production, including land, was to be collective rather than private. Compulsory purchase legislation and laws on ownership were used to expropriate private property. After 1990 the newly elected democratic governments changed the constitutions to permit and protect private ownership of land. However, compulsory purchase is essential in a market economy to deal with certain aspects of market failure. These include the need to facilitate the provision of collective goods, such as infrastructure and utility networks, and regeneration where the state may need to disrupt a prisoners' dilemma situation. In spite of their commitment to the inviolability of private property, the transitional economies have had to develop compulsory purchase procedures and means of assessing compensation.*

Key words: compulsory purchase; transitional economies; Bulgaria; Hungary; Romania; Russian Federation; United Kingdom.

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The processes that have been developed should, in principle, be fair, accountable and open and be compatible with the requirements of the European Convention on Human Rights. The procedures are generally plan-led with the plans having been developed by democratically accountable bodies. There is usually a separation between the acquiring and confirming body so that those affected can appeal against the terms of the acquisition. However, there do seem to be more limited opportunities to challenge the fundamental basis of a compulsory purchase order than is found in some Western European countries. Normally acquisition is by agreement so that the adversarial approach found in common law countries is not the norm. This places less significance on how the compensation is computed as far as the proprietor is concerned but not the taxpayer. For some countries compensation is based upon market values. Earlier in the transition process official values were used. In countries where public finances are under pressure or there were weaknesses in the way in which the state divested itself of its property and civil society is weak, there is the temptation to use administrative powers to secure the transfer of property to the state or to reduce the compensation that is paid. Whilst International and European Valuation Standards may have produced a degree of consensus amongst professional valuers as to how compensation should be determined, the state is not always a party to this.

1. Introduction

Between 1988 and 1990 Communist rule came to an end in Central and Eastern

Europe. The governments that took their place had a different ideological perspective on the private ownership of property. The private ownership of the means of production had previously been considered by Communist governments to be one of the hallmarks of capitalism. During the transition from centrally planned to market economies the countries in Central and Eastern Europe amended their constitutions so as to permit the private ownership of land and real estate and to protect the peaceful enjoyment of private property. For example, the Constitution of the Russian Federation, adopted in 1993, declared that private property rights were protected by law and should receive equal protection to state and municipal rights. The term nationalisation no longer appears in the Constitution, Civil Code, or other codes and laws. Similarly, Article 17 of the Constitution of the Republic of Bulgaria, adopted in 1991, guaranteed the inviolability of private property with expropriation only being permitted if the needs of the state or municipalities cannot otherwise be met and after fair compensation (Grover et al., 1999). Similar provisions exist in article 13 of the Hungarian Constitution (2003) and article 44 of the Romanian Constitution (2003). Private ownership of the means of production thus became lawful and protected. Property was returned to private ownership through privatisation and restitution. No longer did the state and collective bodies have a monopoly over the ownership of such property. If the state wished to make use of private property that the owner was unwilling to sell, it therefore needed to exercise powers of compulsory purchase. It could no longer just order a

change of use. Since private property rights were now protected, land could not be expropriated but, rather, fair compensation had to be paid. By implication, since real estate was now traded between willing buyers and sellers, the state ought to pay as compensation at least the price that a private purchaser would be willing to pay.

The transition from centrally planned to market economy involves the redirection of the state's powers of expropriation away from the pursuit of an ideology that is opposed to the legitimacy of the private ownership of the means of production towards using these powers to intervene in cases of market failure. Governments in market economies have powers to expropriate private property in order to manage property markets effectively in situations of market failure and in the interests of enhancing the welfare of their citizens. The challenge for transitional economies has been how to adapt systems of expropriation created to achieve the very different objective of destroying private property markets to the achievement of these new aims.

It is argued that the transition in compulsory purchase systems from centrally planned to market economies involves two challenges. One is the creation of procedures to expropriate private property that ensure that fundamental human rights – in particular, the peaceful enjoyment of private property – are not breached. Most of the transitional countries in Central and Eastern Europe have adopted the European Convention on Human Rights. Article 1 of Protocol 1 (Council of Europe 1952) states that no-one shall be deprived of his possessions except in the public interest, subject to the conditions provided for by law

and by the principles of international law. The other challenge is to provide for adequate compensation for those whose property has to be expropriated so that they are not made worse off by the process. Clearly the two processes are linked as the protection of human rights with respect to property requires not just a fair procedure for its expropriation but also adequate compensation. The Hicks-Kaldor adaptation of the Pareto welfare principle states that a project can be said unambiguously to increase welfare only where the gainers are able to compensate the losers and still be better off. Otherwise the gainers will have enriched themselves at the expense of the losers rather than society as a whole having become better off.

Whilst it is not a difficult process to create a fair system of compulsory purchase procedures that, for example, provides for legitimacy of the decision, transparency and openness in the process, and the right of victims to challenge the process and to appeal against the decision, ensuring that fair compensation is paid to the victims is a much more difficult process since it requires a sophisticated system for valuing losses. Moreover, this has had to be created in societies which have no recent history of valuing private property and in which valuation systems based on open market values for use in a variety of circumstances have had to be created from scratch.

2. The transition from expropriation to compulsory purchase

The constitutional protections for private property adopted after 1990 in the countries

of Central and Eastern Europe are in marked contrast to the Soviet era when private rights over real estate were largely abolished. The Second All-Russian Congress of Soviets in 1917 issued a decree on land which made all land in the Soviet Union the property of the State. The 1936 Federal Constitution placed an absolute prohibition on civil transactions relating to land. These provided the legal basis for the expropriation of private property that took place under Communism. The 1936 Soviet constitution was extended to Estonia, Latvia, Lithuania, and Eastern Poland after their annexation in 1940. It became the inspiration for the constitutions and legal structures put in place by the Communist governments of Central and Eastern Europe after they came to power between 1946 and 1949. For example, the Hungarian Constitution of 1949 was modelled on the 1936 Soviet one.

Private ownership of land was mainly restricted to small rural plots for personal cultivation and some residential property (Vondracek, 1975). The tenure rights that existed permitted the tillage of the land and the erection of buildings. State bodies had rights of operational management. In practice, there were significant variations between Communist countries as some governments pursued a policy of collectivisation, whilst others redistributed land from large estates to smallholders. For example, the proportion of agricultural land in individual tenure in 1990 was 77% in Poland and 92% in Slovenia, but only 5% in Slovakia and Latvia, 6% in Estonia and Hungary, and 9% in Lithuania (Lerman, 1999). In 1985 only 15% of Bulgarian housing was in state or municipal ownership

with most families purchasing their own housing (Hoffman, Koleva, 1993).

Under the Soviet system, the right to use land was allocated, and could be withdrawn, by the state. Compulsory purchase as such could not take place as private property rights capable of being expropriated no longer existed. Rather the state could withdraw, resume, or reallocate occupancy or use rights. The withdrawal of land occupancy could result in losses for which compensation was payable assessed by a commission. However, compensation was generally not paid by the state but by the body to whom the land was transferred (Vondracek, 1975). In other words, the beneficiary directly compensated the loser rather than the state compensating the loser on behalf of society. Losses that could be compensated included the value of expropriated buildings and crops, the costs of reinstatement at another location, the costs of tillage and improvement for which revenue had not been received, and damage to other buildings as a result of the expropriation. Thus, the Soviet system provided compensation for the loss of the occupier's immovable property, for disturbance, and for injurious affection, but not for the value of the land taken, since this was already the property of the state. The body from which the land was taken had enjoyed occupancy, but not ownership, rights and the compensation related to these.

The rules for valuing compensation were generally based upon depreciated replacement cost rather than the worth to the injured party. Thus compensation was based upon the labour embodied in the immovable and working capital lost rather than its

exchange value. Generally, physical losses were compensated but “there is very small room for compensation for worsening of land values owing to acts of public policy” (Vondracek, 1975, p. 238). Until the Kosygin reforms of 1965 (Dyker, 1992), which introduced the notion of profit as an incentive for enterprises, there was debate as to whether the losses that could be compensated were the diminution of property or the diminution of the interest in the property. The latter contained the implication that losses of unearned income could be compensated. Households, whose residences were taken, would generally be re-housed. However, this could be in accommodation that satisfied local space norms even though it was inferior to the property taken. The system may have operated in a manner that compensated the occupier for losses that were equal to what a representative occupier might have experienced, but could be less than the losses actually incurred.

Compulsory purchase violates one of the central tenets of a market economy, namely that transactions take place between a willing buyer and a willing seller so that each believes he will be better off, in his own estimation, as a result of the trade. The compulsory nature of the transaction means that one party does not believe that he will be better off otherwise the sale would have been voluntary. However, governments in market economies need powers to expropriate private property under certain circumstances. Infrastructure projects, that benefit society as a whole, could be prevented by the opposition of a few landowners who happen to possess

individual parcels along their proposed route unless the state (or private body approved by the state) has the power to acquire compulsorily. Similarly, the state needs the power to prevent the last individual owners, who hold out in such a situation, from commanding a monopoly price for their land – in effect holding society to ransom – in return for not blocking the project.

Urban regeneration may require government intervention because of a prisoners’ dilemma effect in which individuals may be obliged to act in ways which are not in their own best interests, but which offer the only rational response to a situation in which co-operation with other landowners is not possible (Rothenberg, 1967). This can arise because part of the value of any property is determined by the neighbourhood in which it is located. A property produces externalities or spill-over effects on other properties. The rational response in such a situation is to minimise maintenance so as to maximize the benefits from the externalities generated by neighbouring properties, whilst contributing the least external benefits to them. Such behaviour can result in the creation of slums if all property owners behave in this way, since all the properties in an area will become run down as each owner seeks to maintain his property at a level that is below the average. However, the cycle can be broken by government intervention to assemble sites for regeneration and to pump-prime private investment. Essentially, governments in market economies require powers of compulsory purchase to respond to certain situations in which there is market failure.

3. The development of compulsory purchase powers

The development of compulsory purchase powers in Romania during the transition period provides a typical illustration of the process. Law no. 33/1994 permitted compulsory purchase for reasons of public utility after fair compensation and following a court order. Public utility can be for national or local reasons. The law set out both a test to be met to justify the use of compulsory purchase and a process that sought to achieve a fair outcome. Impartial adjudication should come through the courts. Acquisition can be by government-appointed bodies, where it is in the national interest, and by counties, municipalities, towns, and communes, where it is in the local interest. Utility companies and public works concessions, such as providers of roads, do not have powers of compulsory purchase and so cannot pursue infrastructure developments that require these independently of the state or county authorities. A similar situation exists in Hungary. The state and local municipalities are entitled to acquire property by compulsory purchase under Law no. 24/1976, with other bodies that may need to make use of compulsory purchase having to justify that this is in the public interest as set out in the Law no. 4§/1, for example for town planning purposes, and work in conjunction with the State or a municipality. Similarly Article 17 of the Constitution of the Republic of Bulgaria provides the legal basis for the state and municipalities to acquire private properties in order to satisfy public needs. This was given effect through article 101 of the Ownership Act 1951

(amended 1996). This Act formerly provided the basis in law for the expropriation of private property during the Communist era, and some of these powers remained in the amended form. Under Bulgarian law, as in other countries in the region, the property of the state and municipalities can be *public* or *private* property. Compulsory purchase is permitted under the Territorial, Urban and Rural Development Act only if the outcome is to increase the amount of *public* property. These are principally for the construction of public utility networks, the provision of green belts and open areas, schools, hospitals and public buildings, and the construction of social housing. The transitional economies thus developed a philosophy of when the use of powers of compulsory purchase is justified and processes by which it could be achieved.

The development of compulsory purchase powers did not always proceed smoothly. In Russia problems arose with compulsory purchase in the 1990s because different elements of the legal infrastructure were changed at different times. This resulted in incompatibilities which were not resolved until the new Land Code was adopted in 2001. The first part of the Civil Code of the Russian Federation was adopted in 1994, with Chapter 17, containing articles concerned with compulsory purchase and compensation. Between 1994 and 2001 the adoption of a new Land Code was delayed by opposition in the Duma to the replacement of the Soviet Land Code, which was based upon the socialist principle of public landownership. During this period the official land code remained the old land code of the Russian Federation Soviet Socialist

Republic, though it was subjected to a number of corrections and alterations made by Presidential Decree or Order. These included Presidential Order N2287 of 1993 that provided for compensation for the proprietor and user in the event of compulsory purchase. A confused situation therefore existed in which the Civil Code, that was intended to put compulsory purchase on to a basis more appropriate to a market economy, had been agreed, but could not come into effect until the new Land Code had been adopted.

In Russia the state, federal objects and municipalities are permitted to appropriate land by means of purchase only in exceptional situations to satisfy important state and municipal interests, unless land is not being used for the established purpose or where there have been legal violations. Article N238 of the Civil Code also allows compulsory purchase where property cannot belong in law to a person or where land has been used for an inappropriate use. For example, the Land Code prohibits foreign physical and juridical persons from owning agricultural land. If they acquire such property, say by inheritance or as a result of trading, they must dispose of it or a state or municipal body will organise its compulsory sale. Compulsory purchase involves the state or municipality auctioning the property with the proprietor receiving the proceeds less administrative costs. Where private owners come into possession that is restricted from private ownership, such as streets and ecological, cultural and historical sites, they must sell them to the appropriate state or municipal body. Whilst the Land Code forbids the privatisation of such objects, for

example article 85 prohibits the privatisations of streets, this may have happened in the past when privatisations were less well organised. The Land Code was not adopted until after the main period of privatisation.

Where there have been legal violations, appropriation other than by purchase can take place, including confiscation on Court order. During the period of rapid privatisation, proper procedures may not have been precisely followed so the scope for pursuing appropriation following legal violations may be more widespread than at first sight appears. In such cases compensation is payable for expenditure undertaken by the proprietor but not for the loss of market value. Nationalisation may no longer be part of the Russian constitution or legal code, but acting on past infringements is a way of transferring real estate to the state or municipality. In the absence of the means of making acquisitions compulsorily, the search for legal violations may be an important aspect of compulsory purchase. Past violations of privatisation procedures and more recent breaches of license terms, or tax or environmental laws may result in title being less secure than it might appear. In particular, recent violations of environmental regulations and license agreements have led to alterations in the ownership in oil extracting companies in Eastern Siberia and Sakhalin. There are constraints on the expropriation of residential property in these cases because of protections of human rights. Poor systems of monitoring real estate may also limit the use of these powers.

During the transition process the countries of Central and Eastern Europe have re-orientated their systems of compulsory

purchase so that they enable governments to fulfil the functions in a market economy of tackling market failure and away from the socialist objective of securing public ownership of the means of production. They have sought to do so in ways which protect private property and which satisfy the European Convention of Human Rights. In doing so, it could be argued that they have provided powers of compulsory purchase that are more limited than can be found in some market economies, both in terms of the purposes for which compulsory purchase can be used and the range of bodies that can make use of them. An emphasis is placed upon purchase by agreement as is often to be found in countries with codified systems of law (Dowdy, Jackson, McCafferty, 1998) rather the more adversarial approach found in common law countries like the UK.

4. The development of compulsory purchase processes

It could be argued that for compulsory purchase to be fair, the process should be transparent and open. Owners and occupiers of property ought to be informed at early stage about proposals that may affect their property. For the process to be a participatory one, they and other interested parties should have the opportunity to make representations about and objections to the proposal. The decision to proceed with the project should not be made by the body that proposes it. In other words there ought to be a separation between the acquiring authority and the confirming one as the former clearly has a vested interest in the outcome and cannot be seen to have acted fairly or in a

disinterested fashion. Interested parties should be able to appeal to an independent body other than the acquiring authority. This helps to make the acquiring body accountable for its actions.

In Romania, as compulsory purchase can only be pursued in support of the public interest, a preliminary study is conducted to determine whether such a declaration can be made. The work must be approved and registered in the town plans of the area where it is to be undertaken. The document declaring that the proposal is in the public interest is publicised through a notice at the local council headquarters, in the Official Journal of Romania, and in local newspapers unless the work relates to national security. The natural and legal persons who hold real property rights must be notified within 15 days of publication. They may file objections to the mayor of the municipality where the property is located within 45 days from the receipt of the notification, who must register the objections and compensation claims. A commission set up by the government or a delegation of the county council has 30 days in which to resolve objections. The acquiring authority and owners of real property rights can appeal its decisions to the Court of Appeal. The Court verifies that legal conditions have been met and can set the amount of compensation where the parties cannot agree this. In essence, interested parties can mount a legal challenge to the declaration that the work is in the public interest but there is no public inquiry into this at which interested parties can be represented. However, the expectation is that the purchase will be by agreement with the Court of Appeal acting as the arbitrator if

the acquiring authority and property owners cannot agree terms or compensation.

Hungary also requires acquiring authorities to inform owners and all other persons who can suffer from compulsory purchase, such as occupiers, tenants, and users of compulsory purchase proposals. This is done by the public administration office, the county or Budapest according to the location of the property. Affected parties may request the legal revision of the decision and the proposed compensation. In the court hearing into this, property owners have the right to present evidence. As in Romania, owners and other interested parties can challenge the decision to acquire and the proposed compensation, but they do not have the ability to make representations about or to challenge the basis of the proposal.

In Bulgaria the process of compulsory purchase is also plan-led. An urban development plan showing that the property is assigned for meeting public needs provides justification for compulsory purchase. A state body makes a proposal to the Ministry of Finance and Ministry of Regional Development and Public Works, with the Regional Governor giving his opinion on the request. If the proposal is accepted, the Regional Governor sends a notice to treat to the owner. Owners have one month in which to object in writing to the Regional Governor. If agreement cannot be reached with the owner, then a compulsory purchase order is made, which sets out the public purpose being served by compulsory acquisition, the description of the property, and the compensation to be paid. Owners have one month in which to appeal against the order. The court of appeal adjudicates

on the lawfulness of the order and the acceptability of the compensation terms. The procedures used by municipalities for compulsory acquisition are similar. A majority of council members must approve the proposal, which must bring into effect an urban development plan. The mayor informs the owners of property. If agreement to purchase the property is not obtained, the municipal council takes a decision to acquire it compulsorily.

In Russia the reasons for compulsory purchase appear in article N49 of the Land Code and include meeting international obligations and the need for real estate for energy, utilities, defence, transport and cosmonautical purposes. This includes the provision of energy, utility and transport networks. The decision requires the federal, regional or municipal body to approve regulations and the process is accompanied by public discussion. The owner of the plot must be informed in writing at least one year before the compulsory acquisition. The decision must be entered in the land register and the owner notified of this. If earlier entry into the property is required, this can be achieved only with the agreement of the owner. The owner can challenge the decision to acquire compulsorily through the courts. If agreement cannot be reached about price or conditions of acquisition, the acquiring body can send the redemption suit to Court, but this must be within two years of sending the first notice to the owner.

The systems of compulsory purchase in the transitional economies have a number of similar features. Owners of property have the right to object to the acquisition, the terms, and the proposed compensation. Appeal can

be made to the courts which can set the terms of the acquisition and compensation. However, implicit in the processes is the expectation that the acquisition will normally be by agreement. Therefore the acquisition is compulsory in the sense that it takes place at a time determined by the acquiring authority rather than at the choice of the owner.

By contrast, the British system tends to assume that the acquiring authority and property owners will not reach agreement. Rather, the process will be an adversarial one in which the acquiring authority will have to seize the property and impose compensation on the affected parties. This may be related to the notion that those whose property is being acquired are generally only entitled to compensation for their loss based upon the market value of the property. Households and small businesses can benefit from additional compensation, in effect, as recompense for the acquisition being compulsory, but the norm has been for compensation to be only based on the market price. Therefore owners are likely to be entitled to compensation which is below the price at which they would become a willing seller. The compensation will be at the exchange value of the property, but is likely to be less than the worth placed upon it by the owner. The emphasis on acquisition by agreement in Central and Eastern Europe could mean that the compensation is closer to the owner's perception of the worth of the property, particularly if the compensation takes the form of an alternative property, such as another residential apartment, which may be superior to the one being surrendered. It is perhaps not surprising in these circumstances that more emphasis is

placed in Britain upon the right to object to the proposal in principal and not just to the terms and conditions of the acquisition.

The British system allows interested and affected parties to challenge the basis of the proposal and not just the proposed terms for acquisition of the property and compensation to be paid. Objectors can include those who object fundamentally to the scheme, such as environmental campaigners objecting to why a road or an airport should be built at all, as well those, like community groups, who may accept the need for the scheme but object to its location. Environmental groups frequently use inquiries to challenge the assumptions that lie behind proposals, such as the estimates of traffic growth used to support a road building proposal and to express views such as that higher taxation of petrol would eliminate the need for the road! Normally a public inquiry under an inspector appointed by the minister will be held to hear the objections and objectors can make representations in writing or in person and can be legally represented (for further details of the procedures see Denyer-Green, 2005). The process is therefore a quasi-judicial one. The minister as the confirming authority is informed by the inquiry in making his decision and can modify the order rather than accepting or rejecting it. The inquiry and the ministerial decision can be challenged in the courts. In such an adversarial system, the participative nature of the process may not be surprising. How far objectors can really challenge the proposals is open to question as they generally have fewer resources than the acquiring authority. Nonetheless, the inquiry system provides a way in which the basis of a proposal can be kept in the political

arena. Compulsory purchase should not be seen as just a technical issue but is concerned with fundamental values and the balancing of competing interests. It is an issue of governance. The British system includes a number of safeguards for affected parties that gives the impression that it is a more transparent, open and participative one than those in the transitional economies of Central and Eastern Europe. This may also be because of its adversarial nature and the use of exchange values. It may also reflect the historical legacy that compulsory purchase is an illegal act at common law (Plimmer, 2007) that has been permitted by Parliament only in certain limited situations. Allowing challenges to the fundamentals assumptions behind a compulsory purchase proposal does not seem to be a part of the processes adopted in Central and Eastern Europe. Whilst this may reflect the more adversarial nature of compulsory purchase in Britain, it could also be the result of differences in the desire to hold the government accountable for its decisions and the willingness of the government to be transparent and open in its decision making processes.

5. Reverse compulsory purchase

The state and municipalities can make decisions that have adverse impacts upon property owners. For example, the withdrawal of consent or implied consent to undertake a development can reduce the market value of a property. The publication of plans for future development, such as the line of a high speed railway link, can make it impossible to sell properties in the meantime even though eventually

compulsory purchase will take place. Thus owners may be forced to hold on to properties that they need to sell, for example, due to relocation for employment reasons or inheritance, until the compulsory purchase order is eventually made. This could be years after the original publication of the plans. An important question is whether in these circumstances owners can compel public bodies to acquire their properties ahead of when they wish to and at the market value prior to the announcement of the plan rather than the value after the announcement.

In the UK proprietors can enforce compulsory purchase where a town planning decision, including a listing a building as a historic one, has made a property incapable of beneficial use. Compensation can also be claimed where changes in development consents or implied consents cause losses of value. Blight orders can be used to compel purchase where the publication of plans has blighted properties so that they can no longer be sold or sold at the previous market value. The threat of having to use precious capital expenditure resources for these purposes rather than directly to undertake capital works for the direct benefit of its citizens makes British municipalities wary of making decisions, particularly in town planning, that might force them to make such acquisitions. These can be regarded as an important safeguard against arbitrary changes to actual or implied planning consents and premature publication of plans that might blight an area, though examples can also be found where municipalities are unwilling to confront businesses which have adverse effects on an area for fear that these provisions will be exercised.

Russia also has a system of reverse compulsory purchase where the actions of a state or municipal body have resulted in it being impossible to use a property. This could happen if a site is to be used for public access. However, deterioration in the market value as a result of a decision does not of itself give the proprietor the right to demand the public acquisition of the property. Situations in which the right is exercised are rare. In Hungary owners can institute reverse compulsory purchase when the value of a property has been blighted by a proposed development or if there is a change in town planning consents. In Bulgaria, where a development is due to take place in stages, the Territorial, Urban and Rural Development Act empowers an owner to oblige the acquiring authority to purchase all the properties at the first stage rather than when the phases require. The notion of a reverse compulsory purchase by which owners can enforce compensation from the state or municipality does not appear to exist in Bulgaria or Romania.

6. Compensation

In Romania Law no. 33/94 provides for compensation to be payable for the value of the property taken and any other losses caused to the owner or any other party with an interest in the property. Those entitled to compensation are any who have an interest in the property and not just those with ownership rights, including use rights, easements, and tenants. Those living in residential properties, including tenants, must be re-housed. The value of the property is calculated using comparable evidence from

other sales. Other losses are compensated according to the evidence submitted of the damages suffered. The Court appoints an Expert Commission to determine the compensation with one expert being appointed by the Court, one by the acquiring authority, and one by the person whose property is being acquired compulsorily. Valuation is by professional valuers though owners can appeal against these. The acquiring authority is obliged to pay the fees of the valuers and the court costs. A similar situation with respect to compensation exists in Hungary. The compensation is calculated by the public administration office of the county or Budapest and is based upon the market value. Unlike the UK where compulsory purchase is treated as a disposal of an asset and is subject to capital gains tax, in neither Romania nor Hungary is tax payable on the compensation. The UK has roll-over relief if the compensation is invested in replacement property.

Compulsory purchase can result in losses in addition to the land taken. There may be disturbance if a household or business has to be relocated. In both Hungary and Romania such losses are compensated so that the owner is not made worse off as a result of the compulsory acquisition. Losses can include loss of profits, relocation costs, and losses such as unharvested crops. If a business has to be closed as it cannot be relocated, the losses that result can be compensated. In Romania compensation as a result of disturbance is not the result of explicit laws but such compensation is customary. There may be damage to neighbouring property in addition to the land taken or only part of the land maybe taken.

In Romania there is no explicit statutory basis for compensation but claims can be made. Where part of the land is taken, the claim can be made upon the difference between the value of the property before and after the expropriation. In Hungary compensation is payable for damage to neighbouring property based upon the market value of the loss.

Compulsory purchase does not necessarily bring losses for the owner. For example, part of the land may be taken for the building of a new road. This may make development possible on the remainder that would either previously have been impossible or would not have been granted town planning approval. In such circumstances the owner might be made better off even though he has lost part of his land. Under these circumstances the question arises as to whether any compensation ought to be paid. In Britain there is a setting off process designed to ensure that the owner does not receive compensation as well as the benefit from increased value of the remaining property. In other words compensation is only for losses so if there are no losses only a symbolic payment is made for the land taken so that a contract of sale can exist. Hungary also has a process by which compensation can be set off against any increase in value of the remaining property.

During the transition period, many of the countries of Central and Eastern Europe have developed a valuation infrastructure that makes compensation for the land taken using market values feasible. There are trained professional valuers who follow accepted international valuation practice. In Romania,

ANEVAR, the National Association of Romanian Valuers, undertakes the training of valuers. The qualifications needed to enter its training programmes are a degree or higher education diploma in economics, technology, law, or architecture. Members must complete two years supervised practice and prepare an individual valuation report. About 300 persons each year obtain formal qualifications as real estate expert valuer from ANEVAR. There are approximately 6,500 ANEVAR members, of whom 2,800 are real estate valuers, and over 150 affiliated firms. Members must follow the code of conduct and can be disciplined for not doing so. They are expected to follow International Valuation Standards. In Hungary Magyar Ingatlanszövetség, the Hungarian Real Estate Association (MAISZ) was established in 1991. It has 550 members, including 110 individuals and 330 valuation companies. In 2003 it created a certification body EUFIM, which was accredited to EN ISO 17024 in 2005. MAISZ promotes technical standards and enforces an ethical code. There tends to be the use of European Valuation Standards rather than International ones. A comparison of the valuation methods used in Greece, Hungary, Romania, and the UK as part of the Leonardo da Vinci project RO/05/B/P/PP175018 indicated that there are many similarities in the methods employed by valuers in the four countries. This is unsurprising in view of the influence of International and European Valuation Standards and the globalisation of major valuation firms.

This description of the current situation with respect to compensation in Hungary and Romania is not so very dissimilar to that

found in the UK. The ten countries of Central and Eastern Europe that joined the European Union had to satisfy the condition that they must have a functioning market economy. Therefore to find compensation based upon market values is not surprising. However, at earlier stages in the transition period the ability to generate market valuations was less developed and such issues may still be encountered. In Bulgaria the Local Taxes and Fees Act 1997 (most recently modified in 2004) provides a methodology for the determination of tax valuations, which could be used for the computation of compensation where owners and the acquiring authority were unable to reach agreement. The key variable is the normative value per square metre modified by the type of structure, the use to which the buildings were put, the area in which the property was located, and the external and internal infrastructure. Values were depreciated according to the age of the buildings, with different rates for different types of structure. The methodology used to determine the normative values can be traced back at least as far as the 1979 Regulation on Prices of Real Estate and is concerned more with the cost of real estate rather than its market value.

It is one thing to have laws that provide for adequate compensation; it is another for this to be paid. Although in Russia compensation includes the market value of the land and real estate objects on it and the loss of income from the business, the calculation of compensation is complicated by the legal situation with respect to property rights and the process by which privatisation has taken place. In Russia, as in Hungary

and Romania, there is a valuation professional body, the Russian Society of Appraisers, which has adopted the International Valuation Standards. At issue is not whether professional practice has embraced the notion of compensation based upon market values but whether the government is willing to do so. The owner of real estate objects, such as buildings, may not be the owner of the land. The privatisation process may have resulted in the real estate objects being privatised together with businesses whilst the land remained in public ownership and was rented by the enterprise on a long or short term basis. The authorities can hinder the enfranchisement of the freehold, which has an impact upon the compensation. The rights of occupancy being temporary have a limited value, particularly if a high discount rate is applied to the interest because of the risk.

The calculation of compensation is a potential source of dispute between proprietors and the state and municipal bodies. Partly this is the result of there being relatively few precedents and partly because of the limited extent to which there is a well-developed and efficient property market. The values recorded in official documents, such as technical inventorisation and taxation ones, differ from the real market values by orders of magnitude, sometimes more than tenfold. Terms like “equivalent value” and “fair compensation” are not clearly defined or well understood. For example, should the market value be that just prior to the publication of the compulsory purchase decision or just after, a particular issue as values often rise on the publication of the decision? The absence of a specific

compulsory purchase law does not help.

The relationship between state bodies and proprietors is not of equals. The state has a number of ways of pursuing its interests, including the use of town planning and tax regulations, and these administrative devices can be used to put pressure on the proprietor. These can serve to minimize expenditure by public bodies. The arbitration court tends to favour state rather than private interests. There are weaknesses in court practice in observing the interests of physical and juridical persons during compulsory purchase. Independent valuers are not accorded sufficient authority for their valuations to be recognised by both sides in disputes and, indeed, valuers may not operate with objectivity in a way that is genuinely independent of their client's wishes. Similar issues arise at the municipal level and these are coupled with the more limited resources of municipalities and regular deficits in municipal budgets. Compensation is more a matter of what is "possible" than what is "equivalent". Creating a culture based upon equivalent value requires the development of Russian civil society, but open discussion of the issue promises advances in this respect.

7. Conclusions

The countries of Central and Eastern Europe have had to change their systems of expropriation from pursuing the objective of state or collective ownership of the means of production to using powers of compulsory

purchase to tackle issues of market failure in a market economy. They have had to introduce compulsory purchase processes that are equitable, accountable and open and which satisfy the European Convention on Human Rights, though when compared with the UK there seems to be less potential for objectors to challenge the fundamental basis for a compulsory purchase order or the assumptions that lie behind it. The development of market-based compensation was slower than that of the procedures. In the late 1990s, as the Bulgarian system shows, compensation was typically based upon official norms. However, compensation is now generally based on market values. In common with other codified systems of law emphasis is placed on acquisition by agreement rather than the more adversarial approach found in the UK. This could mean that compensation is based upon the worth of the property to the proprietor rather than its exchange value. In Russia there are issues about the determination and payment of compensation but for Hungary and Romania there has been a degree of convergence with valuation practices in Western Europe. This is probably a reflection of the impact International and European Valuation Standards. Whilst the valuation profession throughout Europe has tended to accept these, this is not necessarily true of governments. Ultimately, compulsory purchase valuations are statutorily-determined and reflect the wishes of governments. These may not coincide with the consensus of professional opinion.

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Culture and Migration: a Tale about Fear and Hope (with an Empirical Analysis on European Union Case)

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Abstract. *The human movements across borders, societies and cultures are not running in an “empty space”: the structural characteristics of the economic systems, the institutional architecture of societies, the cultural paradigm and the power relations between different social groups, all define the magnitude and the limits of such movements.*

If the “hard” economic migration determinants are extensively explained in an abundant literature, the “soft” psychological/cultural determinants of “leave your old life” decision are less analyzed. This paper advances a model for the interactions between these factors and the economic ones and tries to explain their influences.

The main output consists in the thesis that the “soft” variables matters in an extended explanation of migration and that their exclusion pictures a too abstract analysis of intrinsic migration motifs.

Key words: labor net migration; factors; cultural paradigm.

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JEL Codes: C33, F22

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1. Introduction

International labor force migration is driven by a set of key factors. Even if the economic factors have a strong influence on labor force migration, they are not the only ones. Recalling that according to Datta (2004), the factors that are influencing in most significant way the labor force migration are the economic, demographical, social, political, and geographical ones, we appreciate that is needed to take into account the influence of the cultural factors as well.

1. *The economic factors* include the circumstances that determine the individuals to leave their country of residence. Among these, we mentioned instability and the economic recession, poverty, lack of jobs, low living standards, violation of private property, and poor industrialization.

2. *The demographical factors* are regarding the population mobility. On the one hand, this is due to the high density of population in residential areas (the migration is stronger as in the origin countries the density of population is higher). On the other hand, this is due to the natural changes in the structure of population, because an ageing population causes a decrease in the migration.

3. *The social factors* determine the population migration because of some elements regarding the instruction, the professional education, the competences and abilities, the marital status, the social security, the religion, the social harmony, and the idea of assuring the unity of the family.

4. *The political factors* have, in essence, some components as the political instabil-

ity, the terrorism, the attitude of the political leaders and politicians in general, the tyranny of the majority through oppressive actions, the violations of democratic rights and public political opinions, the political intolerance, the xenophobia, and the violation of the mass-media freedom.

5. *The geographical factors* are based on the fact of the migration phenomena is strongly correlated with the “geographical proximity”, that is with those geographical areas favorable situated in the vicinity of the residence area (usually, the geographical factor action together with the others, having more a „stimulating” role).

2. Theoretical framework

The determinants of migration form a complex web of “hard” and “soft” factors inter-correlated in complex ways. The human motivations to change their lives are rarely simple and could not be seen in a “one for all” framework.

For instance, the *human capital* literature tends to treat migration as an investment. A typical position could be find as example in Xideas (2003, p. 151): “Migration takes place as a result of individual seeking to maximize their utility which is functionally related to the expected present value of income (pecuniary and psychic), the discount period usually taken to be migrant’s working lifetime”.

But this sounds a little bit like “Hamlet without the prince of Denmark”. Indeed, as the “hard” economic factors were analyzed in a large number of studies, less attention was paid to the “psychic” motivations for

the migration. Or, the decision to migrate implies a radical change of life style and a major psychological adjustment to adapt the individual behavioral pattern to a new social environment. So that, there could not be so simple to say that rational subjects simply migrate to reach a positive utility differential at least without understanding by “utility” not only the material benefits but also a feasible socio-cultural environment⁽¹⁾.

To start it is useful to take into account the distinction between the “voluntary” and “forced” migration. As Datta (2004, p. 346) notes: “Migration, any type, whether documented or undocumented, forced or voluntary can be explained in terms of push-pull factors (Datta, 1998). Push factors attribute to the negative characteristics operating at the center of origin whereas pull factors identify the positive characteristics (Datta, 2002) at the center of destination. There are essentially two types of migrants. One is due to persecution for various reasons, and the other is economic reasons. Persecution is essentially either for political or religious reasons. In such cases, the persons are given asylum to adopted country. Since, it would be inhuman to send them back. An economic migrant does not receive these privileges”.

It could be noticed in the framework of this distinction that only the “voluntary” migration situations, are susceptible to be described in terms of complex psychological motivations *ex ante* formulated. In a “save the women and the children” situation the instinct to preserve its own life and integrity will dominate the individual reactions without any other more sophisticated considerations. Wars, natural disasters, political

and religious persecutions, the lack of vital natural resources, social insecurity all these generates large human movements for which the “shelter motive” is prevailing.

In the mean time, the *individual* decisions to migrate could be more connected to economic factors. But even in these cases, different motivations should be distinguished in a more sensitive explanation. More exactly, at least two types of “soft” psychological migration determinants could be identified:

1. *The search for a high level of social benefits and*
2. *The search for better economic opportunities.*

The first motive is characteristic for “public rent seekers”. These social subjects are looking to maximize their utility function by migrating in the areas where they can benefits from a higher level and/or a more adequate structure of the public goods supply. It is convenient to view this in the light of “The consumer-voter may be viewed as picking that community which best satisfies his preference pattern for public goods” Tiebout (1956, p. 418) definition. This component of migration tries to *passive* adjusts the utility differential by choosing a habitat with higher first and second order social benefits. The psychological climate characteristic is dominated by a passive attitude toward life and/or by a *fear of the future* sentiment: these social subjects tend to reject the *performance stress* from their own society or they are feeling that these societies aren’t doing enough to secure their future.

The preferred target societies will be the *protective* ones with generous social system,

tolerant, with good health, education and environment protection systems, with a “think to the future” time attitude and even less oriented to economic performance. A larger social and politic space, unified till a certain degree, such as a union/federacy/confederacy one will facilitate the existence of a public rent differential encompassed between certain lower/upper borders enough large to generate migration movements.

The second determinant acts for the *actives* subjects involved in migration. They are searching for better opportunities to find a job, to build a carrier, to develop a business, to achieve a higher social status. They are characterized by a *pro-active* attitude and the involved risks have a lower relative importance. As a consequence, they will prefer the highly developed societies, economic performance oriented, with well developed technological infrastructures, with a dense urban network, a large degree of economic freedom, individualistic and with a “here and now” time perception. A greater difference between origin and destination in terms of economic condition will tends to stimulate this type of migration.

Briefly, in the line of this argumentation it could be identified two models for the migration psychological determinants:

1. *Search for a peaceful village (SPV)* and, respectively,
2. *Search for the Promises Land (SPL)*.

Of course, there could not be in fact made a clearly distinction between this two classes of migration motives and frequently and in different combination the same subject could be affected by both of them. But for the sake of simplicity it could be consid-

ered that the *global* level of migration is affected by their combination and such combination is a linear one. Such postulate has associated an analytical price but in our opinion does not affect the relevance of the derived results.

One critical issue for this framework consists in the fact that the individual subjective motives of migration should be aggregated by a translation from a micro to a macro scale: if individual migration could be explained also by psychological factors, the global migration could also be explained by *culture* as an aggregate of individual behavior models.

According to the “Merriam-Webster” dictionary, culture is “the act of developing by education, discipline, and social experience” or “training or refining of the moral and intellectual faculties”. In a different view, Cozzi (1998), understands by culture a “social asset” whose acquisition by an agent generates no individual utility but has positive external effects. UNESCO described culture as follows: “... culture should be regarded as the set of distinctive spiritual, material, intellectual and emotional features of society or a social group, and that it encompasses, in addition to *art* and *literature*, *lifestyles*, ways of living together, value systems, traditions and beliefs”⁽²⁾.

Such definitions are more focused on the *static* aspects of the culture as a given social artifacts. But cultural characteristic are changing over time; the content of the shared intellectual products does not rest the same over long time spans. Societies are reacting to the variation of the external and internal environment. So that, a more comprehensive

view of cultural paradigm admits that its architecture is “stable” only in a “short enough” time horizon.

In TALPOS *et al.* (2005, p. 20) we provide the next definition of the paradigm: “*Through paradigm we understand the dominant collective mental model that individualizes a society from another. This paradigm represents a societal integration factor, by offering common values and goals for the members of the society. Also, this represents the subject of some learning and inter-generational transmission process, which slowly modifies itself, in «long cycles»*”.

In other words, we consider *the cultural paradigm* as representing “something much more” than a set of “shared values”. This way, one could remark that an interesting definition for the culture as “shared values” is, for instance, the definition given in Kroeber and Kluckhohn (1952) (cited by Adler, 1986). According to this, culture consist of patterns, explicit and implicit of and for behaviors acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other as conditioning elements of future action.

Culture is:

- Something that is shared by all or almost all members of some social group;
- Something that the older members of the group try to pass on to the younger members; and,

- Something (as in the case of morals, laws and customs) that shapes behavior, or structures one’s perception of the world.

Our vision is much closer to Hofstede (1991) who defines culture as “the collective programming of the mind which distinguishes the members of one group or category of people from another”. Like him, we emphasize that culture is, at least partially, learned, and not only inherited.

The important point for the migration cultural approach is the fact that this implies accelerate learning process of new cultural values for the incoming human capital, on one hand, and could act as a stimulus/inhibitors mechanism for outgoing subjects. One could migrate in order to benefit from a better social security system or from a better job but still she/he have to adapt to pattern of social habits. Will she/he be accepted in the new community? Will she/he be able to communicate with his colleagues, neighbors and authorities in an efficient manner and in the respect of the new social games’ rules? And more important: will she/he be considered integrated or will find herself/himself in a “cultural ghetto”? In the mirror, is her/his culture “open”, or a “close” one? In other words, does the origin culture stimulates the risks taken process and facilitates the cultural accommodation? In this context, the *cultural discrepancy* between the origin and the destination will be directly connected with the volume and the structure of the migration.

With this features, we are starting with a compact model of the net migration rate between two social spaces i and j at a certain point in time t . Thus:

$$\begin{aligned}
 m_{i_t} = & (\lambda_{1_{i_t}} - \lambda_{1_{t_j}}) E_t (I_{i_t} - I_{j_t}) + \\
 & + (\lambda_{2_{i_t}} - \lambda_{2_{t_j}}) E_t (C_{i_t} - C_{j_t}) + \\
 & + (\lambda_{3_{i_t}} - \lambda_{3_{t_j}}) E_t (P_{i_t} - P_{j_t}) + E_t (\varepsilon_t)
 \end{aligned} \quad (1)$$

where:

m_i is the net migration rate, I is an index of economic conditions and the degree of economic freedom, C is a set of cultural variables characteristics for the paradigm, p is the “net” (without taxation) supply of public goods, ε is a “black box” which counts for the influence of other variables and $\lambda_1 + \lambda_2 + \lambda_3 = 1$ are the relative sensitivity coefficients of net migration to these factors or defining the “excess” corresponding variables as

$$\begin{aligned}
 X_{i,j} &= X_i - X_j \\
 m_{i_t} &= \lambda^e_{1_t} E_t (I_{i,j_t}) + \lambda^e_{2_t} E_t (C_{i,j_t}) + \\
 & + \lambda^e_{3_t} E_t (P_{i,j_t}) + E_t (\varepsilon_t)
 \end{aligned} \quad (1.1)$$

We assuming that I_{ijt} can be written as

$$I_{i,j_t} = \sum_{l=0}^{\infty} \beta_l^I (u_{i,j_{t+l}} + \phi^I_{i,j} + \eta^I_{i,j_{t+l}}) \quad (2)$$

where:

u is an aggregate measure of local labor markets conditions (wages, unemployment, housing prices) and of business environments, β is a discount factor, ϕ^I is a state effect that captures the role played by “fix” elements (non-market barriers for the liberty of movements, legislation, bureaucracy,

corruption, the degree of public authorities involvement in economic and social life), and η^I measures the “omitted” specific factors, such as tax rates, that can change over time⁽³⁾.

As a next step, we suppose that the expected future economic conditions could be predicted inside a *mix* mechanism by incorporating both past and current values⁽⁴⁾:

$$E(u_{i,j_{t+1}}) = c_{1l}(L)u_{i,j_t} + c_{1r}^r u_{i,j_t} \quad (3)$$

where:

L is the lag operator.

Similarly,

$$P_{i,j_t} = \sum_{l=0}^{\infty} \beta_l^P (p_{i,j_{t+l}} + \phi^P_{i,j} + \eta^P_{i,j_{t+l}}) \quad (4)$$

where: p is the level of public expenditures implying both economic and social transfers and ϕ^P is the “fix” structure of public goods supply⁽⁵⁾, and

$$E(p_{i,j_{t+1}}) = c_{p1}(L)p_{i,j_t} + c_{p}^r p_{i,j_t} \quad (5)$$

Since cultural variables adjust in “long cycle”, it is possible to consider under a “short enough” time period that:

$$E_t (C_{i,j_t}) \approx C_{i,j_t} \quad (6)$$

Finally, if ε is a random exogenous shock then

$$E_t (\varepsilon_t) = 0 \quad (7)$$

Relations (1.1) - (7) could be combined as in relation (8).

$$\begin{aligned}
 m_{i_t} = & \lambda^e_{1_t} \left[\sum_{l=0}^{\infty} \beta_l^I (c_{1l}(L)u_{i,j_t} + c_{1r}^r u_{i,j_t} + \phi^I_{i,j} + E(\eta^I_{i,j_{t+l}})) \right] + \lambda^e_{2_t} C_{i,j_t} + \\
 & + \lambda^e_{3_t} \left[\sum_{l=0}^{\infty} \beta_l^P (c_{p1}(L)p_{i,j_t} + c_{p}^r p_{i,j_t} + \phi^P_{i,j} + E(\eta^P_{i,j_{t+l}})) \right] = \lambda^e_{1_t} d_1(L)u_{i,j_t} + \\
 & + \frac{\lambda^e_{1_t} \phi^I_{i,j}}{1-\beta_1} + \lambda^e_{1_t} \left[\sum_{l=0}^{\infty} \beta_l^I (c_{1r}^r u_{i,j_t} + E(\eta^I_{i,j_{t+l}})) \right] + \lambda^e_{2_t} C_{i,j_t} + \lambda^e_{3_t} d_p(L)p_{i,j_t} + \\
 & + \frac{\lambda^e_{3_t} \phi^P_{i,j}}{1-\beta_p} + \lambda^e_{3_t} \left[\sum_{l=0}^{\infty} \beta_l^P (c_{p}^r p_{i,j_t} + E(\eta^P_{i,j_{t+l}})) \right] = \lambda^e_{1_t} A_{i,j_t} + \lambda^e_{2_t} C_{i,j_t} + \lambda^e_{3_t} B_{i,j_t}
 \end{aligned} \quad (8)$$

where:

$$d_{I,P}(L) = \sum_{l=0}^{\infty} \beta_{I,P}^l c_{I,P_l}(L)$$

$$A_{i,j_t} = d_I(L) u_{i,j_t} + \frac{\phi^l_{i,j}}{1-\beta_I} + \left[\sum_{l=0}^{\infty} \beta_I^l (c_I^r u_{i,j_t} + E(\eta^l_{i,j_{t+1}})) \right]$$

$$B_{i,j_t} = d_P(L) p_{i,j_t} + \frac{\phi^p_{i,j}}{1-\beta_P} + \left[\sum_{l=0}^{\infty} \beta_P^l (c_P^r p_{i,j_t} + E(\eta^p_{i,j_{t+1}})) \right]$$

The A component of relation (8) stands for the *SPL* model of migration and the B component for the *SPV* one. The cultural variables differential $C_{i,j}$ mediates the combined effects of these two set of migration motivational determinants.

According to relation (8):

- The space i will receive a net inflow of human resources as long as the economic (labor and business) environment conditions will provide relative greater opportunities comparing with space j and/or alternatively
- The level and/or structure of public goods supply will be relatively more attractive in space i in respect of space j in *caeteris paribus* conditions (no major differences in non-market factors, legislation, taxation and public authorities involvement in socio-economic affairs);
- The cultural variables will amplify or reduce the cumulative effect of market status and supply of public goods in a non-linear manner.

An interesting particular case is represented by the situation in which i and j are components of an *economic and politic union* with a high degree of economic and financial integration but with autonomous fiscal policies. In such case, the market conditions will be uniform so that $u \approx 0$ and

relation (8) will become:

$$m_{i_t} = \frac{\lambda^e_{1_t} \phi^l_{i,j}}{1-\beta_I} + \lambda^e_{1_t} \left[\sum_{l=0}^{\infty} \beta_I^l (E(\eta^l_{i,j_{t+1}})) \right] + \lambda^e_{2_t} C_{i,j_t} + \lambda^e_{3_t} d_P(L) p_{i,j_t} + \frac{\lambda^e_{3_t} \phi^p_{i,j}}{1-\beta_P} + \lambda^e_{3_t} \left[\sum_{l=0}^{\infty} \beta_P^l (c_P^r p_{i,j_t} + E(\eta^p_{i,j_{t+1}})) \right] \quad (9)$$

In other words, *the intra-union migration will take place as a global effect of non-market conditions, taxation and public goods supply level and structure via the cultural discrepancy between union members.*

3. An empirical analysis: the European Union migration case

Some of the conclusions derived from the theoretical framework described in the previous section could be directly tested.

The formal core model as an empirical form of relation (9) is:

$$Y_{it} = \alpha + \beta^1_{it} X^1_{it} + \beta^2_{it} X^2_{it} + \varepsilon_{it} \quad (10)$$

Y_{it} is the net migration as the dependent variable. The α parameter represents the overall constant in the model, while ε_{it} are the errors terms for $i = 1, 2 \dots M$ cross-sectional units observed for dated periods $t = 1, 2 \dots T$. “1” and respectively “2” denotes the “cultural” and “public goods” explanatory variables.

In order to make such a model operational, the “cultural” variables were deduced from Hofstede (1980)⁽⁶⁾ in order to explain the cultural differences between the countries from the data analysis set (taking into account some limitation in their sphere and content). These variables are⁽⁷⁾:

- *Power Distance (PD)*;
- *Individualism (I)*;
- *Masculinity (M)*;
- *Uncertainty Avoidance (UAI)*.

The *PD* represents the acceptance degree by the members of society that the power (and all which could be associated with it) is unequal distributed. In a high power distance society, inequality is reckoned as natural, the power-relationships being the foundation of society. Therefore, to hold the power is essential, who hold it defining the content of the society’s basic values.

UAI quantifies the tolerance degree accepted by the society’s members for the anxiety induced by the ambiguous and unstructured future situations. The societies with high uncertainty avoidance are concerned on build-up some methods to minimized this anxieties. *Per a contrario*, the societies with a low level of uncertainty avoidance admit the fact that the risk and uncertainty belong to the real life, couldn’t be totally avoided.

I measure the identity: communitarian or personal, respectively the relations established by the individuals with others members of the community. A collectivistic society (with a strong communitarian identity) valorizes the group, the collective space, which create a perception of a common propriety. An individualistic society valorized the own “ego”, family, individual and private space.

M does not imply the discrimination of the cultural values on sexes; rather it reflects some fundamental values shared by all society members. More precisely, it is considered that the “masculine” societies are those where the dominant values are connected with the social affirmation, the material results and the decisional freedom. In this conditions the performance is measured using the terms of reaching and maintaining a reference social status and the material achievements are considered more important that the spiritual ones. Public services or educational system are oriented to performance.

These cultural variables could be combined in order to account for the mentioned models of migration. More exactly:

- If a society is a non-hierarchic one, is characterized by an intense *Masculinity* and displays a high level of *Individualism* with a low *Uncertainty Avoidance*, then this society will be performance-oriented with a high horizontal and vertical level of social mobility. The search for better opportunities will dominate the social subjects decisions and the *Search for the Promises Land* model will prevail;
- If a society values the respect for authorities, is characterized by a continuous preoccupation for social welfare, inequality diminution and care for the marginal social categories and the communitarian attachment is strong and also risk assumption preferences are low, then the concerns about the future will be intense among its members and the *Search for a peaceful village* model will be more important.

The supply of the “public goods” is explicitly approximated by the level of social protection public expenditures (*SP*) in order to capture the “public rent seekers” movements. Still since this could not hold for the entire class of migration cases other connected variables are involved in an *instrumental* set. Such instrumental variables estimator is a straightforward extension of the standard *OLS* estimator. For example, in the simplest model, the *OLS* estimator may be written as:

$$\hat{\beta}_{OLS} = \left(\sum_i X_i' X_i \right)^{-1} \left(\sum_i X_i' Y_i \right) \quad (11)$$

while the corresponding instrumental variables estimator is:

$$\hat{\beta}_{IVS} = \left(\sum_i X_i' P_{Z_i} X_i \right)^{-1} \left(\sum_i X_i' P_{Z_i} Y_i \right) \quad (12)$$

where:

$P_{Z_i} = \left(Z_i (Z_i' Z_i)^{-1} Z_i' \right)$ is the orthogonal projection matrix onto the Z_i of instrumental variables.

It should be noticed the fact that the appeal to such variables is not only a “technical” issue but rather on it try to be consistent with the theoretical framework.

The set of the instrumental variables which were chosen includes the (lagged) values of: net migration, cultural variables, the social expenses, the net national disposable income (which equals Gross National Disposable Income after subtracting consumption of fixed capital), the general expenses of the government, the defense and public order expenses, the resources associated with the public authorities involvement in the economic affairs, the environmental protection and housing and communities amenities, the health, education and recreation, culture and

religion services provided by the central and local public authorities as well as a synthetically variable for the magnitude of state involvement in the social and economic life (*the Index of Economic Freedom*).

The design of this set tries to take into account:

- The inertial pattern of the migration induced the “pull-in” mechanisms of the previous movements in human resources;
- The opportunity to obtain supplementary incomes in the destination country as well as to benefit from a higher level of social benefits as this are recorded in the previous period;
- The past structure of the public expenses and the nature of the public services provided at the central and local level with direct effect on *life quality*;
- The state involvement in the socio-economic evolutions and the impact on the possibility to develop new business.

A final issue in the model specification concerns the treatment of the residual variables. The chosen method is a variant of the so-called *Panel Corrected Standard Error* (PCSE) methodology (Beck, Katz, 1995) and is robust to unrestricted unconditional variances Ω_M but places additional restrictions on the conditional variance matrices. A sufficient (though not necessary) condition is that the conditional and unconditional variances are the same. More exactly, it is a *Cross-section SUR* (PCSE) method with an estimate of the cross-section residual (contemporaneous) covariance matrix as:

$$\frac{N^*}{(N^* - K^*)} \times \left(\sum_t X_t' X_t \right)^{-1} \times \left(\sum_t X_t' \hat{\Omega}_M X_t \right) \times \left(\sum_i X_i' Y_i \right) \quad (13)$$

With these elements, the data analysis set includes the countries listed in Annex 1. In order to ensure the data homogeneity and to avoid the NA observations, the time span is between 1999 and 2004. The sources of data are Geert Hofstede™ Cultural Dimensions⁽⁸⁾ and Eurostat - Statistical Office of the European Communities⁽⁹⁾.

The results are reported in Table A.1 from Annex 1. The level of Durbin-Watson statistic as well as the value of the sum of squared residuals confirms that there are some autocorrelations in residuals issues. Such conclusion is derived also from the pool unit roots tests residuals analysis in Table A.2. The tests grouped under three null hypothesis (“Unit root existence - assumes common unit root process”, “Unit root existence - assumes individual unit root process”, “No unit root”) tends to reveal the non-stationary nature of the residuals.

This problem could be solved by explicitly incorporating into model as an explanatory variable the lagged value of the net migration but such an approach will leave open the “black-box” question: the migration process is an inertial one but is unclear in the adopted framework the nature of the mechanism which leads such a hysteretic behavior.

It could be noticed the fact that all the t-statistic are relevant with relatively low standard errors. According to these results:

- The most statistical relevant from the cultural is represented by the *Masculinity*: the societies more focused on performance and material achievements, with better urban and technological infrastructures, are receiving more emigrants that the societies with less emphasis in social performance;

- Surprisingly, the *Individualism* seems to be the weakest explanatory variable from the cultural one; still, the coefficients signs are the “correct” ones in the sense that the societies with a higher degree of social mobility, with strong valorization of the personal success and less attachment to communitarian values benefits more from the migration movements;
- The *Power Distance* does not play an inhibitor role for the migration; *per a contrario*, the accent on equity and equal chances for self-development tends to stimulate the migration;
- The “social anxiety” measured by *Uncertainty Avoidance* and the preference for a controlled by formal rules evolution of the social life limits the preferences for a country as destination point: the human resources has a relative preference for countries with less *social stress* and a lower level of social formal normalization;
- A higher level of social protection public services attract a higher degree of migration as it tends to stimulates the mobility of “public rent seekers” and to provides stronger incentives for stabilizing the autochthon labor force;
- The parameters signs are unchangeable and their levels and statistical significance does not significantly vary over the considered time period.

3. Comments and (auto) critics

The results from the previous section are quite puzzling. On one hand, the image contoured by the cultural variables is consistent:

the preferred societies as migration targets are the individualist ones, highly oriented to social performance and vertical / horizontal human resource mobility. On the other hand, the level and the structure of the public goods supply is significant for a country capacity to attract a supplementary stock of human capital.

Of course, it could be argued that this means that *both* models of migration determinants stand with a different relative importance. But this does not really provide a way to discriminate among them and does not clarify the nature and the dynamic of their linkage. However, these results suggests that the relative weights of the *SPL* model is greater than the corresponding *SPV* one.

More generally, the proposed analysis is affected by some important limitations both at the theoretical as well as at the empirical level. Among these limitations, one could note:

A) Theoretical “white spots”

1) *Culture and individual utility function: what is the connection?*

The core argument of this paper is that the social subjects are not “perfect rational” so that they adopt their decisions (including the decision to migrate) also under the influence of a certain set of psychological factors. The aggregate reflection of such factors is “culture” so that the *global* level of migration will be affected by it. But such approach is more an *ex post* one since it implies two rounds of aggregation: one for individual migration decisions and one for the *subjective* variables. Even more no description of such aggregation mechanism is provided and is not clearly why a “synthetic” macro-view is possible.

2) *How could be “culture” measured?*

The appeal to the Hofstede’s cultural variables could be criticized due to the fact that these have obviously a certain self-referential

in the “occidental” culture and are not able to sustain a more accurate distinction between the characteristics of the cultural artifacts.

3) *The baseline “soft” models of migration: how could be these discriminate?*

The paper states that “there could not be in fact operate a clearly distinction between this two classes of migration motives”. But if this is the case it means that also their determinants could not be clearly separated. Or the form of the relation (8) and the empirical findings suggests that in fact there is such a distinction but it could not auto-consistent emerge from the theoretical framework.

4) *Where are the inter-generational mechanisms?*

If “we emphasize that culture is, at least partially, learned, and not only inherited”, then, at least on “long run”, the relation (6) does not stands anymore and the model should provide a description for the adaptation mechanism at the level of the cultural variables. Even more, it could be argued that the current migratory generation could benefit from past migrations so that $C_{i,j}$ should be constructed as an autoregressive variable.

5) *Economic conditions: how are they described?*

If u is an aggregate variable, then there should be: a) a list of its components which are susceptible to directly influence the migration process and b) an aggregation method focused especially on the particular weights estimation.

6) *What kind of informational mechanisms?*

If the differentials between “hard” and “soft” elements are used as explanatory variable, then it should be assumed that the migration decision is taken in “completely” information about the origin and the destination countries condition. Or the paper states that the considered

anticipation mechanism is derived from a *bounded rationality* model without clearly explains the nature of such model.

7) *What kind of social subjects migrates for a better level and structure of public goods supply?*

The *SPV* migration model is viewed as a “cultural extension” of the Tiebout theorem but in fact such a connection is not explained. It appears that the reference to Tiebout is more a “self-insurance” and not an organic linkage.

B) Empirical estimation problems

Not only the theoretical but also the empirical part of the paper is affected by imperfect clarifications. Some of them are connected with:

- The stability of the models and the quality of the results (for instance, in terms of properties of the residuals variables);
- The identification problems for the involved parameters;
- The possible existence of non-linear interactions between the variables and the effects of such interactions;
- The insufficient number of observation and the absence of an explanation for the composition of the samples etc.

Despite all these *caveats*, we argue that the paper could be seen as a small breakdown into an usual yet manner to deal with the migration problems like they are isolated for their “subjective” aspects.

The human specie is not conducted in its fight for control over the natural and artificial environment only by “rational” motifs. Instead, the emotions could balance the logic and fear and hope twins could shape the individual and collective destiny “here” or in “The Promise Land”.

Annex 1: Model estimation

The Sample

Cross Section Identifiers	States
1	Belgium
2	Czech Republic
3	Denmark
4	Germany
6	Greece
8	France
9	Ireland
10	Italy
11	Cyprus
14	Luxembourg
16	Malta
17	Netherlands
18	Austria
20	Portugal
23	Finland
24	Sweden

Pooled IV/Two-stage EGLS model estimation

Dependent Variable: Net migration
Method: Pooled IV/Two-stage EGLS (Cross-section weights)
Sample (adjusted): 1999 2004
Included observations: 6 after adjustments
Cross-sections included: 17
Total pool (balanced) observations: 102
Linear estimation after one-step weighting matrix
Cross-section SUR (PCSE) standard errors & covariance (no d.f. correction)

Table A.1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-223.9648	13.80361	-16.22509	0.0000
PD--1999	1.212383	0.122509	9.896306	0.0000
PD--2000	1.820966	0.121026	15.04611	0.0000
PD--2001	2.884568	0.121588	23.72407	0.0000
PD--2002	2.796058	0.114783	24.35944	0.0000
PD--2003	2.837217	0.114074	24.87171	0.0000
PD--2004	1.643492	0.117737	13.95902	0.0000
I--1999	1.465281	0.114072	12.84528	0.0000

I--2000	1.745307	0.122071	14.29750	0.0000
I--2001	0.844540	0.113387	7.448304	0.0000
I--2002	1.400943	0.105413	13.29007	0.0000
I--2003	1.703915	0.106596	15.98476	0.0000
I--2004	1.550706	0.110568	14.02485	0.0000
M--1999	1.659919	0.030538	54.35607	0.0000
M--2000	1.553382	0.035730	43.47581	0.0000
M--2001	1.969874	0.031677	62.18529	0.0000
M--2002	1.883753	0.034109	55.22700	0.0000
M--2003	1.986079	0.037461	53.01773	0.0000
M--2004	2.386104	0.040297	59.21359	0.0000
UAI--1999	-0.173391	0.112636	-1.539395	0.1282
UAI--2000	-0.532202	0.112399	-4.734924	0.0000
UAI--2001	-1.332888	0.111750	-11.92745	0.0000
UAI--2002	-1.123308	0.105176	-10.68031	0.0000
UAI--2003	-1.132124	0.103963	-10.88969	0.0000
UAI--2004	-0.804441	0.106213	-7.573855	0.0000
SP--1999	3.516436	0.242192	14.51922	0.0000
SP--2000	2.812562	0.272293	10.32918	0.0000
SP--2001	5.515036	0.264334	20.86390	0.0000
SP--2002	3.604486	0.279731	12.88555	0.0000
SP--2003	2.381042	0.280515	8.488110	0.0000
SP--2004	3.203321	0.304274	10.52776	0.0000
Weighted Statistics				
R-squared	0.953836	Mean dependent variable	143.2167	
Adjusted R-squared	0.934330	S.D. dependent variable	272.9297	
S.E. of regression	69.94116	Sum squared residuals	347315.3	
Durbin-Watson stat	0.455487	Instrument rank	102.0000	
Un-weighted Statistics				
R-squared	0.298309	Mean dependent variable	59.57843	
Sum squared residuals	683650.2	Durbin-Watson stat	0.328451	

Unit root tests for residuals

Table A.2

Pool unit root test: Summary

Sample: 1993 2004

Series: Residuals

Exogenous variables: Individual effects

Automatic selection of maximum lags

Automatic selection of lags based on MHQC: 0

Newey-West bandwidth selection using Bartlett kernel

Balanced observations for each test

Method	Statistic	Prob.**	Cross-sections	Observation
<i>Null: Unit root (assumes common unit root process)</i>				
Levin, Lin & Chu t*	-5.57276	0.0000	17	85
Breitung t-stat	1.20131	0.8852	17	68
<i>Null: Unit root (assumes individual unit root process)</i>				
Im, Pesaran and Shin W-stat	-0.31628	0.3759	17	85
ADF - Fisher Chi-square	37.3980	0.3158	17	85
PP - Fisher Chi-square	53.4849	0.0180	17	85
<i>Null: No unit root (assumes common unit root process)</i>				
Hadri Z-stat	5.20341	0.0000	17	102

** Probabilities for Fisher tests are computed using an asymptotic Chi - square distribution. All other tests assume asymptotic normality.

Notes

- (1) Of course, there could be “simply” added the “cost of social adaptation” in the utility definition as a formal variable but this still leaves the theory with the black box of an “empty” explanation.
- (2) See UNESCO - Universal Declaration on Cultural Diversity, 2002.
- (3) Such a specification could hold if both spaces i, j maintain a non-zero population and the marginal migratory is ‘indifferent’ between staying or moving in any period. The idea is to avoid the complications that arise from the models with finite lifetimes.
- (4) The adopted framework for the expectations derived from a bounded rationality approach in which the information is imperfect but is “completely” used by the social subjects.
- (5) The “non-shifting” hypothesis for this structure could be sustained until a certain point in a model of the “unified political agenda” in which the ideological differences does not play anymore a significant role; still there is a price in the realism of the model.
- (6) Realized in 1968-1973 starting from approximately 66 non-socialist countries, this study collected information from more than 117,000 forms, completed by the IBM employees in this countries.
- (7) For this analysis purposes, the main advantage in using these factors is the quantification of the relevant elements, which could be used, in an empirical approach of the mentioned thesis. The factors interpretation realized here is larger that the one strictly derived from this study.
- (8) http://www.geert-hofstede.com/hofstede_dimensions.php
- (9) <http://ept.eurostat.ec.europa.eu>

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Globalization and Europeanization. A Projection on a European Model of Public Administration

■

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***Abstract.** The specialized studies and literature present moreover and insistently the connection between globalization and Europeanization, more precisely between globalization and a European model of integration, whose features aim to set up a global-type European society.*

The development of the European model of integration starts with economic elements, it reveals nowadays the Economic and Monetary Union and in perspective it will be structured within a sui generis system of transnational governance.

The values of the European model of integration become fundamental values of a social process, with powerful economic and political determinations, aiming the multi-causal interference between individual, community and European construction.

This process, remarked increasingly in the specialized literature, being assigned with the name of Europeanization, has got original, functional features in the spectrum of significations of the globalization paradigm.

As essential global-type formula, within Europeanization, we shall find models with economic, political or social finality, integrating also a model of administration among the latter ones. When we say administration, we refer to its up dated and adequate contents to the new European developments.

This assertion derives from a less economic modality to conceptualize the relationship between globalization and Europeanization, presenting Europeanization more as a political adaptation to globalization and even a political expression of globalization.

In this context, the development of a system for European governance on several levels (local, regional, national, intergovernmental and supranational) suggests its evolution towards globalization. In fact, the literature specific for Europeanization asserts the fact that the European model has also features with integra-

tive nature related to the supranational and trans-governmental dimensions, as well as features with normative nature in view of harmonization, also by standards.

These assertions, to which we can add also others, are leading to a new model of public administration, whose area overlaps with the space of European Union, incorporating the effects of globalization under its European expression, Europeanization. Consequently, the proposed model, emphasizing the process of European Union construction will comprise transparency, accountability and participation of the interested parties to public decision. The new public administration aims to use efficiently the resources in order to create favourable conditions for its citizens to become more competitive on the world market and to reduce the gap between the poorest and the richest inhabitants of the world.

The current paper aims to conceptualize and to describe a model of public administration. The architecture of this model will be that of a complex system, with a mixed architecture, emphasizing connections with different intensities among its various levels: European, regional, national etc.

The feedback mechanisms will be different and specific for each level and they will be ensured by different institutions on compatible normative grounds⁽¹⁾.

Key words: globalization; Europeanization; administrative space; systemic model.

■

JEL Codes: F15, P 35

REL Codes: 13G, 20B

I. Globalization versus Europeanization and the impact on public administration

Among the numerous studies on globalization, we'll start from Beck's approaches (2003), which propose a clear distinction between globalization, globalism and globalness. The above mentioned author, as shown in Dinu (2004), tries not only to re-establish the meanings of the notions as such, but also to emphasize the wrong tracks of some analyses on globalization, even though they are in fashion. One of them leads to the meaning of the extreme and ultimate variant

of control over the whole globe, which is synonymous to the market imperialism. The other one actually refers to globalness, as a synonym of the interdependence between the parties, directing the analysis towards the specific sense of the common problems of mankind, more or less solvable, like poverty, crime, pollution, development, etc. Globalization is neither globalism, except as a deviant or incidental formula, nor globalness in itself, as stated in Dinu (2004, p. 19).

From the perspective of our analysis, globalization will be regarded as an expansion process of the good and capital markets with the aim of integrating people, of practicing new approaches of the government focused on transparency, responsibility and involvement in political dialogues and debates.

We place the manifestation dimension of globalization at a world level, at the level of international and regional dialogue forums, in which the strong, competent national governments should integrate and negotiate within a global framework (www.undp.org-governance-public.htm), efficiently using their resources to create the conditions for asserting the human resource competitiveness on the world market.

The Europeanization, also interpreted as a globalization process in the European realm, represents a state which is contiguous to the European integration, encompassing, among others, its impact upon the national administrations (Matei, 2004).

Parallel to the Europeanization process, or by contrast with it, the European integration constitutes the political process of adopting, by the national actors, of new Community mechanisms and norms. Furthermore, Europeanization presupposes both normative and adaptive (contextual) actions.

I.1. The Europeanization concept and “models”

The range of significances of the Europeanization concept is impressive: from the Europeanization as a transnational process (the dissemination of “Western” norms, styles and conducts within Europe), through the Europeanization as institutional adjustment to the E.U. requirements, to the Europeanization

as a counter-weight to globalization or even to a specific strategy of solving conflicts around the world (Featherstone, 2003).

The interest in the study on the Europeanization process has become visible in the last decade, thus during 1996 – 2004, over 2000 significant articles about Europeanization were identified (Figure 1). Featherstone (2003) describes the reality as shown after monitoring over 116 academic journals: 33% deal with issues of public policies, 16.7% with international relations or 12.5% with political parties.

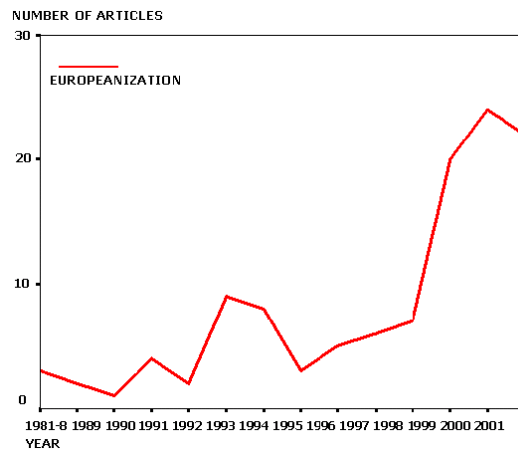


Figure 1. Number of relevant articles about Europeanization (Featherstone, 2003, p. 6) adapted)

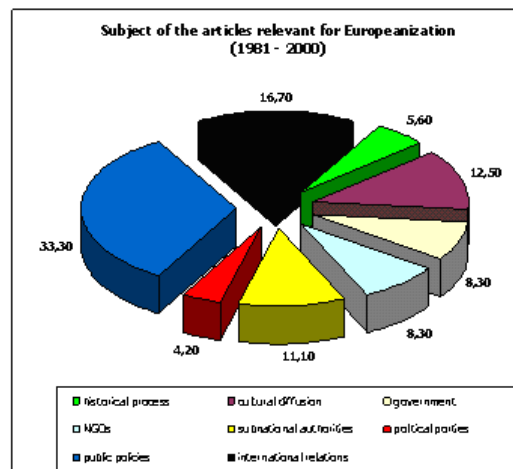


Figure 2. Subject of the articles relevant to Europeanization (Featherstone, 2003, adapted)

As seen in Figure 2, the Europeanization process includes several other areas of social life, such as those of governance, culture, national administration or civil society.

Continuing the above analysis, Radaelli (2003) attempts to respond to two questions, namely: what is Europeanising and to what

extent. In this context, the author has developed a model for the Europeanization areas (Table 1) including the public administration and one for the Europeanization mechanisms, referring to inertia, absorption, transposition and resistance.

Areas of Europeanization (Radaelli, 2003, p. 35)

Table 1

Internal structures	Public policies	Cognitive and normative structures
1. Political structures a. institutions; b. public administration; c. legislative structures	a. actors b. political problems c. style d. instruments e. resources	a. discourse b. norms and values c. political legitimacy d. identities e. state traditions – understanding the governance f. paradigms of policies
2. Representation structures a. Political parties b. Pressure groups c. Social structures		

Among these, the “*Europeanization – institutional adjustment*” approach, specific to the public administration in the first place, has generated the most diversified uses, as well as the most debated distinctions.

Europeanization is an independent variable with an impact upon the national processes, policies and institutions (Borzel, Risse, 2003, p. 3).

The diversity and differentiation of the contents of the Europeanization process result, on one hand, from its multiple definitions and, on the other hand, from the distinction related to other concepts, achieved by many actors.

Analysing in a progressive perspective, the Europeanization process was defined as *de jure* transfer of sovereignty to EU (Lawton, 1999) or as a process by which important areas of national policies become moreover subject of the European decision-making process (Börzel, 1999).

We find the framework necessary to the analysis of the Europeanization of public administration in Cowles, Green, Caporaso and Risse’s definition (2001), according to which the Europeanization, or better said its bottom-up dimension coincides with *occurrence and development at European level of distinct governance structures, namely political, legal and social institutions associated to the idea of solving the political issues, finalising the interactions between actors and networks of policies specialised in creating authoritarian European rules*. From a top-bottom approach, the Europeanization is *a progressive process reorienting the direction and form of the political process so that EU economic and political dynamics becomes a component of the organisational logics of the national policy and decision-making process* (Ladrech, 1994).

At the same time, Europeanization should not be confused with other concepts, such as convergence, harmonization, integration and policy making. Europeanization is a process, while *convergence represents its consequence*. Also, Europeanization should not be confused with the harmonisation process, which reduces the diversity of regulations, offering a certain action model. Contrary to harmonisation, Europeanization provides the idea of open diversity. The result of Europeanization may be diversity of regulations, increased competition or its distortions.

II. The systemic analysis on Europeanization of public administration

Europeanization of public administration, as part of the general process of Europeanization, represents the result of the interactions with systemic nature of the European policies, aimed to reforming and developing the public sector. Therefore, as it is natural, the evaluation, by means of adequate indicators and socio-economic models, of the impact of Europeanization on the public administration becomes a necessary and useful approach, inscribing in the preoccupations of the actual research.

To that conclusion we may add a series of arguments concerning the preoccupation more and more obvious in the practice of United Europe edification, namely for each public policy to emphasise also the mechanisms in order to evaluate the specific impact. The evaluation of the impact takes into consideration thorough knowledge with interdisciplinary nature.

The core ideas of the project derive, on one hand, from the analysis on the current stage of knowledge in the area of Europeanization,

with special mention on Europeanization of public administration and, on the other hand, from the preoccupations of the European and national institutions and authorities aimed to determine and get knowledge about the impact of their own policies, especially in the economic and social field.

In this context, the theoretical, analytical and empirical framework of the current study is grounded on the following considerations, depicted from literature, practice and previous researches:

Approaching Europeanization as a three dimension process:

- *top-bottom* – by which EU (as administrative body with its various ways of governance) influences the national, regional and local administrations, leading to administrative convergence in Europe on those levels. Among various examples we mention a relevant one, namely: increased use of action plans and benchmarking at national and regional level as result of using the open coordination method by EU;
- *bottom-up* - by which EU administration and governance are influenced by national traditions and practices;

Also herewith, as eloquent examples we may emphasise the „French” legal-administrative model in order to approach the aspects of public budgeting that was incorporated in the 1950’s within EU budgeting affairs or another example: the use of „German” model, Bundesbank, as model for the institutional construction of the European National Bank System.

- *horizontal* - by which administrations and ways of governance are converging, partially as result of mimetic action in the context of system competition.

Those three dimensions, specific for Europeanization of national public administrations, could be integrated, from a systemic perspective, within another modality of approach, making distinction between *Europeanization by deepening*, endogenous to EC system, equivalent with the mutual impact of the EU and Member States on their national orders and *Europeanization by enlargement*, which corresponds to contracting by the Member States of exogenous models of institutional and/or valuable change, including their adaptation to the candidates' national orders.

A suggestive image of the narrowing Europeanization process is offered by Knill/

Lehmkuhl model (1999), according to which, at the level of each state, there can be more *types of integration – positive, negative or framework* – defined according to the existence or non-existence of a model or to the situation in which the European policy brings about changes at the level of the internal actors' beliefs and expectations. Starting from this approach, based on the above triangle (in Featherstone, Radaelli, 2003), a series of Europeanization mechanisms are emphasized and described (Figure 3), which appear under the form of an *adaptive pressure* whose results oscillate between *coercion* and *mimetism*.

Europeanization mechanisms					
Positive integration: there is a European model		Negative integration: there is no prescribed European model	Framework – integration		
Coercion	Mimetism	Regulating competition	Union framework policies	Convergence around the public policy paradigms	The power balance is irrelevant
Adaptive pressure	Adaptive pressure	Opportunity of internal structure	Legitimacy expectations are changing; EU offers a solution	Open-method coordination	Understanding governance

Figure 3. Europeanization mechanisms (Featherstone, Radaelli, 2003, p. 41, adapted)

A more diversified analysis is carried out by Borzel and Risse (2000), which identifies the *absorption* phenomena – where the member states align their policies, with minor changes – *adjustment* – when the states align their policies through moderate changes – and *transformation* – characterized by major changes.

II. 1. The Europeanization levels and the institutional reshaping

From the perspective of a systemic approach concerning Europeanization of public administration, the reality of the European construction determines its approach as a process structured on three levels:

- *the European level* referring concretely to the development of a distinct governance system, a new set of interacting structures and processes;
- *the regional level (infra-European or infra-national)*, whose contents is determined, on one hand, by the relative distinct trajectories of social, economic, cultural development of various regions, as well as, on the other hand, by the European regional development policies;
- *the national level* comprising the national administrations, subject to a continuous process of transformation with different speeds and intensities related to their own

history and traditions, level of economic and social development etc.

The presence of mechanisms specific to Europeanization of public administrations, such as administrative convergence and dynamics, as well as some standards deriving from the principles of the European Administrative Space determines the multidisciplinary nature of our approach.

In this context, the European administration or better said the European system of public administration (ESPA), as result of Europeanization, will be structured as *a dynamic, open system, with a mixed hierarchic architecture, whose mechanisms of adjustment and self adjustment are continuously developing, related to the thoroughness and extension of the Europeanization process of national public administrations.*

Similar with the Europeanization process, ESPA architecture will contain a structure with three layers, corresponding to three subsystems: European, regional and national, for which we shall determine intra and intersystem connections, with different intensities and complex multidisciplinary contents. Taking into consideration the perspective of developing social cybernetic systems, as well as the finality of the proposed research project, the European public administration system will be a *learning* system, more complex than the cybernetic systems as it will contain *a strip of policies.*

The internal mechanisms of functioning and adjusting within ESPA are various. A first category focuses on the emergence of the European institutions as a system of new practices and rules, representation and resource structures, and the second refers to the effect

of these new institutions on those of the Member States, especially on the national public administrations. The first category has long constituted the object of analysis and research, being known as Europeification (Andersen, Eliassen, 1993) or “Vergemeinschaftung” (Communitization). During this period, namely the last decade of the 20th century, the theoretical and empirical studies focus on *the role and interaction of the different actors, both European* (the European Commission, the European Parliament, the European Court of Justice, the Regions Committee, EU interest groups) *and national* (governments, interest groups, regions) *in establishing the European policies.*

Also, in the above-mentioned period, Europeanization approaches occurred, which were based on the rational choice and sociological institutionalism, and through which the effect of Europeanization upon the national administrations was represented as a process of institutional change. Most studies are based on two main theoretical directions: *the dependence on resources* – which concerns the European governance system as a structure of political opportunity which changes the distribution of the power resources among the national actors, and *the institutional adjustment* – in which the national actors adopt and internalize new rules and practices.

This second direction resorts to the organizational theories of institutional change. Modern approaches, specific to the years 2000, combine more discourses, such as:

- the national choice and the sociological institutionalism;
- the dependence on resources and the institutional adjustment.

The above framework substantiates the model of institutional dependency (MID) (Borzel, Risse, 2000, pp. 15-19), which treats actors from the utility point of view, in the sense that they act for maximizing their preferences. Not excluding the possibility of a preference change, the model presupposes that the national actors have an essential interest in the organizational survival, autonomy and development, and their preferences are predominantly shaped by the institutions.

The interdisciplinary synthesis that MID presupposes ensures the specific difference

from the institutionalism of the rational choice, emphasizing that institutions include not only norms, but also social norms, regulating the actors' conduct and ensuring the social appropriateness of their actions. MID systemically approaches more factors, on sociological, economic, political or juridical grounds, and one may conclude that choosing certain reform strategies is not only an issue regarding the available resources and the cost-benefit analysis of the expected utility, but also a function of the actors' strategic preferences and options (Figure 4).

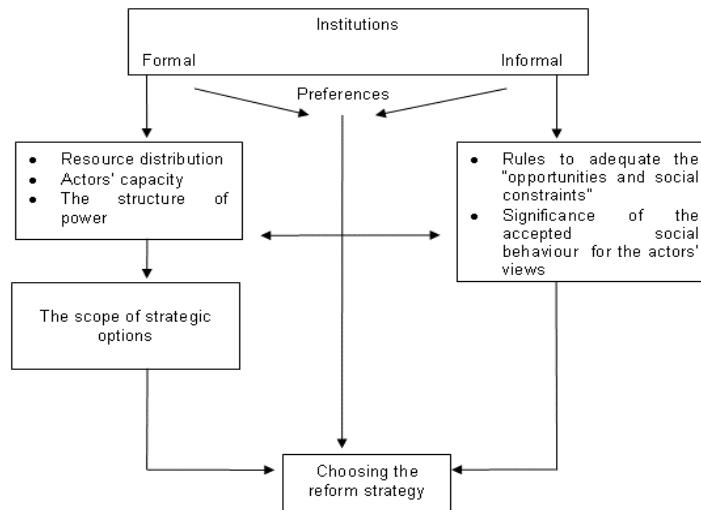


Figure 4. The model of institutional dependency (MID) (Borzel, Risse, 2000, p. 23)

III. Towards a model of European administration

III.1. Characteristics of European administration

The idea of the European administration appears explicitly and implicitly in the EU documents. One of them, concerning the European Constitution stated that “*in achieving their missions, the Union’s institutions, bodies and agencies shall openly, efficiently and*

independently support the European administration” .

Otherwise, the same document discusses the promotion of the *good governance* (article 49) or that of *global good governance*.

The above ideas are in the recent Treaty of Lisbon for changing the Treaty on European Union and the Treaty on instituting the European Community.

We should add that so far, the main constitutional legal texts of the European

Union, namely the Treaty of Rome (1957) and the Maastricht Treaty (1992) do not provide a model of public administration to be implemented by EU Member countries.

Still, important administrative law principles are stated in the Treaty of Rome, such as the right to judicial review of administrative decisions issued by EC institutions (article 173) or the obligation to give reasons for EC administrative decisions (article 190). Adding to these are sectoral administrative law provisions, which constitutes what is known as the *acquis communautaire*.

A certain administrative system may be evaluated by researching the limits of the application of the European Administrative Space (EAS) principles; we can as such see how these principles serve as generic standards, and to what degree we can speak of compatibility between different administrative systems.

The European administration is a system with many characteristics described in many reference papers of the literature (Kassim, 2002, pp. 140-142). With the correct adaptation of the context, the above may be formulated as follows:

a) Lack of an agreed demarcation of competencies and powers between the European Union and the national administrations; we add to this that EU as a unified system has a complex structure, based on three pillars with different decisional powers, structures and procedures.

b) Fluidity. Many studies have described the Union as a “fluid, ambiguous and hybrid” since “there is no shared vision or project or common understanding of the legitimate basis of a future Europe” (Olsen, 1997, p. 165). Of course, these remarks are previous to the Constitution of Europe, yet they are still at least

partially, pertinent. It can not be argued upon the fact that EU is in a constant becoming step, in which its membership, rules, relationships, authorities and institutions are constantly evolving and its competencies and functions ever-changing.

c) Institutional fragmentation, by means of which the power at the European level is shared between several institutions, and there is no single authoritative legislator. Legislative power is shared by two institutions – the Council and the European Parliament – that form a “classic two-chamber legislature” (Olsen, 1999, p. 56) and executive authority is spread between the member states (individually and collectively) and the Commission.

d) The complexity of the EU policy process is a consequence of the fact that the decision making into EU involves a multiplicity of actors, including, besides the member states the EU institutions and other European bodies and agencies, representatives of the regional and local authorities and lobby groups. Each is at once an actor with its own interests, an institution with its own rules, code of conduct and operating style.

e) Sectorialization, which show a specific logic for the construction of the EU. A broad distinction is to be made between constitutional matters, such as treaty negotiations, institutional reform, and enlargement, which involve heads of the state and government and foreign ministries – and routine policy of regulatory, redistributive or distributive nature.

Of course, all the above do have a close connection to the political system of the EU, yet specific connotations for the European administration. With all these characteristics, the European administration is unique and creates a complex system, not fully developed.

III.2. Self-adjustment in the European administration

Keeping the systemic analysis language, we can note some of the elements that shape the self-adjustment process within the European administration, by looking to the developmental environment of the European administration.

The partial and legal regulation of the European administration' system is actually one of the characteristics of the administrative systems. This is do to the fact that the European administration has a multi-polar nature and many of the European practices and standards are not imposed by specific regulations, but accepted by the Member States.

As such, the self-adjustment process that characterizes the European administration has, amongst the law some other mechanisms, both formal and informal. A clear example in this case is the Europeanization, more generally analyzed in the above sub-chapters.

As a regulatory mechanism, the Europeanization is a synthesis of the connections present between national administrations and the European level of the European administration. From this perspective, we can point out that the national administrations have a pertinent and complex influence upon the EU's decisional process, being important participants to all the decisional levels and involved in all the steps of the policy cycle.

The influence we are referring to becomes concrete once we analyze the institutional presence, seen from the viewpoint of the permanent representations bodies or lobby groups, present both at the

European Commission and the Parliament level and at that of other institutions.

We should note that the national administrations are extremely important to the increase in visibility of the European building and enlargement process, and European identity. There are at least three ways in which EU has influenced the national administrations, thus creating a new form of the Europeanization process.

a) National administrations, next to their national mission, have assumed a new role as implementation agencies of the EU norms. As part of the European administration, the implementation and obligation to respect the EU legislation may lead to further actions, use of new instruments, not completely familiar and recruit and training of personnel.

b) As a consequence of the EU's legislative or judicial decisions, national administrations are determined into modifying or abandoning the existent policies, change or ignore the traditional instruments or reorganize structures and procedures. This fact may lead into diminishing or increase of the administrative capacity or change of the public and private actors' relationships.

c) Adaptation of national administrations to European standards as a consequence of the governmental practical implication in European decision making and the assumption of the above.

National administrations have been encouraged in developing support mechanisms for participation and coordination of actions for their representatives at EU level. Undoubtedly, these self-adjustment aspects may be found in the entire elaboration process of the EU policies.

In the general context of administrative dynamics, an evaluation of the self-adjustment process and its dynamics is necessary.

This dynamics is also influenced by many factors, amongst which the nature of the political system, the centralization degree or the fragmentation of the national administrations dedicated to the integration process, etc.

As such, a conclusion with regard to the European administration stems from its unique character, direct consequence of the EU's unique political system.

Being unique, the European administration offers a complex image, marked by national and European interpretations and interrelation.

National administrations have reached the EU's decisional bodies; they are present in every European area and determine the functioning of every European institution.

In the same time, the national civil services acknowledge adaptations in their structures and practices.

We may add to this, the specific character of the coordination mechanisms at EU institutional level, and, with direct link to the national administrations, mechanisms that are permanently articulated and are formally, increasingly consolidated, thus ensuring the foundation for a European public administration.

III.3. The European Administrative Space – standard of the evolution of national administration

III.3.1 Generalities

The conceptualization and transformation of the “European Administrative Space” (EAS) into an instrument for

evaluating the public administration reforms in the CEE countries was developed by SIGMA with the support of the PHARE projects, in response to the European Council's requests regarding the process of accession to the EU, formulated at Copenhagen, Madrid or Luxemburg.

The entire effort to build the EAS took into consideration the reality of the constitutional and administrative law principles being key factors for democratic governance and development and elements of an “informal *acquis communautaire*” (OECD, 1999, p. 5), meant to inspire the public administrations reforms in achieving the enlargement criteria.

In this context, the study already mentioned set the objective of:

- Formulating criteria capable to stir the public administration reforms;
- Offering standards to measure the progress of the reforms.

Later on, to these objectives it was added that of technical assistance for supporting the national public administration reforms.

Can one talk of the EAS when there is a European Legal Space (ELS)? In this case, the EAS appear as a specific part of the ELS, territorially limited at being “a geographic region where the administrative law is uniformly implemented” (OECD, 1999, p. 9).

It is obvious that until recently, this administrative space was limited by the national borders of the sovereign states and was the product of the national legislation. The evolutions that followed (gravely marked by the creation and enlargement of the European Union that determined the development of the national administrative

spaces towards supranational dimensions) lead to the dissolution of the traditional boundaries of sovereignty.

In conclusion, the EAS “is a metaphor with practical implications for Member States and embodying, *inter alia*, administrative law principles as a set of criteria to be applied by candidate countries in their efforts to attain the administrative capacity required for EU Membership” (OECD, 1999, p. 9).

The existence of a European Administrative Space implies that the national public administrations are ruled based on common European principles, norms and regulations, uniformly implemented within a relevant territory (Cardona, 1999, p. 15).

The evolution towards the European Administrative Space understands convergence on a common European model and may be seen as a normative program, an accomplished fact, or a hypothesis. Another important question is to be raised: What is “convergence” and what criteria can be used to decide whether an EAS exists (Olsen, 2003, p. 1)?

The development in question is not a simple process. Quite recent analyses show some other possible contradictory evolutions.

Thus, it is stated that “a development of the EAS may be in contrast to the national administrative systems, where the structure of the public administration structure reflects the identity, history and the specific states of the societies” (Nizzo, 2001, p. 2).

Still, as the processes of European integration deepen and enlarge, the EAS develops and evolves pointing out the values expressed by standards and good practices specific to public administration situated closer to the citizen.

III.3.2. Principles of the European Administrative Space

The current analyses and studies operate, in different national systems, with distinct concepts of the administrative law. Still, “it is possible to agree upon a common definition of administrative law as being the set of principles and rules applying to the organization and management of public administration and to the relations between administration and citizens” (Ziller, 1993, in OECD, 1999, p. 11).

More specifically, we can talk of a set of common principles of administrative law steaming from the Western European countries, organized by a prestigious group of specialists and academics⁽²⁾ (within the SIGMA project – OECD, 1999, p. 8) in:

- reliability and predictability;
- openness and transparency;
- accountability;
- efficiency and effectiveness.

a) Reliability and predictability. These attributes derive from the essence of the rule of law which affirms the law supremacy as “multi-sided mechanism for reliability and predictability” (OECD, 1999, p. 12). As an EAS principle, it may be rephrased as “administration through law”, a principle meant to assure the legal certainty or juridical security of the public administration actions and public decisions.

Other connotations of this principle may be observed when we refer to the opposition of the law supremacy in regard to the arbitrary power, cronyism or other deviations of the latter that should not be seen as similar to the discretionary power applicable in cases when, within the legal framework, a certain degree of decisional freedom is allowed.

Exercising the discretionary power is limited by the principles of administrative law by means of which the public administration is forced into acting in good trust, follow the public interest, use fair procedures for equal and non-discriminatory treatment and respect the legal principle of proportionality⁽³⁾.

b) Openness and transparency impose themselves following the reality that public administration is the resonator of the society, assuring the interface with the citizen, the user of its services. The development of different social phenomena, such as the corruption or mal-administration, must be controlled by the society. This urges the administration to become available and to offer sufficient information to the exterior. As such, the openness and transparency refer to these exact attitudes and constitute the necessary instruments for achieving the supremacy of law and the equality before the law and its representatives. Assuring the openness and transparency, we protect both the public and individual interest.

As in the case above, the openness and transparency are supported by the administrative law. We refer here to practices imposed by the administrative principles, like in the case of administrative actions being accompanied by statements of reasons, etc. To this, we may add the necessity to grant the access to public recordings, the restrictions placed for the civil servants and the necessity for the chosen authorities to exactly represent the public interest.

In the European Treaties, transparency appears as a value of the good governance. Of course, openness and transparency become compulsory to the general conduct

of the public administration; yet they should not undermine the national security.

It should be noted that openness gained new characteristics once the public administration was considered to be a public service. In this context, openness becomes acquisitiveness to the citizens or other authorities' initiatives regarding the improvement of public services and their getting closer to the citizen. A new concept emerges – the open administration (OECD/CPAP, 2002).

c) Accountability. It is one of the instruments showing that principles like the rule of law, openness, transparency, impartiality, and equality before the law are respected; it is essential to ensuring values such as efficiency, effectiveness, reliability, and predictability of public administration. As it is described by the authors of the EAS, accountability means that any administrative authority or institution as well as civil servants or public employees should be answerable for its actions to other administrative, legislative or judicial authorities.

Furthermore, accountability also requires that no authority should be exempt from scrutiny or review by others, which means that, simultaneously or priority, mechanisms for implementation are created.

These mechanisms contain a complex of formal procedures that give a concrete form to the accountability act, as well as supervision procedures that aim to ensure the administrative principle of “administration through law”, as it is essential to protect both the public interest and the rights of individuals as well.

d) Efficiency and Effectiveness. The introduction for the public sector and public administration of the efficiency and efficacy as important values is relatively recent. This is to be understood since today, when serious fiscal constraints and development of the goods and services are in place, talking of an economic optimum for the public sector is possible (Matei, 2004, chapter VI).

In this context, efficiency becomes a managerial value that points towards maintaining the optimum equilibrium between the allocated resources and the obtained results, while effectiveness – a connected value that makes sure that the activity of the public administration achieves the intended objectives and solves the public problems recognized by law and the governance process as in its duties.

The analyses in the field show that it is possible to discuss of contradictory developments between assuring efficiency and the rule of law. The European Commission has already intervened, by creating legal institutional solutions – directives to prevent these developments. European Community law also calls for efficient administration, particularly with regard to the application of Community directives and regulations.

The above principles are not only theoretical in value. They constitute the base for a unitary application of the principles of the administrative law within the national administrations and the construction and enlargement of the EAS. These principles may not function on the basis of a simple

knowledge; in turn, they assume a gradual, daily effort for interiorizing the EAS' principles as inherent to the administration, by means of institutional and legal mechanisms. The European Administrative Space appears as the closure for a large process that implies convergence, Europeanization and administrative dynamics.

IV. Social perception on Europeanization of national administration

The below data were extracted from a study achieved by a research team of the Faculty of Public Administration of NSPSPA on a sample of 727 civil servants, having a similar structure with that of the corps of civil servants in Romania.

The period for data collecting is January – February 2007.

The questionnaire comprised three dependent variables: administration through law, openness of administration, administration as itself.

From the thematic perspective of this paper, we mention only some items concerning the three variables deriving from EAS principles.

IV.1. Administration through law

The social perception was directed towards the four independent variables concerning: stability, clarity, complexity, comprehensiveness. The evolution on a scale from 1 to 4 concerning their social perception is presented in Figure 5.

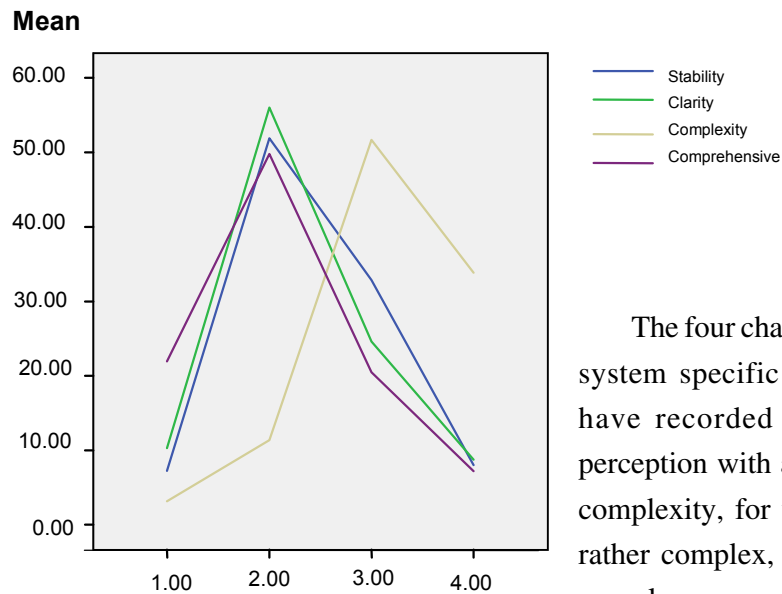


Figure 5. Social perception on the characteristics of administration through law

The four characteristics of the legislative system specific for public administration have recorded approximately the same perception with a remarkable difference for complexity, for which 51.66 state that it is rather complex, and 33.85% state that it is complex.

We obtain a more detailed quantitative image calculating Pearson correlation coefficient for the four variables.

Correlation of the variables for administration through law

Table 2

		Stability	Clarity	Complexity	Comprehensiveness
Stability	Pearson Correlation	1	.966(*)	.057	.855
	Sig. (2-tailed)		.034	.943	.145
	N	4	4	4	4
Clarity	Pearson Correlation	.966(*)	1	-.177	.938
	Sig. (2-tailed)	.034		.823	.062
	N	4	4	4	4
Complexity	Pearson Correlation	.057	-.177	1	-.464
	Sig. (2-tailed)	.943	.823		.536
	N	4	4	4	4
Comprehensive	Pearson Correlation	.855	.938	-.464	1
	Sig. (2-tailed)	.145	.062	.536	
	N	4	4	4	4

Table 2 presents a powerful positive correlation between the perception on stability, clarity and comprehensiveness and a negative one, smaller as intensity on the complexity related to the other variables.

IV.2. Openness of administration

In order to describe this dependant variable, 3 variables have been determined:

Q1: administration for the citizen;

Q2: citizen non-discrimination in his/her relations with public administration;

Q3: equality before law.

The description about the perception of the three independent variables has been designed on two levels: national (Romania) and European (EU).

Figure 6 presents the results obtained in the two above-presented situations.

The perceptions are different essentially between the national and European level. Thus, on national level, on average, 35% appreciate the evolution of the mentioned variables with marks of 3 and 4, while on European level, we record a percentage of 61%.

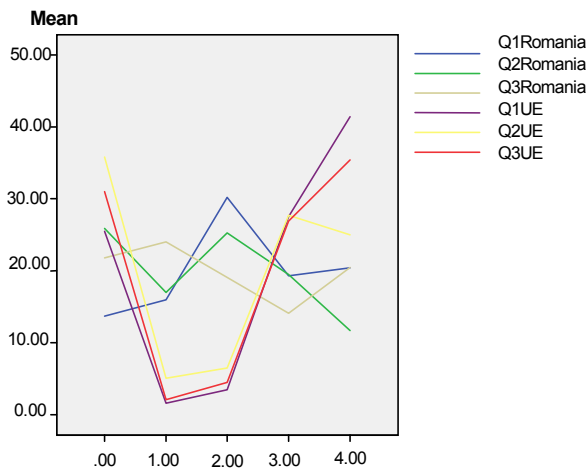


Figure 6. Social perception Romania - EU concerning openness of administration

We obtain a clearer quantitative image determining the correlations between the three variables on national and European level, as well as related with their averages (Mean Q Romania, respectively Mean Q EU).

We may formulate the following important remarks:

- on national level, the inter-variables correlations are negative on a large extent, unlike the European level where these correlations are positive, having a large intensity.
- in line with the characterisation from the current study, for openness of administration, up to the time being, the social perception reveals negative correlations, negative results for the averages of the variables.
- on national level, the intensity of correlation between the variables and their average is smaller than that on European level, which reaches 1, in some situations.

Correlation of the variables for openness of administration on national and European level

Table 3

		Q1Romania	Q2Romania	Q3Romania	Q1UE	Q2UE	Q3UE	MeanQ Romania	MeanQUE
Q1Romania	Pearson Correlation	1	.172	-.343	-.293	-.526	-.392	.671	-.408
	Sig. (1-tailed)		.391	.286	.316	.181	.257	.108	.248
	N	5	5	5	5	5	5	5	5
Q2Romania	Pearson Correlation	.172	1	-.084	-.449	.065	-.257	.740	-.241
	Sig. (1-tailed)	.391		.447	.224	.459	.338	.076	.348
	N	5	5	5	5	5	5	5	5
Q3Romania	Pearson Correlation	-.343	-.084	1	-.327	-.307	-.307	.115	-.325
	Sig. (1-tailed)	.286	.447		.296	.308	.308	.427	.297
	N	5	5	5	5	5	5	5	5
Q1UE	Pearson Correlation	-.293	-.449	-.327	1	.811(*)	.972(**)	-.633	.966(**)
	Sig. (1-tailed)	.316	.224	.296		.048	.003	.126	.004
	N	5	5	5	5	5	5	5	5

		Q1Romania	Q2Romania	Q3Romania	Q1UE	Q2UE	Q3UE	MeanQ Romania	MeanQ UE
Q2UE	Pearson Correlation	-.526	.065	-.307	.811(*)	1	.923(*)	-.451	.934(**)
	Sig. (1-tailed)	.181	.459	.308	.048		.013	.223	.010
	N	5	5	5	5	5	5	5	5
Q3UE	Pearson Correlation	-.392	-.257	-.307	.972(**)	.923(*)	1	-.569	.999(**)
	Sig. (1-tailed)	.257	.338	.308	.003	.013		.159	.000
	N	5	5	5	5	5	5	5	5
MeanQRomania	Pearson Correlation	.671	.740	.115	-.633	-.451	-.569	1	-.576
	Sig. (1-tailed)	.108	.076	.427	.126	.223	.159		.155
	N	5	5	5	5	5	5	5	5
MeanQ UE	Pearson Correlation	-.408	-.241	-.325	.966(**)	.934(**)	.999(**)	-.576	1
	Sig. (1-tailed)	.248	.348	.297	.004	.010	.000	.155	
	N	5	5	5	5	5	5	5	5

* Correlation is significant at 0.05 level (1-tailed).

** Correlation is significant at 0.01 level (1-tailed).

IV. 3. Correlation: legality – openness

Using aggregated variables, legal administration for the first dependent presented variable as well as the averages on national and European level, for openness, we obtain significant correlations, as we can remark from Table 4.

Correlation: legality – openness

Table 4

		Legal administration	Openness Romania	Openness EU
Legal administration	Pearson Correlation	1	.686	-.156
	Sig. (1-tailed)		.157	.422
	N	4	4	4
Openness Romania	Pearson Correlation	.686	1	-.680
	Sig. (1-tailed)	.157		.160
	N	4	4	4
Openness EU	Pearson Correlation	-.156	-.680	1
	Sig. (1-tailed)	.422	.160	
	N	4	4	4

As in the previous analysis, we remark a distinct separation between correlations of the variables on national level, respectively on European level, as follows:

- an average correlation between evolution, on national level of the processes concerning legality and openness in public administration;

- negative correlations between the two emphasised levels.

Conclusions

Without going further with the arguments in favour of Europeanization, restricting the analysis to the level of the national public administrations, Demmke (2004) states that the subsidiary fields of Europeanization are as follows:

- Europeanization of the national administrations, by implementing and applying the European legislation;
- Europeanization of the public service, through a *negotiation, decision-making and implementation process* at a European and national level;
- Europeanization of the national administrations and public service, by administrative cooperation;
- Europeanization of the legislation regarding the public service and of the national personnel policies, through the European Court of Justice jurisprudence and by building networks.

The Treaty of Lisbon concerning the European Union reform narrows the above analysis, making the distinction between:

- The Europeanization of the basic principles (“democracy”, “citizenship”, “efficiency”, “effectiveness”, “rule of law”) and the development of the general principles of the public administration (“good governance”, “openness”, “the fight against the poor administration”, etc.);
- The Europeanization of the national public service, taking into account the narrow interpretation of the principles of the free movement of workers and the restriction regarding the employment in the public service (according to Art. 39.4 EC);

- The Europeanization by implementing and enforcing the secondary legislation (the equality provisions in Art. 137 and Art. 141 EC etc.);
- The Europeanization due to the strict interpretation of Art. 10 EC and of the European Court jurisprudence;
- The Europeanization due to the impact of the competition rules in Art. 86 EC and of the privatization of the former public services and enterprises.

Key works of acknowledged authors approach the issue of Europeanization of the public administration⁽⁴⁾, and Demmke (2004) considers that “the public administration Europeanization theory certainly represents an important intellectual interest”.

Notes

⁽¹⁾ The paper was presented at the 27th International Congress of Administrative Sciences, organised by the International Institute of Administrative Sciences in Abu Dhabi, United Arab Emirates, on 9-14 July 2007.

⁽²⁾ The mentioned Group was formed of: Prof. Denis Galligan, Director of the Centre for Socio-Legal Studies, University of Oxford, United Kingdom, Prof. Jacques Ziller of the Law Department at the European University, Institute in Florence, Italy,

Prof. Jürgen Schwarze, Director of the Institute of Public Law at Albert-Ludwigs University in Freiburg, Germany, and Mr. Jacques Fournier, member of the Conseil supérieur de la Magistrature, France.

⁽³⁾ Arguments which state that discretionary legality cannot operate without the general principles of administrative law, are specifically offered by the European Court of Justice (see Case of Technique University of Munchen, 1991, ECR-I-5469).

- (4) Other relevant papers: Featherstone, K., Radaelli, C.M., (eds.) (2003), „The Politics of Europeanization”, Oxford University Press; Bafail, F., Hibou, B., (2003), „Les administrations publiques et les modes de gouvernement a l’épreuve de l’europeanisation. Un comparaison Europe du Sud, Europe de l’Est”, Les Etudes du CERI, No. 102, dec.; Salgado, S.R., Well, C., (2004), „L’Europeanisation et les acteurs non-etatiques”, Conference „Europeanisation of Public Policies and European Integration”, I.E.P., Paris, feb.; Scharpf, F.W., (1999), „Governing in Europe: Effective and Democratic?”, Oxford University Press; Olsen, J.P., (2002), „The many faces of Europeanization”, *Journal of Common Market Studies*, No. 40(5); Page, E.C., (2003), „Europeanization and the persistence of administrative systems”, in Hayward/Menon (eds.), *Governing Europe*, Oxford University Press, pp. 162-176.

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Issues about Human Resources Recruitment

■

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***Abstract.** As to ensure its success or even for surviving, organizations must settle accordingly some issues regarding the human resources enlistment, presented in great details within the article, whose success settlement ensure, concomitantly, the success of the entire assurance process with personnel, process extremely important, if there are taken into consideration, especially, the effects of some possible errors or hire errors. Therefore, the human resources recruitment tends to become a complex and expensive activity and, concomitantly, an independent activity, sustained both through the necessary work volume as well as through its importance for the organization.*

Key words: personnel assurance; human resources enlistment; hiring relation; “reality shock”; recruitment strategies and policies.

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JEL Codes: J01, M51

REL Codes: 12G, 14C

1. General considerations

Insomuch as many specialists in human resources domain refers to, for example Jack J. Halloran and David J. Cherrington, for ensuring its success or even for surviving, organizations must settle accordingly the following issues:

- skills' identification and candidates' selection which are best fit to new or vacant jobs requirements;
- the identification and attracting competitive candidates using the most adequate methods, sources and enlistments' mediums;
- the observance of the legislation in domain regarding equal hiring opportunities and the correction of past discriminating practices or to some existing lack of balances.

The settlement with success of these issues means, concomitantly, the success of the entire assurance process with personnel, process extremely important, if there are taken into consideration, as Malcom Peel refers to, especially the effects of some possible errors or hire errors.

Therefore, before taking the decision of hiring new applicants it is necessary to verify the recruitment need reality and to take into consideration also the achievement possibilities of another alternatives. In this regard, the first questions should be always the followings:

“How much is needed someone for a certain position?”

“The vacant positions are needed or they are truly necessary?”

“Isn't the recruitment need, in certain way, exaggerated?”

Therefore, the human resources recruitment refers to the confirmation of personnel hiring need, to some changes in

personnel hiring situation, as well as to the actions made for localization and identification of potential applicants and for attracting some competitive candidates, capable to fulfill efficiently the job requirements.

From this point of view recruitment needs can be strategic, because they respond to some long term demands (new jobs creation, reorganizations etc.), can respond to some temporary emergencies or to some conjectural requirements (neglecting the company from different reasons, studies continuation, decays etc.) or can be connected to internal personnel movements (promotions, developments etc.).

Personnel recruitment may have a permanent and systematic character or it may accomplish only when a certain need appears. If the human resources recruitment take place continuously and systematic, the organization has the advantage of maintaining a permanent contact with labor market.

Also, the human resources recruitment may be spontaneous, when individuals are orientated towards certain organization, or provoked, when the organization wants to occupy a certain position.

Human resources recruitment represents the pursuit, localization, identification and attraction of potential candidates process, from which are going to be selected the capable candidates, which, finally, have the necessary professional characteristics or the ones that suits the best actual and future vacant positions.

Human resources recruitment is the managerial process of maintaining and developing of the most adequate internal and external resources necessary for competitive personnel assurance in order to achieve organizational objectives. From this point of view, the recruitment can be an active process

especially when the organization proposes the maintaining and custody of some connections, or of some contacts with external sources of recruitment.

Therefore, this activity, relatively simple, which, in case of big organizations, can become a complex and expensive activity, needs a special attention regarding internal and external organizational consequences, as well as the needs of existing and future human resources. Therefore, within the human resources function the personnel recruitment tends to become an independent activity, sustained both by the necessary work volume and its importance for the organization.

Also, each organization must have the capacity to attract a sufficient number of candidates in order to have the possibility of identifying those who suits the best to vacant positions needs.

Often, the problem is not whom we choose, but from where and how to attract a number as big of competitive and motivated candidates from which to choose the necessary persons, recruitment activity being considered by many specialists in field as the base of the

entire assuring with personnel process. This is more evident as many specialists in the field, such as George T. Milkovich and John W. Boudreau, point out the big and very big difficulties connected to identification and attraction of necessary candidates type, especially for certain employees category.

2. Recruitment – basic activity of assurance process with human resources

After many specialists in the field, such as David J. Cherrington, human resources assurance of an organization, named usually **hiring**, includes many basic activities, namely: human resources planning, recruitment and human resources selection.

A similar conception is expressed by L.A. Klatt, R.G. Murdick and F. E. Schuster, who suggest that the assurance with personnel process from the inside and outside of an organization can be seen as a succession of specific activities absolutely necessary for fulfillment of individual and organizational objectives (figure 1).

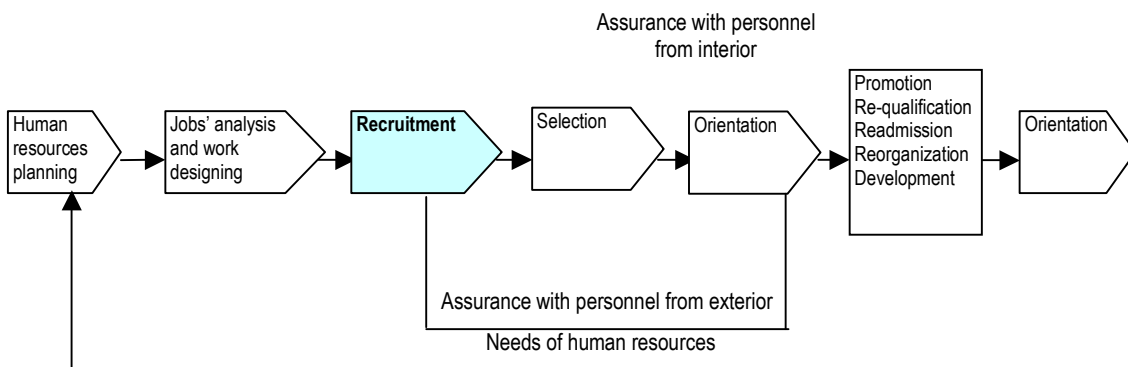


Figure 1. Assurance with personnel process

In a wider meaning, the assurance with human resources process, which, finally have to satisfy personnel needs, includes also

activities from human resources field, such as: jobs analysis and work designing (figure 1).

Therefore, as George T. Milkovich and John W. Boudreau mention, the recruitment is the first step or the first stage in assurance with personnel process, as well as the first step in its selection process. Although, traditionally, more attention is given to personnel selection, in the same authors' opinion, as well as other specialists in the field, the personnel recruitment must have priority, because an efficient personnel selection cannot be realized unless the recruitment process assures a big enough number of competitive candidates. That means the efficiency and efficacy methods and personnel selection procedures are limited by the efficiency and efficacy of its recruitment process.

Human resources recruitment has, also, jobs' analysis and work designing (figure 1), because the basic results of these activities namely jobs' descriptions and specifications, are essential at the personnel recruitment process.

Personnel recruitment follows logically human resources planning. Knowing in advance the personnel need and its anticipation, as sequel of human resources planning process, allows the development in good conditions and with more chances of success of personnel recruitment process. A similar conception is expressed by Lloyd L. Byars and Leslie W. Rue, who are pointing out the existing relationships between jobs' analysis, personnel planning, human resources recruitment and selection. The content of presented example (figure 1) suggests also the fact that human resources needs vary numerical and structural, although due to some changes or internal moves of personnel (promotions, developments etc.)

without neglecting retires, resignations, dismissals or even deceases.

After David J. Cherrington, human resources recruitment is indissoluble bounded to many other personnel activities, such as: performances evaluation, employees' rewards, personnel preparation or development and relations with employees.

Also, it is eloquent the assurance with personnel process presentation, by G. T. Milkovich and J. W. Boudreau, as being a series of filters or a sorting process, within which the solicitants are filtered after some activities specific human resources field which are unfolded successively (figure 2).

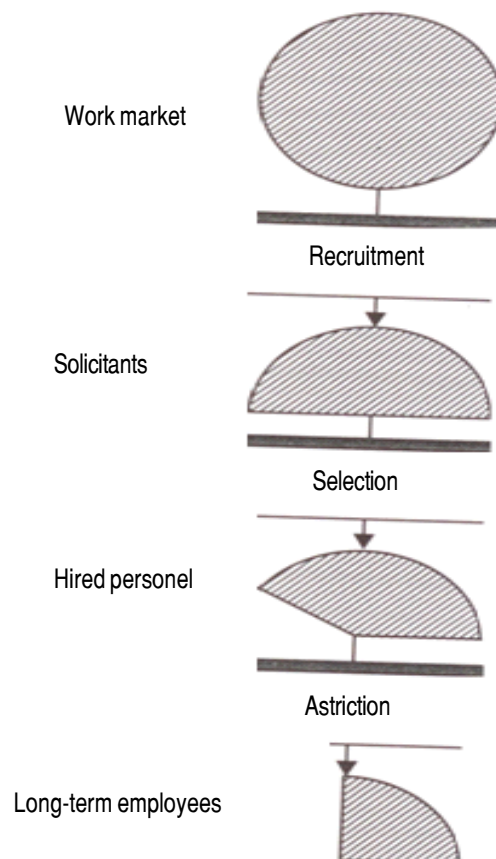


Figure 2. Personnel assurance process, as sorting process or as a batch of filters

Therefore, according to Jack J. Halloran opinion, all the solicitants must be aware of all restrictions or obstacles that may occur within human resources recruitment and selection processes.

Also, candidates must know if they'll have one or more interview types, if they will be tested as regards of investigating different aptitudes or different physical characteristics or if it's going to be verified the professional qualification.

3. External and internal recruitment parameters

In opinion of many specialists in the human resources field, such as George T. Milkovich and John W. Boudreau, personnel recruitment constitutes generally the first contact between the ones who hires and the ones who asks for hiring, being also a public activity.

Under these conditions, human resources recruitment is not by far a simple activity, as it is considered sometimes, because recruitment policies and managerial practices in this field are affected by a number of constraints or by many external and internal parameters, such as:

- Conditions and changes on work market;
- The capacity of human resources training and developing systems, as well as educational patterns which have a special impact on recruitment process;
- Area or locality attraction, as well as additional benefits or local facilities;
- Legal or judicial frame, adequate to human resources field, which settles different aspects of personnel assurance process;

- Unions which have an active role in personnel assurance process and may determine some constraints of recruitment activities or may influence respective process;
- Organization's image or reputation which, generally, is complex enough, may attract or push back the potential candidates;
- Potential candidates' preferences for certain activity fields, for certain organizations or jobs, for certain advantages offered for a certain work and rest regime;
- Organizational objectives reverberating, first, in objectives from human resources field, and at last in human resources recruitment policies and decisions;
- Organizational culture which, due to promoted relevant values, positively affects the candidates recruitment and hiring desire;
- Managerial policies and practices from human resources field which represents organization's behavior code in this field and which affects both recruitment process as well as potential candidates;
- Politic, ethnical or of any other nature criteria may constitute personnel recruitment conditions;
- The requirements absolutely necessary which organization consider that vacant jobs' solicitants must fulfill;
- Organization's economic-financial situation, because the recruitment involves some resources and requires certain expenses;
- Other parameters which could determine that during recruitment process some difficulties to appear or can enlarge the achieving length of this personnel activity, such as:

- The need of identifying and attract a part of potential candidates in a confidential and no publicity way;
- Existence of more special or remarkable complex jobs for which the potential candidates are hard to find or to locate, to identify and to attract;
- The reduced level of paid rewards in comparison with the one applied by other organizations for similar jobs and qualifications (external fairness);
- Confused description or less clear elaboration and less precise of job's characteristics.

Under these conditions, the identification and attraction process of competitive candidates must start earlier, the recruitment methods used must be more varied, and on the work market less solicitant or sub-used segments must be taken into consideration.

Therefore, in positions in which generally the organization and distinctively the companies are affected by a series of constraints or by a lot of parameters, meet or anticipate some difficulties during recruitment process, in order to assure the success or to remain competitive, it is necessary to be realized a complete and complex analysis of every parameters which, after the appraisal of specialists from human resources field, will attract or, on contrary, will move away the competitive potential candidates.

4. Characteristics of the recruitment process

According to many specialists in the field, employment is not a mere market issue but rather an extremely complex and many-faceted long-term relationship in which the parties try

to avoid entering into a relationship with an unsuitable partner in order to build and preserve a relationship that is as advantageous as possible. This means that in the bi-directional employment process a candidate should – according to Malcolm Peel – be content with his/her employer, the job and the associated benefits, just as the employer should be equally content with the candidate.

Managerial experience shows that mistakes can be made during the employment interview or the initial negotiation between employers and candidates, due to the numerous circumstances which can change the value of the employment relationship for each of the two sides. This is why the parties need to permanently try to prepare the action in advance and to enter into an employment relationship only when the necessary conditions are accomplished.

In this context, fully understanding the recruitment process involves – as stressed by John M. Ivancevitch and William F. Glueck – taking into account the interaction between organization and candidates, which can be characterized by attraction or rejection.

Therefore, recruiting staff is a two-way communication process between various organizations and persons, in which both organizations and candidates send signals concerning the employment relationship in order to make the necessary comparison between the interests of the two parties.

The organization wishes to send signals regarding its image or reputation, its philosophy and HR policies, in this way suggesting the opportunities it offers and in the same time it wishes to receive signals from candidates that should allow it to make a realistic assessment of their potential.

Therefore, the representatives of the organization enact their interests and try to provide potential candidates with the information that would entice and convince them to accept the jobs on offer. On the other hand, the representatives of the organization try to assess candidates' strengths and weaknesses and to obtain from them as much information as possible regarding their interests and experience, as well as the positions that they wish to occupy.

In fact, specialists like R.P. Milgrom and J. Roberts think that the first step towards attracting candidates is for the organization to become known, as sometimes the problem is how to publicize the existence of the company and the type of opportunities it offers.

The candidates, in their turn, wish to send signals suggesting that they are the most appropriate or most competitive applicants and that they have to be chosen for the job on offer. The candidates also wish and try to seem more polite and enthusiastic in order to improve their chances of getting an offer.

Some specialists in the field, such as John Bramham and David Cox, try to provide the best answer to the question:

“Why are certain people successful in obtaining a job?”

They suggest that successful candidates are always:

- methodical, well-prepared and well-organized;
- enthusiastic and determined to win;
- interested in finding a job and determined to get one;
- well-informed about the company and the job they apply for;
- ready to dedicate time and effort to finding a job;
- able to learn from failures.

On the other hand, the candidates who offer their capacities, skills, qualifications or experience, as well as their wish to work in the organization try to persuade that it is necessary for them to receive complete and accurate information in order to make a decision about the employment relationship.

Therefore, just as organizations have certain specific requirements for candidates, in their turn candidates have certain preferences regarding the positions they are offered. The candidates offer their skills and attitudes but they are looking for positions that meet their minimum expectations.

According to numerous specialists in the field, such as C.D. Fisher, L.F. Schoenfeldt and J.B. Shaw, the respective objectives of organizations and candidates may differ, and in certain situations the objectives of either party can be contradictory.

This is why although the partners of an employment relationship set out to permanently try to harmonize requirements and preferences, the staff recruitment process often requires both parties to make some compromises and it involves certain difficulties, especially as regards the information available to the parties.

Moreover, whenever an organization recruits staff, it is forced or at least tempted to act on the edge between providing accurate and relevant information, a positive or favourable image and an image that is not realistic and is rather based on enticing but ungrounded promises.

In this context the accuracy of data and information is paramount; these should be based, among others, on the opinion of the organization's employees and on a comparison between the conditions offered by the organization and those offered by competitors,

in order to be able to identify the strengths which will become the attraction factors for potential candidates.

If the candidate misunderstands the nature of his/her work or that of the organization, the consequences can be just as bad, according to Malcolm Peel, as when the employer misunderstands what the candidate has to offer. This is because there is a constant process of matching expectations and reality. A situation in which expectations and reality match proves the effectiveness of recruitment, and in the case the adaptation and integration of the new employees happen without difficulty. If however reality is below expectations or if only the positive or favourable side of the organization is presented, new employees are often affected, according to David J. Cherrington, by the so-called reality shock, which can be reduced or mitigated only by providing candidates with realistic prior presentations of their jobs and with relevant and accurate information regarding the nature of the organization, as well as working conditions.

Other specialists in the field, such as Gary Johns, consider that the reality shock is a disturbing experience caused by a discrepancy between non-realistic expectations about the job and the actual situation encountered by the new members of an organization at the workplace. This situation or experience leads to a feeling of dissatisfaction, which in its turn generates the wish to leave the organization, i.e. a costly staff turnover rate.

Much research in the field has shown that whenever candidates are provided accurate information there is no drop in the number of candidates but the staff turnover rate is significantly reduced and loyalty towards the organization is slightly increased.

Moreover, certain studies show that if the organization tries to communicate realistic prospects to candidates, the success of the recruitment process is not affected by the disclosure.

Therefore, during the recruitment process it is best not to consider ourselves omnipotent but rather to assume, as recommended by numerous specialists in the field, such as Malcolm Peel, a partner position in a process which can easily get off track and which is extremely important for both parties.

5. Strategies and recruitment policies

For realizing their objectives regarding the employment, the organizations, regardless their nature and dimension, are obliged and will be more and more obliged to face challenges that pursue their ability to anticipate contextual evolutions. That's why an issue that conditions mainly the efficacy and efficiency of the personal employment is the introduction within the company of a managerial behavior oriented towards long-term objectives.

Under these circumstances, one of the most important stage of the recruitment process is elaborating the Strategies and recruitment policies; this is not a scope by itself, but a major managerial system within the abovementioned process.

The strategies and recruitment policies establish the objectives to be followed, the major ways to realize the objectives, and the required resources; drives the conceptual, the code of ethics of the organization within the recruitment process and the specific behavior, together with the ensemble of attitudes, intentions, and orientations regarding the personnel recruitment.

In the same time the strategies and the recruitment policies define the way through which the organization fulfils its responsibilities in the area of personnel recruitment, as well as the philosophy and the organizational values regarding the recruitment process.

Due to the fact that the organizational policies have an impact on the efficacy of the recruitment process, in a lot of situations it is necessary that the general policies to be understood and translated accordingly, in order to realize a more adequate sustainability of the recruitment policies.

In the same time many other policies in the area of human resources influence the personnel recruitment policies. For example, a very rigid remuneration policy can have a unfavorable influence on those competitive candidates that already gain more than the maximum limit admitted by the remuneration system allowed by the organization. That means that every organization establishes some methods or recruitment and selection processes, taking into consideration the strategies and policies promoted in human resources domain.

As it is mentioned by various specialists in the human resources area, such as Jack J. Halloran, H. G. Heneman and C. D. Fisher, in the managerial practice, the recruitment strategies and policies are very much different from one organization to another, moreover they need to respond to objectives that are sometimes in contradiction.

In the same time the managerial decisions that make the recruitment strategies and policies operational must take into consideration the following aspects:

- Identification and attraction of a large number of candidates in order to obtain the required number and quality of

candidates. In this respect the organizations have various methods and recruitment resources, considering mainly the areas where they have the biggest success probability.

- Under what degree the vacant positions are occupied from internal resources, external resources, or both above-mentioned possibilities; insomuch that choosing the recruitment sources is one of the main issues of the recruitment philosophy; for example one of the most important aspect in the opinion of the managers is promoting from internal resources, especially for loyal employees, having the advantage that allows protecting secrets regarding the positions; we also need to mention the fact that the vacant positions are the main problem due to the fact that some organizations need to face first of all the over rate of personnel and not the under rate, as well as the working performance that implies numerous behavior problems; that is why in order to avoid the massive firing the organizations consider some other strategies or alternatives to the traditional recruitment, as for example keeping a small nucleus of permanent employees, and a group of temporary employees or external consultants.
- To ensure the synergies between the recruitment activities and the values and strategies of the organization, without neglecting other aspects such as the situation or competition on the labor market, the bad reputation of the organization, the remuneration possibilities, etc.
- The level in which the organization prefers to attract the candidates with

satisfactory qualifications, that are looking for a job and are interested in occupying rapidly a position, or that tries to attract those competitive candidates that have a real interest for free positions considering a long term career and those that can ensure a performing human resources management; a short term vision can focus on rapid recruitment with low costs or can have a certain level of delaying for having competitive candidates, thing that allows a career development and a high long term efficiency.

- The preoccupation of the organization to identify and attract a variety of categories of candidates as a manifestation of one of the main principles of the activity and the organizational life, from that point of view the personnel recruitment is influenced by other policies in the area of human resources management, due to the fact that some companies hire handicapped persons, ex- convicts, etc.
- Taking into consideration the objectives after hiring the person including the post-recruitment effects, as for example: ensuring in the recruitment process an efficient and competitive personnel, that would be retained in the organization for a longer period of time, without being exposed to vacancy; protecting some temporary employees, that have a determined working permission, is a very important problem, but neglected sometimes, even if some American and Japanese companies adopt it.
- In what measure the candidates are seen or treated like merchandise which need

to be bought or like individuals who need to be identified and attracted; one of the causes which may lead to recruitment efficacy diminution is the fact that the personnel recruitment is not conceived or seen as a marketing activity, which presents vacant positions in order to those to be as attractive as can be; this means that the organizations must adopt, more and more, “marketing approach” because, according to G.A. Cole, “personnel recruitment is not only an assurance activity or a resources «supply», but a marketing activity, since when it’s trying to recruit employees, the organization is doing not other than to come out on the external work force market and to compete with other organizations for obtaining proper candidates”; so another recruitment philosophy aspect refers to the way in which the candidates are seen, as well as the fact that the personnel assembly represents a new market which needs to be conquered;

- Personnel recruitment efforts to lead to the expected effects including the improvement of organization’s assembly image so that even the rejected candidates develop positive images or aptitudes toward organization, which will communicate further;
- Personnel recruitment in the shortest period (medium length from the candidates identification and contact to their hiring) and with the smallest expenses ever (annual recruitment costs or medium recruitment costs on personnel categories) having permanent in sight the positions’ particularities

which are going to be occupied; from this point of view a strategic problem of recruitment process is selecting of recruitment moment; in this regard, if there are data regarding previous recruitments it is necessary to estimate the period of time from the first contact of candidate and the moment of job's occupation in order to be able to estimate the medium period which will solicit a new recruitment process; therefore, some organizations practice recruitment plans prepared or many years to distribute this way, equally, hiring expenses for the requested period and for maximizing the quality and the competency level of candidates, simultaneously with reducing salary costs.

Although personnel recruitment objectives are generally treated separately, it is necessary that these to be correlated so the organization can create a recruitment philosophy and to form an integrated philosophy, and an adequate recruitment policy which responds to numerous questions, such as:

“What organizational objectives are affected by recruitment decisions?”

“How many personnel we must recruit?”

“At which hierarchical level is situated the vacant position?”

“What are the personnel categories which we need?”

“What are the demands which must fulfill recruited persons?”

“What are the demands which must fulfill the person who recruits in order to assure recruitment activity success?”

“Internal or external sources? When and how much the vacant positions are occupied from inside the company?”

“How many employees from the existing ones are prepared for promotion?”

“How much are wanted or encouraged the transfers when companies are geographically dispersed?”

“How much we can spend annually with personnel recruiting?”

“How companies measure the personnel recruitment efficiency?”

Another answer more adequately to these questions and to many others can be done only after a careful, complete and complex analysis of external and internal parameters of recruitment or to some constraints existing within interior or exterior of the company.

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A Dynamic Analysis of Capital Structure Determinants. Empirical Results for Romanian Capital Market

■

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***Abstract.** The analysis of capital structure and its determinants represents an useful approach for the Romanian and foreign investors and for the companies, at the same time. The main conclusion for capital structure analysis was that Romanian listed companies sustained their assets, in this order, on equity, commercial debt and, finally, on financial debt. The four variables used in the regression model are significant. The pecking order theory seemed to be more appropriate for the Romanian capital market, but the signalling theory was not entirely rejected.*

Key words: leverage; determinants for capital structure; signalling theory; pecking order theory; information asymmetry.

■

JEL Code: G32

REL Codes: 7J, 11E

1. Informational asymmetry in financial management

The informational asymmetry is present in any economy and creates distortion for companies and investors at the same time; the investors are mostly affected because they must make the right choice for their own financial resources. The asymmetrical information phenomenon is present in a developed country and more or less in a developing one: some investors are more informed than others, and, in this case, the market efficiency hypothesis is put under question. Signalling models through capital structure were created starting with the 70s, but this theory had the starting point on other markets, like the products market (Akerlof, 1970) and the labour one (Arrow, 1972), further developed in Spence's equilibrium theory, referring to job market signalling. The first applications of the signalling theory in finance were the studies of Leland and Pyle (1977), Ross (1977) and Bhattacharya (1979), considered classical in this field.

The financial literature developed in the two principal directions: signalling theory (Ross, 1977) and pecking order theory (Myers, Majluf, 1984). Each company must target to raise its own market value. If it has good financial results, it will pay significant dividends and its debt services without financial distress. If the financial results are not so good, the managers could try to "create" a good image for their company, to prevent the investors from distinguishing one from another.

At least two types of financial signals can be used: capital structure and the investors will understand from this

combination of resources the financial firms' power and dividend distribution rate, and through its level and its dynamic in time, the investors could understand what the public financial documents could not transmit.

2. International empirical studies for signalling theories through capital structure

One of the most significant contributions in the "signalling with proportion of debt" area belongs to Ross (1977). Managers know the true distribution of firm returns, but investors do not. Managers will gain if the securities of the firm are higher valued by the market, but are penalized if the company goes bankrupt. Investors take larger debt levels as a signal of higher quality. Ravid and Sarig (1989) considered a combination of debt and dividend commitment. They showed that both dividends and debt level increased with firm quality (Harris, Raviv, 1991, pp. 297-355). Since lower quality firms had higher marginal expected bankruptcy costs for any debt level, managers of low quality firms did not imitate higher companies by issuing more debt.

Another model that used debt as a signal belonged to Poitevin (1989), which involved potential competition between an existing company and an entrant. The entrant's marginal costs are privately known by the entrant. In equilibrium, low cost entrants signalled this fact by issuing debt, while the existing company and high costs entrants issued only equity. The costs of issuing debt made the firm vulnerable to predation by the other firm, possibly resulting in bankruptcy of the debt-financed firm. The benefit of debt

will be that the financial market will place a higher value on the debt financed firm since it believes such a firm has a low cost. High cost entrants will not issue since the resulting probability of bankruptcy due to predation by the existing company renders the cost of misleading the capital market too high. The most important result was that issuance of debt was good news for the financial market.

Leland and Pyle (1977) model had as main hypothesis the impact of firm leverage on the proportion of risky equity retained by the manager. The larger equity share reduced managerial welfare due to risk aversion, but the decrease was smaller for managers of higher quality projects. Thus, managers of “good” companies could signal this fact by having more debt, in equilibrium. The investors, according to the Leland and Lyle model, will understand, from the issue of the new debt, not only an appropriate level of earnings to support the interest expenses associated to leverage, but they will also know the degree of firm manager’s implication, as a shareholder, sustaining his good activity.

Myers and Majluf (1984) assumed perfect financial markets, except that investors do not know the true value of either the existing assets or the new opportunity. Therefore, investors could not precisely value the securities issued to finance the new investment. The two authors assume that managers act in the interest of existing shareholders and refuse to issue undervalued shares unless the transfer from “old” to new stockholders is more than offset by the net present value of the growth opportunity.

The information advantage of the corporate managers will be minimized by

issuing debt. Optimistic managers, who believe the shares of their companies are undervalued, will prefer immediately to issue debt and to avoid equity issue. Only pessimistic managers will want to issue equity, but who will buy it? (Myers, 2001). Equity issues will occur only when debt is costly (for example, when the firm is already at a dangerously high debt ratio, where managers and investors foresee costs of financial distress). If internally generated cash flow exceeds capital investment, the surplus is used to pay down debt rather than repurchasing and retiring equity. As the requirement for external financing will increase, the firm will work down the pecking order, from safe to riskier debt, perhaps to convertible securities or preferred stock and finally to equity as a last resort (Myers, Majluf, 1984).

Campbell (1979) supposed that companies had private information which could be transferred, costly, to the market. The author conferred an important role to the financial intermediaries, in order to avoid the informational asymmetry distress. The firms could transmit the private information to these intermediaries, with no danger that will be found out by their competitors. In this manner, the investment projects could be financed by the banks without distortions for the existing shareholders. This study was developed one year after by Campbell and Kracaw (1980). The model did not analyse the impact of the equity issue on the market price of the company, taking into consideration the same informational asymmetry.

Bhattacharya and Ritter (1983) had debated the problem of information quantity

which could be transmitted to the firm's investors, as it is known that this information will be at the competitors' disposal, too. The authors developed a model to reveal some communication channels with the investors about the value and the firm perspectives, but without revealing them to the competitors (Myers, Majluf, 1984).

Rendleman (1980) emphasized that firms with undervalued shares will prefer debt, but he didn't analyse the capital market response for the debt issuance, as, in parallel, for equity issuance.

Because the aim of this study is to identify the determinants of capital structure for the Romanian listed companies, in this part we will make a review of these empirical evidences. The previous empirical research of corporate capital structure considered as reference study in this field has been mainly focused on G7 countries and has found the following variables as being most consistently related to the corporate capital structure: tangibility, size, profitability and growth opportunities.

Ever since Myers' article on the determinants of corporate borrowing, the literature on the determinants of capital structure has grown steadily (Myers, 1984). Titman and Wessels' article on the determinants of capital structure choice took several attributes of firms as asset structure, non-debt tax shields, growth, uniqueness, industries classification, size, earnings, volatility and profitability, but found only uniqueness as highly significant (Titman, 1988). But Harris and Raviv (1991), in their most important article on the subject, pointed out that the consensus among financial economists was that leverage

increased with fixed costs, non-debt tax shields, investment opportunities and firm size. Leverage will decrease with volatility, advertising expenditure, and the probability of bankruptcy, profitability and uniqueness of the product. Moh'd, Perry, and Rimbey (1998) employed an extensive time-series and cross-sectional analysis to point out the impact of agency costs and ownership concentration on the capital structure of the firm. The results indicated that the distribution of equity ownership is important in explaining overall capital structure and that is the reason why managers will reduce the level of debt as their own wealth is increasingly tied-to the firm (Pao et al., 2003).

In more recent articles, it seemed that financial decisions in the developing countries were somehow different (Mayer, 1990). Rajan and Zingales (1995) found that leverage increased with asset structure and size, but decreased with growth opportunities and profitability. Again firm leverage was fairly similar across the G-7 countries. Booth, Aivazian, Demircug-Kunt, and Maksimovic (2001) took tax rate, business risk, asset tangibility, firm size, profitability, and market-to-book ratio as determinants of capital structure across ten developing countries. They found that long-term debt ratios decreased with higher tax rates, size, and profitability, but increased with tangibility of assets. Again the influence of the market-to-book ratio and the business-risk variables tended to be subsumed within the country dummies.

Moreover, in the time-series tests, Shyam-Sunder and Myers (1999) showed that many of the current empirical tests lack

sufficient statistical power to distinguish between the models. As a result, a recent empirical research had focused on explaining the capital structure choice by using cross-sectional tests.

3. The capital structure analysis for the Romanian listed companies

Generally, the theories based on asymmetrical information had, as a hypothesis, the fact that managers and other insiders had private information on the expected returns and the quality of future investment opportunities. The two principal theories mentioned above, the signalling theory and the pecking order theory had different perspectives on the signalling instruments: by issuing new debt, or by financing investment opportunities based on their own financial resources.

The aim of this first study was to emphasize which is the most appropriate theory for the Romanian listed companies. This study was based on median values for three variables:

1. equity/total assets (E/AT);
2. financial debt (with interest expenses associated)/total assets (DFIN/AT);
3. commercial debt/total assets (DCOM/AT).

The sample contained companies listed on Bucharest Stock Exchange for the period 1997-2005. The number of firms considered in the database was different from one year to another, because of the aspects we dealt with in applying the working principles – financial, accounting and statistics – characterizing the testing methods applied.

Firstly, all the companies included in the category “banks and financial services” were eliminated (according to the classification in the monthly bulletins of the BSE) because of the specific regulation regarding their activity, the leverage of these companies being strongly influenced by exogenous factors, and we focused exclusively on the companies considered “non-financial”.

Secondly, we eliminated the companies for which we didn’t have enough information to perform the study rigorously. All the information was obtained from the following sources:

- the internet sites providing stock exchange information such as *www.bvb.ro* and *www.kmarket.ro*, where we found the data for determining the market capitalization of the companies listed on BSE (number of shares, moments when the modifications of equity took place, mergers, etc.), but also a part of the financial and accounting information necessary (balance sheets, incomes and expenses account for the years 2000 and 2001);
- the database provided by Reuters Press Agency regarding the market prices of the companies from the sample to determine the market capitalizations;
- the financial and accounting information obtained from the site of the Romanian Ministry of Finance.

The median values, for the period 1997-2005 are presented in table 1.

Total assets financing for the Romanian listed companies for the period 1997-2005

Table 1

YEAR	MEDIAN VALUES (%)			
	E/AT	DFIN/AT	DCOM/AT	TOTAL DEBT
1997	60,79	0,44	13,90	14,34
1998	69,93	6,24	22,46	28,7
1999	59,70	7,51	24,64	32,15
2000	60,84	5,00	25,60	30,6
2001	66,81	2,96	22,14	25,1
2002	60,87	7,25	22,26	29,51
2003	67,96	7,54	18,82	29,36
2004	63,16	1,91	28,81	36,84
2005	69,93	2,25	27,79	30,07

The most important conclusion is that the main financial resources for the Romanian listed companies remain the equity. Moreover, over 70% of the Romanian companies support their assets on equity over 50%, with growth tendency in 2001.

The information from Table 1 could sustain the *pecking order theory*, because their own resources are the most important in the capital structure architecture. Other argument for this first conclusion is the result which revealed that over 45% from the Romanian listed firms didn't make any equity issue, through capital market and, until the beginning of 2006, only 2 companies made public offerings from the moment of their listing.

The results for Romanian listed companies are concordant with Booth, Aivazian, Demircuc – Kunt and Maksimovic (2001) study for 10 developing countries. This study revealed that, without the South Correa case (considered the most developed country from all the ten countries analyzed), all had less leverage (both in market and in book value) than the median values for the G-7 countries considered in the study of Rajan and Zingales (1995).

Moreover, the study underlined the fact that the differences between total debt and long term debt were more emphasized in the developing countries than in the developed ones. The developing countries had medium and long-term leverage much lower than the developed ones.

The Romanian firms prefer private financing instead of the public one and we could find at least two possible explanations for this trend:

- The Romanian capital market remains an emergent one, insufficiently developed to support the investment project financing. The most important role of this market is still the speculative one, to have high capital gains in short time, if it is possible;
- The ownership structure for the most part of the Romanian listed companies reflects the presence of significant shareholders, and they are not very interested in supporting the investments from the equity issue. If they must choose an external source of financing, the bank loans are, in many cases, preferred. This ownership structure could be taken into

consideration by a new investor when he becomes a minority shareholder in one Romanian listed firm: in the absence of dividends, the key of success could be the making up of coalitions with other (minority) shareholders or to focus on capital gains.

Dragotă (2005) identified this trend for the Romanian listed firms: as long as these companies had significant shareholders, the dividend ratio had low values, even if the same study stated that Romania made important steps for the minority shareholder protection. According to La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) index, Romania had a level of 2.75. The author appreciated that the investor's education is very important in the sense of knowing their rights and their interest in their protection.

The Romanian companies adopt external financial support only in a proportion varying between 15%-32%, and the most important sources are bank and

commercial loans, because the bond market is insufficiently developed⁽¹⁾. Since financial debt had interest expenses associated, and the fiscal argument could influence the companies' capital structure decision, it is appropriate to analyse the fiscal changes for the period 1997-2005:

- On the 1st of January 1997, the total deductibility for interest expenses was adopted. Until this moment, the regulation permitted only limited interest expenses deductibility. This change in fiscal regulations didn't appear to influence the level of debt, only if the analysis was made with 1 lag, since in 1998 the proportion of financial debt in total assets had rise significantly;
- Starting with the year 2002, the fiscal regulations reintroduced the limited deductibility for these expenses, taking into consideration the level for leverage: more or less 100%⁽²⁾:

$$\text{Leverage} = \frac{\text{Debt}_0 + \text{Debt}_1}{\text{Equity}_0 + \text{Equity}_1}$$

$$\text{Interest expenses}_{\text{deductible}} = \begin{cases} \text{IE}_{\text{total}} & \text{if } L < 1 \\ \text{Income}_1 + 10\% \times (\text{Total income} - \text{Income}_1) & \text{if } L > 1 \end{cases},$$

where: IE_{total} = total level of interest expenses;

Income_1 = total level of firm income;

L = leverage.

This fiscal regulation change didn't seem to influence the level of leverage, because the variable grew from 3% in 2001 to 7% in 2002, with the approximately the same level in 2003.

- Starting with 2003, the interest expenses are totally deductible if the leverage has a level less than 3⁽³⁾ if it is greater than 3, these expenses are not deductible, and they will be transferred to the next financial exercises.

Since the Romanian listed companies seemed to act according to pecking order principles, it would be interesting to verify

if, for the same analyzed period, these firms had financial exercises with profit or loss. If they had profits, it means that they had their own resources to support the investment project. The results for this study are the followings:

- In the year 1997, out of 51 listed companies, 9.8% had losses, and they all had financial debt, so without interest tax shields and with greater danger of financial distress;
- In the year 1998, out of 54 listed companies, 22% had losses and only one company didn't have financial debt;
- In the year 1999, out of 51 listed companies, 13.8% had losses and only one company didn't have financial debt;
- In the year 2000, out of 58 listed companies, only one had losses, and only one had financial debt;
- In the year 2001, out of 58 listed companies, 22.4% had losses and only two companies didn't have financial debt;
- In the year 2002, out of 52 listed companies, 21.15% had losses and all of them had financial debt;
- In the year 2003, out of 53 listed companies, 22.64% had losses and only two companies didn't have financial debt;
- In the year 2004, out of 40 listed companies, 8% had losses, and only one didn't have financial debt;
- In the year 2005, out of 44 listed companies, 18% had losses, and only one didn't have financial debt.

The years 2000 and 2004 had the lowest leverage for medium and long-term, but the values rose almost constantly during the last years. That is why, the creditors didn't seem to restrict significantly their debt policy, even if the financial variables had not an appropriate trend, in time. It is difficult to say if 20% of the number of companies with losses has represented a significant number or not, taking into consideration the fact that Romania is still an economy in transition, but 60% - 70% from their assets have been financed through their own financial resources.

Moreover, in Romania, as in other developing countries (ex-communist ones), the companies develop special relationships with banks, which protect their investment by according short-term credit loans, but they didn't take drastic measures, as not to credit the Romanian companies.

4. The determinants for capital structure for the Romanian listed companies

4.1. The variables used in the regression model

Modigliani and Miller (1958) emphasized that the value of a company is independent on its capital structure in some hypotheses associated to the model they built. The internal financing can be substituted by the external one, obtained on a capital market that functions perfectly, in an economy with no transaction or bankruptcy costs without tax distortions, the exploitation activity of the firm is also independent on the financing alternative

chosen. Relaxing these hypotheses, in several empirical studies for developed or emerging countries, the conclusion was that the financing structure becomes relevant. Moreover, some companies could encounter restrictions regarding the access to the external financing, and the costs of the alternative forms of financing can be very different. In a real capital market the firms must establish a certain proportion for debt and equity to obtain an optimal capital structure (Dragota, 2006).

The study of Rajan and Zingales (1995) on the case of the G-7 countries identified that the leverage:

- is positively correlated to the percentage of tangible assets in the total assets;
- is positively correlated to the company's size, quantified by the commercial turnover;
- is negatively correlated to the profitability;
- is negatively correlated to the value of the indicator "market-to-book-ratio", quantifying the growth opportunities of the company.

In addition, the authors of the study revealed a certain variability of the results depending on the leverage measurement; there were differences according to the use of the short time leverage or of the long time leverage. This is the reason why three indicators for the leverage were used, especially for the Romanian case where the commercial debt is prevalent:

1. the total leverage;
2. the medium and long-term liabilities (as percentage of total assets);

3. the commercial liabilities (as percentage of total assets).

Since the sample contains companies listed on BSE, the study will be realized at two levels: based on accounting values of the indicators, determined using data from the balance sheet and profit and loss account, but also on market values, by using the market capitalization instead of equity (from the balance sheets).

The aim of this study is to determine, firstly, if the information asymmetry influences the Romanian capital market through the capital structure, and secondly, which of the two main development directions of this theory suits better for Romania – the signalling theory or the pecking order theory. The result sustains, mainly, the second one.

The explanatory variables considered in the regression model were:

A. Tangible assets

The structure of the assets has a direct impact on the capital structure; companies with more tangible assets have a higher probability to receive bank credits or to issue bonds. If banks do not have sufficient information regarding the companies claiming credits, they will allow less financing to those having more intangible assets. Hence, a positive correlation between tangible assets and leverage will reveal the presence of informational asymmetry.

The studies realized by Titman and Wessels (1988), Rajan and Zingales (1995), Fama and French (2000) argued that the variable *tangible assets/total assets* should be taken into consideration when analysing the determinants of the financial structure, but the sign of its influence is not clear.

Galai and Masulis (1976), Jensen and Meckling (1976) and Myers (1977) argued that the shareholders of a leveraged company tend to invest excessively, generating the classical conflict between shareholders and creditors. However, if there are certain real guarantees, the debtor could be “hold” from investing in risky or inefficient projects. In these conditions, the pecking order theory identified a positive correlation between the percentage of these assets in the total assets and the leverage.

B. The size of the company

The level of the turnover is considered positively correlated to the leverage. The company with a big turnover will face with fewer problems regarding the information asymmetry than the small ones. Moreover, it is considered that the big companies have a stronger base for diversifying the investment projects and for limiting the risk of cyclic fluctuations (Warner, 1977, Ang, Chua and McConnel, 1982, Titman and Wessels, 1988). As a measure for the company size in the regression model, the commercial turnover was used for each company i in the year t .

C. The profitability

There are more points of view regarding the type of correlation between profitability and the leverage of the company. According to the pecking order theory a negative value of the correlation coefficient is expected between them. On the other hand, authors like Ross (1977) or Leland and Pyle (1977) sustained that the capital structure represents an instrument of signalling the performances and the perspectives of the company, and this is the reason why a *positive value of the*

correlation coefficient between the two variables is expected.

The indicator for quantifying the performances of a company, used in this empirical study, has the following formula:

$$\text{PROF} = \frac{\text{EBIT}}{\text{TOTAL ASSETS}}$$

This indicator will emphasize the efficiency of using the assets of the company.

D. The growth opportunities

Rajan and Zingales (1995) suggested that a *negative correlation* should be identified between “market-to-book-ratio” indicator and debt, according to the agency theory developed by Jensen and Meckling (1976), but also with Myers’ theory (1977), that argues that companies with a high leverage tend to abandon more viable investment projects.

Moreover, these companies, if they did not manage to transform the opportunities in real investments, could avoid being leveraged, and if we associate the investment opportunities with more intangible assets, than the explanation for negative correlation between tangible assets and leverage could be found.

The international studies results are mixed. According to the pecking order theory, a *positive correlation* between leverage and growing opportunities could be explained. Thus, the debt rose when the internal financing resources were not enough for investment and diminished when these were sufficient.

The Romanian firms take into consideration the present costs associated with leverage, but also the future ones. Making an arbitrage between the two costs,

the companies with consistent growth opportunities could decide to maintain the current low level of leverage, in order to avoid, in the future, the equity issue for

financing investments or to abandon these projects.

In order to measure this independent variable, the following formula was used:

$$MBR = \frac{\text{Total assets} - \text{Equity}_{\text{accounting values}} + \text{Equity}_{\text{market values}}}{\text{Total assets}}$$

4.2. The regression model

The aim of the present study is testing the significance of the four explanatory variables selected for the analysis of the capital structure determinants based on linear multiple regression model. The dependent variable is the leverage, measured by the three indicators defined above, and the independent variables are: tangible assets, size, profitability and market-to-book ratio.

The basic regression model using panel data is as follows:

$$Y_{it} = \alpha_i + \beta_{1i} \times X_{1it} + \beta_{2i} \times X_{2it} + \beta_{3i} \times X_{3it} + \beta_{4i} \times X_{4it} + \varepsilon_{it},$$

where:

$t = 1 \dots T$ (time period), $i = 1 \dots n$ cross-sectional observation unit in the sample;

b_i are parameters that will be estimated.

In X_{it} there are four explanatory variables, without constant term;

α_i is the individual effect, which is assumed to be constant in time;

ε_{it} is a stochastic error term assumed to have a zero meaning and a constant variance.

4.3. The regression model results

The results are comparable to the ones obtained by other studies made on developed

countries, but also on emerging ones (Rajan and Zingales (1995) for the G-7 countries; Drobetz and Fix (2003) for Switzerland; Chen, Lensink, Sterken (1998), on the German case; Devic and Krstic (2001), on Poland and Hungary cases; Bevan and Danbolt (2000), for the case of the Great Britain).

For the Romanian case, the independent variables selected explain in a significant proportion the evolution of the total debt, but also the commercial debt. The four determinants explain between 22% and 57% of the *total leverage* variation for the accounting values indicators, respectively between 19% and 51% for the market values.

Regarding the *commercial debt*, the four indicators explain between 20% and 58% from its variation if we compute the indicators in accounting values, respectively between 12% and 52%, if we use the market values.

We will further follow the sign and the intensity of the influences of the four determinants, comparing the results obtained with international studies.

The sign of the correlations with the explanatory variables in the model for the period 1997-2003

Table 2

Indicators	Theory	Total DEBT		DFIN/AT		DCOM/AT	
		Account. values	Market values	Account. values	Market values	Account. values	Market values
PROF	+ / -	-*	-*	- / +	- / +	-*	-*
TANGIBLE ASSETS	+	-*	-	- / +	- / +	-*	-
LN(SIZE)	+	+	+ / -	+	+	-	-*
MBR	+ / -	+	-*	- / +	-	+	-*

The sign of the correlations with the explanatory variables in the model for the period 2004-2005

Table 3

Indicators	Theory	Total DEBT		DFIN/AT		DCOM/AT	
		Account. values	Market values	Account. values	Market values	Account. values	Market values
PROF	+ / -	-*	-*	-	-	-*	-*
TANGIBLE ASSETS	+	-*	-	- / +	- / +	-*	-
LN(SIZE)	+	+	+	+	+	+	-
MBR	+ / -	+	+	+	-	-*	+

These results confirmed that there were no clear influences for leverage (Dragota, 2006). The analyse should be realized separately for medium and long-term debt, mainly associated to interest payments, and for commercial debt, that is mainly, in Romania, short time debt (shorter than 1 year), and carrying no interests. We already noticed that the Romanian companies listed on BSE (and not only these ones) were financed through commercial debt. Their value rises when the asymmetry is stronger, because the creditors find it more difficult to distinguish between “good” and “bad” companies.

The signs of the coefficients presented above could be understood as follows:

1. *The profitability*: excepting the year 1997, for which a positive correlation with the total and commercial leverage can be noticed, but statistically insignificant, in all

the other cases, the correlation is negative, for accounting values, but also for the market ones. This sustains the conclusions of the pecking order theory.

As for the financial debts, this variable is not statistically significant. There are only two exceptions, respectively 1998 and 2001, when the performances could send a message through the leverage.

2. *Tangible assets (as a percent of total assets)*: the financial theory mainly sustains a positive correlation between them and the leverage. In the Romanian case, when the variable is statistically significant, the correlation is negative. However, the results should be carefully analysed for the Romanian companies having a great proportion of non-banking debt. Hence, the conclusion of a negative correlation with the commercial debt, and, respectively, with the total debt (in which, the former are

predominant) is logical, because this is how the companies finance the investments in current assets, while the financial debt is used to finance the fixed assets. Moreover, the Romanian companies decided to finance their fixed assets from their own resources, because the interest rate for the investment credit was very high, in the first five years, at least.

3. *Size is positively correlated to the financial debt*, fact that showed the importance of the capital market imperfections, and, at the same time, the applicability of the signalling theory (and of the trade-off theory for the big companies considered less exposed to the bankruptcy risk). The big firms sent a more direct signal to the creditors and could obtain a credit more easily, especially in the context where a bigger turnover is associated to a smaller risk exposure. Also, we can argue, based on the pecking order theory, that a bigger company “communicates” more easily with the potential investors and, could contract fewer credits and use even a bond or equity issuance. But we noticed that the Romanian companies listed on BSE are hold in a significant proportion by controlling shareholders and, for them, stock cash operation does not represent an attractive solution.

The conclusions were changed when we focused on the commercial debt, with negative and statistically significant correlation. This conclusion is partially similar to those of the financial debt: if the big companies contract banking credits, the small companies will have “entrance barriers”, and the solution will be the commercial debt.

For the period 2004-2005, the size of the firm is positively correlated to the leverage, for the financial debt, but also for the total debt and the commercial debt. This conclusion sustained the hypothesis both of market imperfections and of the signalling theory.

It can also be analysed in correlation with the rise of the commercial debt importance in the total assets of the companies for this period (see table 1) and with the reducing of financial debt proportion. The explanation can be the still tough credit conditions that do not allow the increasing of the financial debt, but also the growth of the commercial credit period allowed by suppliers due to the fact that the economy has stabilised for the last few years and the agents have good expectances on the economic growth in the future.

4. *Market-to-book-ratio: the correlation is negative* and statistically significant for the market values, no matter the kind of debt we referred to. For the book values, there were positive, but also negative correlations, but in most cases they are not statistically significant. While the positive correlation sustained the signalling theory, the negative one supported the pecking order theory. The two theories are not necessary opposite: the manager could establish the appropriate leverage, but he will find it very difficult to recurrently “manipulate” the market value of the company. The highly leveraged companies (in accounting values) send the performance signal and the market “rewards” them through greater values of the “market-to-book-ratio”. A higher value for the MBR is equivalent to a small value of the leverage, in market values (through higher market

capitalization, with a constant value for debt). The companies with good growth opportunities will offer greater gains to shareholders than to creditors, fact that sustained the hypotheses of the pecking order theory (Chen et al., 1998).

The correlation of this variable, in market values, with the medium and long-term leverage is mainly negative. This correlation has confirmed, on one hand, the trade-off theory, that explains why the companies with growing opportunities are more exposed to the bankruptcy risk, and, thus, they will be less credited, and, on the other hand, the predictions of Barclay and Smith (1995), that this kind of companies, if they need financing by debt, will prefer short time credits or commercial debt, demanding less restrictions, in order to save the future flexibility for debt.

Indeed, if the sign of the correlation coefficients with the total leverage and with the current one will be analyzed, the positive correlations are more frequent, especially if we refer to the accounting values of these variables.

5. Conclusions

Generally, the results for Romania are in accordance with those for the developed countries, but the sign of certain correlations

were sometimes surprising and one of the possible explanations is that the companies from the developing countries appealed more frequently to short-term credit and commercial debt, and had other determinants than the long-term debt.

The general conclusion is that the Romanian capital market faced the information asymmetry problem, and from a more analytical perspective on this phenomenon we could said that the Romanian listed companies used more a financing policy according to the pecking order theory principles than the one based on the signalling one. The financing decision at micro-economic level is strongly influenced by the evolution of macro-economic indicators (inflation, interest rate, economic growth), as well as by corporate governance problems that Romania, practically has not solve yet, although the regulation can be a starting point in this direction.

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Notes

- (1) According to Bucharest Stock Exchange monthly bulletin for September 2006, there are 11 municipal bonds and 6 corporate bonds, with the most recent maturity in this month.
- (2) According to the Law no. 414/2002 and for the earnings taxation.
- (3) According to the Law no. 494/2004.

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