

The underground macroeconomics

“Like Physics, which cannot yet explain 96% of the substance in the Universe, so is Economics, unprepared to understand and to offer a rational explicative model to the underground economy.”

The habit of conceptualizing certain components of the economic reality from a moral perspective functions as a barrier to the truth. That is the predicament of the concept of underground economy, which – though excessively themed – is incompletely theorized, expelled from the core of economic theory and minimally formalized. Thus reality undergoes statistical approximation, is indirectly evaluated and treated in normative terms.

The hard core of the underground economy, usually associated with corrupt individual behaviours or at most with illegal activities of criminal organizations, is excluded from the object of Economics. The underground economy is perceived as a problem for Justice to solve. The breadth of specific courses of action is limited by the model of defining the interdictions of the legislative systems. The principle according to which everything which is not expressly forbidden by law is therefore permitted crystalizes by negation the state and phenomenology of the underground economy.

The underground economy has an undeniably baffling effect over rational understanding, its mores seemingly consistent with an esoteric plane of action, where by the law of secrecy and discretion the reality is replaced with sufficiency. Thus it has become a repetitive rule for the underground economy to be handled marginally, as a phenomena perverted by individuals or groups who bypass the usual paths of wealth making. From this stems the inadequate manner of constructing the understanding and the explanation, whose consequences are determining – among others – the context for the public decision motivations on the eradication of the underground economy practices. Around the concept of underground economy there have developed various institutions aimed at fighting it. Essentially, the underground economy synthesises negative intellectual reactions.

The contour and the substance of the underground economy also pertain to the interpretation of the freedom of thought and action as a logical consequence of the founding of the vision of reality exclusively on the principle of methodological individualism. From this point of view, the underground economy is conceptually contaminated by the ideological structuring of the understanding. Out of all the

theoretical perspectives, economic libertarianism – as well as social libertarianism – generates the inclination to avoid the space of economic rationality. It does so paradoxically, through the fluidity of the free-market conceptualization and it results in the most insistent contemporary source of intolerance to the setting of norms.

The underground economy is an implacable reality, ostensibly cognizable, despite the inhibiting signal given by the inadequate adjectivization. The nominal qualification of “subterranean” sparks quite a cognitive dissonance, even though this isn’t about a visible enough type of economy, somewhat present in the material body of the society through specific agents, permanent action and measurable effects. The underground economy is an unavoidable consequence of any activity which is set up to the reach objectives related to utility and wealth.

Historically, the underground economy accompanies mankind on its journey toward prosperity. It fills the permanent and immense voids between the expectations of comfort and the possibility to access the resources needed for their fulfilment. It is, by definition, a macro-reality. Using the suggestions of cosmology, it could be said that the underground economy bears similarity to the companion to the four percent of the visible, material Universe, meaning the twenty three percent of dark matter and seventy three percent of dark energy. Just like Physics, which cannot explain the further ninety six percent of the Universe’s substance, so is Economics, unprepared to understand and offer a rational explicative model of the underground economy.

The epistemologically complicated part is that our theoretical perception in Economics relates to a whole, when in fact we have gotten used to talking just of one part, the one whose dimension is suggested by the concept of economic rationality presented in positive terms. Economic rationality, though, holds an integral sense if it is seen as a path for the realization of social finality in its diversity. Thus, the standard epistemological perspective came to admit a skewing of reality, because the social finality is served by the entire human actional plane, including that which we attribute to the patterns of the underground economy.

In fact, that which exists as a part excluded from the universe of Economics is underground Macroeconomics. Which is an objective reality drawn on a special type of the institutional conventionality of the inter-subjectivity, an acceptance of the maximization of the immediate goal of wealth possession through tacit arrangements. In these conditions, it is easier to understand why the problem of using the means for obtaining wealth is relaxed when it has to offer solutions. Calling upon offshore practices, for instance, originates from this. The offshores are but mere geographical points, but their spread is global, especially in the form of depersonalized capital and secret currency operations. The offshores drag in their wake tax evasion, the black market, rent-seeking monopolies etc. The present crisis is triggered by the excessive irrationality exuded by the unsecuritized drivers of stock exchange capitalization, the fictitious value and the absolute reliance of speculation.

The control of the global energy market, especially through violent means, as well as the discrete management of profit draining from the ultra-productive illegal

drugs markets, organ trafficking or even labour trafficking cover an important segment of the underground economy. The trade in duplicates, reproductions, copies, replacements and fakes is part of the impressive arsenal of an omnipresent reality and massively used in some national strategies for economic development. There is not an insignificant predisposition for influencing the markets through evaluation and rating, demand-creating campaigns, stimulating consumption, creating market exuberance, determining demand through the creation of electronic and biological viruses. In particular, the region of ex-communist countries has often witnessed the market-cleaning-through-privatization phenomenon, or the pressure to evolve into consumption markets. The “bickering” around budgets and the leeching of public property, together with the encouragement of economic migration and the acceptance of illegal employment diversify the specific flavour of transition economies.

Escaping the cognitive complex of the micro-phenomenon’s typology seems to be a solution for constructing a veritable explicative model of the underground economy. Perhaps approaching the underground economy as a problem of over-determination would be the winning choice of the increase in knowledge. In any way, circumscribing the hypostasis of the states of the underground economy would lack a real finality without taking into account the macroeconomic context, especially in its natural conjunction with society’s governance. The sprouts of the reality called “underground economy” have a societal determination, crossing the frontier between the potential and the real in the human actional field.

The underground macro-economy is really a problem of national and global governance, not just a result of individual initiative and of private property. It is obvious that in many places and situations – when market hegemony, the corporatization of governance or the economic occupation of states are accepted – the processes of the underground economy are being employed. Just as well as there are situations where the contribution of the underground economy is added wholly to the prosperity of society. This truth is without doubt for any metropolis, as was evident in the penurious economy of communist regimes when the fridge was full of products from the underground economy. The successful strategies in breaking the vicious circles of development and of evading from the periphery are not strangers to the doubling of the Solowian residuum with the impulse of the underground economy in the multiplication of prosperity sources, thus being proceeded without exception wherever there was social success. The philosophy of the last frontier was proven – where it was applied – to be the significant base of the integral path towards performance.

Finally, treating things on principle, there is a powerful reason for the abstaining in including the underground economy in the usual theory of wealth creation: its real extension undermines the hypothesis of rational markets and the eminence of homo oeconomicus. Accepting the underground economy within the theoretical body of Economics erodes the construction of market rationality, an otherwise hard idea to match with the logic of the inter-subjectivity activated by selfish interests.

The approaches of behavioural Economics, in an Akerloffian manner for example, as well as those of heterodox Economics tend toward the nuancing of the explicative model by taking into consideration the hypothesis of the combination of motivations and answers in the space of transactional inter-subjectivity on aggregating intervals of economic/noneconomic and rational/irrational.

Theoretical realism in understanding the economic whole would evidently lodge itself within this conceptual grid, which would place together – by final effects – the surface economy and the underground economy.

Marin Dinu

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Corruption, public integrity, and globalization in South-Eastern European states. A comparative analysis

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Abstract. *The last three decades have witnessed a proliferation of studies on the globalization of corruption or convergence of anti-corruption strategies. These studies have been motivated by scholarly concerns from various administrative, economic, and political fields. In view of these interdisciplinary concerns, the purpose of this article is to provide a comparative analysis of corruption phenomena and the demand for public integrity because these developments pertain to the discourse on globalization issues in some South-Eastern European nations within the last decade. The article concludes that the differences observed in these countries are due to their level of maturation in the democratic processes, their stages in the European Union integration process, and the geopolitical condition of each nation, and offers a palatable public policy prescription for achieving a lasting impact in the region.*

Keywords: anti-corruption; corruption; globalization; South-Eastern European states; public integrity.

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Introduction

In several analyses and scholarly discourse, topics such as corruption and public integrity have been approached in the general context of globalization. In fact, the “globalization of corruption” as chronicled by scholars (Glynn et al. 1997, Matei, Matei, 2008, Eigen, 2002) and its effects on the evolution of corruption are integrated into the most relevant studies on globalization (Stiglitz, 2002, Sen, 2000, Jain, 2001, Otusanya, 2011). These scholars have identified a “corruption eruption,” whose causes are multi-faceted and politically transformed due to popular social movements induced by liberal political economic forces.

For the South-Eastern European countries, the fall of Berlin Wall and the end of Cold War have not only propelled but skyrocketed the processes of globalization and, of course, corruption. Some researchers tend not to discuss the connection between corruption and globalization since the latter is acting more on the practices of corruption, enlargement of corruption market, and its harmonization at regional level. The presumption is that globalization has effects on the development of the strategies for public integrity, and the general framework provided by each nation’s integrity systems.

The purpose of this article is to provide a comparative analysis of corruption phenomena and the demand for public integrity as these developments relate to the debate on globalization issues in some South-Eastern European nations within the last decade. The general framework of the comparative analysis comprises the following: 1) an evaluation of the national anti-corruption strategies and their impact on the level of social perception of corruption; and 2) mechanisms and instruments used in evaluating corruption, public integrity, and globalization by the World Bank and the European Bank for Reconstruction and Development, and KOF Index of Globalization.

In terms of research methodology, the evaluation of anti-corruption strategies is based on Steves-Rousso dynamic model, developed by the European Bank for Reconstruction and Development, and improved by the authors. The target group comprises three European Union member states such as Bulgaria, Romania, and Slovenia, and an acceding country like Croatia, and Serbia, a nation that has a good potential of reaching a candidate status soon—these two states belonged to the former Soviet Union and former Yugoslav Federation, respectively.

The analysis begins with a review of relevant literature focusing on globalization of corruption and public sector reform measures. This is followed by a discussion of the research methodology that utilizes anti-corruption strategies as instrument of public integrity, and the study results as these pertain

to the purpose of our analysis. The article concludes that corruption, public integrity, and globalization trends are different in the South-Eastern European countries examined due to their level of maturation in the democratic processes, their stages in the European Union integration process, and the geopolitical specificity of each nation.

Review of relevant literature

The end of the Cold War has induced a twofold level of globalization and corruption as a new phenomenon, “global corruption epidemic” or “corruption eruption” that “can be attributed to the emergence of civil societies and the disclosure of corruption in many countries and the trend towards democracy and markets, which has paradoxically increased both the opportunities for graft and the likelihood of exposure” (Leiken, 1996, p. 58, Quah, 2002, p. 454). According to Glynn et al. (1997), the emergence of corruption as a global issue is identified in the last decade of the 20th century due to the following causes: 1) systemic political changes in some regions have negatively affected the social, political and legal institutions, thus opening the way for new abuses; and 2) political and economic liberalisation have jointly uncovered corruption that was previously concealed.

Some scholars not only “observe a marked decrease in the willingness of the public to tolerate corrupt practices by their political leaders and economic elites” (Glynn et al., 1997, p. 8), but they also discover an intrinsic link between eruption of corruption and the economic crisis, a phenomenon that has become a leitmotif of politics at global level in the last decade. Other plausible causes of globalization of corruption include changes that paved the way for governmental openness and democracy in the most repressive states, and the increase of information consumption and technological exchanges, thus placing knowledge as a major resource of corruption.

At the same time, the end of the Cold War and the increase in economic interdependence have contributed to the perception that the corruption phenomena are more spread and have ramifications inherently at global level. Both Quah (2002) and Farazmand (1999) provide arguments for sustaining the idea of globalization of corruption. Quah contends that between 1993 and 1997, “corruption was transformed from a predominantly national or regional preoccupation to an issue of global revolutionary force” (Quah, 2002, p. 455), thus calling for anti-corruption actions and strategic plans from international organizations such as the United Nations, the World Bank, Organization of American States, International Chamber of Commerce, Transparency International, and the World Economic Forum, to mention but a few.

Conversely, Farazmand (1999) argues that globalization not only encourages privatization programs as reform measures, but it also empowers a few selected elites as agents of multinational corporations, and accelerates corruption in both developed and underdeveloped countries. Nonetheless, he opined that it challenges the conscience of the public administration community to “question the sincerity of the elites, oppose exploitation, and resist being used for undemocratic, unjust, and inequitable purposes around the globe” (1999, p. 519).

Theories of public sector reform and corruption

Matei and Matei (2008) have grappled with the concept of globalization of corruption by taking into consideration the causes that determine this process, which is derived from the public sector reforms. Using empirical models, they show the endemic characteristics of various regions concerning the relationships between democracy and corruption, starting with “buying the votes and political influence or even control by political power” (Matei, Matei, 2008, p. 9).

Based on Matei and Matei’s conceptualization, the public sector reform has become an issue on the governmental agenda in various jurisdictions. We find these preoccupations both in the developed and developing countries. For the first category, an eloquent image of those preoccupations is provided through the studies done by OECD Public Management Service and published in 1995, which concluded that the key focus of any strategic reform should be on “performance-oriented and ... customer-oriented public administration” (OECD, 1995, p. 17).

Obviously the implementation of this principle is characterised as globalization and taken as a part of the reform strategies being pursued by public sectors in the developing countries. Another interesting perspective, as it pertains to this study, is provided by Stiglitz (2003) in his thought provocative book, *Globalization and its Discontents*, where he echoed the negative effects of globalization on developing countries and their less-privileged citizens due to the corruption phenomena. Public policy issues at stake here include, but are not limited to, fiscal austerity, foreign investments, capitalistic-induced mechanisms, privatization of government assets, and the liberalization of capital markets.

Concerning the relationships between market, state and social opportunity, Sen (2000) presents the provision of social services as well as incentives by emphasizing a series of possible distortions due to information asymmetry, which not only raises the administrative costs for countries, but it leads to substantial losses, and consequently to corruption. While the term

corruption is not easily definable (Jain, 2001, Johnston, 1996, Schmidt, 2007), Sen (2000) describes it as a power asymmetry whereby civil servants or public officials have the authority to grant benefits for which the beneficiaries are compelled to furnish a bribe for services rendered, consequently paving the way for more corruption. He further presents a more profound approach concerning the ethical values and policymaking, by suggesting that a sound public policy has to be focused on justice, and all public policies should be designed to control individual and group behaviours as long as they adhere to proper social ethics.

The perspective of social ethics and its relationship with corruption in the public sector provide to Sen the opportunity to extend his analysis on the causes and consequences of corruption. "Dominance of corruption," as defined by Sen, is really seen as one of the greatest obstacles for economic progress. In view of this, any increase in the level of corruption may have negative effects on the effectiveness of public policies (Sen, 2000, p. 171). Specifically, a series of attitudes are identified through which some legislative regimes encourage corruption by providing discretionary power to the civil servant, who may award favours, representing a large amount of money.

In fact, some scholars have discovered that the temptation to corruption is greater when public officials hold more power or stay in office for a longer haul (Ferraz, Finan, 2009, Fredriksson, Svensson, 2003). Campante et al. (2009, p. 43) developed their analysis using a framework that takes into consideration political stability and corruption by emphasising the following two effects: 1) *horizon effect*, which posits that greater instability leads to higher corruption for those holding power, by taking advantage of this short opportunity; and 2) *demand effect*, which proposes that the private sector is more eager to bribe politicians who are politically more stable due to their power of incumbency.

Revisiting Sen's (2000) study, he associates the power holding status of civil servants with the material situation, relatively modest, leading to an increase in corruption temptation. This occurs at the lowest level of an organization hierarchy and this is why corruption triumphs in most democratic systems, involving mid-career and top bureaucratic officials. This brings to bear the continuous demand for the prevention and fight against corruption. Since the obvious motivation for corruption is to accumulate profit, its eradication is very problematic.

Potential causes of corruption have been explored in various ways through public choice and black apple theories. In the case of public choice theory, an individual is seen as a rational actor, who continually engages in a cost-benefit calculation before deciding to be corrupt whenever the benefits outweigh the costs of getting in trouble (Klitgaard, 1988). Conversely, the

black apple theory posits that a person with faulty moral values, using the bad apple metaphor, is likely to engage in a corrupt act. The idea here is that there is a correlation between “a defective human character and a predisposition toward criminal activity” (Otusanya, 2011, p. 393, Punch, 2000).

The literature is replete with efficient mechanisms for institutional reforms, systems for controlling corruption as well as sanctions against its proliferation (Andvig, 2006, Johnston, 2005, Punch, 2000, Treisman, 2000, Rose-Ackerman, 1999, Gary, Kaufmann, 1998, Vogel, 1998, Heidenheimer, 1996, Kaufmann, Siegelbaum, 1997, Klitgaard, 1988). However, their coverage area is relatively limited despite the fact that some studies examined cross-national problems. The most complex mechanism for assessing public integrity is known as the bird’s nest. According to Sampford, Smith, and Brown (2005, p. 96), the bird’s nest metaphor suggests that “a multitude of often weak institutions and relationships can combine to more effectively protect and promote the fragile goal of public integrity.” In his study, for instance, Bruno (1996) discussed the example provided by Kantilya, an Indian political analyst during the 4th century, who described forty different ways in which a civil servant may be tempted to become corrupt from the financial point of view and explained how a cash payment system, followed by sanctions and rewards, can prevent those activities (Bruno, 1996, pp. 7-8). These arguments together with other assertions furnish the support for the promotion of national as well as supranational strategies for the fight against corruption in order to ensure public integrity in public management.

Profile of corruption in South-Eastern European nations

In addition to the arguments observed in the existant literature, we may add reports from important establishments such as the World Bank and Transparency International (TI). The 2010 TI report concluded that the areas and institutions most affected by corruption remain the political parties, parliaments, police and judiciary. Without elaborating on the TI’s methodological details here, this observation seems problematic because, within the last few years, political parties and parliaments have remained the main actors perceived to be the most corrupt. A comparison between the world level and that of South-Eastern European countries reveals some increases in the magnitude of indicators for quasi majority of the sectors and/or institutions, varying between 0.2 for media, reaching 1.0 for the medical services, 0.8 for education services or registry and permit. Romanian records for 2006, as a country in South-Eastern Europe, show lower values than the regional average,

except for the political parties, where it exceeds the regional level by 0.1 (Matei, Matei, 2007, p. 11, Transparency International, 2006).

Although the aforementioned indicators are based on third-part perceptions of corruption, they still show respondents' negative perception of the effects of government actions or fight against corruption. The TI reports of the South-Eastern European region show that only 27% of the population acknowledge government actions to control corruption to be either effective or very effective, while 9% think these actions promote corruption. In Romania, for example, where 16% of the respondents support the effectiveness of government actions against corruption, only 11% indicate that those actions tend to have negative recursive effects on corruption (Matei, Matei, 2007, p. 11, Transparency International, 2006). In its 2010 annual report, Transparency International (TI) acknowledged that political corruption can be remedied when citizens demand integrity and accountability from their leaders. The obvious reason being that through strong commitments to anti-corruption, public officials "can improve trust in political institutions and processes" (2010, p. 9). The institutionalization of bribery of any kind does affect national productivity and civic engagement. Similarly, any form of embezzlement diminishes the real allowances for public services, health and education. In all countries examined by TI, the corruption phenomenon greatly affects people's life. Generally, TI report underscores the fact that political parties are extensively involved in the corruption equation and global efforts to strengthen anti-corruption awareness must be pursued.

Research methodology

The previous studies have revealed multiple instruments and mechanisms designed to promote and sustain public integrity. As pointed out by Matei and Matei in their 2007 study, the binom "corruption-public integrity" is inversely and proportionally interrelated. They acknowledge that despite data collection problems, the National Integrity Systems (NIS) is one of the best complex mechanisms for assessing public integrity. Introduced by Transparency International about a decade and a half ago, NIS provides a global overview of public integrity at national level, emphasizing the role of various pillars, actors, mechanisms, among others. The support of NIS operation is furnished by the national anti-corruption strategies, whose assessment imposes an important effort data collection, analysis, integration, and interpretation of information. Matei and Matei (2011) identify multiple models used by previous studies in

assessing the anti-corruption strategies, which are deployed by others (Andrei, et al., 2009) using models developed by the World Bank (Huther, Shah, 2000), and the European Bank for Reconstruction and Development (Steves, Rousso, 2003). In this study, we are going to deploy what we call Steves-Rousso-Matei's dynamic model to assess the anti-corruption strategies in two stages.

Stage 1: Static anti-corruption matrix

The study done by Steves and Roussos (2003) pertains to the former communist nations in transition from 1999 to 2002. In terms of operationalization, each matrix has a single value for the whole period of time, and this is why this technique is a static procedure. As a result, the Steves and Rousso (2003) model is based on the static *anti-corruption matrix* (Appendix 1), where the evaluated anti-corruption activities are divided in three general categories as follows:

- 1) Omnibus reform programs;
- 2) New legislation targeted at anti-corruption; and
- 3) Accession to international conventions and membership in international anti-corruption coalitions.

In each category, Steves and Rousso developed a grading system that represents the basis of the calculation for an index specific for each group: Omnibus Index (OI), Legal Index (LI) and Conventions Index (CI). Similarly, each category was divided into various distinct criteria based on specific activities in every country. Thus, for the activities specific to OI, an evaluation plan is suggested and defined as follows:

OI.1 The design and publication of an anti-corruption strategy;

OI.2 The development of an implementation plan for anti-corruption action; and

OI.3 The establishment of a national anti-corruption commission, ombudsman, or a similar authority aimed at coordinating and monitoring the achievement of objectives and activities from the national anti-corruption strategy.

Furthermore, each criterion in the matrix was coded "1" and used to represent the introduction of anti-corruption measures, while "0" was coded to denote the contrary. As presented in Appendix 1, these three major components of the OI are weighted equally. Steves and Rousso (2003) considered not only a formal consignment of the activities mentioned but also some aspects concerning their design, content, and operationalization. Thus, for each criterion, there are sub-criteria as delineated in Appendix 1. They refer mainly to:

- 1) The involvement of nongovernmental organizations (NGOs) in developing anti-corruption activities;

- 2) The complex structure of the strategy comprising several governmental branches or ministries such as that of justice, administration and home affairs, etc., and
- 3) The formal independence of anti-corruption commission or authority before the government.

Moreover, for the activities specific to LI (i.e., a new anti-corruption legislation), six criteria were designed to account for legislative amendments or implementation of six applicable laws selected on the basis of a careful observation of the specificity of the regulatory framework in the countries under review. Regarding CI, it assesses the nations' commitments to ratify and abide by international conventions and standards, and their participation in global organizations and alliances.

In order to fine-tune this index, 1/3 was allotted for signing the instrument, 2/3 for signing and ratifying, and "1" if the document has been approved, ratified, and under implementation. An A functional index is attained through the aggregation of the three indicators to produce an Intensity Index for Anti-Corruption (II-AC), which facilitates an appropriate assessment of the impact of anti-corruption strategies in each nation, in order to make comparisons and correlations with adjacent processes and phenomena, specifically for the selected South-Eastern countries.

In our view, the anti-corruption strategies and all other measures associated with them are the reason for designing this technique in concert with other procedures describing public sector reforms in transitional countries. Matei and Matei (2011) have indicated that the institutionalization of new social rules in public institutions and their implementation as delineated in the anti-corruption strategies demand a longer timeframe because of the logistics involved in its development. In view of this, our new model is designed to capture a longer timeframe (10 years, for example) because the quantitative assessment of the anti-corruption actions tends to vary.

Stage 2: Dynamic matrix of anti-corruption activities ([A-C])

In reference to the discussion in stage 1, our dynamic matrix model has the following variable annual quantifiable characteristics:

- A series of Intensity Indices ([II-AC]) – OI.1.1, OI.2.1, OI.3.1, OI.3.4 – as well as CI1-6 are quasi-constant during the period under review; they may vary only when the activities quantified are amended, modified or replaced with new ones. In this situation, it is a valid principle for overlapping the effects.
- The other II-AC varies annually in a linear way, from the year when they were adopted or integrated into the national legislation as an

institutional framework. Their values are cumulative and take into consideration some eventual amendments, changes or replacements; it is also a valid principle for overlapping the effects.

- The dynamic matrix has the same structure as the one developed by Steves and Rousso (2003), and the weights (w) of each II-AC are similar.

Operationally, the matrix [A-C] will be constructed as follows:

- 1) A column will be assigned to each II-AC in [A-C];
- 2) A number of rows equal to the number of years (n) during the period examined will be assigned to each country under review;
- 3) On the analysis of the anti-corruption activities in each nation during the period examined, a nominal support matrix will be designed, with the same structure as [A-C], marking, for every II-AC, the relevant data for the year of adopting, setting up and/or achieving the activities aimed by II-AC and the year of their changing, completing, and/or restructuring (if applicable). Consequently, every II-AC will have temporal data (years), $n_1 < n_2 < \dots < n_k$ which will determine k periods, p_i , when the activity corresponding to II-AC is stable ($p_i = n - n_i$, $i = 1, 2, \dots k$).
- 4) Moreover, numerical values will be allocated annually to every II-AC and every nation as follows:

Regarding quasi-constant indices, for every state and every year during a period p_i , a part w_i from the weight (w) will be awarded, corresponding to II-AC, $w_i = w/k$. For the periods overlapping, the numbers w_i will be totalled, and 0 percentage will be allocated to the years belonging to no period.

Concerning the variable linear indices, the allocation will be also annually-based and specific to every period. Nonetheless, different from quasi-constant "II-AC", every period p_i , and every year, n_i , the allocation will be as follows:

$$w_{ij} = \frac{w_i}{n} (n_j - n_i + 1).$$

As in the previous case, for the overlapping periods, the numbers w_i will be totalled, and 0 percentage will be assigned to the years pertaining to no period. In view of this, every II-AC will have increasing allocations, overlapped in concert with the periods of amending or updating the legislation, strategies, etc. In the example delineated below, the explanation on how the matrix [A-C] was obtained will be provided. It is pertinent to note here that the matrix [A-C] depends on the period of analysis and, as a result, the values of II-AC are usually increasing annually depending on the implementation strategies, action plans, domestic and international anti-corruption measures or actions.

Results and discussion

The results presented below illustrate the utility for using the dynamic anti-corruption matrix. Again, the selected states in this analysis consists of three European member states: Bulgaria (BG), Romania (RO) and Slovenia (SI) – an acceding state, Croatia (HR), and Serbia (SE). The period analysed is 1999-2008. Appendix 2 presents the nominal support matrix used in developing anti-corruption activities [A-C] in the states under review in this study (Matei, Matei, 2010). Appendix 3 presents the effective calculation of II-AC as well as the primary indices – OI, LI, and CI. It is pertinent to note here that the variables associated with the primary indices and the composite index (II-AC) has increasing values. These highlight the developing character of the processes for describing the anti-corruption activities. Since the procedures for the achievement and implementation of anti-corruption strategies are different, the calculated correlation coefficient between Slovenia (SI) and Croatia (HR) is not very impressive. The magnitude of the correlation coefficient revealed here may not be surprising because the objectives of European integration of the respective states require them to be in compliance with the transnational anti-corruption frameworks, which is also promoted by the World Bank, and OECD. We also examine the effects of enforcing the anti-corruption strategies through their correlation with the index of control of corruption (KKM), developed by the World Bank.

The correlation figures presented in Table 1 for 1999-2008 are relevant and demonstrate small positive correlations for Bulgaria and Slovenia (BG, 0.306; SI, 0.375), and high correlations for Croatia and Serbia (HR, 0.663; RO, 0.801; SE, 0.890). The policy implications of these findings are more profound because they may imply that some of the anti-corruption strategies in these states may either be re-examined or that there should be a reconceptualization of the instrument of analysis (KKM) used by the World Bank. In fact, another explanation may be the difficulty of collecting data and information that reflect the actual reality in the South-Eastern states that were examined in this analysis.

Table 1

Correlations II-AC/KKM						
		BG_KKM	HR_KKM	RO_KKM	SE_KKM	SI_KKM
BG_II_AC	Pearson Correlation	.306	.562	.863(**)	.929(**)	.201
	Sig. (2-tailed)	.390	.091	.001	.000	.577
	N	10	10	10	10	10
HR_II_AC	Pearson Correlation	.385	.663(*)	.804(**)	.892(**)	.093
	Sig. (2-tailed)	.272	.036	.005	.001	.798
	N	10	10	10	10	10
RO_II_AC	Pearson Correlation	.348	.602	.801(**)	.901(**)	.146

		BG_KKM	HR_KKM	RO_KKM	SE_KKM	SI_KKM
	Sig. (2-tailed)	.325	.065	.005	.000	.688
	N	10	10	10	10	10
SE_II_AC	Pearson Correlation	.363	.617	.829(**)	.890(**)	.120
	Sig. (2-tailed)	.302	.057	.003	.001	.742
	N	10	10	10	10	10
SI_II_AC	Pearson Correlation	.340	.487	.848(**)	.921(**)	.375
	Sig. (2-tailed)	.336	.154	.002	.000	.286
	N	10	10	10	10	10

** Correlation is significant at the 0.01 level (2-tailed).

At the same time, the quantitative analysis should be accompanied by a more refined qualitative analysis in order to account for other processes that are influencing the anti-corruption actions such as political stability, rule of law, civil society, to mention but a few. To remedy these methodological shortcomings, we adopted a new modified model that, in our view, reflects or accounts for the realities in South-Eastern European states, which could represent the pillar of objective analysis of the developments in a certain state for any comparative discussions.

Assessing the level of globalization in selected South-Eastern states

This analysis uses the KOF Index of Globalization for the quantitative assessment of the level of globalization. We refer to the previous studies by Dreher (2006) and Dreher et al. (2008). Their most relevant analyses pertain to the impact of globalization on economic growth. These scholars as well as Keohane and Nye (2000) highlight the following dimensions of globalization:

- Economic globalization, characterised as long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges;
- Political globalization, characterised by a diffusion of government policies;
- Social globalization, expressed as the spread of ideas, information, images and people (Dreher 2006: 4).

The previous studies integrate the three variables described above through a weighted average as follows: economic globalization (36%), social globalization (38%), and political globalization (26%). For the South-Eastern European states under review, Bulgaria (BG), Croatia (HR), Romania (RO), Serbia (SE) and Slovenia (SI), Appendix 4 presents the data for the period 1999 to 2008.

Characteristics of the globalization process in the states under review

Based on the analysis in Appendix 4, we discover some characteristics of different dimensions of globalization, as defined earlier in this section, by calculating the mean, respectively, and the standard deviation of variables. Table 2 presents the relevant data.

Table 2

Characteristics of globalization in some South-Eastern European states

State	Globalization							
	Economic		Social		Political		Overall	
	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation
BG	67.88	8.28	56.46	3.76	88.01	0.93	68.73	4.46
HR	65.92	8.87	69.17	1.77	77.72	6.46	70.18	5.47
RO	58.42	8.68	53.79	2.97	90.30	1.82	64.86	4.57
SE	57.56	2.49	59.91	4.94	52.94	20.19	57.25	7.53
SI	72.32	8.44	72.91	2.03	77.02	4.74	73.74	4.99

Source: authors calculations.

We observed some interesting results for the decade examined (1999 to 2008). The economic and social dimensions of globalization are comparable in all the five states, varying around a mean of 64.42 for the economic dimension and 62.45 for the social dimension. Moreover, the processes of economic globalization have induced important changes, leading to a significant variation of the level of globalization (approximately 8.57), except for Serbia, which has a standard deviation of 2.49. Another explanation of this fact can also be seen in the processes of economic convergence generated by the policies of accession into the European Union. Although the level of economic globalization in Serbia is the smallest among the states, it is comparable with the other levels, and the transformations during the period indicate minor changes as reflected in its low level of standard deviation.

Regarding the social dimension of globalization, we identify more powerful transformations in Serbia (4.94), the other states having a mean standard deviation around 2.63. Conversely, on the political dimension of globalization, we uncovered three levels. Bulgaria and Romania (with a mean of 89.20) are at the highest level, followed by Slovenia and Croatia (with a mean of 77.37) on the second level, and Serbia with a mean of 52.94 on the third level. When we further analysed the standard deviations, the same hierarchy emerged< this may be due to the membership of the three groups of states in different geopolitical areas, being visible is the consequences of membership in the former Yugoslavia, and the evolutions of those states after

its dissolution. For Serbia, the data indicate major transformations as revealed by the high level of the standard deviation of 20.19.

Apparently, the overall dimension of globalization reflects less significant differences because the globalization index represents a weighted mean of the other three indices. For all states, the analysis of correlation of the variables describing different dimensions of globalization indicates high levels of correlation with the political dimension (except Bulgaria). Table 3 presents these levels.

Table 3

Levels of correlation of the dimensions of globalization			
State	Correlation with the political dimension		
	Economic	Social	Overall
BG	0.596	0.639	0.661
HR	0.966	0.889	0.982
RO	0.906	0.883	0.945
SE	0.731	0.796	0.975
SI	0.963	0.919	0.979

Source: authors computations.

The findings concerning a coherence evolution of different dimensions of globalization in each of the five states seem very interesting. For example, in each dimension, we obtained favourable positive results based on the high levels of correlation indices as presented in Table 4. These results compelled us to reassess the relationship between globalization and public integrity.

Table 4

Variation of the correlation indices for different dimensions of globalization		
Dimension of globalization	Correlation index Minimum	Correlation index Maximum
Economic	0.800 (SE/HR)	0.983 (SI/HR)
Social	0.836 (HR/RO)	0.982 (BG/SI)
Political	0.610 (BG/SE)	0.989 (HR/SI)
Overall	0.910 (BG/HR)	0.993 (HR/SI)

Source: authors estimations.

Globalization and public integrity

The direct connection between the two processes is more obvious in the field literature. As explained at the beginning of this analysis, we shall use the quantitative evaluations of the impact of the anti-corruption strategies for public integrity. We choose this approach due to the methodological similarities in the assessment of the two processes. For clarity purpose, we shall explore different correlations of various dimensions of globalization with the intensity index of the anti-corruption strategies (II-AC, see Table 5 below).

Table 5

**Correlation of the dimensions of globalization with the impact
of the anti-corruption strategies**

State	Pearson correlation index with II-AC			
	Economic	Social	Political	Overall
BG	0.848	0.993	0.626	0.924
HR	0.892	0.897	0.950	0.924
RO	0.870	0.892	0.947	0.918
SE	0.838	0.920	0.867	0.927
SI	0.966	0.983	0.972	0.983

Source: authors calculations.

Consequently, except for Bulgaria, where the correlation index between political globalization and the impact of the anti-corruption strategies is lower, the other indices are very high, indicating strong correlations. Therefore, a linear regression analysis becomes relevant in order to determine the mutual influence between these two processes (Table 6).

Table 6

Coefficients of linear regression

State	Coefficients of linear regression			
	Constant	Standard error	Coef. II-AC	Standard error
BG	57.821	1.697	0.197	0.029
HR	58.126	1.895	0.242	0.035
RO	55.670	1.536	0.190	0.029
SE	42.872	2.261	0.316	0.045
SI	64.365	0.684	0.194	0.013

Source: authors calculations.

The data from Table 6 reveal that the highest influence of the impact of the anti-corruption strategies on the level of globalization could be in Serbia, followed by Croatia, and approximately equal in the other states. For example, with a certain approximation due to the different standard errors, an increase by 10% of the impact of the anti-corruption strategies could lead to an increase by 3% of the level of globalization in Serbia, by 2.4% in Croatia, and approximately by 2% in the other states.

Globalization, political stability and corruption

The analysis below is based on the studies done by Campante et al. (2009) and the World Bank. Appendix 5 presents the data on the evolution of political stability for the period 1999 to 2008. Unlike those presented by the World Bank, they are transformed into an interval level measure [0, 100] in order to have the

same basis of reference with the other indicators. The calculation of Pearson correlation indices leads to the conclusion about different behaviours of the variables of globalization and stability for every state. We found the only positive Pearson correlations when we explored the variable describing the political dimension of globalization and stability. These results are presented in Table 7.

Table 7

State	Pearson correlation indices with political stability			
	Economic	Social	Political	Overall
BG	-0.228	-0.423	0.035	-0.288
HR	0.817	0.743	0.899	0.846
RO	0.150	0.382	0.489	0.248
SE	0.699	0.780	0.924	0.915
SI	0.118	0.116	0.350	0.176

Source: authors computations.

Table 7 shows that the variable corresponding to political globalization is the only indicator that has a positive correlation for all states. From the previous positive correlation results presented in Table 5, we assume that through a linear regression analysis, direct influences between political globalization, stability and impact of the anti-corruption strategies can be established. Our regression results are presented in Table 8.

Table 8

Regression coefficients for political globalization related to political stability and impact of the anti-corruption strategies

State	Regression coefficients					
	Constant	Standard error	C1	Standard error	C2	Standard error
BG	78.280	6.465	0.134	0.105	0.035	0.013
HR	43.821	45.692	0.358	0.849	0.256	0.095
RO	86.443	5.361	0.002	0.103	0.078	0.012
SE	-8.449	13.213	1.935	0.874	0.070	0.352
SI	35.848	17.758	0.461	0.253	0.176	0.014

Source: authors computations.

Results presented in Table 8 are very impressive. For example, the most powerful influences on political globalization are related to political stability (except in Romania). Moreover, the anti-corruption strategies influence, to a lesser extent, the processes of political globalization.

Earlier in the literature section, we referenced the study done by Campante et al. (2009) where they developed their analysis using a framework that takes into consideration political stability and corruption focusing on two effects: 1) *horizon effect*, which posits that greater instability leads to higher corruption for

those holding power, by taking advantage of this short opportunity; and 2) *demand effect*, which postulates that the private sector is more eager to bribe politicians who are politically more stable due to their power of incumbency. In this section of our analysis, the *horizon* and *demand* effects were explored with an approximate expression using a nonlinear regression through a function of power. Table 9 presents the coefficients of that function.

Table 9

Nonlinear regressions on the relation between political stability and corruption

State	Regression coefficients – function of power		State	Regression coefficients – function of power	
	Constant	b1		Constant	b1
BG	958.5	- 0.721	SE	0.070	1.665
HR	8.696	0.483	SI	235.975	-0.284
RO	69.609	- 0.063			

Source: authors computations.

Although our data did not trigger any relevant conclusion on the relationship between political stability and corruption, the effects presented by Campante et al. (2009) may be extended to globalization. By analysing the variations of the indices of globalization we define their periods of stability and periods with higher variations that may be rather identified with the instability of the process of globalization. Figures 1a to 1e in Appendix 6 present the charts of the functions of power and the empirical data.

Concluding remarks

The purpose of the foregoing analysis has been to provide a comparative analysis of corruption phenomena and the demand for public integrity as these developments pertain to the discourse on globalization issues in some South-Eastern European nations within the last decade. Our multifaceted methodology allowed us to quantitatively examine these public policy concerns in detail in order to reveal precisely both the specificity in every state and the need of compatibility between the respective processes. For all the countries, the levels of correlation are acceptable and they describe an emergent evolution of policy issues in the South-Eastern European region.

Although we have already summarized our conclusions in the previous section, we may add a few highlights. The differences observed in the five countries explored in this article are due, in part, to their level of maturation in the democratic processes and their stages in the European Union integration process, on one hand, and the geopolitical specificity of each country, on the other hand. The policy implications of these findings may imply inadequacy of the anti-

corruption strategies in some states, or an inappropriate perception of corruption and, perhaps, it could be that the instrument of analysis deployed by the World Bank is not robust enough. In fact, an alternative explanation could be the difficulty of gathering data from multifaceted sources that may not reflect actual realities in the South-Eastern nations that were examined in this analysis.

To remedy these methodological limitations, we developed a new modified model that depicts, to a certain degree, the realities in South-Eastern European countries, which could represent the pillar of objective analysis concerning developments in a certain state for any comparative discussions. It is also crucial to note here, *inter alia*, that despite our data transformation techniques, the study results could be an artifact of the selected South-Eastern countries and the timeline covered, and possibly the variables deployed. Despite these methodological concerns, we recommend that future studies should not only increase the sample size by including more countries in the region, but should consider a longer time period for the implementation reform measures to show some effects.

In sum, while globalization affects developing nations negatively more than it impacts advanced countries, corruption is a serious cancer that has erupted in all nations due to globalization of assets and capital markets. The question is what can be done? We recommend that both governments and nongovernmental organizations should play a collective role in stopping corruption epidemic at all levels, national, regional, and international, to increase global productivity and reduce poverty rate in order to accomplish the United Nations' Millennium Development Goal. In terms of a palatable public policy prescription, each nation should try to enhance its institutional capacity to fight bureaucratic and political corruption of all kinds through prosecution, penalties, active anti-prevention measures and public awareness programs. While civic engagement is lacking within the private sector and among citizens in the South-Eastern nations, higher education institutions in the region should be empowered to not only teach an ethics course in their public administration or public policy related programs, but also to offer a training course on ethics to their respective civil servants in order for a lasting impact to be achieved.

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Appendix 1: Anti-corruption matrix variables and weighting

Intensity Index (II-AC)	Notation	Weight (W)	Intensity Index (II-AC)	Notation	Weight (W)
Omnibus Index	OI	33.4	Legal Index	LI	5.55
<i>National anti-corruption strategy</i>	OI1	11.2	Civil Service Law	LI.1	5.55
Adopted	OI1.1	5.56	Financial Disclosure Law	LI.2	5.55
Involved NGOs	OI1.2	2.78	Public Procurement Law	LI.3	5.55
Multi-branch	OI1.3	2.78	Freedom of Information Law	LI.4	5.55
<i>Anti-corruption action plan</i>	OI2	11.1	Party Finance Law	LI.5	5.55
Adopted	OI2.1	5.55	Anti-Money Laundering Law	LI.6	5.55
Involved NGOs	OI2.2	2.78	Conventions Index*	CI	33.3
Multi-branch	OI2.3	2.78	Stability Pact anti-Corruption Initiative	CI.1	5.55
<i>Anti-corruption commission or ombudsmen</i>	OI3	11.1	OECD Anti-Bribery Convention	CI.2	5.55
Established	OI3.1	5.56	COE GRECO	CI.3	5.55
Involved NGOs	OI3.2	1.11	COE Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime	CI.4	5.55
Multi-branch	OI3.3	1.11	COE Criminal Law Convention on Corruption	CI.5	5.55
Independent	OI3.4	3.33	COE Civil Law Convention on Corruption	CI.6	5.55

*In the non-Stability Pact countries, the other five indicators in this Index represent 6.66 percent of the Intensity Index.

Source: Steves and Rousso (2003, p. 6).

State	Year	Omnibus Index OI1			Omnibus Index OI2			Omnibus Index OI3				Legal Index LI						Conventions Index CI					
		OI 1.1	OI 1.2	OI 1.3	OI 2.1	OI 2.2	OI 2.3	OI 3.1	OI 3.2	OI 3.3	OI 3.4	LI 1	LI 2	LI 3	LI 4	LI 5	LI 6	CI 1	CI 2	CI 3	CI 4	CI 5	CI 6
0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
RO	2008																						
SE	1999																						
SE	2000																	x			x	x	x
SE	2001	x	x	x	x	x	x	x	x	x	x												
SE	2002													x									
SE	2003															x				x			
SE	2004														x								
SE	2005	X*	X*	X*	X*	X*	X*					x					x						
SE	2006																						
SE	2007																						
SE	2008																						
SI	1999																				x		
SI	2000																						
SI	2001													x		x			x		x	x	x
SI	2002											x	x		x								
SI	2003																						
SI	2004	x	x	x	x	x	x	x	x	x	x												
SI	2005															X*							
SI	2006													X*									
SI	2007																x						
SI	2008																						

Legend: New attribute, modified or amended X*

Source: authors estimations.

Appendix 3: Numerical quantification for II-AC

State	Year	Omnibus Index OI											Legal Index LI							Conventions Index CI							Σ	
		OI 1.1	OI 1.2	OI 1.3	OI 2.1	OI 2.2	OI 2.3	OI 3.1	OI 3.2	OI 3.3	OI 3.4	ΣOI	LI 1	LI 2	LI 3	LI 4	LI 5	LI 6	ΣLI	CI 1	CI 2	CI 3	CI 4	CI 5	CI 6	ΣCI		
0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	
BG	1999	-	-	-	-	-	-	-	-	-	-	-	0.18	-	-	-	-	0.28	0.46	5.56	5.56	5.56	-	-	-	16.68	17.14	
BG	2000	-	-	-	-	-	-	-	-	-	-	-	0.36	-	-	0.14	-	0.56	1.06	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	34.42
BG	2001	2.78	0.14	0.14	-	-	-	-	-	-	-	3.06	0.72	0.56	0.56	0.28	0.28	0.84	3.24	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	39.66
BG	2002	2.78	0.28	0.28	2.78	0.14	0.14	2.78	0.06	0.06	1.66	10.96	1.08	1.11	1.11	0.56	0.56	1.12	5.54	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	49.86
BG	2003	2.78	0.42	0.42	2.78	0.28	0.28	2.78	0.11	0.11	1.66	11.62	1.44	1.67	1.67	0.84	0.84	1.4	7.86	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	52.84
BG	2004	2.78	0.56	0.56	5.56	0.56	0.56	2.78	0.17	0.17	1.66	15.36	1.80	2.22	2.22	1.12	1.12	1.68	10.16	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	58.88
BG	2005	2.78	0.70	0.70	5.56	0.84	0.84	5.56	0.28	0.28	3.33	20.87	2.16	2.78	2.78	1.54	1.40	1.96	12.62	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	66.85
BG	2006	5.56	0.98	0.98	5.56	1.12	1.12	5.56	0.39	0.39	3.33	24.99	2.52	3.34	3.34	2.10	1.96	2.24	15.50	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	73.85
BG	2007	5.56	1.24	1.24	5.56	1.40	1.40	5.56	0.50	0.50	3.33	26.29	3.06	3.89	3.89	2.66	2.52	2.52	18.54	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	78.14
BG	2008	5.56	1.54	1.54	5.56	1.68	1.68	5.56	0.61	0.61	3.33	27.67	3.6	4.45	4.45	3.22	3.08	3.08	21.88	5.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	82.91
HR	1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.56	-	-	-	-	-	5.56	5.56	
HR	2000	-	-	-	-	-	-	-	-	-	-	-	0.28	-	0.28	0.28	0.56	-	1.40	5.56	-	5.56	5.56	5.56	5.56	27.80	29.20	
HR	2001	-	-	-	-	-	-	5.56	0.11	0.11	3.33	9.11	0.56	-	0.56	0.56	1.12	-	2.80	5.56	-	5.56	5.56	5.56	5.56	27.80	39.71	
HR	2002	2.78	0.14	0.14	2.78	0.14	0.14	5.56	0.22	0.22	3.33	15.45	0.84	-	0.84	0.84	1.68	-	4.2	5.56	-	5.56	5.56	5.56	5.56	27.80	47.45	
HR	2003	2.78	0.28	0.28	2.78	0.28	0.28	5.56	0.33	0.33	3.33	16.23	1.12	-	1.40	1.40	2.24	0.28	6.44	5.56	-	5.56	5.56	5.56	5.56	27.80	50.47	
HR	2004	2.78	0.42	0.42	2.78	0.42	0.42	5.56	0.44	0.44	3.33	17.01	1.40	-	1.96	1.96	2.80	0.56	8.68	5.56	-	5.56	5.56	5.56	5.56	27.80	53.49	
HR	2005	5.56	0.70	0.70	5.56	0.70	0.70	5.56	0.55	0.55	3.33	23.91	1.68	-	2.52	2.52	3.36	0.84	10.92	5.56	-	5.56	5.56	5.56	5.56	27.80	62.63	
HR	2006	5.56	0.98	0.98	5.56	0.98	0.98	5.56	0.66	0.66	3.33	25.25	1.96	-	3.08	3.08	3.92	1.12	13.16	5.56	-	5.56	5.56	5.56	5.56	27.80	66.21	
HR	2007	5.56	1.26	1.26	5.56	1.26	1.26	5.56	0.77	0.77	3.33	26.59	2.52	-	3.64	3.64	4.48	1.40	15.68	5.56	-	5.56	5.56	5.56	5.56	27.80	70.07	
HR	2008	5.56	1.54	1.54	5.56	1.54	1.54	5.56	0.88	0.88	3.33	27.93	3.08	-	4.20	4.20	5.04	1.96	18.48	5.56	-	5.56	5.56	5.56	5.56	27.80	74.21	
RO	1999	-	-	-	-	-	-	-	-	-	-	-	0.28	-	0.28	-	0.28	0.14	0.98	-	-	5.56	-	-	-	5.56	6.54	
RO	2000	-	-	-	-	-	-	-	-	-	-	-	0.56	-	0.56	-	0.56	0.28	1.96	5.56	-	5.56	5.56	-	-	16.68	18.64	
RO	2001	2.78	0.14	0.14	2.78	0.14	0.14	1.85	0.04	0.04	1.11	9.16	0.84	-	0.84	0.56	0.84	0.42	3.50	5.56	-	5.56	5.56	5.56	5.56	27.80	40.46	
RO	2002	2.78	0.28	0.28	2.78	0.28	0.28	3.70	0.08	0.08	2.22	12.76	1.12	-	1.12	1.12	1.12	0.70	5.18	5.56	-	5.56	5.56	5.56	5.56	27.80	45.68	
RO	2003	2.78	0.42	0.42	2.78	0.42	0.42	3.70	0.16	0.16	2.22	13.48	1.4	-	1.4	1.68	1.68	0.98	7.14	5.56	-	5.56	5.56	5.56	5.56	27.80	48.42	
RO	2004	2.78	0.56	0.56	2.78	0.56	0.56	3.70	0.24	0.24	2.22	14.20	1.68	-	1.68	2.24	2.24	1.26	9.1	5.56	-	5.56	5.56	5.56	5.56	27.80	51.10	
RO	2005	5.56	0.70	0.70	5.56	0.70	0.70	5.56	0.32	0.32	3.33	23.45	1.96	-	1.96	2.80	2.80	1.54	11.06	5.56	-	5.56	5.56	5.56	5.56	27.80	62.91	

State	Year	Omnibus Index OI											Legal Index LI							Conventions Index CI						Σ	
		OI 1.1	OI 1.2	OI 1.3	OI 2.1	OI 2.2	OI 2.3	OI 3.1	OI 3.2	OI 3.3	OI 3.4	ΣOI	LI 1	LI 2	LI 3	LI 4	LI 5	LI 6	ΣLI	CI 1	CI 2	CI 3	CI 4	CI 5	CI 6		ΣCI
0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
RO	2006	5.56	0.98	0.98	5.56	0.98	0.98	5.56	0.43	0.43	3.33	24.79	2.52	-	2.52	3.36	3.36	1.96	13.72	5.56	-	5.56	5.56	5.56	5.56	27.80	66.31
RO	2007	5.56	1.26	1.26	5.56	1.26	1.26	5.56	0.54	0.54	3.33	26.13	3.08	-	3.08	3.92	3.92	2.52	16.52	5.56	-	5.56	5.56	5.56	5.56	27.80	70.45
RO	2008	5.56	1.54	1.54	5.56	1.54	1.54	5.56	0.65	0.65	3.33	27.47	3.64	-	3.64	4.48	4.48	3.08	19.32	5.56	-	5.56	5.56	5.56	5.56	27.80	74.59
SE	1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SE	2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.56	-	-	5.56	5.56	5.56	22.24	22.24
SE	2001	2.78	0.14	0.14	2.78	0.14	0.14	5.56	0.11	0.11	3.33	15.23	-	-	-	-	-	-	-	5.56	-	-	5.56	5.56	5.56	22.24	37.47
SE	2002	2.78	0.28	0.28	2.78	0.28	0.28	5.56	0.22	0.22	3.33	16.01	-	-	0.56	-	-	-	0.56	5.56	-	-	5.56	5.56	5.56	22.24	38.81
SE	2003	2.78	0.42	0.42	2.78	0.42	0.42	5.56	0.33	0.33	3.33	16.79	-	-	1.12	-	0.56	-	1.68	5.56	-	5.56	5.56	5.56	5.56	27.80	46.27
SE	2004	2.78	0.56	0.56	2.78	0.56	0.56	5.56	0.44	0.44	3.33	17.57	-	-	1.68	0.56	1.12	-	3.36	5.56	-	5.56	5.56	5.56	5.56	27.80	48.73
SE	2005	5.56	0.84	0.84	5.56	0.84	0.84	5.56	0.55	0.55	3.33	24.47	0.56	-	2.24	1.12	1.68	0.56	6.16	5.56	-	5.56	5.56	5.56	5.56	27.80	58.43
SE	2006	5.56	1.12	1.12	5.56	1.12	1.12	5.56	0.66	0.66	3.33	25.81	1.12	-	2.80	1.68	2.24	1.12	8.96	5.56	-	5.56	5.56	5.56	5.56	27.80	65.57
SE	2007	5.56	1.40	1.40	5.56	1.40	1.40	5.56	0.77	0.77	3.33	27.11	1.68	-	3.36	2.24	2.80	1.68	11.76	5.56	-	5.56	5.56	5.56	5.56	27.80	66.67
SE	2008	5.56	1.68	1.68	5.56	1.68	1.68	5.56	0.88	0.88	3.33	28.49	2.24	-	3.92	2.80	3.36	2.24	14.56	5.56	-	5.56	5.56	5.56	5.56	27.80	70.85
SI	1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.56	-	5.56	-	-	-	11.12	11.12
SI	2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5.56	-	5.56	-	-	-	11.12	11.12
SI	2001	-	-	-	-	-	-	-	-	-	-	-	-	-	0.28	-	0.56	-	0.84	5.56	5.56	5.56	5.56	5.56	5.56	33.36	35.04
SI	2002	-	-	-	-	-	-	-	-	-	-	-	0.56	0.56	0.56	0.28	1.12	-	3.08	5.56	5.56	5.56	5.56	5.56	5.56	33.36	36.44
SI	2003	-	-	-	-	-	-	-	-	-	-	-	1.12	1.12	0.84	0.56	1.68	-	5.32	5.56	5.56	5.56	5.56	5.56	5.56	33.36	38.68
SI	2004	5.56	0.28	0.28	5.56	0.28	0.28	5.56	0.11	0.11	3.33	21.35	1.68	1.68	1.12	0.84	2.24	-	7.56	5.56	5.56	5.56	5.56	5.56	5.56	33.36	62.27
SI	2005	5.56	0.56	0.56	5.56	0.56	0.56	5.56	0.22	0.22	3.33	22.69	2.24	2.24	1.40	1.12	2.80	-	9.80	5.56	5.56	5.56	5.56	5.56	5.56	33.36	65.85
SI	2006	5.56	0.84	0.84	5.56	0.84	0.84	5.56	0.33	0.33	3.33	24.03	2.80	2.80	1.68	1.68	3.36	-	12.32	5.56	5.56	5.56	5.56	5.56	5.56	33.36	69.71
SI	2007	5.56	1.12	1.12	5.56	1.12	1.12	5.56	0.44	0.44	3.33	25.37	3.36	3.36	2.24	2.24	3.92	0.56	15.68	5.56	5.56	5.56	5.56	5.56	5.56	33.36	74.41
SI	2008	5.56	1.40	1.40	5.56	1.40	1.40	5.56	0.55	0.55	3.33	26.71	3.92	3.92	2.80	2.80	4.48	1.12	19.04	5.56	5.56	5.56	5.56	5.56	5.56	33.36	79.11

Source: authors computations.

Appendix 4: Indices of globalization for some South-Eastern European states

Year	Bulgaria - BG				Croatia – HR				Romania - RO				Serbia - SE				Slovenia - SI			
	Economic Globalization	Social Globalization	Political Globalization	Overall Globalization	Economic Globalization	Social Globalization	Political Globalization	Overall Globalization	Economic Globalization	Social Globalization	Political Globalization	Overall Globalization	Economic Globalization	Social Globalization	Political Globalization	Overall Globalization	Economic Globalization	Social Globalization	Political Globalization	Overall Globalization
1999	59.27	49.34	86.96	62.63	54.77	65.98	68.05	62.43	47.79	47.36	87.76	57.90	54.20	52.13	23.32	45.47	59.88	70.47	68.89	66.21
2000	62.71	53.23	87.38	65.46	54.86	68.14	69.18	63.57	50.92	53.10	87.84	61.24	65.42	57.16	25.81	48.83	63.55	69.71	71.03	67.80
2001	62.29	54.00	87.87	65.73	55.97	67.53	73.10	64.75	50.89	50.95	88.87	60.68	55.99	56.06	29.14	49.10	64.42	72.06	73.47	69.64
2002	58.95	55.22	88.13	65.04	59.89	68.09	74.35	66.72	51.61	53.92	90.00	62.36	55.88	57.07	50.66	54.98	65.32	71.41	76.10	70.39
2003	63.18	55.75	88.44	66.86	64.48	68.63	76.66	69.18	53.17	53.83	90.28	62.97	56.32	57.73	65.89	59.31	71.62	71.78	76.88	73.03
2004	71.02	57.06	87.66	70.01	71.83	70.24	80.40	73.43	61.30	53.91	90.31	65.96	57.44	58.75	67.97	60.64	77.16	74.56	78.75	76.58
2005	65.79	58.48	86.94	68.46	72.80	71.66	81.13	74.50	65.25	54.41	90.56	67.65	57.44	61.50	50.77	57.25	77.51	74.47	79.01	76.74
2006	74.71	58.92	87.94	72.12	74.59	70.24	82.51	74.97	61.46	55.88	91.61	67.10	58.45	66.47	71.75	64.90	78.78	74.49	80.37	77.56
2007	82.23	61.13	88.55	75.86	75.80	70.76	85.29	76.33	71.96	56.76	92.89	71.58	61.22	66.14	72.30	65.93	82.52	75.04	82.34	79.64
2008	78.67	61.51	90.14	75.12	74.23	70.47	86.48	75.95	69.91	57.84	92.89	71.24	62.27	66.10	71.86	66.18	82.46	75.06	83.35	79.87

Source: ETH KOF Index of Globalization, Zurich.

Appendix 5**a) Political stability**

BG_Stab	HR_Stab	RO_Stab	SE_Stab	SI_Stab
61,32	54,38	52,16	13,50	69,90
60,50	56,44	50,46	16,00	68,46
59,70	58,04	54,70	25,10	70,86
59,98	59,64	58,94	34,20	73,26
56,16	58,60	58,04	34,00	72,34
53,32	60,16	53,42	32,80	69,74
54,80	58,26	54,48	32,60	69,78
59,26	60,64	54,92	36,80	70,72
58,58	62,10	55,82	37,20	70,96
58,62	61,48	55,26	38,60	71,68

b) Control corruption index (KKM) (transformed)

BG_KKM	HR_KKM	RO_KKM	SE_KKM	SI_KKM
46,90	46,80	44,00	27,70	71,04
47,80	51,24	45,00	27,60	68,18
48,20	53,42	44,10	30,50	67,68
48,60	55,58	43,20	33,40	67,16
50,34	52,60	44,80	40,20	69,26
54,98	54,88	47,00	41,40	73,34
52,30	54,80	46,80	42,20	69,50
46,60	52,38	48,20	44,20	71,04
47,60	52,72	48,00	43,60	70,48
46,00	51,46	49,40	45,40	68,92

Source: authors computations.

Appendix 6

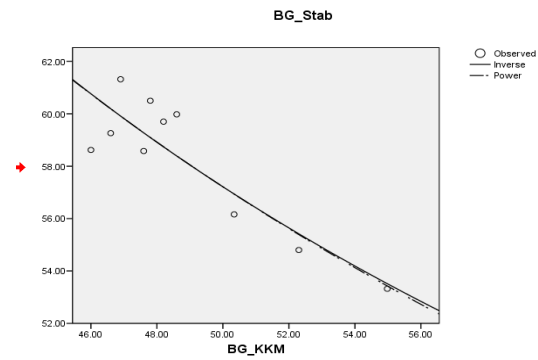


Figure 1a: Bulgaria

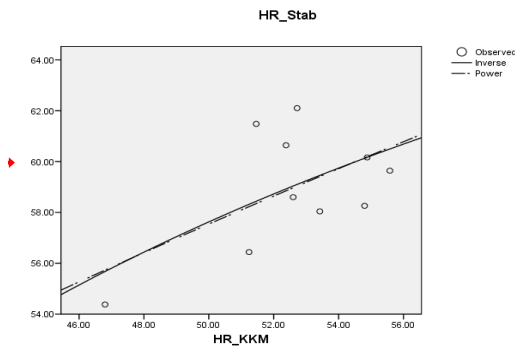


Figure 1b: Croatia

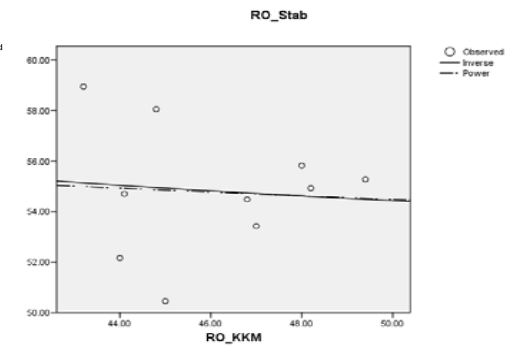


Figure 1c: Romania

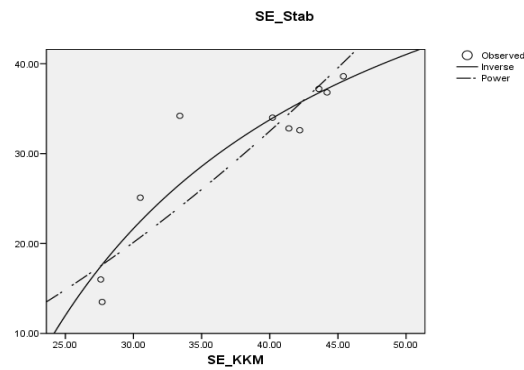


Figure 1d: Serbia

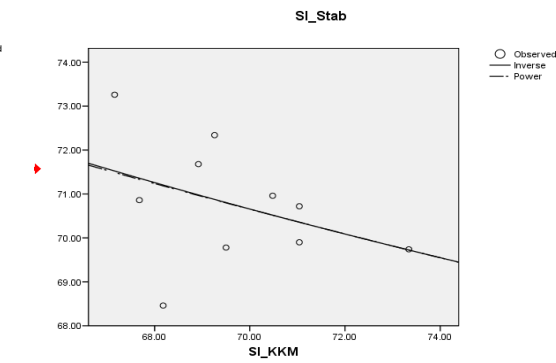


Figure 1e: Slovenia

Figure 1. Models of nonlinear regression statistical relationships between political stability and corruption

The risks of Euro adoption in Romania – an analysis based on ten criteria

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Abstract. *In this study, I have proposed and examined ten criteria to analyze the challenges of joining at Monetary Union, explaining the need to include them in government and multinational companies' strategies. The criteria adopted in the case of Romania concern the potential impact of Euro adoption on economic activities, the common monetary policy effects on the Romanian economy, synchronization with the Euro area, labour market flexibility, as a tool of shocks adjustment etc. After stating each criterion, I have made a brief analysis of how that could affect the balance of costs and benefits of giving up own currency, using conclusions of the optimum currency areas theory.*

Keywords: real convergence; trade integration; business cycle convergence; labour market flexibility; optimum currency area.

JEL Codes: F15, F43, F44.

REL Codes: 20E; 20H.

At first glance, the theme proposed in this study might seem inappropriate in a time characterized by increasing increasing uncertainty in the construction of the European Monetary Union and by the prospect of strict institutional arrangements that will increase the costs of participating at the Euro area. However, the analysis will certainly pass the test of time because they remain valid regardless of the fate of the Euro zone or the time of adoption of the Euro currency by Romania. In addition, I believe that the experience of the economic crisis was a test for adopting the Euro by Romania. Negative external shock was passed to the economy through trade and financial channels and monetary policy was not effective in neutralizing the impact of the shock. In other words, the economy has not benefited from an adjustment tool, that the economy will not have any when it will adopt the single currency. Romania recorded a slight economic recovery, but not by identifying other internal mechanisms for adjusting the negative shock, but benefiting from external channel adjustment (economic recovery of trade partners) or favorable natural conditions for agriculture, as in 2011.

However, these adjustment mechanisms will not work in all cases of Romanian economy slowdown. Therefore, the lack of internal solutions to neutralize the economic shocks will generate their persistence and rising costs of the single currency adoption. Therefore, the natural solution that should support government authorities would be to postpone the decision to adopt the single currency, in the context of a weak real convergence, a lower business cycles synchronization and lack the internal mechanisms of adjustment to shocks. However, the more trade and financial linkages between economic agents from Romania and those from the Euro area countries will increase the benefits of Euro adopting, helping to reduce the risk of asymmetric shocks and to increase the convergence of business cycles.

1. The degree of structural convergence of the Romanian economy with Euro area economies

In terms of an optimum currency area criteria, the costs of adopting single currency by Romania will be lower if there is a structural convergence between the economic and trade structures and if there is a close correlation between business cycles. Romanian economic expansion has not generated a lower structural divergence with the Euro area, and this situation will not improve significantly in the future. Romania has the most different structure compared to the Euro area economy, due to a relatively higher share of agriculture (more than four times higher in 2010), of industry (by about 10 percentage points over the average), of transport and trade (by about 4 percentage points higher) and of

the constructions (9.6% of GDP compared with 5.9% in the Euro area). The share of the service sector was lower 24 percentage points in 2010 compared with European average.

If the divergence of incomes, productivity and economic structures is higher, then Romanian economy will be exposed to asymmetric shocks compared to monetary Union, and the capacity of neutralizing them will be much lower. However, the existence of a structural divergence with the Euro area is not always a negative aspect. Thus, the greater relative importance of certain sectors, such as manufacturing and agriculture, accounted for Romania an opportunity for economic growth in 2011. Moreover, the two sectors were the only drivers of growth of the Romanian economy in the context of rising external demand and favorable natural conditions. In general, the economies which recorded a process of structural convergence with developed economies will be able to increase the productive potential more easily, leading to sustainability of the economic growth and the reduction of macroeconomic volatility. Therefore, the private economic agents will know that lowers the risk of a "boom and bust" evolution.

2. The degree of trade and financial integration with the Euro zone economies. Macroeconomic developments of the main economic partners

The economic integration process between Romania and the Euro area has supposed rising trade and financial linkages, both having a decisive role in stimulating the economic convergence in the period 2003-2008. Therefore shocks affecting monetary union countries will pass faster in the Romanian economy, affecting the degree of business cycles synchronization. Before the economic crisis, financial flows to Romania, either through direct investment or bank financing, have generated a growing non-governmental credit which was reflected in the increase of the private consumption, investment and imports, current account deficit and foreign private debt. The economic crisis triggered in 2008 stressed the importance of the two transmission channels of shocks in the absence of internal solutions to stimulate the economy. From a trading point of view, Romania recorded a high integration with the EU-27, in particular with the economies of the Euro area core. Thus Romania was in 2010 the seventh economy in terms of trade with the EU-27 (73.3% of exports and 74.3% of imports), and the degree of convergence between the structure of exports and imports increased significantly compared to 2000. In terms of technological content of goods exported, Romania recorded one of the fastest structural adjustment, currently accounting for over 40% of medium technology

goods exports compared to about 20% a ten years ago, being the fifth EU economy by this criterion.

Also, the monetary union countries hold 70% of the stock of foreign direct investment in Romania and the largest part of national banking assets, 85% of which being owned by foreign banks. FDI inflows have contributed both to stimulate economic growth in Romania and structural convergence with the European Union in the context of changes in sectoral and trade structures. Also, FDI have represented a stable source of financing the increasing current account deficits during the economic boom. Financial integration has been an opportunity to support the convergence of the countries of Central and Eastern Europe during their expansion, but may represent a threat because of problems arising from the successive crises in the Euro area. Financial flows received by Romania have increased dependence on foreign banks financing the economy, especially from the Euro area, which generated a vulnerability to financial shocks.

In terms of private economic agents, the financial sector can represent both a way to mitigate economic shocks by increasing funding for economic activities, as well as prolonging the recession, due to the effects of financial contagion and reducing confidence in the national economy. In terms of foreign capital invested in the banking system in Romania, there is a high exposure to Greece, Austria, the Netherlands and France. Compared to the 2000 year, the share of foreign capital owned by Austrian banks recorded the highest increase reaching a maximum of 30% in 2008, reducing then to 21% in 2010. The Greek capital remains the majority (30 percent) among banks with foreign-owned banks, but with a declining trend, the same trend being followed by the the Austrian and French banks, too.

In the context of trade and financial integration, it becomes extremely important the macroeconomic evolution of the main economic partners of Romania. Thus, the promotion of economic austerity policies by economic partners will generate a reduction in external demand, including for products obtained in Romania, which will led a drop in domestic economic activity. Therefore, the Romanian exporters must know the macroeconomic developments of trading partners, the impact of stimulus measures/economic austerity and to adjust theirs business plan in advance accordingly with these evolutions. Exporters may try to seek other faster growing markets, in the context of the projected declines recorded by traditional partners. Similarly, financial businesses from Romania must know and accurately anticipate the impact of financial developments recorded in the economies which ensure funding for domestic banks. For example, a financial shock in an integrated economy with Romania may rise expenses and reduce the financial resources attracted from that economy, which will adversely affect the ability of public and private debt financing.

3. The degree of business cycle/industrial production convergence with Euro area economies

The degree of business cycles synchronization with the Euro area constitutes one of the most important criteria to study costs and benefits of the single currency adoption. This criterion has a complex endogenous feature, being influenced decisively by the previous criteria set out above, namely the degree of structural convergence, respectively trade and financial integration. The analysis of this criterion can be made ex-ante, because it allows both evaluations of the cyclical gaps between Romania and the Euro area, as well as domestic business cycle dependence on those recorded by the main trading partners. Also, this criterion can be rated ex-post also, because it may be sensitive to the introduction of the single currency, which generates an increase of trade and financial exchanges. The case of the Monetary Union peripheral countries suggests the possibility that the degree of synchronization of the two economies to grow, even if structural differences between these are persistent. In these conditions, cyclical convergence process is not sustainable, and the difference between these economies may increase.

For example, two economies may register a similar macroeconomic evolution as a result of factors specific to aggregate demand, while supply factors are not correlated. Romania and the Euro area are extremely divergent in terms of share of agriculture, public services and certain industrial branches (which produce public utilities), but shocks affecting an economy will not be reflected automatically in the other economy. If there is no trade with products specific to a particular sector or financial links between economic agents concerned, then structural divergence shall not constitute an obstacle to business cycles synchronization with the Euro area. The current differences between the Euro area economies have existed in some form before the current crisis, but it was considered that they are not able to adversely affect the functioning of monetary union.

According to the endogenous hypothesis, the economies with a common currency will have automatically more synchronized business cycles and the monetary policy decisions will be more symmetrical among Member States. Their cyclical correlation is influenced by three factors. The first refers to trade integration, which tends to occur at intra-industry level. The disappearance of currency risk will intensify trade integration, and this will be accompanied by a smaller asymmetry of shocks, ie more synchronized business cycles. The second factor takes into account financial integration, a phenomenon that arises in the context of a common currency. Financial shocks will be transmitted symmetrically and the economies of a monetary union will become more

convergent. The third factor relates to structural gaps between members economies. In general, these economies tend to converge in terms of structure, as a result of competitive pressures and of deepened trade and financial integration. If the countries with a single currency are more structurally convergent, then the internal and external shocks will be more uniform transmitted, and the degree of business cycles synchronization will increase.

Generally, increasing trade and financial integration with the Euro area core countries will increase correlation with their business cycle, while promoting divergent macroeconomic and structural policies will generate a lower business cycles synchronization. Therefore as much, the synchronization of business cycles will be lower then the cost single currency adoption will be higher. In the conditions of asymmetric shocks, there must be effectives other adjustment mechanisms both at the level of markets (for example, labor mobility), and at the level of macroeconomic policy (for example, using fiscal stabilizers or fiscal transfers to the countries affected by the recession). If prices and wages are flexible, the financial and labor markets are not sufficiently integrated to ensure full mobility of factors and fiscal transfer system does not exist, then the only shock absorption mechanism is the similarity of demand and the supply side shocks and the business cycle synchronization with the Euro area. Countries that are exposed to the symmetric shocks tend to have more synchronized business cycles and, therefore, similar economic policies. Asymmetric shocks are not single cause of the monetary integration costs because these may result from the different ways in which member countries respond to some symmetric shocks.

4. Assessing the role of stabilizer of monetary policy before and after the adoption of the single currency

If the monetary policy promoted by the NBR is more effective in neutralizing shocks affecting the Romanian economy, then giving up the national currency will be more costly because it loses a useful tool for economic adjustment. However, the transmission channels of local monetary policy are adversely affected by a number of factors such as the high degree of euroisation in Romanian economy, reduced confidence of economic agents in the economic recovery, the budget deficit covered from internal sources etc. In addition, monetary policy is less effective in emerging economies characterized by low resistance to external and structural shocks, the latter affecting more the aggregate supply. Under these circumstances it can be said that the main cost associated with the decision to join the Euro area is to reduce the potential for absorption the temporary aggregate demand shocks. The supply side shocks

become permanent, requiring higher flexibility of the economy for their neutralization. Implementation of policies to stimulate aggregate demand as countercyclical policies may have perverse effects in a monetary union, leading to increased inflation. This situation causes an increase of the relative price, which involves loss of external competitiveness, the final positive impact on real output being more reduced.

Following the adoption of the Euro currency, Romania can lose the independence of domestic monetary policy, and the economy will react to monetary policy decisions taken by the European Central Bank. I believe that the Romanian economic agents need to know, to anticipate the effects of the common monetary policy and to interpret the effects on economic activity at the national level. According to Lane (2006), EMU automatically contribute to the amplification and not to mitigate asymmetric shocks, the common monetary policy leading to a divergence between real interest rates between countries in the context of the inflation differential. As a general rule, decisions of the ECB are favorable for the most important economies of the Euro area, because these countries influence decisively the aggregate variables of the Monetary Union. Under the terms of a common monetary policy, countries will be able to maneuver only the instruments of fiscal policy and the structural policies. Thus, asymmetric shocks and lack of business cycles synchronization are the biggest threats for the currency area optimality.

Not only underlying inflation differential matters to asymmetric impact of the common monetary policy. Differences in terms of inflation developments, real GDP, and the output gap lead to different optimal rates of interest in Euro area countries, applying the Taylor rule. In the economies where the optimal interest rate is much different from that set by the ECB, monetary policy generates asymmetries regarding developments in inflation and output gap, not providing their stabilization of them. Based on this criterion it results that it should be checked often developments in inflation and the business cycle in Romania with those recorded in the most important countries of the Monetary Union. If Romania has another phase of the business cycle compared with Germany, France and Italy, the common monetary policy will be pro-cyclical in Romania, which is not providing the economic stabilization. Also, in the context of higher rates of inflation in Romania compared with the Euro area, monetary policy becomes more expansionary for our economy that will generate not a reduction but an increase in the inflation rate.

5. The competitiveness differential between Romania and the Euro area. The risks of damage the competitiveness after the adoption of the euro

The adoption of the Euro currency supposes abandoning the national currency, in the context of which a flexible exchange rate is a tool for shock stabilizing and mitigation competitiveness gaps. Thus, in the case of a single currency, less competitive economies no longer have a tool to artificially increase the efficiency of exported goods. Removal of exchange rate risk will increase the competition between economies of the Monetary Union and the most development and sustainable economies will win. Naturally, economic agents coming from less developed economies, such as Romania, will be less competitive. However, not only the initial state of the external competitiveness degree level matters, but also promoted policies within the Euro area. Inside the Monetary Union the economies where inflation is higher than in the case of trading partners and in which there is an increase of the real wages higher than labor productivity will lose. Regarding the latter aspect, it will not matter just to observe the correlation between wages and productivity, but also to obtain a competitive gain toward trading partners. For example, if Germany records a declining of the real unit labour costs by 2% in the industrial sector, then the economies without a similar or better evolution will lose competitiveness relative to Germany. Consequently, Romanian companies need to know the evolution of prices for industrial products (tradable goods) in the rest of the Euro area countries, as well as the evolution of labor costs in those economies, in order to assess in real time their own competitiveness on the European market.

The inflation differential between the member countries of the Euro area generates divergences of external competitiveness and of real interest rates. Differences in the level of indirect taxes, the level of charges applied to labor or exposure to global shocks are explanations for the differential inflation within the Euro area. Thus, the economies characterized by an inflation rate above Euro area average will record, on the one hand, a reduction in demand due to the relative loss of competitiveness, and, on the other hand, an increase in demand due to lower real interest rate (Walter's critique). In the first decade of the Euro currency introduction the countries which currently have problems relating to debt financing (Spain, Ireland, Greece and Portugal) have recorded a loss of competitiveness by about 20% compared to Germany. In other words, the real unit costs of labor have increased by about 20% lower in Germany than in the peripheral countries of the EU. To gain competitiveness, the peripheral countries must promote internal adjustments in order to decrease the labour costs.

Spain and Ireland experienced the largest reduction in competitiveness after 2003 year, beginning with the real estate boom, while Germany registered the most significant improvement in competitiveness since 2000, by decreasing the real unit cost of labor. Differences in competitiveness are reflected in the divergent evolution of foreign trade. Thus, the economies that register a significant increase in the unit cost of labor relative to the Euro area will be characterized by a slower export growth rate compared to the Euro area. The consequence of this evolution will be the increasing trade deficit countries of the less competitive compared to the most efficient countries. Romania may face to the so-called boom-bust effect, explained by Blanchard (2006) – increasing inflation and labor costs during the economic expansion will weaken the economic competitiveness within monetary union, in the absence of any others adjustment tools. If productivity growth is not sufficient to counteract the influence of higher wages, then the economy will slow down the growth rate. The economic agents from that economy will have to make some adjustments to diminish competitiveness deficit, which may lead to short-term increase in unemployment.

6. The degree of labour market flexibility. Risks of a high rigidity

The flexibility of the labour market is one of the most important tools for adjusting the shock in a monetary Union. The degree of flexibility can be assessed on the basis of several criteria – labour mobility, the reaction of wages depending on the unemployment rate or relative to the output gap, demand flexibility, labour legislation and the forms of flexibility related to the labor supply (work schedule, the typology of the contracts, the ability of individuals to be flexible on the labour market, etc.). Romanian companies must know and interpret progress in increasing labor market flexibility, because according to them it can evaluate the persistence of shocks will affect the Romanian economy within the monetary union. If the progress is reduced, then economic shocks will acquire a permanent character and cyclical synchronization of Romania economy will be reduced.

The countries that are unable to find means of adjusting internal shocks will register a lower dynamic structural transformation and competitiveness losses within the monetary union. Therefore, the phases of economic recession will be prolonged and will be accompanied by increasing structural unemployment. In the case of small countries, even in conditions of functional rigidity of the labor market, its flexibility is favored by higher mobility of workers. However, for larger countries, this is a very important condition to faster economic adjustment. In Romania, there is a lower dispersion of regional

unemployment rates compared to some CEE countries and the degree of workers' mobility is higher at intra-regional level, but the rigidities of the labour market cancel the potential positive previous features.

Generally, the labor market adjustment to certain shocks can be done by changing labor demand, through labor mobility and flexibility of real wages or unit labor costs. Mann-Quirici (2005) have tested the importance of real wage adjustment shocks in the absence of national monetary policy and argued that it is a better mechanism at European level compared to workers' mobility or fiscal transfers possible because it has a faster action compared the other two solutions. Differences between labor market institutions within EMU are one of the asymmetric shocks causes. Studies carried out in the case of the EU confirm a very low speed of adjustment of real wages to certain economic shocks. The lower wage flexibility is reflected by higher price rigidity at the economy level. Even if in the recession phases there is a higher pressure unemployment, the economic decline influences the employment degree rather than the wage level. Therefore, companies will decrease the wage costs only in a lesser extent, and their recovery will be more difficult. Some of the cases refer to certain specific labor market institutions, such as the degree of legislation rigidity on employment, trade union power, establishing a minimum wage or the existence of insider-outsider model type on the labor market. As the differences between the functioning of the labour market are more significant, both wages and prices will evolve divergent within the Euro area, even in the presence of symmetrical shocks. Therefore, the countries whose labour market institutions are different (either they are too flexible than average or much too rigid compared to this one), will find that the decision to adopt a single currency is too costly.

7. The risks of establishment an inappropriate EUR/RON conversion rate

One of nominal convergence criteria relate to exchange rate stability within a fluctuation band for at least two years of participation in ERM II. The exchange rate fluctuations are judged according to the central parity rate set at the beginning of the entry in the exchange rate mechanism. Consequently, the final rate of Eur/Ron conversion will be influenced both by the level of the exchange rate parity, but also by the fluctuations in the ERM II. Completion of the participation in the ERM II requires the establishment of the conversion exchange rate between the national currency and the euro, which will have a significant impact on domestic businesses.

If joining to the Euro area would be at too high conversion rate, ie a too appreciated national currency against the euro, then it would be adversely

affected export competitiveness and thus economic growth process. Otherwise, a depreciated exchange rate will lead to boost exports, but will also generate additional inflationary pressures, which can not be easily mitigated by domestic macroeconomic policies. In this situation, ERM II can be considered a phase to test of the central rate, given that this will be influenced by performance of the Romanian economy, respectively by Romanian competitiveness relative to the Euro area. Setting the central parity exchange rate is very important because the accurate assessment of factors influencing equilibrium value of the national currency may cause an exchange rate central parity more similarly with final conversion rate of the national currency.

According to the experience of Euro area member countries, it can be said that there are two options for the entry in the ERM II, the appreciation of the national currency, in the case of Ireland, and the depreciation of the currency, as in the case of Greece. Before entering the Euro area, Ireland's currency has been fixed at a rate 8% under bilateral rate at that time, which result in a devaluation by that percentage. To reduce pressure on wages and prices, it was decided that bilateral exchange rate revaluation by 3%, which has dampened the expected depreciation. Greece joined to the ERM II with a depreciated exchange rate by 7.5% compared to the rate at the end of 1998, which led to a depreciated final conversion rate. Whether or not the conversion rate is over or under valued relative to the equilibrium exchange rate, the impact on competitiveness will be the same. On the one hand, a depreciated currency will generate inflationary pressures, which will increase the relative prices of goods produced in Romania and will decrease the efficiency of goods exported. On the other hand, an overvalued currency will automatically generate a reduction in exports and an increase in the current account deficit, a situation which can be countered only through the promotion of austerity measures and by increasing the unemployment rate. Therefore, the benefits of joining the Euro area will be higher if it will adopt a conversion rate as close to equilibrium exchange rate, i.e. the rate level that maintains internal and external imbalances in the sustainable limits.

8. The impact of the Euro on transaction costs and on the inflation rate

The volatility of the national currency exchange rate is one of the factors that increase the uncertainty of certain business decisions of private economic agents, causing increased transaction costs incurred by them. Therefore adopting the single currency will generate lower transaction costs (financial and administrative) for the economic agents, and increase their profitability by eliminating the uncertainty about exchange rate changes. Another effect of the

Euro introduction relates to the impact on inflation in the context in which over 90% of Euro area citizens have argued that the adoption of the Euro currency has led to a price increase. In this context, 84% of European people perceived the relationship between the Euro and domestic prices as being in the disadvantage of consumers, because it generates a reduction in their purchasing power. The main reasons of this perception refers to the fact that there is a transfer of the conversion costs to the consumer, a rounding of the prices to the psychological levels, a nominal price rigidity demonstrated by menu costs hypothesis and the fact that firms take advantage due to lack of transparency of prices changes. However, the link between the introduction of the single currency and inflation becomes more insignificant after the first year, being other factors that explain the inflation differences between the member countries of the monetary Union, such as:

- the existence of different levels of economic development – less developed economies will register higher rates of productivity growth, which will generate accelerating inflation through Balassa-Samuelson effect, the process of price convergence and the anticipation of higher rates of profit.
- the event of asymmetric shocks due to differences concerning the shocks on the demand side and the supply side ones. Their causes concern, among other things, to the different structures of the consume, the structural divergences between the member states, the differences between macroeconomic policies promoted at the level of each economy.
- the differences in institutional, legal and financial framework. In the context of differences concerning taxation, business environment, market goods, labour market and the financial sector, there are different mechanisms of reaction to economic shocks which will generate a different influence on the inflationary process.
- the persistence of inflation. It describes the strong dependence of the current inflation rate by its previous levels, given that adjustment mechanisms of the inflationary shocks are ineffective. In the context of the lack of structural reforms to increase potential economy affected by a negative shock to aggregate supply side, these shocks will acquire a permanent feature and will increase the divergences compared to the more flexible economies.
- the existence of different trading structures. Heterogeneity of inflation inside the Monetary Union is determined both by the different opening to the commercial partners outside the Euro area, as well as divergent reaction to shocks resulting from the change in the course of the Euro

at internationally level. The depreciation or appreciation of the single currency is raising the price of goods imported from outside the Monetary Union.

Because Romanian economy is very divergent from the point of view of the economy's structure, degree of development and the functioning of markets, then the risk of divergence inflation rates with Euro area will be significant. It will increase due to the asymmetric impact of the common monetary policy and due to the competitiveness gaps. Once have joined the monetary union, most less developed economies (Spain, Greece, Portugal and Slovenia) showed a significant increase of the domestic prices. Even though before the adoption of the single currency the inflation criteria represented an important criterion of nominal convergence, after accession, it will be more difficult to control it by the Member States. Economies where inflation has been reduced as a result of macroeconomic policies and certain predisposing factors, but not structural ones, will face to the higher prices. In addition, the lack of flexibility of the economy has emphasized the post-Euro inflation. Also Balassa-Samuelson effect can be an important source of price increase. If before admission to the Euro area there was a tradeoff between inflation and currency appreciation, after accession, that effect has a single consequence namely to inflation.

9. Fiscal policy constraints in Romania before and after joining to the Euro area

The adoption of the Euro currency by Romania involves loss of some tools for adjusting economic shocks, but keeping national fiscal policy. From a theoretical perspective, fiscal policy is highly effective in the case of a fixed exchange rate, representing a useful tool for the economic recovery within monetary union. However, there are some constraints on the stabilizing role of fiscal policy in Romania, which refers to the reduced margin of maneuver of the government and to the restrictive features of EU Fiscal Pact. To the extent that the economy will not be able to cope with these restrictions, the single currency will be more expensive for Romanian companies. The Government no longer can support them during periods of reduced sales by reducing the fiscal burden or increasing public demand.

The first constraint of the fiscal policy refers to a limited fiscal space given that budget deficits (which automatically increase during recessions) have extended even during expansion, increasing the stock of public debt to GDP. Stabilizing role of fiscal policy is that it should not be pro-cyclical, structural budget balance should not worsen in periods of economic expansion

or improve in the economic downturns. In the context of a pro-cyclical fiscal policies, the economy will overheat during periods of economic expansion, thus affecting the management of the monetary policy. Based on the structural budget balance can be estimated the fiscal adjustment to be achieved by Romania until 2015. Thus, Romania must achieve a fiscal consolidation by around 5% of GDP in just two years, which is one of the largest budgetary adjustments in an economy affected by the economic crisis. These adjustments should be made in the context of enormous pressure on the general government such as the increase of the social security budget deficits, the doubling of the public debt share in GDP in just three years, due to pro-cyclical fiscal policies pursued in previous years the economic crisis, but also rapidly rising interest expenditure, given that the Government is compelled to refinance debt accumulated. If public debt is still rolling short-term (or medium), then the Government will not win any time and will experience a very fast increase of the interest expenditures. The effects of an unsustainable public debt were analyzed by Hrebenciuc (2010).

The second constraint on fiscal policy relates to compliance with the conditions laid down by a New European Fiscal Pact, both before and after the adoption of the single currency. Its main rule relates to the requirement that the national budgets should be balanced or in surplus, i.e. the budget deficit not to exceed 0.5% of GDP. By setting this target, Romania undertakes an averaged budget deficit over a long time horizon, by a maximum of 0.5% of GDP. In the context of increasing share in the GDP of the interest expenditure it results that Romania have to register a surplus of primary balance, which will lead to lower public debt to GDP ratio. The constraints of the fiscal policy in the context of a new fiscal rule were analyzed by Socol and Soviani (2010), respectively Socol and Măntescu (2011).

10. The impact of the Euro on the attractiveness of the business environment in Romania

From a theoretical perspective, the Euro adoption lead to a reduction in transaction costs, an intensification of trade and an increase in investment, which contribute to increasing the productive potential of the Romanian economy. The business environment becomes more attractive which can boost economic affairs. However, a domestic effort is needed to facilitate the initiation, development, running a business, or to simplify the tax system and to make it more credible. All these structural reforms should be carried out before the adoption of the single currency, to increase flexibility of the Romanian economy. Joining the Euro area will intensify the competition for Romanian

economic agents, but also will generate a loss of tools to shocks adjustment. Therefore, the economic policies of the Government must provision the adoption and promotion of structural reforms.

Structural reforms are those which determine the direction to be followed in order to reduce distortions in the functioning of an economy. It follows that the finality of the structural changes established at the macroeconomic level will be seen in the behavior of economic agents at the microeconomic level. To assess progress of structural reform measures a series of structural indicators have to be used. The most famous set of such reforms was proposed by the Lisbon strategy and continued by Europe 2020 Strategy, with the purpose to increase the competitiveness of the economies from the European Union. According to an analysis realized by the IMF (2004) it results that at the global level significant structural reforms gave been realized in the field of financial intermediation, goods markets, international trade, while the necessary changes on the labour market and the tax system were more reduced in intensity. For example, the reform of the labour market can generate higher costs in the short term on employment and production, which can reduce incentives to achieve them.

Conclusions

The objective of this study was to analyze the challenges of the single currency adoption based on ten criteria, inspired by the theory of optimum currency areas and features of weakly structured economy, such as Romania. In general most of the criteria analyzed suggest that adopting the Euro would be a bad news for the entire national economy due to lack of adjustment mechanisms of the economic shocks. The only good news is given by the trends of trade and financial integration, which can lead, under certain conditions, to increasing the probability of the event more symmetrical shocks and ultimately increasing business cycle synchronization with the Euro area.

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The impact of foreign direct investment on economic growth: the Portuguese experience

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Abstract. *This study examines the link between economic growth and foreign direct investment for Portugal. Using a panel data approach, the results show that there is convergence among Portugal and her trading partners. Our results also demonstrate that foreign direct investment and bilateral trade promote economic growth. The growth is negatively correlated with inflation and the initial level of GDP per capita. As in previous studies taxes plays a minor role on determining the growth.*

Keywords: Portugal; economic growth; foreign direct investment; panel data.

JEL Codes: C23, F21, O4.

REL Codes: 8E, 10F.

1. Introduction

The Portuguese economy is characterized as a small open economy. In terms of geographic location, Portugal is located in Southern Europe, and in the Western part of Iberian Peninsula. The surface of the country, including the archipelago of the Azores (2,247 square kilometers) and Madeira (794 square kilometers), is 92,345 square kilometers.

In recent years, Portugal has diverged from the countries of northern Europe. In fact the regional differences between northern countries and southern Europe seem to be in evidence again.

The issue of convergence versus economic divergence has been a great debate in the literature over the past decades. In 1990s the endogenous growth models emerged. In fact, technological progress, innovation could not be analyzed outside the economic system, as demonstrated by exogenous growth models. The models of monopolistic competition (endogenous) showed that international trade, foreign direct investment and technological factors promoted the economic growth.

The main motivation of this paper is to assess whether Portugal is converging to or diverging from the main trade partner.

The paper presents two important contributions. First, we tested the impact of some explanatory variables such as foreign direct investment and openness trade on Portuguese economic growth. Second we evaluate the convergence versus divergence of Portugal with trade partner.

2. Literature review

According to exogenous or neoclassical economic growth theories, capital has an important effect on economic growth. Based on these theories, FDI can increase the growth only in short run, but the economic growth in the long run is influenced by the labor and technology growth. Regarding to some deficiencies in these models especially on the assumption of constant rate of technological progress and diminishing marginal return of capital and after 1980s, endogenous growth theories assume technology as endogenous factor. In this framework, it seems that FDI has higher efficiency than domestic investment. Specifically, these theories with emphasizing on some factors driving growth such as human capital, externalities and spillovers provide some grounds for FDI affecting on the growth (Grossman, Helpman, 1991, Loungani, Razin, 2001). Also, according to endogenous growth theories, FDI absorbed through transferring technology brings out productivity spillovers and consequently increases the growth.

Endogenous growth theories including AK and R&D (Research and Development) models give emphasis on constant rate of return of capital and R&D, respectively. Also based on AK and R&D models, the long run economic growth is explained by capital accumulation and research and development, respectively. Furthermore, in overlapping generational model, the degree of technology spillover is determined by FDI inflows and technology gap conditional on the country's infrastructure level.

Riva-Batiz and Romer (1991) show that countries via getting involved in the world economy have more long run economic growth than the other countries. In the framework of their model, accumulating knowledge and improving technological progress by firms in both domestic and foreign markets promote the growth.

Foreign direct investment is a method to finance domestic investment especially for the countries that don't have enough capital, promotes advanced technology and management and consequently stimulates the growth. Borensztein et al. (1995) have shown that the economic growth increases not only by accumulating capital but also through high efficiency of this form of investment. Also, Rana and Dowling (1988) have pointed out that foreign capital inflows and export are two important determinants that explain economic performance. They believe that FDI facilitates technology transfer and consequently increases capital efficiency and the growth. Also, according to Wang and Blomström (1992) the effect of FDI on the growth depends positively on the substitution of domestic and foreign technologies and educational level in home country.

According to De Mello (1997), FDI accompanies more benefits than other investments since this kind of investment has a positive effect on productivity growth through technology transmission and managerial specialization as well as domestic investment.

Hermes and Lensink (2003) introduce some channels in which FDI has positive effects. First, FDI stimulates competition and consequently the growth. Second, FDI through channel of learning labor force may affect on the growth. Third, technology imitation by domestic firms raises the growth. Forth, FDI via upgrading managerial and technological processes increases the economic growth. In general, the spillover of FDI on domestic labor efficiency increase in competition, upgrading the products' qualities and development of markets are other factors that are important in affecting FDI on the growth.

Blomström et al. (2001) emphasize that FDI may raise the growth of host country provided that this country has an acceptable education system.

In sum, there is no universal agreement about the positive association between FDI inflow and economic growth. Specifically, research that focuses

on data from only less developed countries has tended to find a clear positive relationship while studies that have focused on data from only developed countries have found no growth benefit for the recipient country (Gürsoy, Kalyoncu, 2012).

The other major determinant factor of the growth is trade openness. This factor has been used extensively in the literature. Openness affects on the growth through several channels such as exploitation of comparative advantage, technology transfer and diffusion of knowledge, increasing economies of scale and exposure to competition. Also, a large part of the literature has found that economies with higher trade openness have higher economic growth (Petraikos et al., 2007).

Inflation as the other determinant factor leads to uncertainty about the future investment projects and consequently decreases the level of investment and the growth. Also, inflation may reduce the international competitiveness of the country by making its exports relatively expensive. Furthermore, low inflation as a stability index reduces systematic risk and promotes investment, trade and economic growth. High rates of inflation create macroeconomic instability which reduce economic efficiency and then limit the growth.

The other determinant factor is the initial GDP per capita. This relationship is related to income convergence hypothesis. This hypothesis implies that on average countries with relatively low levels of GDP per capita have been growing faster than countries with relatively high levels.

Finally, it seems that tax has a negative impact on the growth. This factor by reducing the stimulus of economic activities may limit the growth. Also, the higher tax can discourage the investment rate, labor force rate, productivity and consequently reduce the growth. Of course, in endogenous growth model, there is scope for well designed government expenditure and tax systems to play an important role in determining long run economic growth, through its effect on the rate of investment of human and physical capital. By well designed systems, the literature implies an emphasis on non distortionary forms of taxation and on productive expenditures (Coutinho, 2012).

3. Methodology approach and model

Starting from the growth literature, we determine which economic variables should be included in the model and in what form. Before presenting the results of our estimations, we discuss the dependent and explanatory variables, describe the data model and address the hypothesis.

This study uses a panel data. In the static panel, we estimated by means of pooled OLS, fixed effects (FE) and random effects (RE). The F statistics test

the null hypothesis of the same specific effects for all individuals. If we accept the null hypothesis, we can use the OLS estimator. The Hausman test can show us which model is better: random effects (RE) or fixed effects (FE).

3.1. Econometric model: explanatory variables and data description

The dependent variable is the real GDP per capita of Portugal⁽¹⁾ for the period 1995 and 2008. The data are taken from World Development Indicators and the World Bank. First of all the descriptive statistics for panel data is presented in the following table.

Table 1 presents summary statistics for each variable. LogTRADE, LogINF and LogTAXES appear to have only little differences for means and standard deviations. However, this is not the case for the LogGrowth, LogGDP and LogFDI.

Table 1

The impact of FDI on economic growth: Summary statistics

Variables	Mean	Std. Dev.	Min	Max
LogGrowth	-0.01	0.17	-2.32	0.02
LogGDP	2.24	0.06	2.12	2.32
LogFDI	3.84	1.00	-0.22	5.96
LogTRADE	1.70	0.27	1.12	1.87
LogINF	1.02	0.21	0.65	1.48
LogTAXES	2.87	2.87	2.63	3.36

Following the literature review, we consider that economic growth in Portugal is a function of income, foreign direct investment, trade openness, inflation and Portuguese taxes.

$$Growth = f(GDP, FDI, TRADE, INF, TAXES) \quad (1)$$

Where

Growth is the real GDP per capita; *GDP* is the initial level of GDP per capita; *FDI* is inward foreign direct investment; *TRADE* is bilateral trade; *INF* is inflation, and taxes.

A series of hypothesis were formulated, considering how the selected variables will influence the growth in Portugal.

Hypothesis 1: There is a negative correlation between initial level of GDP per capita and economic growth.

The income measure selected in this paper is the Gross Domestic Product per capita of origin countries, which is expressed in constant 2,000 US\$ and is collected from World Bank.

According to the assumptions of growth models, the hypothesis 1 reflects economic convergence. Barro (1991) and Dreher (2006) showed that economic growth has been negatively correlated by initial level of GDP per capita.

Hypothesis 2: There is a positive (dominant paradigm) correlation between FDI and growth.

FDI - is Portuguese inward foreign direct investment. The data are collected from UNCTAD, FDI database. The studies of Kai and Hamori (2009), Damijan and Rojec (2007), Campos and Kinoshita (2002), Badinger and Tondl (2002), Mileva (2008), and Onaran (2007) show that foreign direct investment influences the economic growth.

However De Mello (1999) and Ayanwale (2007) support a negative impact of FDI on growth.

Hypothesis 3: International trade flows is an important vehicle in economic growth.

In this research, volume of trade is hypothesized to promote economic growth (Grossman, Helpman, 1991, Rebelo 1991). Trade openness was estimated as:

$$TRADE_{i,t} = \frac{X_{i,t} + M_{i,t}}{GDP_{Portuguese,t} + GDP_{K,t}} \quad (2)$$

Where

$X_{i,t}$ represents the annual exports of Portugal to the trade partner at time t and $M_{i,t}$, represents the annual imports of Portugal from trade partner at time t. $GDP_{K,t}$ is the GDP per capita from each trade partner (constant 2,000 US\$) at time t. The data for trade are collected from Portuguese National Institute of Statistics. We expect a positive sign for this proxy.

Hypothesis 4: The growth is negatively correlated with inflation.

INF- that is Portuguese inflation, i.e, measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as a year. The studies of Gillman and Kejak (2005),

and Fountas et al. (2006) found the negative effect on growth. The data are collected by World Bank.

Hypothesis 5: The higher level of taxes discourages the growth.

TAXES- which is Portuguese taxes, total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded. The data are collected by World Bank. The studies of Padovano and Galli (2002), Koch et al. (2005) show that the reduction in growth is explained by the distortion tax.

Therefore, the econometric model on estimation economic growth takes the following representation:

$$Growth_{it} = \beta_0 + \beta_1 \times X_{it} + \delta t + \eta_i + \varepsilon_{it} \quad (3)$$

Where

$Growth_{it}$ is Portuguese real GDP per capita, and X is a set of explanatory variables. All variables are in the logarithm form; η_i is the unobserved time-invariant specific effects; δt captures a common deterministic trend; ε_{it} is a random disturbance assumed to be normal, and identically distributed with $E(\varepsilon_{it})=0$; $Var(\varepsilon_{it})=\sigma^2 > 0$.

Two types of models were developed to estimation the economic growth for Portugal, namely a fixed effects versus random effects and logistic regression.

3.2. Results and Discussions

The results of fixed effects and random effects are report in Table 2. With fixed effects the explanatory power of the Portuguese economic growth regression is very high (R-squared=0.78).

According to the results displayed in fixed effects all explanatory variables are statistically significant at 1% ($LogGDP$, $LogTRADE$, $LogINF$, and $LogTAXES$) and 10% level ($LogFDI$).

Table 2

The impact of FDI on economic growth: Fixed and Random Effects

Dependent variable : economic growth (LogGrowth)			
Independent variables	Fixed effects	Random effects	Expected signs
LogGDP	-0.15 (-17.42)***	-0.14 (-24.72)***	(-)
LogFDI	0.009 (1.91)*	0.002 (1.21)	(+; -)
LogTRADE	0.17 (16.91)***	0.16 (30.86)***	(+)
LogINF	-0.01 (-3.19)***	-0.02 (-5.80)***	(-)
LogTAXES	-0.04 (-4.06)***	-0.03 (-4.72)***	(-)
C	0.06 (1.84)*	0.06 (3.04)***	
N	220	220	
Adj. R ²	0.78	0.77	
Hausman test of H0: RE VS FE Asymptotic test statistics Chi-square (5)= 1.16 P-value= 0.95 F(5,17) = 2035.17 P-value=0.00			

T-statistics (heteroskedasticity corrected) are in round brackets.

Note: ***/**/* - statistically significant, respectively at the 1%, 5%, and 10% levels.

The initial per capita GDP (*LogGDP*) presents statistical significance with a negative sign. Our results confirm the empirical studies of as in Barro (1991), Kai and Homori (2009), Dreher (2006) and Dreher and Gaston (2008).

The variable *LogFDI* (foreign direct investment) is statistically significant with a correct sign. This result shows that foreign direct investment promotes growth. The studies of Li and Liu (2005), and Mullen and Williams (2005) found this result.

The trade variable coefficient (*LogTRADE*) has a positive sign, as we expected, and corresponds to the results of Grossman and Helpman (1991) and Rebelo (1991). An increase of 1% of bilateral trade would generate an increase of 0.17% of economic growth to Portugal.

We expect that inflation (*LogINF*) would have a negative impact on economic growth. Our result is according to previous studies (Gillman, Kejak, 2005, Fountas et al., 2006). The result indicates that inflation affects the economic growth perspectives.

The variable taxes (*LogTAXES*) finds a negative sign, as we expected, and corresponds to the results of Padovano and Galli (2002), and Koch et al. (2005). So we can infer that the reduction of growth is caused by the distortion taxes.

The Table 3 presents the estimation using Logistic regression. The general performance of model is satisfactory. The explanatory variables (*LogGDP*, *LogTRADE* and *LogINF*) are significant at 1% level.

Table 3

The impact of FDI on economic growth: Logistic regression

Dependent variable : economic growth (LogGrowth)		
Independent variables	Fixed effects	Expected signs
LogGDP	-8.09 (-4.98)***	(-)
LogFDI	-0.18 (-0.73)	(+; -)
LogTRADE	11.13 (7.75)***	(+)
LogINF	-2.87(-4.95)***	(-)
LogTAXES	0.18 (0.11)	(-)
N	220	
Log pseudolikelihood	-111.8	
Wald chi2(5)	374	
Prob > chi2	0.00	
Pseudo R2	0.39	

Note: ***/**/* – statistically significant, respectively at the 1%, 5%, and 10% levels.

The initial GDP per capita (*LogGDP*) with negative sign confirms the empirical studies as in Barro (1991), Kai and Homori (2009), Dreher (2006), Dreher and Gaston (2008).

The coefficient of foreign direct investment (*LogFDI*) is not significant. This result is in line of Carkovic and Levine (2005), and Alfaro et al. (2007). These authors argue that the relationship between FDI and growth depends on economic climate.

The variable *LogTRADE* (openness trade) is statistically significant with a correct sign. This result demonstrates that bilateral trade promotes economic growth. The studies of Grossman and Helpman (1991) and Rebelo (1991) also found the same result. One of the main determinants of economic growth is the positive impact in the Portuguese economy.

The coefficient of inflation (*LogINF*) finds a negative sign. Gillman and Kejak (2005) found a negative impact for Hungary and Poland.

The results show that there are relationships between economic growth and foreign direct investment, and trade. The relationships between initial GDP per capita and inflation are according to previous studies.

4. Conclusions

In this paper we have examined the effect of foreign direct investment on economic growth for Portugal. The empirical analysis with fixed effects estimator shows that FDI influences on the economic growth. It seems that FDI through stimulating competition, learning labor force, upgrading managerial and technological processes, developing of markets has a positive effect on the growth.

The initial GDP per capita used to evaluate the convergence economic shows that the result is according to exogenous economic models.

Our results also demonstrate that the openness trade is according to the dominant paradigm, i.e, there is a positive relationship between openness trade and growth.

Based on the literature, tax affects on economic growth negatively, i.e. a higher level of taxes discourage the economic growth. Our findings support this hypothesis.

The control variable used to analyze the macroeconomics stability (inflation) found the expected sign. This result is also found by Gillman and Kejak (2005), and Fountas et al. (2006).

The study has however some limitations. In the future, we need to include other control variables as in exchange rate, credit bank indicators, and budget deficit.

Note

- ⁽¹⁾ The countries selected are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherland, Spain, United Kingdom, United States, Sweden Brazil, Canada, and Japan.

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Appendix



Figure A1. Panel line plot: inward foreign direct investment by Portugal

The lack of consistency in budget deficit criteria in the Stability and Growth Pact

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Abstract. *European public debt crisis led to a reversal of economic strategy for the policy makers. The lack of vision when choosing the budget deficit as an important factor in SGP has allowed a discretionary fiscal behavior for the member states. The budget deficit of the member states was strongly influenced by the cyclical component of the budget between 2002-2007, the reversing of the economic cycle creating the impossibility of rapid fiscal adjustments. Selecting the structural deficit as part of the Stability and Growth Pact would have allowed an early alert of fiscal imbalances and a resetting of economic strategy in the Member States.*

Keywords: Public debt crisis; budget deficit; Nash equilibrium; fiscal policy; monetary policy.

JEL Codes: E61, E62.

REL Codes: 8K, 8M, 20G.

The creation of Euro was regarded with skepticism at the beginning because of the lack of a coherent fiscal mechanism in the currency area. In the first phase after the onset of the Euro, Member States have drafted a policy of refinancing of government bonds. The reasons are obvious, under the dome of the Euro area Member States' sovereign risk has dropped dramatically, causing lower interest rates on government bonds. The strategy in many countries were clear and defined by the refinance of maturing bonds and improvement of fiscal position by taking advantage of a stable economic climate and a favorable economic cycle. Until the current crisis many countries have experienced a downward trend on public debt slowly approaching the Maastricht criterion set. Only the explosion of public debt generated by the reversing of economic cycle and fiscal stabilizers raised questions on the functionality of the European model. The need of a fiscal mechanism that allowed countries in difficulty to refinance has appeared again in the spectrum.

The economists theses who argued that it is impossible to create an optimum currency area without having a "fiscal buffer" similar to the the American model were validated. Even if the US states have a high independent fiscal policy, their budget amount is directly adjusted through Congress by sums totaling on average between 30% and 40% of the budget of each state, so their margin of fiscal maneuver in a recessionary gap increases considerably. In this case, the Keynesian policies that support aggregate demand are not a simple theoretical argument, they help adjust the real GDP and move it closer to the potential level in case of recessionary periods.

The stated purpose of each Member State that acceded to the European Union was of achieving high growth rates to potentiate the real convergence process. For this drive it was necessary an efficient cooperation between economic policies to ensure a sustainable economic growth. Structural policies can thus help sustain non-inflationary economic growth easing the task of reducing inflation promoted by the ECB. As Nordhaus shows in a mathematical model of game theory the "economic policy incoordination leads to a Nash equilibrium with high interest rates and budget deficits. Policy coordination leads to a Pareto equilibrium with a low deficit and low interest rates."

What does this Pareto equilibrium signal? Low interest rates encourage direct investment and enhances economic restructuring. Corelated with insignificant deficits it improves spillovers on catching-up process and real convergence. The economic gain stability creates prerequisites for higher growth rates. This net wealth gain can then be redistributed through effective fiscal policy by adjusting low income levels of the population.

The analysis of economic policy coordination in game theory has been extensively studied by specialists (Tabellini, 1986, Nordhaus, 1994, Beetsma, 2001).

Monetary and fiscal policy decisions are taken separately, their following connections lead to the creation of an uncooperative game. The monetary policy with the objective of inflation targeting is more restrictive, while the fiscal policy is more expansionary influenced by social motivations shifted from political factor (high wage demands in the public sector, social transfers, unemployment benefits). The relationship between the two leads to a conflict of objectives and a suboptimal equilibrium. The resolving of these cases involve a Nash or Stackelberg equilibrium solution, the Stackelberg equilibrium going beyond Nash on the benefits slope.

Vizen (1999) states that "there is a compromise between the two policies due to the fact that the ECB encourages discordance between them in order to increase the degree of monetary policy independence." Meanwhile, the monetary policy objective of reducing inflation generates pressure on the real economy. A common monetary policy and a divergent evolution of the member states economies arise doubts concerning the functioning of the Eurozone. "It's difficult for European countries to adjust aggregate demand shocks, because, unlike the US, they do not have high labor mobility, a central fiscal mechanism or integrated financial markets" (Hishow 2007).

The existence of a single currency prevents the states to exert tools in order to control an adjustment in the trade balance. The obsessive repetition of the concept of competitiveness gain is only validated in theoretical universe, because the reality shows that after 2000 many states began to suffer from disparities in competitiveness. The recovery of these differences cannot be achieved through exchange rate adjustments, so the only opportunity of the Member States is the increase of real competitiveness. Analyzing Eurostat data, we observed that countries like Greece, Spain, Ireland and Portugal were marked by a common phenomenon. Low interest rates after joining the Euro area led to a considerable increase in aggregate demand. Rigid and less flexible labor markets ran to an increase of nominal wages. Meanwhile, productivity could not keep the pace with these increases causing imbalances within the system. Germany was also crossed by this phenomenon after the reunification in the early '90s, but tough reforms undertaken by the political factor led to the resolving of the problem. This phenomenon was hidden by the positive slope of the economic cycle, the budget deficit is far from being a strong tool in reporting early structural imbalances. In most Member States, the structural deficits were offset by surpluses on the side in the cyclical component. The reversing of the economic cycle with the advent of the economic crisis has only served to reveal the existing bleak fiscal landscape in the Eurozone.

The lack of the exchange rate mechanism made impossible a fiscal rebalancing in many countries such as Greece and Spain, the only available

solution being the adjustment of prices and wages. This kind of correction is extremely difficult because of the rigidity of prices and wages. The monetary policy expansion has not led to a significant positive reaction as shown by Marinas (2010).

Even so, any adjustment of nominal wages and prices would lead to a short term decline in GDP. The problem that arises is the following: public debt as a share of GDP will be higher, creating premises for a low level of credibility in financial markets. The sharp decline in GDP for Latvia and Ireland during the economic crisis has brought an additional burden on the national budget that had to manage with less money and even greater debt service. It's a real trap for the peripheral countries in the Eurozone. They need to become more competitive in exports in order to sustain their public debt claims, but as prices and wages will be lower, the debt burden will be higher.

Public debt crisis was fueled in the initial phase through the uncertainty and the increase of information asymmetry. The lack of coordination by the authorities and the inconsistency in decision-making process led to a negative response from the financial markets. So as uncertainty grew bigger, and the negative effects in the member states have enlarged in intensity.

Analysing the Eurozone states we observe that all the clues indicated the persistence of real problems in many countries. The detailing the causes of this deep economic crisis must begin by analyzing the economic indicators in these countries. The analysis will be directed to four countries Greece, Ireland, Portugal and Spain in order to understand the current situation substrate.

Table 1

Percentage change in GDP during 2002-2009

	2002	2003	2004	2005	2006	2007	2008	2009
EU	1.2	1.3	2.5	2	3.2	2.9	0.7	- 4.2
Eurozone	0.9	0.8	2.2	1.7	3	2.8	0.6	- 4.1
Greece	3.4	5.9	4.6	2.2	4.5	4.5	2	- 2
Ireland	6.5	4.4	4.6	6.2	5.4	6	- 3	- 7.1
Spain	2.7	3.1	3.3	3.6	4	3.6	0.9	- 3.6
Portugal	0.8	- 0.8	1.5	0.9	1.4	1.9	0	- 2.7

From this table we can remark the problem in Portugal, who registered during this period insignificant growth rates. In fact, its competitive advantages (cheap labor force, growing manufacture sector) began to disappear with the inclusion of ten new Member States after 2004. Throughout this period, there is a rather profound stagnation that reveals real problems in the economic structure. We must not forget that throughout 2003-2008 we had to deal with a

remarcable expansionary cycle, which generated higher global growth rates among emerging markets.

Ireland and Spain progress is to confirm this, the two countries were driven by construction and services sectors. Greece also benefited from the favorable economic cycle, the major problem is that it failed to benefit from this growth in order to restructure its economy and to improve the spreading of public debt. Still, analyzing these tables cannot grasp any clear indication of what was to come for these states. Unfortunately, the singular analysis of GDP growth does not provide a real support for deeper economic analysis. Therefore, we will review another table provided by Eurostat for 2009 that will dissect the components of added value generated by the economic growth at the end of expansionary cycle.

Share of value added by industry as a percentage of 100% (2009)

	Agriculture Fishing	Total industries excluding constructions	Constructions	Commerce Transport Communications	Financial services	Other services
EU	1.7	18.1	6.3	20.8	29.1	24
Eurozone	1.6	17.8	6.4	20.7	29.3	24.2
Greece	3.8	11.8	4.5	33.5	19.8	26.6
Ireland	1.4	23.9	8.5	17.5	28.7	20
Spain	2.4	15.1	10.7	25	23.7	22.9
Portugal	2.3	16.7	5.6	24	22.9	28.6

Source: Eurostat 2011.

The analysis of these indicators in 2009 is extremely useful because it emphasizes the economic behavior of these states in the first year of the recessionary cycle. It is valuable to note the economic response of these states before the change of the economic spectrum. The use of the share of value added by industry shows how the economy reacted to an exogenous economic shock, we must not forget that the economic crisis was transmitted in the Eurozone from the American continent. The origin and its initial causes were generated overseas, therefore we considered it as an exogenous shock to countries exemplified in the analysis.

Greece reacted pretty bad in front of this external shock; we observe that the share of added value in financial services fell well below the Eurozone average. It is obvious that before the crisis the share was lower, only that this decrease showed a declining power of the financial sector. This decrease generated liquidity problems in the financial market and a potential threat in refinancing the maturing government bonds. Greece, like many other emerging countries, is dependent of the domestic banking sector, given that many bonds are absorbed there. Also, we observe an abrupt drop of constructions that

caused high social costs, because this sector is labor intensive. It is a problem faced by Spain during the current economic crisis. It is surprising the high percentage of the average Euro area trade, transport and communications, but this is not necessarily good. Historical records have shown over time that in case of prolonged recessions, international trade is suffering a serious imbalance. Thus, exposure to this sector can become very problematic in these periods.

Portugal also experienced decreases in industries and construction which engrossed a large share of the labor force. As in Spain or Greece, commerce remained above average, but financial services suffered a big drop. We note that the three countries except Ireland have suffered on this sector, which generated a vulnerability for the future sustainability of budget deficits. There is a better evolution in Ireland which showed optimum distribution. Thus, industries and constructions recorded weights over the Eurozone average, while financial services remained close to average. Basically, the Irish economy has shown a solid foundation for a more balanced behavior in the first year of the economic crisis.

And yet, what caused the drastic worsening of the situation in Europe? As the economic crisis has shown the effects in Eurozone were redistributed into two groups. A group of states prepared to face strong external shocks, whose restructuring was done in advance through many years. Of these, there is Germany for which the economic crisis was an opportunity to show that it is the dominant force in the European system. On the other hand, countries such as Spain and Ireland were affected by the globally collapse of the housing market. Ireland suffered an even greater imbalance generated by the banking sector heavily exposed to mortgages and various derivative products from US. Spain's housing boom left serious consequences with a very strong impact. Thus, the unemployment rate exploded reaching over 25% and so the real estate developers found themselves trapped in an illiquid market. Portugal, whose development depended largely on the Spanish economy has entered a forced adjustment influenced by external factors. With a stagnant economy even before the crisis, Portugal was forced to confront a harsh reality in the crisis.

Table 3

Budgetary balance								
	2002	2003	2004	2005	2006	2007	2008	2009
EU	-2.5	-3.1	-2.9	-2.5	-1.4	-0.8	-2.3	-6.8
Eurozone	-2.6	-3.1	-2.9	-2.5	-1.3	-0.6	-2.0	-6.3
Greece	-4.8	-5.6	-7.5	-5.2	-3.6	-5.1	-7.7	-13.6
Ireland	-0.3	0.4	1.4	1.6	3.0	0.1	-7.3	-14.3
Spain	-0.5	-0.2	-0.3	1.0	2.0	1.9	-4.1	-11.2
Portugal	-2.8	-2.9	-3.4	-6.1	-3.9	-2.6	-2.8	-9.4

Table 4
Public debt/GDP

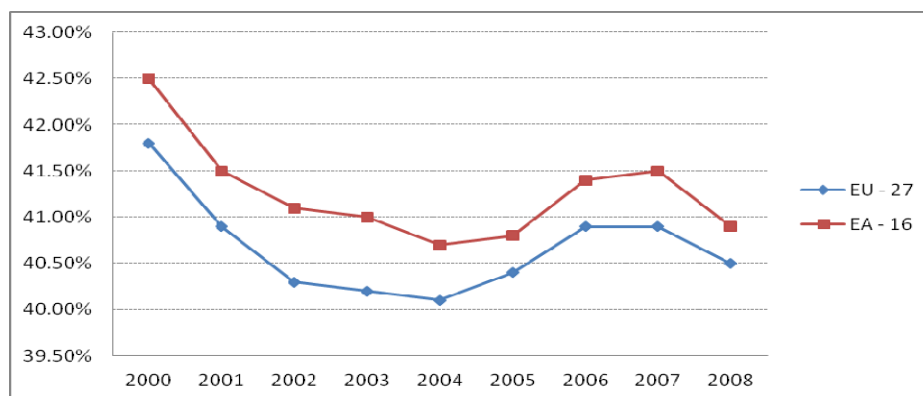
	2002	2003	2004	2005	2006	2007	2008	2009
EU	60.4	61.9	62.2	62.7	61.4	58.8	61.6	73.6
Eurozone	68.0	69.1	69.5	70.1	68.3	66.0	69.4	78.7
Greece	101.7	97.4	98.6	100.0	97.8	95.7	99.2	115.1
Ireland	30.7	31.0	29.5	27.3	24.9	25.0	43.9	64.0
Spain	52.5	48.7	46.2	43.0	39.6	36.2	39.7	53.2
Portugal	55.6	56.9	58.3	63.6	64.7	63.6	66.3	76.8

Source: Eurostat 2011.

Even so, Greece has shown that solutions imposed by reality may differ significantly from the theoretical ones. Currently, the public debt problem in the Eurozone has become extremely serious and can bring great damage to the system functionality in the future. The fault could be that the SGP does not have enough strength to adjust budgetary criterion and cannot be an effective punitive mechanism for the budgetary slippages of Member States.

Reversing cycle and falling budgetary revenues

At EU level, the total revenues through tax amounted to 40.5% of GDP, down 0.4 percentage points compared to 2007. This correction has come from an increase in the level of 0.8 pp from 2004 to 2007. The level of tax revenues in the Eurozone followed the same trend, but were at a higher percentage. However, the correction incurred in 2008 compared to 2007 stated that this indicator was found to be more consistent in the Eurozone, where the percentage of tax revenues to GDP decreasing year on year by 0.6 percentage points (see chart below).



Source: Eurostat, 2011.

Figure 1. Total revenues by tax as a GDP percentage in 2000-2008

To decompose the charging system on a more detailed level, however, we should specify in terms of segmental level of taxation in the European Union. For the purposes of ESA 95, income taxes sovereign of the aggregate is composed of:

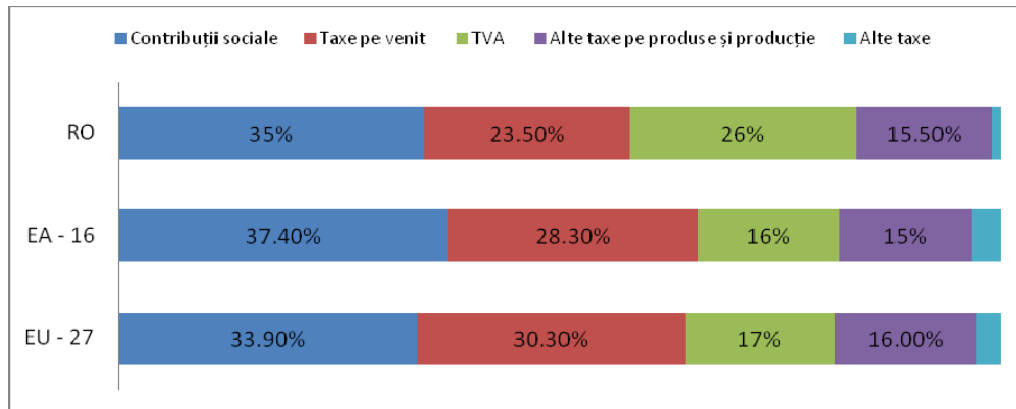
- Taxes on production and imports (indirect taxes). For example, VAT, customs duties, export duties and consumption taxes, stamp taxes, taxes on pollution, etc.
- Current taxes on income and wealth. For example, taxes on profits of legal entities and individual income, taxes on the right of use or ownership of an automobile, taxes fishing and hunting or a number of other current taxes on capital (Direct taxes).
- Taxes on capital. Inheritance taxes, death duties, taxes on gifts etc.
- Actual social contributions. These are paid either mandatory or optional for employees and employers, but also by entrepreneurs, for insurance against social risks (risk of illness, disability, aging, inheritance rights).
- Implicit social contributions (for example: there are situations in which employers pay social benefits to former employees or independent special reserve created for this purpose).

Reported but the economic functions concerned, the charges can be segmented as follows:

- Taxes on consumption. These are considered as taxes applicable on transactions between final consumers and producers and final goods consumption such as VAT, import duties or taxes excluding VAT, stamp duty, tax or capital tax on financial transactions, taxes on international transactions, tax pollution, under-compensation of VAT, taxes on a number of charges.
- Taxes on labor. These include employment taxes, duties directly related to salaries and most of them are applicable to the source, and taxes applicable to persons engaged us in the form of unemployment insurance health funds.
- Taxes on capital. These are defined as taxes on capital and corporate income that they earn economic or receive local or foreign tax and capital stocks including themselves and wealth taxes (taxes on capital, taxes on immovable property, taxes on use of fixed assets, professional licenses or Corporate, along with a other taxes on products).

Thus, in a more detailed and structural level, social contributions in 2008 proved to be the most important source of income in the European Union, with a proportion of 33.9% of the total, followed by income tax (30.3%), VAT (17%) and other taxes on products and production (16%). In the Eurozone, the

proportion of social security contributions were by 3.5 pp higher than in the EU (see chart below).



Source: Eurostat 2011.

Figure 2. *The structure of revenues in tax by source (2008)*

During 2000-2008, the major components of tax revenue have fluctuated depending on economic circumstances. Between 2000 and 2003 income taxes to GDP decreased by 1.3 pp in the EU-27, after recording an upward trend from 2005 to 2007, with a new correction in 2008, by the international financial and economic conditions. VAT revenue to GDP in the EU-27 remained stable during the period from 2001 to 2004, then increased to 2007 by 0.1 percentage points each year, with a substantial correction in 2008 under heavy braking and unequivocally consumption among all Member States that influenced the trend, with a time lag, and all the other components structure at European level. Tax revenues dropped, this correction was controlled by some states through increasing taxation or supplementary braking price of economic activity. The solutions were left freer to Member States that counterbalanced through the reduction in government spending levels.

At EU level, the labor market currently supports 50% of the tax burden. Consumption taxes represent 27.4% of the total level of taxation and capital market supports 22.8% of that charge. In the Eurozone, however, the level of taxation on employment is up 2.2 pp higher than in the EU, and the capital market and consumption supports a slightly lower level of taxation. Regarding the dynamics of this structure, fluctuations in period 2001-2008 are not immediate. Labor charges incurred decreased by one percentage point from 2000 to 2007 due to sustained correction of social security contributions and personal income taxes, but in 2008 will grow by 0.28 pp. Taxes on capital fell

from a level of 8.9% of GDP in 2000 to a level of 8% of GDP in 2003, after recording an upward trend and a peak in 2007 of 9.5% of GDP. In 2008, however they suffered a correction of 0.5 pp of GDP. Taxes on consumption remained relatively stable over the period 2000-2007, thereafter suffering a series of natural patches under the impact of market conditions.

The recessionary gap caused a sharp drop in revenues, which resulted in a narrowing space for fiscal policy maneuver. Some Member States were consistently forced to cut budget spending in order to cope with rising budget deficits. These negative trends have boosted public debt and created a stalemate for some states that had to refinance their maturing short-term debt. The criticism of theorists on the budget deficit inability to report early signals of fiscal shocks proved correct. Undoubtedly, the analysis of structural deficits would have highlighted the dangers of discretionary fiscal policies applied by some countries in the Eurozone.

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Local reforms by political conditionality: trials and erros in Central and Eastern Europe

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Abstract. *This article gives an overview of the local reforms undertaken between 1998 and 2011 in seven CEE countries (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia). The interest lies especially in determining national actions for increasing transparency of local self-government and decentralisation. Reading the European monitoring documents prior and after accession (where available), and national strategies of reform, the author argues that for the CEE region reforms undertaken during accession to the European Union had not been entirely internalized, and that in the absence of any conditionality costs, these countries experienced a reform regress. As results are presented, the prediction proves invalid for some part of the region and the authors advocate for the need of cross-referencing data and advance research.*

Keywords: political conditionality; Europeanization; transparency; decentralization; CEE region.

JEL Codes: H11, H71.

REL Codes: 13C, 13G.

1. Introduction

Europeanisation became an interesting tool of analysis for Central and Eastern European (CEE) states once they embarked on the road to democratization and the European Union (EU). Defined by Ladrech (1994, p. 69) as an incremental process, aimed at integrating the economic and political dynamics of EU in the national policy-making, Europeanisation was also articulated as an export process in which EU was the producer (of governance recipes), while the states outside its borders, the consumers (Olsen, 2002). For the purpose of this article, Europeanisation would imply an incremental process of export and import of European policies and politics between EU and candidate transition democracies.

Although it may sound quite straightforward, this process has known quite different methodological approaches. For instance, March and Olsen (1998) identified two ways of dealing with the problem of an international order (thus also of the newly European one) built on the basis of Europeanisation. The first was the logic of anticipated consequences or that of external, exogenous stimuli. The second was called the logic of appropriateness, or of cultural assimilation. While in the first logic, the European rules and policies are supposed to be transferred towards national domains by means of rewards and punishments, in the second one, the transfer is made possible by accumulating new identities in a given institutional framework, through collective socialization and learning. These descriptions are referential for what Borzel and Risse (2000) and Schimmelfenning and Sedelmeier (2002) acknowledged as the (classical) rationalist and sociological institutionalism. Schimmelfenning and Sedelmeier (2002, 2004), Kelley (2004) and Schimmelfenning (2005) identify an additional alternative (without explicitly presenting it), a hybrid which challenges the universality expectations of the classical approaches and complements the trials of explaining Europeanisation. In the following, we will focus on this last perspective, considering that the causal factors refer to actors' reactivity to costs, and their capacity to internalize the European "ways". We argue that for the CEE, the reforms targeted on increasing transparency and decentralisation of local policy-making had not been entirely internalized, and that in the absence of any conditionality costs, these countries experienced a reform regress, therefore a democratic regress or a process of de-Europeanisation.

2. Conditionality and regress hypothesis

Political conditionality has been widely discussed by scholars of international relations and European integration⁽¹⁾. In general, it is assimilated to a system of positive and/or negative stimuli used for different international actors so as to generate certain behaviour (Kelley, 2004, p. 428), while *stricto sensu*, Schimmelfennig, Engert and Knobel (2003, p. 495) defined it as “the central strategy of EU to induce non-member state harmonization with its own standards [...]”. For Schimmelfennig and Sedelmeier (2004), Europeanisation entailed two forms. The first one was based on democratic conditionality, focused on EU’s fundamental political principles, human rights rules and liberal democracy (Schimmelfennig, Sedelmeier, 2004, p. 669); compliance with these criteria would have started the accession negotiations⁽²⁾. The second one referred to conditionality by *acquis*, aimed at obtaining the Member status. In that particular situation, EU membership would have been granted in exchange for importing the specific rules of the European legislation (Schimmelfennig and Sedelmeier, 2004, p. 669). This latter approach to Europeanisation is the one of interest for our argument. The conditionality by *acquis* argues that accession countries see EU membership as an important objective of their foreign policy and as such, importing the *acquis* becomes a reasonable step towards that. Theoretical predictions on the effectiveness of the conditionality strategy rely on several assumptions regarding the actors involved in the process, mainly built on the rationalist institutionalism (Schimmelfennig, Sedelmeier, 2004, Schimmelfennig, 2005). In 2004 Kelley offered a clear form of that idea when classifying conditionality “as a traditional mechanism of rational choice (...) which defined actors making cost-benefit analyses and considering the utility maximizers” (Kelley, 2004, pp. 425-428).

Starting with these assumptions, the theoretical prediction here is that accession states would successfully import the (formal) European *acquis*. Schimmelfennig and Sedelmeier (2004) tested such a prediction and concluded that that type of conditionality was responsible for the massive import of legislation from EU 15 to CEE. If the membership award made the CEE countries to import the European institutional structure, there is one question that lingers: what about CEE after accession? Similar assumptions that led to the prediction of conditionality effectiveness generate the expectation that in the absence of such conditionality, CEE would regress after accession. Such a regress hypothesis, be it explicitly or implicitly, was formulated by

Schimmelfenning and Sedelmeier (2004), Schimmelfenning (2005, 2008), Sedelmeier (2006, 2008), Epstein and Sedelmeier (2008), Meyer-Sahling (2009), (2011), Pridham (2008), Ungureanu and Iancu (2010), Cirtautas and Schimmelfenning (2010).

Unlike the conditionality theory which received a considerable attention in the literature, testing the *regress hypothesis* is still a young attempt. There are some inherent difficulties. Firstly, there is not enough time between the two moments relevant for our analysis: the CEE countries joined EU nine (respectively six) years ago and any eventual regress might be a contextual, short-term effect which could not infer a tendency. Secondly, the hypothesis cover the whole area of the European acquis, which generates an immense research effort on several levels. As such, authors usually chose to test such an hypothesis locally, on specific policies and countries. This article follows this trend and gives an overview of the local policy reforms in seven CEE countries based on the reading of their official strategic documents and EU monitoring between 1998 and 2011⁽³⁾.

3. Testing the regress hypothesis on the CEE region

The seven countries chosen for this testing of the regress hypothesis come from the CEE region and exhibit quite different tempos and backgrounds of reforms. If to discuss the interest in joining the European Union, then one might distinguish between Poland and Hungary, the very first countries in the region that signed the Association Agreements in 1991, the second wave (Bulgaria, Czech Republic, Romania and Slovakia), which did that similar step in 1993, and Slovenia, which started rather late, in 1996. If to consider the moment of formally requesting the membership, then Hungary and Poland would be again the frontrunners (1994), but Slovenia would probably compete for the most pragmatic behaviour, as it applied to become a candidate in the same time with signing the Association Agreement (1996). The starting of negotiation would also cut the region into two: Bulgaria, Romania and Slovakia started in 2000, while the rest had already experiencing full download of European policies and politics since 1998. Different gears in reforms were visible even in the accession year: while most of the region joined EU in 2004, Bulgaria and Romania became full Member States in 2007.

Differences also exist in the ways the CEE countries addressed reforms. In this regard, the studies of Iancu (2010), Junjan and Iancu (2011) and Iancu (2013) become of interest, as they point that even though

democratisation and administrative consolidation were the main struggles the region had to fight, and the weapons were quite similar, the results were hardly comparable. Reorganising these former researches and focusing them solely on decentralisation and transparency, I explore here the most visible documents of the CEE-EU written dialogue and discuss whether there was a strategic interest in local policy-making. The limits of our inquiry are quite obvious, however my preliminary findings may prove valuable for future research of political conditionality in the area.

3.1. Local reforms in Bulgaria

Local self-government and decentralization were not exactly the principles that draw the explicit attention of EU in the accession trials of Bulgaria. In fact, none of the Regular or Monitoring reports issued between 1998 and 2011 dedicated more than one phrase (at most) about the progress in fiscal decentralization or efficient allocation of competencies between different levels of government. That did not mean, however, that there was no European interest given to the matter. In fact, by autumn 2006, considering the former pieces of advice regarding the need to strengthen local reforms⁽⁴⁾, Bulgaria reaffirmed its interest in pursuing the decentralization process and elaborated the Strategy for Decentralization (2006-2015) and the Action Plan for its implementation (2006-2009). It also included its formal commitment to strengthening good governance in the Strategic Reference Framework (2007). Taking into account the wording of the CVM reports of July 2008 (p. 2) and March 2010 (p. 3), Bulgarian institutions seemed to have managed to keep up the rhythm of reform envisaged by the European Union.

As for the principles of openness and transparency in local policy-making, only indirect references were even being made. However, be it for minimizing corruption, engaging in transparent privatization, or enjoying more open judicial trials, European reports did advocated in favor of reforming the Bulgarian government as a whole. Positive responses were received: in 2001 Bulgaria adopted a Law on Access to Public Information (to be implemented also at local level), started the implementation of “one-stop-shops” and granted access to the public to policymaking processes, by publishing draft laws on the Internet (RR 2001, p. 16). Since, progress in these areas was annually reported⁽⁵⁾, even after EU accession⁽⁶⁾. This does generate a paradox: as the very problems that led Bulgaria into being monitored after accession were those closely related to corruption (and additionally, organized crime and weak

judicial system). In 2008, the CVM Report of July even urged Bulgaria “to translate words into deeds and deliver on its commitment to serious reform” (pp. 3-6). One year later, the country seemed to have understood the substantial need to change and started to address the European issues up to the point when the European Commission accepted the new wave of reforms (CVM March 2010, p. 3).

3.2. Local reforms in Czech Republic

The European reports documenting the progress towards accession were quite elaborated as they grounded the information on both national and external monitoring. That may explain why in the case of the Czech Republic, *local self-government and decentralization* did emerge as a topic of dialogue as early as 1998. The European Commission appraised then the regional reform attempts, and suggested that the country should have ratified the Council’s of Europe Charter on Local Self-Government (p. 8). An interesting reference point, giving that the literature on local policy-making usually refers to that Charter as to a genuine piece of the European *acquis* (xxx). Between 2000 and 2003, the Regular Reports followed quite closely the decentralization/regional reforms the country undertook⁽⁷⁾, and concluded that reform was going to the right direction. By 2007, the National Strategic Reference Framework kept the same tone when discussing the efforts taken in strengthening the territorial self-government and bringing public services closer to citizens; in fact, it concluded that there were no (further) reasons for concern, and that no significant changes were planned in the institutional area (p. 22).

A quite different approach was given to the openness and transparency issue: between 1998 and 2003, there were only three very succinct/moments when the European Commission seemed to have been interested in it. For example, in 1999, after a slow start and political disinterest⁽⁸⁾, the Regular Report noted that a law on free access to public information was adopted (pp. 15-34); and by 2001 it expressed the European concern in the little amount of transparency and anti-corruption means to ensure a transparent business environment (Regular Report 2001, p. 15). It was, in fact, the national voice that addressed the issue of reform: in 2007, the Strategic Reference Framework called for a sustainable administrative capacity of the subnational levels of government (p. 23), giving that “the weaknesses in the public administration endangers the fulfillment of the objectives of the cohesion policies” (p. 34). By 2010, increasing transparency and reducing corruption became national

priorities, and several actions were enumerated as necessary: introduction of Regulation Impact Assessments and Corruption Impact Assessments; submission a comprehensive legal amendment of lobbying; and introduction of the institution of "reliability tests" for persons operating in public bodies.

3.3. Local reforms in Hungary

European rhetoric on decentralization in the Hungarian case was quite different from other CEE countries. More specifically, Hungary presented too much decentralization, which led to "the inefficient provision of services, and strains on local finances" (Regular Report 2000, p. 27). Accordingly, the government was called to proportionally allocate resources until the official accession to the European Union⁽⁹⁾. Several documents were elaborated to tackle this problem: National Spatial Development Concept (2005), the National and Regional Development Policy Concept (2005-2020), and the New Rural Development Strategic Plan (2007-2013), they all acknowledged the need for consolidating principles like subsidiarity, decentralization, openness, partnership and transparency. By 2007, not many had been changed: the National Strategic Reference Framework still accused the excessive decentralization and wanton centralization (pp. 48-49) and advised for continuing the reform under the framework of the State Reform and the Electronic Public Administration Operational Program (pp. 5, 8-9).

Hungary offers again an interesting case in transparency building. Starting with appraisals at the beginning of the accession trials (between 1998 and 1999)⁽¹⁰⁾, by 2000 Hungarian policy-making processes catch the eye of the European monitoring and are persuaded into addressing more seriously the fight against corruption (Regular Report 2000, p. 28). Such demands continued to be raised up to the moment of accession⁽¹¹⁾, and, apparently, with success⁽¹²⁾.

3.4. Local reforms in Poland

Local reforms in Poland were closely watched by the European monitors between 1998 and 2003. Starting with appraisals for adopting a new structure for the administrative system, the Regular Reports also advised for an adequate allocation of financial revenues and an imperative need for consolidating local policy-making⁽¹³⁾. To some degree, the extensive concern for local self-government, that lasted as long as Poland's road to the European Union,

generated a sort of burnout of the topic; as a consequence, soon after accession, no additional references were being made on the subject.

Poland also received positive remarks on its openness and transparency related reforms. Between 1998 and 2003, the country enacted a new law on civil service that was highly appreciated both at national and European level⁽¹⁴⁾, a Program for Fighting against Corruption – Anticorruption Strategy (in 2002) and a Plan for Combating Corruption 2005-2009⁽¹⁵⁾ and created a Central Office against Corruption. Special attention was being paid to the meritocratic recruitment of local government employees, which, as expected, was reported to have been a success.

3.5. Local reforms in Romania

Decentralization and local self-government were two issues highly present in the European regular reports on Romania. Starting with 1999, the European Commission expressed its concern on the sound fiscal decentralization attempts and the successful proportional allocation of competencies between different levels of government⁽¹⁶⁾. By 2004, despite the considerable efforts of the Romanian authorities in developing a strategy for managing the decentralization process, the transfer of responsibilities from central to local authorities was still not matched with an adequate transfer of resources, and not enough transparency was ensured (Regular Report 2004, p. 18). After three years of sustained trials for improving the insufficient local financial autonomy of governments and consolidate decentralization and regional development, in 2007, the National Reform Plan put administrative capacity and its improvement on top of the national priorities list (pp. 5, 24 et seq.). In the same year, the National Strategic Reference Framework concluded that due to a political oriented management of public institutions, much yet remained to be done (p. 64). By 2009, several strategies on decentralization in areas like sports and youth, health, education, and police were adopted⁽¹⁷⁾, yet no specific reference to their success was comprised by the following CVM reports.

As for the openness and transparency measures, Romania engaged on the road to EU accession with a red flag. Secrecy of public information, closed policy-making processes and deterioration of equitable application of law were unacceptable for the European monitors⁽¹⁸⁾. Progress was achieved with the enactment of the law on free access to public information (2001) and transparent policy-making (2003), yet the European Commission remained interested in monitoring their implementation⁽¹⁹⁾. By 2007, the poor

performance in reforming the judicial system and fighting against corruption made the safeguard clause to become a subject of concern for Romania. Unfortunately, by 2011 no significant changes were being made: “The review of the strategy on anti-corruption identified a lack of national and unitary approach in preventing and fighting corruption” (p. 7), so Romanian is still perceived as a slow reformer in CEE group of countries.

3.6. Local reforms in Slovakia

Similar to the case of the Czech Republic, Slovakia also received European compliments for signing and ratifying the Charter of Local Self-Government⁽²⁰⁾. By 2001, the European Union favorably noted the enactment of a new law on local administrative authority, the administrative reorganization and the new conditions set forward for the fiscal decentralization (Regular Report 2001, pp. 15-16, 24). The National Strategic Reference Framework (2007, pp. 10-11; pp. 58-62) additionally argued that significant changes were carried out in the structure and organization of local government after 2004. Mainly, in close connection to the decentralization trials, more than 400 competences were transferred from state administration to municipalities and higher territorial units with the aims of increasing the efficiency and quality of public administration managed. Speaking of errors, however, the public administration system had yet insufficient tools for assessing the quality of public services, especially at local level.

Quite similar to the average reform rhythm in the CEE region, Slovakia also experienced a slow beginning in making its local policies more transparent. In the early years of accession (1998-1999), it dealt with low efficient fight against corruption and lack of fairness in privatization processes⁽²¹⁾. By 2003, after the enactment of the law on free access to public information (in 2000), progress on openness and transparency seemed evident (Regular Report 2002, p. 22, p. 25). However, efforts in consolidating the pace of reform were required (Monitoring Report 2003, p. 12). And until last year no substantial measures were being noticed in that regard; in January 2011, a new Government measure was put in place, in the form of a Central Register of Contracts. It represented a public list of contracts by the Government Office, ministries, central government authorities, public bodies and subordinate organizations (subsidized, budgetary organizations, etc.) and its presence seemed to comfort the aches of an ill, (still) corrupted public sector.

3.7. Local reforms in Slovenia

Although regular, just in the case of the other CEE countries, the written accession dialogue between Slovenia and EU was quite synthetic: the regular reports were by far the less detailed in the region. However, the decentralization issue did appear: by 1998, progress was slow (Regular Report, p. 8), and remained so by 1999 (Regular Report, p. 59), the last year when references on local government were being made. By 2005, Slovenia's Development Strategy still talked of a bureaucratic and centralized development model (p. 8).

In what transparency is concerned, between 1998 and 2000, no European report spoke of it. In July 2000, however, Slovenia adopted a directive on transparency in the information society (Regular Report 2000, p. 37) which contributed to the European Commission's later conclusion that an overall increase of transparency was ensured (Regular Report 2002, p. 21). By 2003, the Commission raised the issues of public accountability, and the right of citizens to access public information, considering that the two would contribute to the improvement of administrative openness, transparency and efficiency (Monitoring Report 2003, p. 11). More transparency and accountability from local governments was also advocated by the National Strategic Reference Framework, in 2007 (p. 23, p. 61).

4. Discussing results

The reports above clearly show that the tempo for reform in the two areas of interest, namely decentralisation and transparency in local policy-making, did change after accession. The most striking example is that of Romania, closely followed by Bulgaria: two countries which still fight corruption, although politicisation and lack of transparency make current reforms not as vibrant as prior accession. Stagnant reformers seem to be the Czech Republic – by far, the most active one, Slovakia and Slovenia. Poland and, to some extent, Hungary seem to maintain a certain interest in consolidating reforms, and even improve their past results. Such a picture is yet to be improved.

One cannot dismiss the clear limitations this kind of research exhibits. EU's monitoring offered a clear picture of the reforms that were important for the sake of becoming a Member. As such, there might be an informational gap after the accession, as not all countries offer English translations of their documents, nor synthetic reports of their recent successes and failures in local

policy-making. Incidentally, only Bulgaria and Romania had their post-accession regularly monitored, and that might have created an asymmetry in the data used in comparing.

Secondly, there might be argued that in the decentralisation process one needs a certain framework to arrange the transfer of competencies and resources (major changes) and then adjustments so to better accommodate local needs and money with central expectations (minor changes). As the first would enjoy a wider visibility if one uses the strategic documents of the centre, the latter might only be considered consolidation trials and escape the researcher's eye.

Thirdly, no data on the actual implementation of the reforms the strategic documents talked about was taken into account; and that might have hindered the final results. Even so, the documentary research conducted so far leads me into considering that the regress hypothesis is validated at least in the cases of Bulgaria and Romania. As such, further analysis of the relationship between the rhythm of reform in new Member States and that exhibited before accession is recommended.

Notes

- (1) See for instance: Schimmelfennig, Engert and Knobel (2003), Kelley (2004), Schimmelfennig and Sedelmeier (2004), Schimmelfennig (2005), (2008), Epstein, Sedelmeier (2008), Cirtautas and Schimmelfennig (2010), Sedelmeier (2006), (2008), Epstein (2008), Pridham (2008), Sasse (2008), Sippel and Neuhoff (2009) and Trauner (2009).
- (2) For CEE countries, this type of conditionality was expressed in the Copenhagen criteria (1993).
- (3) EU's Regular and Monitoring Reports, Cooperation and Verification Mechanisms Reports (for Bulgaria and Romania), National Strategies and Strategic Reference Framework.
- (4) Regular Report 2004, p. 16; Monitoring Report 2005, pp. 7-8; Monitoring Report May 2006, p. 6.
- (5) Regular Report 2002, p. 21; Regular Report 2003, pp. 15-16; Monitoring Report 2005, p. 5; Monitoring Report September 2006, p. 4.
- (6) In 2007 Bulgaria adopted a Civil Procedure Code and a Judicial Systems Act, and created a new institution, namely the National Security Agency. By 2008 it announced a new Conflict of Interest Prevention and Disclosure Act (2008), and amended the Constitution and the Criminal Procedure Code.
- (7) Regular Report 2000, p. 19; Regular Report 2001, p. 18; Regular Report 2002, p. 21; Regular Report 2003, p. 11.

- ⁽⁸⁾ In 1998, the Czech Senate rejected a draft act on the access of citizens to information on grounds of being impracticable for the civil servants (Regular Report 1998, p. 10).
- ⁽⁹⁾ Regular Report 2001, p. 16; Regular Report 2002, pp. 21-22; Monitoring Report 2003, p. 12.
- ⁽¹⁰⁾ Regular Report 1998, p. 24; Regular Report 1999, p. 28.
- ⁽¹¹⁾ Regular Report 2001, pp. 31, 37, 42; Regular Report 2003, p. 15.
- ⁽¹²⁾ Transparency International Hungary provides a well-systematized portrait of the national progress in fighting corruption. More data is available at: <http://www.transparency.hu/> (last access: November 2012).
- ⁽¹³⁾ Regular Report 1998, p. 9; Regular Report 1999, pp. 13-60; Regular Report 2000, p. 15; Regular Report 2001, p. 78; Regular Report 2002, pp. 22-23; Monitoring Report 2003, p. 14.
- ⁽¹⁴⁾ Regular Report 1999, p. 14; Regular Report 2001, p. 17; Regular Report 2002, p. 27; Monitoring Report 2003, p. 13.
- ⁽¹⁵⁾ The original text of the Program is available online on the webpage of the Ministry of the Interior and Administration (Public Administration section): <http://www.mswia.gov.pl/> (last access: November 2012).
- ⁽¹⁶⁾ Regular Report 1999, pp. 11-63; Regular Report 2000, pp. 16-20; Regular Report 2001, p. 17; Regular Report 2002, pp. 22, 24, 44; Regular Report 2003, p. 17; Regular Report 2004, p. 18.
- ⁽¹⁷⁾ The Romanian versions of the strategies are available online on the official website of the Romanian Ministry of Administration and Interior: <http://www.mai.gov.ro/> (last access: November 2012).
- ⁽¹⁸⁾ Regular Report 1998, p. 9; Regular Report 1999, p. 31; Regular Report 2001, pp. 22, 35; Regular Report 2002, p. 22.
- ⁽¹⁹⁾ Monitoring Reports 2005, pp. 9,12,16; and May 2006, p. 30.
- ⁽²⁰⁾ Regular Report 1999, p. 14; Regular Report 2000, p. 16.
- ⁽²¹⁾ Regular Report 1998, pp. 16,18; Regular Report 1999, p. 23.

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Employment in the EU countries: a panel data analysis

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Abstract. *This paper examines the evolution of some important macroeconomic indicators for the EU analysing the changes caused by the crisis in the last years and tries to find which one of them is affecting the employment rate. We therefore employ a panel data approach, considering the 27 countries. The econometric results showed that the variables considered in the model are statistically significant and the estimators are robust (with only one exception – the trade openness variable, which was excluded from the robust estimation).*

Keywords: employment; wages; remittances; panel data; European Union.

JEL Codes: E24, J21, F24, F16.

REL Codes: 8G, 12G.

1. Introduction

The impact of the current crisis on the labour market varied considerably among countries worldwide. Economic structure and exposure to certain vulnerable sectors (such as construction) has increased job losses in some cases. Eichhorst et al. (2010) argue that countries that were able to rely on a strong internal flexibility could better control job losses and rising unemployment. Moreover, they argue that this was possible due to the market protection of the core labour force, through strict rules on employment and adjustments to working hours and wages, and not through layoffs.

One has to make the difference between economic recovery and labour market recovery. Although apparently global economies began to show signs of recovery, labour market conditions continue to deteriorate. A report by the ILO (International Labour Organization, 2012) mentions that in early 2012 the labour market reality is cruel: one in three persons from the working population is either unemployed or is poor. In other words, the data show that from the total labour force of 3.3 billion, 200 million are unemployed and 900 million are living with their families below the poverty line of \$2 per day. The most affected segment of the population is the young, 75 million of them being unemployed. Globally, youth are three times more likely to become unemployed (compared to the adults) and this can lead to long-term deterioration of the labour market (ILO, 2011).

2. Literature review

The globalization played and still plays an important role on employment in contemporary economic policy. Although workers in developing countries see globalization as a threat (since the traditional jobs disappear or are relocated), employment growth in developing countries that is generated through globalization is thought to lead to poverty reduction (Jenkins, 2006).

There are a variety of ways in which globalization affects labour, foreign direct investment (FDI), increased trade openness and international technology transfer being the most mentioned.

Trade is an important factor in economic development. In a report of the European Commission (2010) three major benefits of trade openness were listed:

(1) economic growth: the completion of all on-going free trade negotiations would add more than 0.5% to the EU's GDP; progress regarding services and regulatory issues with major trading partners could push this value to over 1% of EU's GDP;

(2) consumer benefits: trade brings a variety of goods and services to consumers and companies at low prices. Only consumer benefits are estimated at EUR 600 per year;

(3) employment: 7.2% of EU employment depends directly or indirectly on exports. If we take into account all the effects of trade (exports, imports, productivity, income effects, etc.) about 18% of the EU workforce depends on trade performance.

In these circumstances it is easy to conclude that trade openness of an economy is an important lever for developing countries to get out of poverty.

In this context, there is a debate regarding the indicator measuring the degree of openness. The two categories that were imposed are based, on one hand, on the tools of trade (tariff and non-tariff) and, secondly, the result of trade (the ratio of trade to GDP). Each of these measures has advantages and disadvantages, none of them being perfect.

The most cited theories linking trade to labour market are those of Heckscher-Ohlin-Samuelson and Stolper-Samuelson, on the one hand, and on the other the Ricardian models (Hiebert and Vansteenkiste, 2007). The first two theories assume that comparative advantage is due to different intensities with which inputs are used (countries export goods that use intensively the factors of production which are abundant and import goods for which inputs required are rare). The third theory assumes that comparative advantage is due to differences in technology. Despite these differences these theories argue that trade liberalization facilitates international specialization in production and should lead to higher real incomes and a higher welfare (OECD, 2005).

In the long term it is expected that the effect of trade on employment to be positive, but short-term adverse effects might appear, due, among other things, to frictional unemployment (associated with the re-location of workers across sectors). Furthermore, women and men, and workers with different backgrounds are affected differently by trade liberalization.

Sen (2008) examined the effects of trade on employment in India, using several methods. He used data on manufacturing industry for the period 1975-1999, the results being different. On the one hand, the growth method showed a negligible effect of trade on employment in the manufacturing sector during 1975-1985 and 1995-1999; but during 1985-1995 one million jobs were created. Econometric modelling showed no effect on employment from import or export. The main conclusion is that the impact of trade on employment in manufacturing was minimal.

For the case of South Africa, Jenkins and Sen (2006) and Jenkins (2008) examined employment in manufacturing industry for the period 1970-2001. The results of these authors are also different according to the period and

method used. For example, econometric analysis showed that imports had a negative effect, but the growth approach indicated that in the periods 1970-1990 and 1996-2001 were created jobs (200,000 and 70,000, respectively) and during 1990 – 1995 18,000 jobs were destroyed.

Jayanthakumaran (2006) analyses the impact of trade on employment in Australia for the period 1989/1990-2000/2001. The author uses as the dependent variable annual employment growth for each of the sectors analysed. As independent variables he uses two variables that capture the effects of trade liberalization – trade (the ratio of exports and imports to GDP) and the effective rate of protection (report of domestic added value and world added value), two variables capturing the earning influence, an index of technology, and marginal trade between industries (defined as the difference between total trade flows and changes in net trade). His results indicate that the impact of earnings is significant and positive in the manufacturing industry, while technology has a negative impact. The influence of the effective protection rate is significant and positive, while trade openness is negatively correlated with employment. The intra-industry marginal trade has a positive impact, but statistically insignificant.

Remittances are considered a way of development because they can increase income and reduce poverty in developing countries. The remittances are seen as a compensation for emigration since the country suffer a reduction of the workforce, concomitant with a decrease in human capital, especially if migrants were employed and had secondary and/or tertiary education.

Also, remittances represent an amount of money received that can be spent on education or health services (Orrenius et al., 2010). In addition to these positive effects that the remittances exert on recipients, remittances can also have a negative role in that they can increase income inequality and reduce labour supply. However, when taking into account other factors such as exchange rate, it is possible that the actual effect is much reduced.

Orrenius et al. (2010) argue that remittances would have a significant long-term impact if they would be used for investments in agriculture, education or entrepreneurial activities, rather than for consumption.

Regarding the effect of remittances on the labour market, they can influence both earnings and employment.

Blouchoutzi and Nikas (2010) analysed the impact of remittances on three Balkan countries: Albania, Bulgaria and Romania. Remittances represent 5.5% of GDP in Romania, 8.6% of GDP in Bulgaria and 27% in Albania. The authors are interested in how the money is spent, specifying that Turkey, for example, is well known to have successfully managed to use the remittances received mostly from Germany.

For the case of Albania, remittances were used in the tertiary sector and in construction, while Bulgaria used most of the remittances to purchase durables goods. Remittances received by Romania have been channelled to the commercial sector, especially the transport, construction and financial services.

León-Ledesma and Piracha (2004) analysed the effect of remittances on employment performance for Central and Eastern European countries (they used a set of 11 transition countries for the period 1990-1999). It is known that one of the main reasons behind migration from Central and Eastern European countries to the EU is the significant difference between wages in the two regions of Europe. Thus, labour migration offers benefits both at micro and macro level. At the micro level, migrants earn higher wages, accumulate experience and/or develop new skills and increase the opportunities to get employed when returning to the home country, or to start a business on their own. At the macro level, unemployment is falling and therefore the social insurance system is recovering; the returning migrants help develop the economy through their investments. The authors estimated an equation for labour productivity and investment and consumption functions, the results showing a positive impact on productivity and employment. Moreover, remittances contribute to the increase of investment in the recipient country.

Posso (2012) analyses the impact of remittances on labour recipient countries, using a sample of 66 countries in the process of economic development (Middle East, Africa, Asia, Pacific, Latin America and the Caribbean) for the period 1985-2005.

The author estimated an equation of the form:

$$LF_{i,t} = \beta_1 \times R_{i,t} + \beta_2 \times X_{i,t} + \alpha_i + \lambda_t + \varepsilon_{i,t},$$

where LF is total labour force, male and female (the dependent variable), R is the log of remittances and X is a vector that contains country-specific features, α_i is the country fixed effect, λ_t is the time fixed effect, and $\varepsilon_{i,t}$ is the error model. His results suggest a positive impact of remittances on total employment, with a greater effect on men.

Blouchoutzi and Nikas (2010) present a set of economic implications of remittances, both positive and negative:

- Positive: they facilitate transactions with other countries and finance account deficits; provide the exchange of foreign currency for import of equipment and raw materials for industry; represent a potential for savings and investments; facilitate investment in education and human capital development; increase living standards and reduce poverty
- Negative: they increase the aggregate demand, and thereby inflation and wages; savings and remittances reduce work effort, leading in

long-term to growth reduction; increase the level of dependency and inequality, accompanied by money launderers.

Neoclassical and Keynesian theories are based on very different implications for how changes in real wages produce changes in the level of employment. On the one hand, the neoclassical model assumes that all markets, including the labour market, work in a perfect manner, unless the activity is disrupted by various institutional impediments. Given these aspects, employment will increase if the wage decreases. In contrast to this model, Keynesian models argue that changes in real wages will not produce changes in the level of employment.

In recent years, a number of econometric studies have examined the relationship between real wages and employment. Arestis and Mariscal (1994), Carruth and Schnabel (1993), Smith and Hagan (1993) and Suedekum and Blien (2004) found evidence in favour of neoclassical theory, showing a negative relationship between wages and employment for Britain, West Germany and Australia. Apergis and Theodosiou (2008) have shown that there is a long-term relationship between the two variables, categorically excluding a short-term relationship, suggesting that the reduction in real wages is not large enough to induce an increase in production and employment.

3. Methodology

The econometric analysis is based on panel data estimation, using the Stata software.

A panel data regression has the form:

$$y_{it} = \alpha_i + x_{it}' \times \beta + \varepsilon_{it} \quad i=1...N, t=1... T \quad (1)$$

where the i subscript denotes the cross-section dimension and t denotes the time-series dimension.

The individual effects may be either assumed to be correlated with the right hand side variables (fixed effects model: FEM) or be incorporated into the error term (random effects model: REM) and assumed uncorrelated with the explanatory variables (Baum, 2001).

When working with panel data models the first step is to test whether the data series can be estimated through a panel data model or through a pooled OLS. Therefore, Baltagi (2008) considers that the question is "To pool or not to pool the data?" A simple probability test has the null hypothesis the OLS model and the alternative hypothesis the FE model.

The next step would be to decide whether a FE model or a RE model is more appropriate for the data series. The decision between the two models can be made based on different tests, economic reasons and/or information criteria. Baltagi suggests all of these methods; hence one can estimate both models and choose between them according to the information criteria and/or based on economic arguments.

For the fixed effects model the most used estimator is called the “within estimator”. It performs OLS on the mean-differenced data. Because all the observations of the mean-difference of a time-invariant variable are zero, using a time-invariant variable is not recommended. Because the fixed effects have been eliminated (through mean-differencing), OLS leads to consistent estimates of the coefficients.

A great advantage of panel data is the fact that consistent estimation is possible even with endogenous regressors, provided that x_{it} is correlated only with the time-invariant component of the error, α_i , and not with the time-varying component of the error, ε_{it} .

For the random-effects model, the α_i from (1) is incorporated into the error term and assumed uncorrelated with the explanatory variables. Considering this assumption we have the model (2) as a random effect model specification:

$$y_{it} = x_{it}'\beta + u_{it} \quad i = 1 \dots N, t = 1 \dots T \quad (2)$$

Because the α_i is incorporated in u_i in each time period, we might say that we have to deal with autocorrelation of the error. Therefore the general least square method is used for the estimation of a RE model. An advantage of the RE model is that it allows to use explanatory variables that are constant over time; a great disadvantage is that if the FE model would be more appropriate those estimates would be inconsistent.

After controlling for the effects, the default standard errors assume that the error ε_{it} is independent and identically distributed (Cameron, Trivedi, 2009). Also, the model is estimated assuming the homoskedasticity of the residuals. When heteroskedasticity is present the standard errors of the estimates will be biased and one should compute robust standard errors correcting for the possible presence of heteroskedasticity. The most commonly deviation from homoskedastic errors in the context of panel data is likely to be error variances specific to the cross-sectional unit. When the error process is homoskedastic within cross-sectional units, but its variance differs across units we have the so called groupwise heteroskedasticity. Another problem is the serial correlation of the idiosyncratic error term, but Wooldridge proposed a very simple test for checking the autocorrelation of the residuals.

In order to overcome these problems, we should estimate the regression model using robust standard errors. Some authors have provided a number of tests in order to identify the problems encountered (Drukker, 2003, Baum, 2001, Green, 2000). Also, for the Stata program, there are some procedures that correct the error structure, assuming for example that the errors are heteroskedastic, autocorrelated up to some lag and possibly correlated between the groups, regardless of the estimated model.

4. Data analysis

We used annual data for the 27 European countries, for the period 2000-2010. The variables employed in this paper are: the employment rate, the average gross wage, the gross domestic product, the unemployment rate, the trade openness and the remittances.

The employment rate is expressed in percentage and refers to the 15-64 age group. The average earning is expressed in PPS (Purchasing power standard). The trade openness is expressed as the sum of exports and imports as a percentage of GDP and the remittances are considered as a percentage of GDP. The data was collected from Eurostat statistics database and from UNCTAD statistics (United Nations Conference on Trade and Development).

Employment rate evolution for EU-27; sex and age analysis

If we consider the employment rate in the EU, it appears that at the aggregate level the employment rate for the population aged 15 to 64 had an upward trend until 2008, when the economic crisis began to feel. In the period 2009-2011, the employment rate decreased; in 2011 this rate was 64.3%, at the level recorded in 2006. The analysis of the employment rate by gender (Figure 1) shows that the employment rate is higher for men than for women, following the same trend.

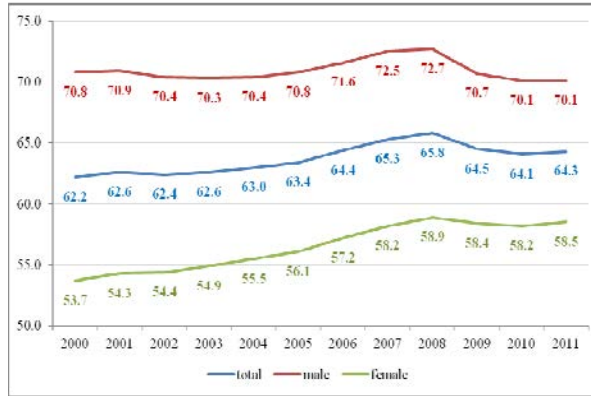


Figure 1. Employment rate for the 15-64 age group and by gender, EU-27

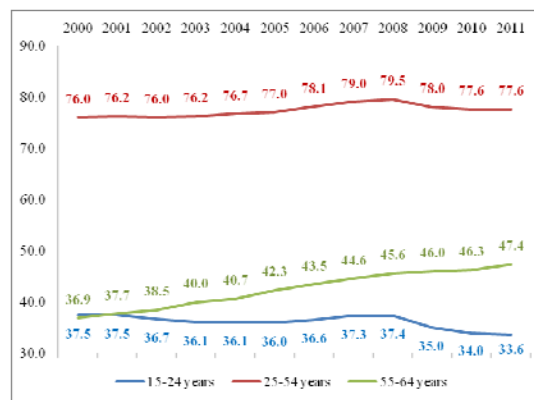


Figure 2. Employment rate by age group, EU-27

Analysing the employment rate by age group (Figure 2), one can easily see that the employment rate is lower for young people (age group 15-24), the young being hit harder by the economic crisis. In 2009 the employment rate for this age group fell by 2.4 percentage points compared to 2008. The age group 55-64 years had a continuous growth, without being affected by the crisis. Adult age group (25-54 years) represent the bulk of employment. The employment rate for this group decreased after 2008 (in 2011, the employment rate was 77.6%, comparable to the period 2005-2006).

Statistical analysis of the main macroeconomic indicators, considered as determinants of the employment level in EU countries

Regarding the employment rate in the EU, the growth undergone in the analysed period, highlighting growth in the pre-crisis and post-crisis period, is presented in Table 1. Thus, the largest increases in the employment rate before the economic crisis (calculated as the increase registered in 2007 compared to 2000) were found for the cases of Bulgaria, Latvia, Spain and Estonia, with growth exceeding 15%. Although a favourable period, Portugal and Romania were experiencing decreases. Moreover, if in Portugal the decrease was only 0.59%, for Romania the employment rate fell by 8.41% from 2000 to 2007.

After 2008, the labour market was severely affected by the global crisis. In terms of employment rates, we can easily find that most European Union countries have suffered losses. However, some countries continue to experience growth, albeit significantly lower than before the crisis: Austria (0.42%), Luxembourg (1.56%), Malta (2.75%), Germany (3.04 %), and Poland (4.04%). Belgium and Romania had in 2010 the same employment rate as in 2007.

Most severely affected countries from the employment rate point of view were: Ireland (13.15%), Latvia (13.18%), Estonia (12.10%), Lithuania (10.94%), and Spain (10.67%). Moreover, Estonia, Latvia and Spain are the countries that had the largest increases until 2007.

Regarding the unemployment, the most pronounced increases are recorded for Portugal (97.78% – an increase in unemployment from 4.5% to 8.9 % in 2007), Luxembourg (90.91%, from 2.2% to 4.2%), Austria (22.22%). In the period 2000-2007, the unemployment rate fell mostly in the countries with significant increases in employment rates: Bulgaria (57.93%), Estonia (65.44%), Latvia (56.2%), but also in the Czech Republic (39.08%), Italy (39%), Lithuania (73.78%), Poland (40.37%), Slovakia (40.96%).

Table 1

Growth rates for selected macroeconomic indicators for UE countries

Country	Employment rate		Wage		Unemployment rate		Remittances		Trade openness	
	07/00	10/07	07/00	10/07	07/00	10/07	07/00	10/07	07/00	10/07
Austria	5.15	0.42	20.98	1.81	22.22	0.00	-14.52	-0.07	5.15	-2.52
Belgium	1.81	0.00	15.94	3.37	8.70	10.67	32.97	12.17	30.48	-15.82
Bulgaria	19.81	-3.24	61.96	35.05	-57.93	47.83	791.04	-27.67	7.87	-0.93
Cyprus	8.56	-1.83	52.88	na	-18.75	58.97	13.01	-19.81	17.44	-6.62
Czech Republic	1.85	-1.66	50.64	9.05	-39.08	37.74	123.46	-7.31	31.40	0.98
Denmark	0.79	-4.81	16.68	4.61	-11.63	97.37	-36.83	45.26	-17.03	5.99
Estonia	15.09	-12.10	77.47	4.73	-65.44	259.57	2519.44	-9.07	-16.47	20.85
Finland	3.23	-3.13	32.90	9.40	-29.59	21.74	-19.83	14.03	-4.25	-14.29
France	4.21	-0.78	18.75	3.87	-6.67	16.67	-13.86	9.18	-1.15	-7.26
Germany	5.67	3.04	22.73	2.67	8.75	-18.39	54.10	21.93	-2.42	-3.54
Greece	8.48	-2.93	62.52	16.22	-25.89	51.81	-52.81	-38.87	10.21	-4.83
Hungary	2.50	-3.32	51.64	8.30	15.63	51.35	180.66	1.85	-7.78	-11.85

Country	Employment rate		Wage		Unemployment rate		Remittances		Trade openness	
Ireland	7.29	-13.15	0.30	8.73	9.52	197.83	-12.20	28.17	15.57	3.68
Italy	9.93	-3.07	15.81	8.24	-39.00	37.70	-15.29	121.84	26.90	13.91
Latvia	18.99	-13.18	81.92	17.97	-56.20	211.67	107.28	32.56	14.54	-6.50
Lithuania	8.89	-10.94	75.17	1.19	-73.78	313.95	739.06	25.92	5.93	3.01
Luxembourg	2.39	1.56	11.52	4.28	90.91	9.52	-0.85	5.09	1.13	-0.26
Malta	0.18	2.75	11.03	10.58	-2.99	6.15	31.44	-12.16	4.13	6.03
Netherlands	4.25	-1.71	31.55	3.48	16.13	25.00	21.62	34.61	23.60	-7.53
Poland	3.45	4.04	39.05	4.54	-40.37	0.00	182.66	-34.64	39.09	1.55
Portugal	-0.59	-3.24	42.66	5.53	97.78	34.83	-43.05	-7.53	5.10	-4.38
Romania	-8.41	0.00	83.87	25.81	-5.88	14.06	1845.51	-51.16	2.15	5.09
Slovakia	7.82	-3.13	40.24	16.09	-40.96	29.73	2156.95	-7.80	27.03	-7.49
Slovenia	8.13	-2.36	51.85	8.60	-26.87	48.98	-33.63	-3.50	21.85	-6.30
Spain	16.93	-10.67	16.23	8.23	-29.06	142.17	-10.99	0.54	10.88	-8.26
Sweden	4.36	-2.02	28.73	2.32	8.93	37.70	-9.87	-6.05	11.06	-3.22
United Kingdom	0.70	-2.80	25.02	-6.38	-1.85	47.17	14.56	17.15	-1.49	11.56

Regarding the period 2008-2010, the countries that previously experienced decreases in unemployment were the most affected by the crisis. The worst affected were the Baltic countries Lithuania, Estonia, Latvia, countries where the unemployment rate reached in 2010 alarming proportions (over 16% unemployment rate). Ireland and Spain were also significantly affected, Spain being the country that had the highest unemployment rate in the European Union in 2010 (20.1%). Moreover, in Spain, Ireland and Greece, youth unemployment has reached values even above 40%. In Sweden, UK and Portugal the unemployment rate for young people also increased (Global Employment Trends, 2012).

For Austria and Poland the unemployment rate remained at the level of 2007, while for Germany, the unemployment rate fell from 8.7% in 2007 to 7.1% in 2010.

In terms of earnings, in the period 2000-2007, the largest increases were recorded in Romania, Latvia, Estonia, Lithuania, Greece, Bulgaria, Slovenia, Cyprus, Hungary (increases above 50%). At the opposite pole, one can mention Ireland, where wages remained almost the same (0.3% increase). Analyzing the period 2008-2010, it appears that although period of crisis, the wages have risen in Bulgaria (35.05%) and Romania (25.81%). The only country where wages dropped 2010 compared to 2007 is Great Britain, the decline being of 6.38%.

Remittances have registered significant increases by 2007 for countries like Bulgaria, Estonia, Lithuania, Romania and Slovakia. After 2007, the remittances were drastically reduced in the aforementioned countries; the FDI increased much less or even decreased. Italy received in 2010 with over 100% more than in 2007.

Trade openness grew by over 20% in 2000-2007, especially in developing countries such as Czech Republic, Slovakia, Slovenia, Poland, but also for countries like Belgium, Italy and Netherlands. After 2007, trade openness increased in Estonia, Italy and the UK by over 10%, while in the Czech Republic, Denmark, Ireland, Lithuania, Malta, Poland, Romania the growth was lower. In all other European Union countries, the sum of exports and imports as a percentage of GDP declined due to lower production at European level.

5. Econometric results

We decided to estimate a panel data model because they control for the individual heterogeneity (Hsiao, 2003). In addition, the panel data models offer more information, increased variability, and there is a small probability to have collinearity between the variables. Also, results on panel data analysis are more efficient, since it provides the opportunity to identify and measure effects that would not be detectable by cross-sectional analysis or time series analysis.

As mentioned in the Methodology, the individual country-specific effects (α_i) can be a fixed parameter that can be estimated, if the model is with fixed effects, or may be a random disturbance affecting a particular country, in which case the model is with random effects. For models with fixed effects, the constant can be different for each country, but it is constant over time; however the regression slope is the same for all countries. Random effects models, on the other hand, allow estimating variables that do not vary over time.

Following Greenaway, Hine and Wright (1999), Milner and Wright (1998) and Craigwell (2006) we considered as starting point a Cobb-Douglas production function:

$$Q_{it} = A^\gamma \times K_{it}^\alpha \times N_{it}^\beta$$

where Q – real output, K – capital stock, N – labour, α and β are proportion coefficients of factor use and γ allows factors to change the degree of efficiency in the production process. It is assumed that the goal is to use labour and capital in varying proportions to maximize the profit (the marginal productivity of labour is equal to the wage (w) and the marginal productivity of capital is equal to its cost (c)). Based on these hypothesis one should solve the system formed in order to exclude the capital stock in the production function. After taking logs and rearranging the terms, one should obtain the following relation:

$$\ln N_{it} = \phi_o + \phi_1 \times \ln \frac{w_i}{c} + \phi_2 \times \ln Q_{it}$$

Having this relation as starting point, we estimated the following regression:

$$empl_{it} = \phi_0 + \phi_1 \times \ln cs_{it} + \phi_2 \times gdp_{it} + \phi_3 \times trade + \phi_4 \times rem$$

where:

empl = employment rate;
 cs = annual gross wage;
 gdp = annual growth rate of GDP;
 unempl = unemployment rate;
 trade = trade openness;
 rem = remittances.

As Baltagi (2008) suggested, the first question is whether to pool or not to pool the data. The results initially obtained in Stata suggests the rejection of the null hypothesis that all α_i are zero (the OLS estimator is biased and inconsistent and we must accept the presence of the individual effects and therefore a panel data estimation is better than a pooled OLS). The next step was to run a Hausman test in order to decide whether we have a random-effects model or a fixed-effects one. The probability provided by the test implemented in Stata is 0.83, so we should accept the null hypothesis that individual effect are random and that RE provides consistent estimates.

Concluding that we have a RE model, we then checked for the presence of heteroskedasticity and autocorrelation of the errors. The serial correlation test, as well as the test for groupwise heteroskedasticity indicates that a robust estimation is needed. For this, we had to estimate the random effects model with option for a robust estimation. After re-estimating the model with the option *vce(cluster id)*, the variable trade openness was removed from the model.

The final estimation results are presented in the following expression.

$$empl = -7.125 + 7.826 \times \ln cs + 0.127 \times gdp_{it} - 0.501 \times rem$$

(12.856) (1.379)* (0.03)* (0.192)*

where between brackets are the robust standard errors and the * stands for 1% significance.

All the coefficients are statistically significant at 1% level (except the constant).

The annual gross wage has a positive effect on employment rate, but although statistically significant, the value of the coefficient is small. If wages will increase with 1%, the employment rate will increase with only 0.078%. Thus, the dominance of labour supply (supported by the wage growth) on the dynamics of the employment rate is confirmed empirically. This is normal in

terms of proactive policies on employment promoted by the EU through the Lisbon Agenda by 2010 and continued through the Europe 2020 Agenda. The influence of GDP growth is perfectly normal, both in sign and in value (through the associated coefficient of 0.127).

The remittances have a negative impact on employment. As Blouchoutzi and Nikas (2010) pointed out, remittances could lead to a reduction of work effort, and therefore a reduction in employment from the perspective of household income contribution of migrants (who send money to their families in the origin countries, especially emerging economies). This is exactly the case here, where an increase of 1% in remittances will decrease the employment rate with 0.501%.

6. Conclusions

This paper examines the evolution of some important macroeconomic indicators for the EU analysing the changes caused by the crisis in the last years and tries to find which one of them is affecting the employment rate. We used a panel data approach, considering the 27 countries in the European Union.

A report of ILO (2012) mentions that in early 2012 one in three working population is either unemployed or is poor. Most severely affected countries, from the employment rate point of view, were: Ireland (employment rate dropped by 13.15% in 2010, compared to 2007), Latvia (13.18%), Estonia (12.10%), Lithuania (10.94%), and Spain (10.67%).

The worst affected in terms of unemployment were the Baltic countries Lithuania, Estonia, Latvia, countries where the unemployment rate reached in 2010 alarming proportions (over 16% unemployment rate). Ireland and Spain were also significantly affected, Spain being the country that had the highest unemployment rate in the European Union in 2010 (20.1%). Moreover, in Spain, Ireland and Greece, youth unemployment has reached values even above 40%.

The econometric model was tested including all the variables considered in the first place: the employment rate, the average gross wage, the gross domestic product, the unemployment rate, the trade openness and the remittances. After concluding that we have a RE model, we obtained robust estimates, but from this final estimation equation, the trade openness variable was excluded from the model (the coefficient was not statistically significant different from 0).

The annual gross wage and the gross domestic product have a positive effect on the employment rate, while the remittances have a negative impact. As Blouchoutzi and Nikas (2010) pointed out, remittances could lead to a reduction of work effort, and therefore a reduction in employment.

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Territorial efficiency of the cohesion policy in Romania

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Abstract. *Cohesion policy is one of the solutions to overcome the current crisis because the efficient use of its financial instruments determines the strengthening of the competitiveness of the European economy, the acceleration of economic growth and employment growth. The transposition of the economic and social cohesion in the territorial level is not new, but the economic development of the regions highlights that the gaps within states have widened over time. In this paper, we propose to evaluate the efficiency with which the European funds in Romania have been used so far by using a matrix for assessing regional competitiveness.*

Keywords: regional competitiveness; regional disparities; cohesion policy; territorial cohesion; European funds.

JEL Codes: O1, O33, H23, O21, E6.

REL Codes: 7D, 8A, 8C, 18B.

Cohesion policy is one of the solutions to overcome the current crisis because the efficient use of its financial instruments determines the strengthening of the competitiveness of the European economy; it also accelerates growth and increases employment. Economic, social and territorial cohesion is not new, but the economic development of the regions highlights the fact that the gap within states has increased over time.

The crisis faced by the European Union since 2007 has highlighted a continuing need to have a policy that invests in competitiveness. Such a policy is the cohesion policy, and now, the European Union needs a cohesion policy to support Member States and to help them overcome the current crisis, reduce the disparities and contribute to achieving the objectives of the Europe 2020 Strategy.

1. The conceptual framework of territorial cohesion

At the European level, the concept of "territorial cohesion" was first mentioned in a report released by the Association of European Regions, entitled "Regions and Territories in Europe". This report emphasized the need for *planning the coordination at European level*, arguing the complementarity between territorial cohesion and economic and social cohesion as the central objective of the European Union. The Treaty of Amsterdam (1997) introduced the concept afterwards, but without actually defining it.

Up to now, there have been important steps in the evolution of territorial cohesion summarized in the following table:

Table 1

The evolution of territorial cohesion at European level		
May 1999	European Spatial Development Perspective	<ul style="list-style-type: none"> ▪ it emphasizes the spatial imbalances and the territorial impact of Community policies; ▪ it defines three main objectives of the spatial policy: polycentric development, access to infrastructure and knowledge; effective management of cultural and natural patrimony;
January 2001	The Second Cohesion Report	<ul style="list-style-type: none"> ▪ it emphasizes significant spatial imbalances across Europe, including geographical challenges; ▪ it relates territorial cohesion to the economic and social one;
February 2004	Budgetary proposals	<ul style="list-style-type: none"> ▪ the Structural Funds propose three objectives: convergence, competitiveness and employment, territorial cooperation;
February 2004	The Third Cohesion Report	<ul style="list-style-type: none"> ▪ it connects cohesion to the objectives of the Lisbon Strategy;
April 2004	Interim Territorial Cohesion Report	<ul style="list-style-type: none"> ▪ it defines territorial cohesion as "the balanced distribution of human activities across the Union"; ▪ it describes territorial imbalances and points out the fact that the expansion will worsen these imbalances;

November 2004	Ministerial Meeting in Rotterdam	<ul style="list-style-type: none"> ▪ it supports a bottom-up approach to territorial cohesion, highlighting the importance of territorial capital; ▪ it rejects the idea of the growing institutionalization or of a top-down control and suggests defining territorial cohesion in political terms;
October 2006	Adopting the strategic guidelines for cohesion	<ul style="list-style-type: none"> ▪ it suggests the fact that each Member State should be given a certain sense of territorial cohesion;
May 2007	Territorial agenda	<ul style="list-style-type: none"> ▪ it specifies six territorial priorities for the EU; ▪ it proposes the adoption of an action plan to achieve those objectives;
September/ October 2008	Green Paper on territorial cohesion	<ul style="list-style-type: none"> ▪ it is based on Member States' replies to the questionnaire prepared by the European Commission; ▪ it lists a number of components of territorial cohesion;
November 2010	The Fifth Report on Economic, Social and Territorial Cohesion	<ul style="list-style-type: none"> ▪ it concludes that the inequalities between EU regions are reduced; ▪ it emphasizes strengthening the coordination between regional development policy and other EU and national policies; ▪ it relates the cohesion to the objectives the Europe 2020 strategy, emphasizing that the role of regions and regional development policy is essential; a balanced approach to investment is required, the diversity of EU regions should be taken into account and special attention should be paid to regions.

Source: www.eprc.strath.ac.uk, www.ec.europa.eu.

Territorial cohesion may be defined in many ways, because until now *there is no universally accepted definition* at the EU level. Territorial cohesion can be understood as endogenous and polycentric development of the entire EU territory. In this respect, its goal is to develop numerous clusters of competitiveness and innovation outside the so-called “pentagon”. Another meaning of territorial cohesion is *balanced development*. Unlike polycentric development, which is related to competitiveness and investment to increase regions’ performance, balanced development originates in justice and spatial solidarity. It aims to reduce socio-economic disparities and to eliminate imbalances. Territorial cohesion implies *accessibility and networking*.

On the other hand, territorial cohesion implies focusing of public action on three core principles – *concentration*, i.e. overcoming differences in density, *connecting territories*, i.e. overcoming distance and *cooperation*, i.e. overcoming division factor.

Social cohesion considers similarities between nations and regions in terms of welfare, of living and working conditions. The concern for social cohesion emerged as a result of increased social phenomena, such as the new forms of poverty, increase in income inequality, increased job insecurity, migration and aging population. Social cohesion requires combating poverty and social exclusion, particularly in areas such as: household, health, education and training, employment and income distribution, education and social

services and it also represents the major coordinate underlying the recommendations for social policies. Social policies should be centred on the principles of social economy, namely: solidarity, responsibility, freedom, equal opportunities for all members of society, autonomous and independent management, joining the interests of members with the general interest and the democratic participation of all in decision making (Virjan, 2012).

Social cohesion is an attribute of society, but it is recognized and identified in the behaviours and attitudes of its members. Social cohesion is based on social capital that is actually created within social relations and is established, maintained and experienced by individuals. However, related to the social cohesion of a society, it involves aspects that are part of a life situation and, in this sense, components of quality of life of the individual (Manole, 2012).

The current socio-economic context, influenced by the crisis, globalization and structural change, implies the need for reform to alleviate, on the one hand, the institutional and legislative rigidity dominating working relations, and, on the other hand, the problems facing social security systems.

The last Report on economic, social and territorial cohesion stresses that cohesion policy, although it has improved the economic, social and environmental conditions in the European Union, the current conditions require its focus on a few key areas, especially in the more developed regions. As a result, Cohesion Policy should become more *selective*. However, the ambitious objective of the Europe 2020 Strategy can be achieved only in terms of *strong pragmatic regional and national participation and coordination*. Each country establishes these key areas according to the scale of the existing regional disparities, social preferences, the division of power in that country, the nature of certain regional challenges, as well as the available financial resources.

This report aims territorial cohesion policy and, to achieve this objective, the report examines the territorial dimension of access to services; increased attention is paid to climate and environmental changes and, finally yet importantly, it analyses the way in which the territorial impact of policies can be measured.

According to the Treaty of Rome, the territorial dimension of cohesion was present since the beginning of the European construction. Through the Treaty of Lisbon, territorial cohesion was added to the economic and social cohesion objectives. In other words, within the new programmes, the emphasis is placed on the role of cities, on the functional geographical boundaries, on the macro-regional strategies and on the areas facing specific geographical or demographic problems.

According to this new vision of cohesion policy, urban areas are considered to be drivers of growth and centres of creativity and innovation. By establishing a critical mass of actors such as businesses, universities and researchers, the levels of economic growth of a country can be significantly improved, and new jobs can also be created.

2. Romania's performance in attracting European funds

Cohesion policy could not materialize without the existence of EU funds. For 2007-2013, 10 countries of Central and Eastern Europe, European Union member states (Bulgaria, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) benefit from European funds amounting to 172.6 billion euros, i.e. 1,690 euros on average per capita.

Poland is the biggest beneficiary (38% of the funds allocated) however, if we consider the benefit per capita, the Czech Republic and Estonia are the biggest beneficiaries. Together, Poland and the Czech Republic have over 50% of the amount allocated to the 10 countries in 2007-2013. In terms of budget, Romania is the fourth country in the EU after Poland, the Czech Republic and Hungary.

Depending on the subject area that they finance, the financial instruments of the European Union are classified as follows: *agriculture and fishery* (European Agricultural Fund for Rural Development, the European Fisheries Fund), *regional policy* (Structural Funds, Cohesion Fund), *social aspects* (European Globalisation Adjustment Fund), *environment* (LIFE⁺ Financial Instrument for the Environment, Civil Protection Financial Instrument), *European integration* (EU Solidarity Fund, European Agricultural Fund for Rural Development, The Instrument for Pre-Accession Assistance) and *cooperative relations between the EU and third countries* (Financing Instrument for Development Cooperation, The European Neighbourhood and Partnership Instrument)

In 2011, the most advanced countries in attracting European funds were Latvia and Estonia and the less efficient were Romania, Poland, Slovakia, Hungary and Slovenia, while other states were above average.

After Poland, Romania is the country with the largest population in CEE. In terms of level of development, unfortunately, Romania (5,555 €/per capita in 2011) is on the penultimate place, ahead of Bulgaria.

In 2007-2013, Romania can benefit from a budget of 27.5 billion euros of which 19.2 billion euros is for structural and cohesion funds and 8.3 billion for Common Agricultural Policy.

Allocating these funds aims at achieving the objectives set in the National Strategic Reference Framework 2007-2013, namely reducing social and economic development disparities between Romania and the European Union Member States and reducing disparities with the EU through sustainable economic growth.

Preliminary analysis suggests that programs of cohesion policy in Romania can contribute significantly to an overall increase of GDP up to 15% for the 2007-2013 periods, can create and retain approximately 200,000 jobs (European Union, Cohesion Policy 2007-2013).

The performances recorded by our country in 2007-2011 are shown in the following table:

Table 2

Progress made by December 31, 2011 in the absorption of EU funds

Total available budget 2007-2013	23.3 billion euros
Contracted grants	14.6 billion euros
Contracted ratio	62.7%
Payment value	3.2 billion euros
Payment ratio	13.73%

Source: www.kpmg.com.

At the level of CEE states, the average payment ratio was of 29% in 2011, while the average contracted ratio was of 67%.

The following table captures the performance in absorbing EU funds in Romania on areas of intervention:

Table 3

Analysis on areas of intervention in 2007-2011 in Romania

Operational programmes	Contracted ratio (%)	Payment Ratio (%)
Environment	79	10
Transport	39	3
Regional development	76	23
Human resource development	77	22
Increase of Economic Competitiveness	42	15
Administrative capacity Development	45	11
Technical assistance	29	10
Total	63	14

Source: www.kpmg.com.

As shown in the table above, in 2011, Romania's absorption rate of EU funds was of only 14% and the worst performing areas were transport, environment and technical assistance.

One of the priorities of cohesion policy refers to avoiding excessive disparities between regions for Romania and other countries. If we refer to the average GDP/capita at purchasing power parity, the only region in Romania that exceeds the EU-27 average is Bucharest-Ilfov region, and within the country, between the most developed region and the poorest, i.e. North-East, as shown in the table below, there is a ratio of 1: 3.78.

Table 4

Regional GDP/capita at PPP in 2009		
Regions	GDP/capita (ppp, euro/ capita)	GDP/capita (ppc, UE27=100)
North-West	10100	42.9
Centre	10700	45.5
North-East	6900	29.5
South-East	8900	37.8
South-Muntenia	9500	40.2
Bucharest-Ilfov	26100	111
South West Oltenia	8400	35.8
West	12100	51.6

Source: Eurostat.

Following the analysis conducted so far, we can say that the effectiveness of cohesion policy in Romania has been very low.

Romania's very low performances in attracting European funds have multiple causes: the rather general nature of the national accounting rules with respect to the specificities of certain areas including European funded projects, business environment uncertainties, financial environment uncertainties, legislative dynamics, the lack of a consistent project development process, bureaucracy, corruption, etc.

What should Romania do in order to improve the EU funds absorption process? Firstly, it should use technical assistance funds as soon as possible, in order to support the beneficiaries of EU funds by ensuring proper management of ongoing projects, but also for proper development of applications for reimbursement. It can be seen in the table above that, although contracted ratio exceeds 50% of the budget for 2007-2013, payment ratio is very low. Bad management of European projects can have serious consequences, even facing payment incapacity and the loss of already invested funds from own resources by beneficiaries.

3. Regional competitiveness evaluation in Romania

Regional competitiveness evaluation in Romania can be achieved by using the „hard” matrix. The “hard” matrix, as it is described in the study

conducted by the Group of Applied Economics (2007), requires taking into account the three indicators, namely economic indicator, social indicator and technology indicator. Each of these three indicators in turn comprises a system of 13 economic variables, as follows:

- The economic indicator includes GDP/capita (0.1), GDP growth rate (0.1), labour productivity (0.3), net exports (0.1), Gross fixed capital formation % of GDP (0.2) and per capita income (0.2);
- the social indicator includes dispersion of regional employment rates (0.3), employment (0.4), employment for women (0.1) and average life expectancy index (0.2);
- the technology indicator includes research and development expenditures as % of GDP (0.4), level of internet access (0.3) and tertiary education (0.3).

In addition to this matrix, this is calculated at the regional level, the authors above also mention a „soft” matrix, which is calculated at the sub regional or local level.

In this paper, we focused only on calculating the “hard” matrix. We used statistical data taken from the National Commission of Prognosis, National Institute of Statistics and Eurostat. Since we had no statistical data, we could calculate this matrix only for 2008 and 2009. The statistics used are normalized, by relating them to the national average.

Following calculations, we obtained the following ranking for the regions in Romania.

Table 5

Regional competitiveness index in 2008

Regions	Economic indicator (EI)	Social indicator (SI)	Technology indicator (TI)	Competitiveness index (CI)	CI Ranking
North-East	0.4516	0.947	0.327	0.56284	8
South-East	0.5515	0.889	0.261	0.5656	7
South-Muntenia	0.5582	0.941	0.272	0.58718	5
South Oltenia -West	0.5147	0.937	0.277	0.57008	6
West	0.6736	0.926	0.411	0.67054	2
North-West	0.5511	0.939	0.431	0.63144	3
Centre	0.5981	0.938	0.299	0.61034	4
Bucharest-Ilfov	1.3632	1.001	1.456	1.28238	1

Source: authors' calculations.

The most competitive region in 2008 was the Bucharest-Ilfov region, while the least competitive region was the North-East region; there is a ratio of 1: 2.28 between the competitiveness indices of these two regions.

The most competitive indicator is the technology indicator for the Bucharest-Ilfov region, and in the North - East region, the social one. The social indicator usually records the highest values, which shows its higher contribution to the formation of competitiveness index.

In 2009, unlike the previous year, the competitiveness index ranking changed as follows: while the most competitive region is still Bucharest-Ilfov, the last place is occupied by the South-East region. However, there is a small difference in comparison to the North-East region.

Table 6

Regional competitiveness index value in 2009

Regions	Economic indicator (EI)	Social indicator (SI)	Technology indicator (TI)	Competitiveness index (CI)	CI Ranking
North-East	0,4769	0,947	0,302	0,56546	7
South-East	0,5299	0,894	0,272	0,56176	8
South-Muntenia	0,5452	0,937	0,28	0,58318	5
South -West Oltenia	0,497	0,937	0,277	0,563	6
West	0,6585	0,926	0,381	0,6555	2
North- West	0,5427	0,929	0,406	0,61758	4
Centre	0,6006	0,929	0,405	0,64044	3
Bucharest-Ilfov	1,2479	1,016	1,36	1,21196	1

Source: authors' calculations.

One can see that, unlike the differences between regions registered by the economic and social indicators, between which there is not a huge gap, the differences between regions are significant according to the technology indicator. Moreover, it can be seen that the Bucharest-Ilfov region is the only region with over-unit value of the competitiveness index.

Nevertheless, regional disparities do remain, and this is a consequence of the low Romanian performance in attracting European funds.

4. Conclusions

The performance of territorial cohesion policy in Romania is low. The obstacles in attracting European funds are numerous: from the inadequate management of the projects submitted to the inability to develop eligible projects. At the regional level, there is not enough information on the submission of projects to attract European funds or bureaucracy is too high and it discourages potential beneficiaries.

Regional competitiveness in Romania is low, below the EU-27 average, except for the Bucharest-Ilfov region. Among the calculated indicators, technology indicator is what makes the difference, while the social indicator is relatively balanced for all regions. The most affected regions in terms of

recording a low competitiveness index are the North-East and South-East regions.

Attracting European funds remains a priority for Romania in order to reduce the development disparities. In order to improve attracting European funds measures should be taken to simplify procedures for fund management, to make them transparent; the specialized agencies should use technical assistance. Attracting European funds represents Romania's chance to overcome the effects of the crisis by boosting investment and creating jobs to support economic growth.

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Corporate social responsibility and organizational identity in post-crisis economy

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Abstract. *Today, building up organizational identity in post-crisis economy becomes a bet, as we are looking for new interpretative coordinates.*

First of all, we have to take into account the ability to communicate. Second in line, as an extension of the above mentioned ability, we have to highlight the corporate social responsibility (CSR).

Nowadays, the road map of modern business environment can be identified only by a new philosophy of business administration. This is the result of try and error and/or success of companies, greater or smaller companies, about their ability to develop a dialogue with their own audience and corporate communities.

This dialogue involves approaching the role of the social corporate responsibility (CSR), to create the fundamentals of public policies of modern organizations.

Therefore, the new corporate identity, which is the object of our study, we believe it to be the result of the intensive development of corporate communication and the responsible approach of companies to the global issues of the world.

Keywords: organizational identity; social corporate responsibility; organizational communication.

JEL Codes: A1, F6, L2, M14, M3.

REL Code: 5K.

Introduction

Shaping the organizational identity in the post-crisis economy brings into the attention of community new important aspects of corporate communication. Here we have to mention about building up corporate communication, which is tied up to corporate social responsibility of companies.

The established link between the two components is able to quantify the performance of any organization, regardless its field of activity. Its implications are not in the business environment but all of them converge towards new horizons.

Thus, the build up, development and maintenance of corporate image and reputation are reported on, according to the sciences of communication to various target audience that organizations should be in contact.

The message communicated and developed by the corporate companies is about the ability to bring together and maintain domestic users and outside customers, in a continuous dialogue. The in-on ratio dialogue can not be neglected.

The incoming signals received by the corporate organizations that are on the market, based on the feedback of communication, quantifies the links established by the corporate companies with their business environment, public institutions, mass-media and their would be customers of their own products.

The dynamic, participatory attitude of different types of audience as a part of the corporate life and activity extends from the simple algorithm of making profit towards an opened complex of true “social dialogue”. The latter aims at enabling component of corporate social responsibility in an ethical framework, focused on the individual and the community where they act for the moment.

Moreover, globally, concerns regarding business environment of some international organizations and their corporate social responsibility seemed to be in a transition towards a sustainable development terms of modern human communities (KPMG, 2008).

The organization and identity model of corporate social responsibility

The identity model of corporate social responsibility brings in immediate future major advantages to organizations and society. The proper implementation of the CSR, not only regionally but also globally, is the engine of sustainable economic development.

CSR analysis by reporting it to the modern business acquires a series of interpretive meanings. It is considered to be a unique “additional duty” of

organization the ability to defend situational risks and uncertainties of the market, according to the theory of minimal. In contrast, perception and analysis of CSR according to maximal approach bring up analysis and scientific debate, the issue of “duty” to help organizations to start philanthropy and/or social activities on community level.

Regardless of developed and supported point of view in economic theory and practice, one thing is certain. The perception of CSR requires new data adjustments given by the necessity of image and corporate parameters. At the same time, ethical approach to this issue can not be omitted either, precisely because of the need to involve companies in civil society (Rogojanu, 2005).

In terms of communication paradigm references could be done from the last two approaches. Regarding pragmatic approach should be taken into account the fact that we are the observers of a building up a bidirectional relationship between organization and society. What corporate company gives to society, by activating its responsible side, it is expected to be received as a “reward” coming from the society where it operates, increasing its own revenue.

Should we consider the ethical approach, the communicative relationship established in the given framework is only a one-dimensional one. The unilateralism of communication is given exactly by the attitude of “fair-play” of the organization. The corporate company is involved in social projects and has no expectation in return from the community in which it operates and where it acts as an active membership.

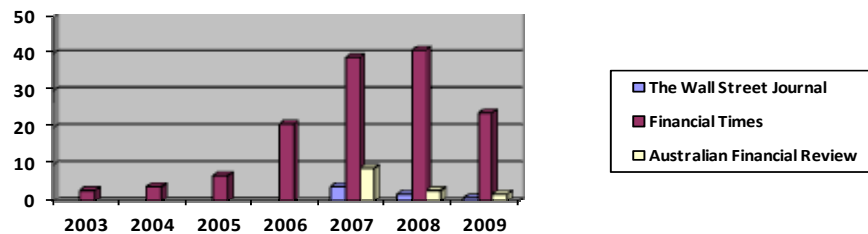
The analysis of identity model of corporate social responsibility would not be complete without the debate of its status and as the active support of paradigm of sustainable development (Popescu et al., 2010).

The networking component of corporate social responsibility with the principles of sustainability has socio-economic implications in the present time but also in the future.

The CSR complete integration in accordance with the vision of sustainability is one of the viable solutions to solve problems facing the contemporary society.

Moreover, we assist to a positive step done with the purpose to achieve, under the optimum circumstances, the aimed objectives as defining the “healthy” modern business: social ethics, economic efficiency and environmental protection.

It seems to be suggestive that argument and statistical references regarding environmental and social responsibility from 2003 to 2009 as showed in specialized media (Figure 1).



Source: European Alliance for CSR 2009.

Figure 1. Statistics for references regarding CSR and environment in specialized media 2003-2009

In this respect, we should take into consideration the European Union's concern to create and develop the necessary framework to express the relationships between corporate social responsibility and sustainable development. Here watchwords become truly "corporate values". Here we talk about: credibility and transparency, monitoring and verification, legality, fairness and flexible management (European Commission, 2004).

The need to involve civil society component of CSR can not be done without giving a due importance to issues related to the quality of corporate management. In this respect, the standard for ISO CR MSS (ISO corporate responsibility management system standards) is a tool created to build relationships between the System of Quality Management (SQM) ISO 9000 and the System of Environmental Management (SEM) ISO 14000.

The importance attributed to corporate social responsibility in the context of the current global economy led to the subsequent use of ISO 26000. This standard was issued to define corporate social responsibility in society, according to the analysis of the impact on their decisions and activities acrid by society and environment (CSR Europe, 2010).

The corporate social responsibility (CSR) approach according to the principles of ethical organizational leads its identity model to enable the component of "moral responsibility" of the organizations. This pattern is intended to define on the future the new approach of corporate social responsibility (CSR) for Romania. Based on this considerations, on the governmental level it was approved the "National Strategy to Promote Social Responsibility 2011-2016" (Romanian Government, 2011). By these means it seeks to institutionalize and integrate the domain as a national priority.

The corporate social responsibility (CSR) as a paradigm of modern business is more necessary in the current global economic crisis. The loss of public confidence, criticism and debate about the role of business in the current context are just some issues that can characterize the contemporary society.

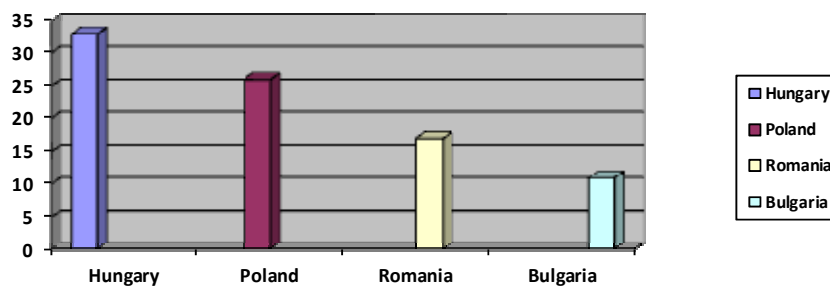
Desire to identify viable solutions for building up a corporate management of highly reactive effects, the ability to value a series of strategic partnerships are skills that are particularly effective for business and civil society. So, we talk about a new redirection of modern business. We have to take into account a number of attributes, such as: transparency, information and communication. By all these means, the CSR position in the hierarchy of scientific instruments, as a right paradigm, it generates a new status.

Therefore, there is the need to implement and develop a different lifestyle at the company' level, in accordance with the principles of corporate social responsibility, and in 2009 there was launched "GOOD CSR Program". The significance of this program is extremely important for Romania. It is known that Romania attended and still wishes to participate by the companies involved in, together with other countries in the region, to the development of abilities for the corporate social responsibility.

We have to take into account the need of corporate companies to communicate to civil society, concerns about their social responsibility abilities, and five Romanian corporate companies – BCR, Euractiv, Dona pharmacies, Orange and Romstal – started in 2009 the program launched in Hungary, a year before.

This challenge for business environment grew out from the need to draw the attention of different categories of audience on corporate company's performances and concerns about their responsibilities on how to apply and use the principles of sustainability (Braun & Partners Network, 2009).

Romania, as a member of the targeted group, is one of the four states of Eastern Europe, where the program of social responsibility campaign was implemented, developed and monitored, and it was ranked as the third Eastern Europe country. Although Romania is at the beginning of the program, we believe that there was created the proper framework to develop the identity model for the Romanian business environment (Figure 2).



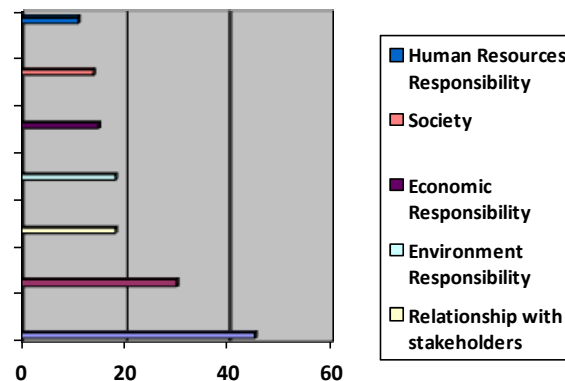
Source: Adaptation by Braun & Partners Network, Good CSR 2009 Report.

Figure 2. The Rank for targeted audience in accordance with the CSR's requirements for Eastern Europe

Highlighting Romania on the third level, with a percentage of 17%, was due in accordance to the percentage got by Romanian corporate companies involved in this project. Compared to Hungary, that was ranked as the first Eastern European with a percentage of 33%, and Poland, that was ranked as the second Eastern European with a percentage of 26%, Romania could be very easily reached by the last ranked – Bulgaria with a percentage of 11%.

Rating methodology used is the CSR 24/7 2009 and is based on the international standards GRI (Global Reporting Initiative) and ONU Global Compact (ONU Global Compact, 2010).

The GRI international standards were designed to monitor corporate companies at global level, and their active participation to the development of social responsibilities principles. The regional ranking regarding the corporate companies' concern to develop their responsible component was based on the analysis of seven domains. Their ranking was done in accordance with the CSR 24/7 2009 rating compared to European ranking for average level (Figure 3).



Source: Adaptation by Braun & Partners Network, Good CSR 2009 Report.

Figure 3. Percentage ranking for the seven domains from the CSR 24/7 2009 rating

Selecting criteria for monitoring, in accordance with the international standards GRI, shows us the importance of the GRI, how to be applied and developed, and how to build up modern responsible and sustainable corporate management.

Moreover, the linking bond of this “in charge building” will be achieved by the means of communication component. In this respect the necessary changes will be created, for global business environment. Thus the social responsibility component has to be more than a way to global rating efforts done by corporate companies to implement, develop and improve sustainability.

The CSR will lead to finding those practical solutions, of that set of procedures by which a SWOT analysis regarding issues of sustainability, of social impact, on issues related to corporate governance lead to close the communication line. By these means it could be boosted the flow of information send to and from different parts of the world.

Conclusions

The findings of our research highlight the need to underline the corporate social responsibility and its role not only as a simple concept, but rather as an alternative identity model for the post-crisis economy. Achieving targets for quality, efficiency and performance could not be done without corporate companies' participation in a range of activities characterized by responsibility and dynamism.

However, the CSR strengthens the communication links between organizations and audience, and it helps to develop a responsible behavior towards sustainable developed principles. Therefore, we believe that humanity is building up a "picture" based on a complex economic and social coalition forces that are interested in its development.

Also, we assist at the development of what it might be called "the new partnership paradigm". There is about the paradigm that highlights public to private ways to communicate in terms of their responsibility regarding the implementation of sustainability's principles at the Community level.

Therefore, we are witnessing the transition from the economic efficiency, so sought by organizations, towards a new kind of economy – that of "eco-efficiency" where the identity model of social responsibility plays a key role.

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Urban and rural educational system disparities in Romania

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Abstract. *The aim of this paper is to analyze the complex multidimensional and multidisciplinary issue of the educational system in more details and to deal with conceptions, methodological approaches and the acquired knowledge, focused particularly on Romanian educational system.*

The mean of the paper is to present the complex issue of regional and territorial disparities in Romania. The educational system in Romania is at a crossroad. Initiated important reforms in the sector after the last 21 years – including changing the curriculum, student assessment, teacher training, funding and management module – will be continued to improve outcomes in education.

Keywords: differences in development; urban; rural; education.

JEL Codes: I21, I24, I25.

REL Codes: 4B, 4D.

1. Introduction

The current state of the education system in rural and urban Romania

The restructuring of the national education system and new legislation in the field of education led to the reorganization of the school network in Romania. As a result of reform measures within the national education system in 2007-2010, the number of schools decreased by 642 (7.8%, respectively).

The school population has decreased, reaching the school/academic year of 2010/2011 to be by 8.5% lower than the school/academic year of 2007/2008. Higher education is further extended, although stable in this period, due in particular to the private sector.

For all levels of education, level of enrollment in the education of school age population has different values for sex (76.0% boys, 79.3% respectively for girls in school/academic year 2010/2011).

Specialization structure groups of students enrolled in higher education in academic year 2010/2011 reflect the choice of most students in Romania to study specializations: academic and teaching (27.1%), economics (25.3%) and technical (23.8%). In private higher education, the highest weight is recorded for students studying economics (37.1%).

Correlated with the decrease of the school population, number of graduates decreased, except for post-secondary education, where for the academic year 2009/2010 was with 48.1% heir than for school year 2007/2008 and with 9.4% for academic year 2008/2009. At the end of school/academic year 2009/2010, the largest number of graduates was in high school (over 204000 persons), followed by secondary (199,000 persons) and elementary (more than 191,000 people).

Table 1

Higher level of education				
	2007/2008	2008/2009	2009/2010	2010/2011
Number of graduates on educational level (thousand of persons)				
gymnasium	207.8	204	199	:
high school	218.2	202.1	204.9	:
professional school	113.1	200.9	89.8	:
technical school	13	17.6	19.2	:
college	231.9	214,8	191.3	:
number of teachers (thousand of persons)				
total	277	275	268	253
preschool	37	38	38	37
gymnasium	139	138	135	125
high school	62	61	60	60
professional school	6	5	3	*)
technical school	1	1	1	1
college	32	32	31	30

... = No data (school year ending after the examination for second in the autumn). *) Under 0.5.

Source: Statistical survey on labor force in households (AMIGO).

Staff from all levels of education had no significant variation in the last four years, except for primary and secondary education, where the number of teachers decreased by 10.1% from school year 2007/2008 and by 7.4% for 2009/2010.

Staffing level is generally too high but the teacher/student ratio is down. The number of students will continue to decline, but is likely to differ significantly by the level of education. The largest decrease is provided in the secondary education, followed by secondary vocational and higher education. According to the World Bank modeling, future trends, teacher/student ratio in high school are going to drop sharply, from 12.17 to 7.6% in 2013. Simulations performed for the whole system shows a continuous and significant decrease of this ratio in secondary and higher education. Isolation of secondary education in the simulations shows a slight decline in the coming years, but not an ongoing trend – upward or downward (Feser, Isserman, 2006).

If demographic changes are clear, so is the appropriate response to this situation. On the one hand, one could argue the need to reduce teaching staff at these levels of education. On the other hand, this trend is due in no small measure to enrollment rates that are still low (especially in high school), and could thus argue the need for change – both from schools and from teachers, to attract an increasing number of students (Feldmann, 2008). In the absence of other changes, maintaining constant parameters, such as class size, and whether employment practices would be totally flexible, loss of students would require a reduction in the need for over 50,000 staff, of which 80% in secondary education.

Table 2

**Simulation student-teacher ratio by level of education
(It is considered constant enrollment rates by age
and no change in the number of teachers)**

Scholar year	Preschool	Gymnasium	High school	College
2004/05	18.37	13.72	12.17	18.48
2005/06	19.24	12.96	12.07	17.06
2006/07	18.93	12.65	11.53	17.15
2007/08	18.36	12.55	10.76	17.38
2008/09	18.35	12.48	9.90	17.57
2009/10	18.32	12.5	9.1	17.53
2010/11	18.21	12.6	8.44	17.13
2011/12	18.01	12.7	7.94	16.36
2012/13	17.73	12.79	7.67	15.33
2012/14	17.37	12.77	7.6	14.17

Source: Public Expenditure Analysis Simulation Model (eipr), World Bank.

In summary, the current educational system has serious problems of efficiency, equity, quality and relevance to the knowledge economy. It produces insufficient research and innovation and is unable to promote a competitive and prosperous economy.

2. Case study – size of the education system development gaps between urban and rural

With this study I wanted to check if there is a strong correlation between the level of education and the level of economic development of the two living environments.

For this I considered the annual values (broken down by urban/rural) on the total number of students enrolled in the national education system and on high school: the total number of students, number of rooms available and number of teachers who serve it (Anexes 1 and 2).

Based on these data, I built a regression model for each of the two areas of origin, where I considered a dependent variable as the number of students enrolled in high school: lic_urb respectively lic_rur and as independent variables, I used the total number of students in the educational system minus the number of students enrolled in high school: inv_urb and inv_rur, available for high school halls (sali_lic_u and sali_lic_r) and number of secondary school teachers (pers_did_lic_u and pers_did_lic_r).

For the model of urban education, I used the following equation:

$$\text{LIC_URB} = \lambda + \alpha \times \text{INV_URB} (-1) + \beta \times \text{PERS_DID_LIC_U} (-1) + \gamma \times \text{SALI_LIC_U} (-1) + \varepsilon,$$

Where

α , β , γ are regression model coefficients, λ constant term and quantify the errors ε that could affect the model.

For a urban school, faculty reputation is very important, the necessary of staff will be considered from the previous year number of student enrollments in that school and conditions of the classrooms in the previous year. The number of high school students will depend on the total number of students from the previous year. Therefore, these variables will be used with lag -1.

Dependent Variable: LIC_URB
 Method: Least Squares
 Date: 03/15/12 Time: 19:12
 Sample (adjusted): 1996 2010
 Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INV_URB(-1)	0.297081	0.129105	2.301087	0.0420
PERS_DID_LIC_U(-1)	-12.97582	4.187450	-3.098739	0.0101
SALI_LIC_U(-1)	12.49132	4.551877	2.744213	0.0191
C	189801.3	570418.7	0.332740	0.7456
R-squared	0.736272	Mean dependent var		714137.1
Adjusted R-squared	0.664346	S.D. dependent var		44451.65
S.E. of regression	25753.35	Akaike info criterion		23.37370
Sum squared resid	7.30E+09	Schwarz criterion		23.56251
Log likelihood	-171.3027	Hannan-Quinn criter.		23.37168
F-statistic	10.23654	Durbin-Watson stat		1.567114
Prob(F-statistic)	0.001629			

Source: own calculations.

As it can observe, if we look at probability statistics T, all three variables are relevant to a significance level of 5%, except the constant term. Therefore, I reconstruct the model, without free term:

Dependent Variable: LIC_URB
 Method: Least Squares
 Date: 03/15/12 Time: 20:07
 Sample (adjusted): 1996 2010
 Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INV_URB(-1)	0.333268	0.066948	4.978038	0.0003
PERS_DID_LIC_U(-1)	-12.33192	3.573236	-3.451189	0.0048
SALI_LIC_U(-1)	13.85972	1.877387	7.382454	0.0000
R-squared	0.733617	Mean dependent var		714137.1
Adjusted R-squared	0.689220	S.D. dependent var		44451.65
S.E. of regression	24780.74	Akaike info criterion		23.25038
Sum squared resid	7.37E+09	Schwarz criterion		23.39199
Log likelihood	-171.3778	Hannan-Quinn criter.		23.24887
Durbin-Watson stat	1.606688			

Source: own calculations.

As expected, the probability t-student statistics have improved considerably, even for a 99% accuracy level. R^2 indicates a fair level of model accuracy (73.36%).

But the Akaike criterion (that is bigger for the first model) and multiple coefficient of determination R^2 lead us to take the first regression model. However, by introducing the constant term, the value of R^2 adjusted decreases and therefore, I will stop at the second model. Average number of students in urban high school, was in over 15 years of study 714137.1, with a standard deviation of 44451.65.

Therefore, the regression model is:

$$\text{LIC_URB} = 0.333268 \times \text{INV_URB}(-1) - 12.33191 \times \text{PERS_DID_LIC_U}(-1) + 13.85972 \times \text{SALI_LIC_U}(-1)$$

By introducing the variable "employed population" in this model, performance figures will improve, so I consider this further.

In rural areas the appropriate model, lags will be present in the variables: rural students (inv_rur) and rooms available for high school (sali_lic_r).

Dependent Variable: LIC_RUR
 Method: Least Squares
 Date: 03/15/12 Time: 20:30
 Sample (adjusted): 1996 2010
 Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INV_RUR(-1)	-0.051228	0.014049	-3.646334	0.0038
PERS_DID_LIC_R	7.689391	3.011354	2.553467	0.0268
SALI_LIC_R(-1)	4.717835	3.619672	1.303387	0.2191
C	77094.82	22289.42	3.458807	0.0053
R-squared	0.616656	Mean dependent var	50607.80	
Adjusted R-squared	0.512108	S.D. dependent var	6276.619	
S.E. of regression	4384.172	Akaike info criterion	19.83257	
Sum squared resid	2.11E+08	Schwarz criterion	20.02138	
Log likelihood	-144.7443	Hannan-Quinn criter.	19.83056	
F-statistic	5.898293	Durbin-Watson stat	0.723350	
Prob(F-statistic)	0.011881			

Source: own calculations.

Eliminating variable SALI_LIC_R (-1), whereas the probability associated with the test exceeds the 5% significance threshold, I obtain a new model:

Dependent Variable: LIC_RUR				
Method: Least Squares				
Date: 03/15/12 Time: 20:52				
Sample (adjusted): 1995 2010				
Included observations: 16 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
INV_RUR	-0.048327	0.011425	-4.230012	0.0010
PERS_DID_LIC_R	8.330228	2.800245	2.974821	0.0107
C	83923.93	15919.08	5.271909	0.0002
R-squared	0.608107	Mean dependent var	50537.13	
Adjusted R-squared	0.547816	S.D. dependent var	6070.377	
S.E. of regression	4082.003	Akaike info criterion	19.63392	
Sum squared resid	2.17E+08	Schwarz criterion	19.77878	
Log likelihood	-154.0714	Hannan-Quinn criter.	19.64134	
F-statistic	10.08616	Durbin-Watson stat	0.771855	
Prob(F-statistic)	0.002268			

Source: own calculations.

Both R² and adjusted R² shows a low yield model, which means that latter I will have to bring them improvements.

At the same time, if isn't a strong link between variables that may be the cause of demographic evolution. In other words, the degree of inclusion in education, an indicator that could explain some of the economic gaps between the two residences, it does not depend mainly on the provision of schools and number of teachers but rather of household income and education level of the parents.

At the same time we should not forget that from the statistical analysis, if current demographic trends persist, by 2013 we will have 20% fewer students than in 2005 and in 2025 - 40% less. The decrease is dramatic, and the consequences for human resources development of the country - easily deduced.

5. Conclusions

One of the challenges of education policies in member countries of the European Union is the addressing and combating disadvantage and disadvantaged groups in terms of education (Chenic (Crețu), 2012).

On this issue, some member states aimed at increasing investment in education as a key solution to prevent poverty and social exclusion in the long run. According to the priorities of these countries, this involves preventing disadvantages in education by developing more effective interventions at an early age (mainly through an adequate and comprehensive child protection), adapting the educational system so that schools can respond successfully the needs and children from disadvantaged groups, prevent drop out and return to training of young people who left school, continuing education and extension, so there will be adequate opportunities for education and training accessible to groups of children and young people at risk.

It also implies an increase in educational policy role of education and training institutions in promoting standards and values, social cohesion, equal opportunities, active social involvement of citizens (Socol, Socol, 2012).

In Romania, education is perhaps one of the most reformed areas in the last 21 years. In this area changes have occurred both in the content of education and major institutional. Strategies developed mainly in the last five years makes the existence of a framework for action and implementation of educational programs to increase access to education opportunities for disadvantaged groups and creating an educational system, in line with European standards development and institutional building.

Especially in recent years Romania developed an impressive number of strategies, national programs and projects designed to improve learning conditions in schools and reduce educational and social inequalities (Manole, 2012). Although at the level of institutional development and change in the educational system have been registered special efforts, reform of Romanian education records still negative aspects that directly affect the level of performance and quality. Educational programs taking place in strategies aimed at pre-university education, in general, and education in rural development, in particular, are aimed at the improvement of education.

In this respect, education in rural areas must be a priority. As discussed above, rural education faces specific problems and requires specific solutions. The beginning was made by developing a recovery strategy in rural education, approved in 2001, the measures in this strategy, and programs aimed at rural

education requires both major investment and integrated solutions that aim, both human and material resources and the quality and content of education.

In short, education and current research is yet able to sustain a prosperous Romania and competitive knowledge economy.

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ANNEXES**Annex 1****Urban area**

Obs.	LIC_URB	INV_URB	PERS_DID_LIC_U	SALI_LIC_U
1995	737734.0	3249311.	58363.00	24924.00
1996	741290.0	3232547.	60155.00	25939.00
1997	714034.0	3180618.	59271.00	26606.00
1998	672769.0	3141411.	61612.00	26616.00
1999	651251.0	3081242.	62542.00	28388.00
2000	645193.0	3073002.	59863.00	28749.00
2001	665075.0	3070166.	60562.00	29404.00
2002	691195.0	3028701.	57083.00	30448.00
2003	706759.0	2995017.	54999.00	30762.00
2004	718621.0	2965334.	57807.00	30958.00
2005	712339.0	2997101.	57410.00	31202.00
2006	732328.0	3018940.	58543.00	32077.00
2007	745619.0	3113491.	58287.00	32809.00
2008	735786.0	3059267.	57167.00	33211.00
2009	779290.0	2932035.	56077.00	34105.00
2010	800508.0	2809115.	55095.00	34036.00

Source: INSSE.

Annex 2**Rural area**

Obs.	LIC_RUR	INV_RUR	PERS_DID_LIC_R	SALI_LIC_R
1995	49477	1453966	4046	2546
1996	51498	1455764	4330	2683
1997	51869	1462733	4398	2850
1998	45248	1489753	4489	2891
1999	43125	1497141	4697	3186
2000	42726	1492277	4155	2980
2001	45588	1484300	4167	2963
2002	49209	1468085	3905	3088
2003	52158	1477476	3926	3278
2004	55222	1438546	4385	3385
2005	55100	1363730	4504	3552
2006	48597	1326641	3505	2856
2007	45729	1291090	3333	2653
2008	48575	1265725	3480	2655
2009	58438	1244831	4178	3552
2010	66035	1220111	4514	3640

Source: INSSE.

Adaptation of the tourism in Romania to the new economic context imposed by the global economic crisis (in 2010)

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Abstract. *The global economic crisis affected the tourist market from Romania since 2008. 2010 was for the Romanian tourism enterprises the year of successful attempts to respond to the economic and social stimuli imposed by the economic crisis. The way in which they managed to cope with the crisis shows that solutions are available to those who adapt to the conditions of fierce competition.*

The global economic crisis rippled its effects in all areas of activity, tourism included. Some field entrepreneurs consider that tourism will be the most affected sector of services by this crisis because the consumers will leave it at the bottom of the basket of consumption goods and services.

Keywords: global economic crisis in tourism; standard tourism services; personalized tourist packages; coping strategies under crisis conditions; holistic approach.

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1. The global economic crisis – mobilization factor for the economic agents operating in tourism

The economic agents from tourism (owner associations, professional associations, unions, tourism enterprises, tourism organisers, touristic localities and other public or private organisations) show within the present economic and social context, developed because of the crisis, an obvious concern for a better management of their business.

The effects of the economic crisis on the Romanian tourism concerned the stagnation or reduction of the number of tourists which preferred in the past specific forms of tourism, such as the seaside tourism in September and early October. There also was a lower attractiveness of the standard packages of services (accommodation, meals, transportation) to the advantage of the personalized packages.

On the background of the economic crisis, in 2010 changes occurred in the structure of the products basket, both for the natural persons clients and for the corporation clients, who became increasingly attentive to their money and increasingly receptive to promotional offers. Thus, they preferred personalized touristic services adapted to the size and structure of the households whose members travel for touristic purposes. These novel packages include new services as sightseeing touristic localities (cities, metropolis), known as city-break, while for the corporate clients, the complex services packages are charged according to the number of people, social-professional structure of the corporation employees who participate in touristic events (incentive service packages, events such as colloquia, work-shops etc.)

The tariffs for the packages of tourist services are anyhow lower than the sum of the value of the individual tourist services:

$$\Sigma (a+b+c+\dots+n) < (a+b+c+\dots+n) \quad (1)$$

where:

$\Sigma (a+b+c+\dots+n)$ – tariff of the package of touristic services a,b,c...n;

$(a+b+c+\dots+n)$ – sum of the values of the tourist services a,b,c...n taken separately.

The attractive tariffs correlated with the volume and structure of the demand for tourist services gave a new perspective to the tourism under crisis conditions. Unfortunately, in Romania, few tourist entrepreneurs understood this. Among those who resisted on the market under the current difficult context are those who came with promotional offers in 2009-2010.

In order to hold on a market with fierce competition where only those who react swiftly to the economic and social stimuli can survive, the economic agents must rethink their strategies regarding:

- Volume and structure of the offer (So);
- Volume and structure of the demand (Sc) targeted and/or supplied;
- Used tariffs Tp;
- Targeted profit margins Rpr;
- Use or the profit Upr.

These strategies have been thought holistically so that their effect in terms of efficiency and efficacy of the business or of meeting client requirements are long-lasting and can be applied in the current situation of the Romanian tourist market.

The synergic effect and the holistic approach of the strategies of the economic agents from the Romanian tourists, with the purpose to go past the stalemate caused by the global economic crisis, can be defined as the natural consequence of an economy under reorganisation which needs to move fast in order to survive.

Below is the mathematic expression of the synergic effect of the holistic approach of the strategies to be followed during the time of crisis by the Romanian tourism.

$$\Sigma(EfSo+EfSc+EfTp+EfRpr+EfUpr) > (EfSo+EfSc+EfTp+EfRpr+EfUpr) \quad (2)$$

where:

$\Sigma (EfSc+EfSc+EfTp+EfRpr+EfUpr)$ – synergic effect of the holistic approach of the strategies to be followed during the time of crisis by the Romanian tourism;

$EfSo$ – quantified effect of the volume and structure of the touristic demand on the efficiency and efficacy of the tourism business and meeting client requirements;

$EfSc$ – quantified effect of the volume and structure of the targeted demand on the same elements;

$EfTp$ – quantified effect of the used tariff on the same elements;

$EfRpr$ – quantified effect of the targeted profit margin on the same elements;

$EfUpr$ – quantified effect of the profit utilization on the same elements.

Regarding the volume and structure of the offer, the economic agents from the Romanian tourism adopted a policy of offer which ranges from promotions such as “pay for one tourist and go two on holiday” to giving up some (standard) packages in favour of others, complex and novel, such as

touristic circuits involving agro-tourism, ecologic or cultural tourism combined with the active tourism (learning foreign languages at conversation level, learning folk dances or crafts at basic level).

The early planning of the vacations at the Romanian seaside by the program Early booking initiated by ANAT Romania is another offer with impact on the tourists who could benefit of holidays cheaper by 20-30% by paying in advance for the tourist services.

Regarding the volume and structure of the targeted demand, the economic agents from the Romanian tourism adopted a policy ranging from meeting the demand of the clients with large and very large incomes, yet attentive to the implications of the crisis on their lives, to meeting the demand from the clients with medium or low incomes, affected more by the crisis and its effects (lower household incomes and unemployment).

The professional and owner associations from tourism also proposed strategies to go past the stalemate, orienting towards a diverse demand that goes from individual clients to organised groups of tourists and corporations.

For the individual clients, the strategies regarding the targeted and met demand rely on a staff policy oriented towards inducing the state of comfort, given by the amiability and knowledge of the staff from hotels and travel agencies regarding the visited area.

For the corporate clients, as targeted demand, the economic agents from the Romanian tourism diversified in 2010 their staff strategies and the tariff policies in order to attract clients with financial power for long-time relations, such as the travel agency Accent Travel & Events, whose clients are corporations such as: Carrefour, Realitatea Tv- Cașavencu, MKB, Romexterra Banke, OMV Petrom, Orange.

If we refer to the tariffs charged by the hotels from Romania, the opinion of tourism entrepreneurs is that they were high in 2010, related to the level of service quality, and that the hotel market can stand tariff reductions. Other tourism entrepreneurs claim that the accommodation tariffs decreased by 10-35% in the first six months of 2010 compared to the same period of 2009, which means that the Romanian market adapted quickly to the economic and social stimuli and that it wants to increase in volume by drawing new clients. The drawn demand is favoured by correct tariffs correlated with a given quality of the touristic services. Under these conditions, large turnovers can be obtained, from low tariffs charged to large numbers of tourists.

The tariffs for the meals services increased in 2010 compared to 2009, because the VAT increased from 19% to 24%. This is why a policy of proper assortment of meals correlated with a careful selection of the suppliers, the eatery units (restaurants with particular meals, fast-food restaurants, pizza, bars,

pubs, cafeteria, etc.) may adopt policies of price and tariffs which may meet the most exigent taste, adapted to the principles of sustainable consumption and eating traditions of some consumers who live and act on a rapidly changing market.

The tariffs for tourist transportation decreased in the first six months of 2010 compared to the similar period of 2009.

The global economic crisis affected obviously the world tourist flows, which decreased in 2010 compared to 2009. A decrease of the airplane tickets price was noticed in mid 2010, which increased the demand for air transportation. This phenomenon increased the number of airborne passengers to the detriment of the clients for alternative transportation ways.

The economic agents from the Romanian tourism internationalized the services of tourist transportation for the module of road transportation. The reason is the interest of these entrepreneurs to provide good quality services, at the required moment and in the way the tourists demand them. This new way of doing tourism business appeared on the background of the economic crisis and materialized for the Romanian travel agency TravelBiz in the purchase of automobiles for the transfer of tourists from the airport to the hotel and back. The investment amounted to 250,000 Euros.

The decrease of the tariffs and fees for tourist services will decrease the profit margin of the tourist agents. Thus, some entrepreneurs estimated that their profit decreased by 15-25% in 2010 compared to 2009, even if on some segments the turnover increased due to the higher number of tourists.

Within the context created by the crisis, in which the profit decreased and the tourism agents aim just to cover their costs for the design, production, distribution and consumption of tourist services, the low profit will have to be properly administered, mainly, for investments.

2. The market of tourism agencies in Romania within the context of the economic crisis

The market of the tourist agencies is the place where the demand and offer meet, consisting in Romania of all the travel agencies clients (individual tourists, groups of tourists, corporations) and of all the travel agencies (about 2,700 in 2010).

Within the current economic and social context created by the global economic crisis, we noticed a substantial modification of the strategies of the travel agencies with the purpose to remain in business and to make the least profit which to promote their development.

The first decrease in the past 10 years on the Romanian market of travel agencies was noticed in 2009, the decrease ranging between 8% and 42%, according to the estimation of some entrepreneurs (ANAT Romania, 2010).

The activities that were affected most by the economic and social situation were the airplane tickets sales and the travels abroad, which account for over 50% of the turnover of the top five travel agencies from Romania.

Bringing the foreign tourists to Romania continued to be a problem in 2010, the tourism operators staking less on incoming (bringing tourists to Romania) and more on outgoing (sending tourists abroad) to increase their business.

The table below gives the turnover of the main travel agencies operating in Romania in 2008 and 2009.

Table 1

Turnover of the top five travel agencies operating in Romania

- Million Euro -

	Travel agency	Year	
		2008	2009
1	Happy Tour	50	29
2	Aerotravel	35	28.4
3	Eximtur- Cluj	40.3	27
4	Marshal Turism	28	21
5	J'info Tours	N/A	14

Source: Travel agencies and the Ministry of Public Finances.

As it can be seen from the table, all five travel agencies operating in Romania displayed substantial decreases of their turnover in 2009 compared to 2008. Otherwise, 2009 was considered by the specialists in Romanian tourism the most difficult year from the start of the world economic crisis. In this year, 2009, about 10% of the small and medium travel agencies disappeared from the Romanian market (ANAT Romania, 2010).

The changing behaviour of the travel agencies clients due to the world economic crisis determined a change of behaviour of the active travel agencies. Thus, they diversified and personalized their offer depending on the demands of the tourists and taking into account their purchasing power.

For the individual tourists, the post-crisis offer of the travel agencies ranged from early booking at the seaside at attractive tariffs (25% lower in average compared to the usual tariffs) to tourist programs to spend vacations in spas, at attractive tariffs, from 270 lei/person to 750 lei/person, depending on the accommodation and treatment conditions (2009).

For the corporation clients, the post-crisis offer materialised in business and events travels and less in incentive packages, due to the difficulties confronting the corporations.

In order to stay in business, the Romanian travel agencies invested a lot in touristic promotion and advertising. These amounts varied in 2008-2009 between 10,000 and 500,000 Euros per travel agency (ANAT Romania, 2010).

The effect of these promotion campaigns materialized in a higher demand both from the individual tourists and from the corporation clients, which turned into a good turnover, able to cover the costs with the production, distribution and consumption of tourist services.

The higher demand for tourist services was the result of a larger number of tourist packages of programs and less to the tariffs. The demand increased because the offer of the travel agencies adapted to the demand of the clients. To this purpose, the travel agencies passed from seaside offers in September-October to special autumn offers, such as city-breaks which offer urban tourism combined with cultural tourism, as innovative element.

For the business tourism they passed from the traditional incentive packages to business travels, which were more profitable and with a better demand during the crisis period.

The low tariffs for the passenger transportation by airplanes enabled the most sought forms of the business travel to have, in 2010, low tariffs, related to the package of tourist services.

For the outgoing tourism, the Romanian travel agencies renegotiated in 2010 the tariffs for the charter flights to Greece, Turkey and Spain, in order to have as attractive as possible offers in terms of services and tariff.

The conventional holiday packages from the past decades have been replaced by novel and vivid holidays. The development of the tourist services followed the main objectives of the travel agencies (larger volume of tourist activity, larger time and space dispersion of tourist flows, higher profits from the services), being thus conceived as to meet the following requirements:

- The range of provided services must be able for stimulating by their diversity and attractiveness for each tourist, so that they demand as many services as possible, and interested to prolong his/her journey, may come back next year to the same spot;
- They must provide alternatives and possibilities to spend the spare time in a pleasant way in any circumstance and at any time of the day; they must allow the substitution of a variant of services with another variant, with similarly attractive content, able to meet fully tourist preferences;

- They must allow compensating the worldwide decrease of the volume of tourist activities, the shorter average period of stay in a spot, by intensifying the attractive offers

The travel agencies of the future are those that will adapt to the market. They will have to make commercial alliances with the suppliers and become different from their competitors. The internet is an efficient and attractive channel for the distribution of tourist services, which compels the travel agencies to make new efforts towards a diversified and personalized range of tourist services.

If the travel agencies will be able to adapt to the new technologies, to really understand the needs and wishes of the consumers and to develop new services for them (such as personalized services), the internet will not be able to become a substitute for the travel agencies. The strength of the travel agency resides in its closeness to the consumer, in keeping permanent contact with him/her and in providing diversified and personalized tourist services.

In conclusion, the economic agents from the Romanian tourism coped rather fast with the new economic and social conditions created by the crisis, which fostered those agencies which resisted to the shock and were not eliminated from the market. The new economic and social context imposed new behavioural rules for the tourist enterprises, ranging from a new human resources policy, to the strategies for a rapidly-changing market and to the use of the decreasing profit.

Notes

⁽¹⁾ See www.anat.ro

⁽²⁾ See www.daily-business.ro

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