

ROMANIAN ECONOMIC AND BUSINESS REVIEW

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ROMANIAN ECONOMIC AND BUSINESS REVIEW

WINTER 2006

VOLUME 1

NUMBER 4

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PUBLISHED BY THE SCIENTIFIC RESEARCH DEPARTMENT OF THE
ROMANIAN-AMERICAN UNIVERSITY



ISSN 1842 – 2497

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EDITORIAL

EU – ENERGY ISSUE AND THE PROSPECT OF A LOW CARBON ECONOMY

*Florin Bonciu**

During the past months the energy issue became more and more present on the EU agenda for various reasons ranging from the consequences of EU vulnerability as an oil importer when Russia's row with Belarus hit its supplies to the gloomy implications of climate change which is clearly accelerated by current energy consumption patterns.

The EU energy situation is far from reassuring. Some 80% of the energy the EU consumes is from fossil fuels – oil, natural gas and coal. A significant and increasing proportion of this comes from outside the EU. Dependence on imported oil and gas, which is currently 50%, could rise to more than 70% by 2030. This will increase the EU's vulnerability to reductions in supply or higher prices. The EU also needs to burn less fossil fuel in order to reverse global warming. Moreover, the EU's energy infrastructure needs improving at an estimated cost of €1 trillion over the next 20 years.

The EU energy agenda is seen not only as a hot issue but also as a return to origins. More than 50 years ago, when the European integration process started, energy had been a driving factor manifested by the establishment of the European Coal and Steel Community in 1951. At that time, it was the wish to eliminate the threat of any future war that put together the industries related to the military. But for all civilian purposes the energy policy has on the whole remained mainly a national issue. The fact that the energy issue is still a national problem in 2007 can be illustrated by the Germany's €12 billion project to build a Baltic Sea gas pipeline to Russia, bypassing Poland and ruling out any EU funding.

Nowadays, the Commission's chief Jose Manuel Barroso says it is high time for a "post-industrial revolution"¹. This means that Europe needs new policies to face a new reality - policies which maintain Europe's competitiveness, protect environment and make energy supplies more secure. At the same time, Europe

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¹ Mark Mardell, EU plans 'industrial revolution' , BBC Europe, Wednesday, 10 January 2007.

must lead the world into a new post-industrial revolution based on the development of a low-carbon economy. The concept of a low-carbon economy means that Europe would reduce greenhouse gases by 20% by 2020. An interesting side effect of this is the emerging re-acceptance of nuclear energy as a way of driving down CO₂ emissions after decades of strong opposition to it.

Becoming a low-carbon economy means that EU will use less fossil fuel in industry, transport and the home, and make use of renewable energy sources to generate electricity, heat or cool buildings, and fuel transport, particularly cars. This implies a switch to wind (particularly offshore wind), biomass, hydro and solar power and bio-fuels from organic matter. The following step could be to become a hydrogen-based economy.

The idea of a common EU energy policy was first approved at a summit at Hampton Court, in London, in October 2005. There are three central pillars to the proposed integrated EU energy policy:

- A true internal energy market;
- Accelerating the shift to low-carbon energy;
- Energy efficiency through the 20% target by 2020.

According to the proposed EU energy policy, in addition to the 20% of all EU energy that should come from renewable power by 2020, 10% of vehicle fuel should come from biofuels.

Another target is to make sure that all new power stations are carbon neutral in 13 years - they should be built in such a way that carbon can be captured and buried - as well as ensuring there is a big increase in renewable power like wind and wave energy.

Without such investment and energy efficiency measures, the EU energy imports will rise from 50% of consumption to 70 % by 2030, requiring increased reliance on potentially unpredictable sources.

In a symmetrical way to the proposed EU energy policy, the EU energy strategy is also based on three pillars which are sustainability, competitiveness and security¹.

The "sustainability" pillar refers mostly to climate change aspects.

The "competitiveness" pillar refers to policies to ensure that Europe's economy remains competitive despite the extra costs of moving over, even partially, to low-carbon energy. The top priorities are to further liberalize Europe's internal energy market - in order to bring down prices - and to boost research on low-carbon technologies.

¹ Commission of the European Communities, Green Paper.

A European Strategy for Sustainable, Competitive and Secure Energy, COM(2006) 105 final, Brussels, 8.3.2006

The "security" pillar refers to reducing dependence on imported hydrocarbons, but also diversifying sources of energy, building infrastructure such as new liquefied natural gas terminals, and improving Europe's capacity to cope with disruptions in supply. In this context the EU Commission is seeking a new long-term pact with Russia on energy supplies.

Among the most sensitive issues of the proposed EU energy there is the idea of a true internal energy market. Although EU is often presented as a Single Economic Space or a Common Market, the truth is that in many areas EU is not a common market and not even a free market economy. In order to understand this statement is enough to think about administered prices in areas such as agricultural products or energy or about freedom of circulation of labor or services. Energy is just a component of this failure of EU to be a real Single Market or, for that matter, a True Free Market Economy.

As mentioned, in the field of the energy policy the EU wants to fully open up the existing energy market to enable half a billion citizens to get their electricity or gas from anywhere else in Europe. In fact, this means the abolition of controlled prices and the separation of asset ownership by integrated operators. As result, Mr. Barroso proposed stopping power generation and power supply being owned by the same company, but this subject is very controversial, at least in France and Germany. In January 2007 the EU Commission stated that national energy champions such as Germany's E.ON or France's EDF should be broken down into smaller pieces because they stifle competition and investment. Both countries responded by mentioning the threat of EU companies being bought by large competitors like Russian Gazprom.

Anyway, at least for the moment, the EU member states agree only on principles¹. At an economy ministers' meeting in Brussels on Thursday, 15 February, 2007 the EU states did not back European Commission calls for binding targets on renewable energy or biofuels.

To summarize, for the moment EU has an energy commissioner in the person of Mr. Andris Piebalgs but not a common energy policy². There are just a number of common accepted elements:

- climate change is a clear and present danger;
- each member state has sovereignty over which type of energy it uses;

¹ 2002/358/EC: Council Decision of 25 April 2002 concerning the approval, on behalf of the European Community, of the Kyoto Protocol to the United Nations Framework Convention on Climate Change and the joint fulfilment of commitments thereunder , Official Journal L 130 , 15/05/2002 P. 0001 – 0003.

² Andrew Rettman, EU States Can't Agree on Energy Targets, Business Week Europe February 16, 2007.

- EU states must speak with one voice and show solidarity in the face of foreign supply shocks, such as January's Russia-Belarus oil crunch;
- EU should develop stronger relations with gas and oil suppliers in Algeria, Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan and transit state Georgia as key foreign policy goals.

If we move from principles to concrete issues, the member states are rather divided. More than 10 member states led by Sweden and Denmark are keen to sign up to a binding target of 20 percent renewable energy consumption at EU level by 2020, but the rest, including the UK and Poland, decline this goal amid confusion on the impact of industrial reforms individual states would have to undertake to match the EU goal.

Despite its complexity a common energy policy is needed and will impact the lives of all EU citizens in more ways than one. A common energy policy is something that has to be done, however unpleasant and difficult it could be. But it is clear that it is not happening now. It just started to become real enough to allow a glimpse into the future.

And the future is like this: The main ideas on a common energy policy will be discussed at a summit of EU leaders in March 2007, and some laws and regulations could be drafted some time after that. Many of these laws and regulations would have to get the approval of EU Council and, further on, be endorsed by the European Parliament. The whole process may take a couple of years, and the end result can differ considerably from the Commission's initial proposal.

But facts like rapid climate change, Russia's position on energy supplies, Middle East situation, global competition and global energy prices may speed up the process and EU may be forced to adopt a common energy policy much faster than we can imagine.

ARTICLES

WELFARE STATE CRISIS AND NEO-LIBERAL IMPOSITION IN ARGENTINA. THE ADMINISTRATIONS OF MENEM AND ALFONSIN

*Maria de Monserra T. Llairó**

Abstract

The main aim of this piece is to explain the reasons why there was no continuity in Argentina's economic policy. The political immaturity in the practice of democracy in Argentina led to a bipartisan system as the only way to achieve institutional stability. Both political lines, however, have in their ideas and actions certain concepts and procedures that are inherent to Argentina's unstable political situation.

Introduction

The main aim of this piece is to explain the reasons why there was no continuity in Argentina's economic policy. For the last fifty years, Argentina has had a bipartisan system: Peronism vs. Radicalism. Although there have been other parties, they were mostly minorities lacking power of representation -Socialism, Christian Democracy, Conservatives, and Communism. After the fall of Peron's government (1955), the Argentine society was divided between Peronists and anti-Peronists. The political proscription of Peronism caused not only political instability, but also a crisis in government itself. Instability and crisis characterised the administrations of Dr. Arturo Frondizi (1958-1962) and Dr. Arturo Illia (1963-1966). Both were overthrown by military coups with the consent of political parties, which wanted the proscription on Peronism to continue. This in turn prompted the formation of urban and rural armed groups that helped the social dismemberment, which took the country to endless military coups. This situation inflicted deep cultural and political wounds, which continue to haunt the country even today. The political immaturity in the practice of

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democracy led to a bipartisan system as the only way to achieve institutional stability. Both political lines, however, have in their ideas and actions certain concepts and procedures that are inherent to Argentina's unstable political situation.

The crisis of the old system and the application of neo-liberalism in Argentina

After the third Peronist government (1973-1976) and through the military dictatorship (1976-1982), Peronism suffered a political crisis due to the death of its leader, Juan Domingo Peron (1974). Members of the Peronist Youth and some sectors of the Left, disappointed with the political model applied by Peron, preferred either moderate versions of their ideas or social democracy, for which there was no room in Peronist unionism. Within the party's political structure a "Renovation" was taking place, which sought to update the national and popular doctrine by taking elements from European experiences of Christian Democracy or Social Democratic reformism. The leader of this political line within Peronism was Antonio Cafiero.¹

As these changes were taking place within Peronism, the Union Cívica Radical (UCR - Civic Radical Union) was presenting a more homogeneous political framework, although here too there were two confronting sectors that disagreed about presidential elections. On the one hand, there was Dr. Raul Alfonsín, who worked on new political strategies supported by intellectuals and part of the Radical youth, mostly belonging to centre-left. On the other hand, there was a sector represented by the old and traditional political image of Radicalism, which was weakened by Dr. Ricardo Balbín death.

For the elections of October 1983, Argentina's political outlook was rather confusing. Peronism had lost its strength, showing lack of internal organization and a worn-out political ideal. At the same time, prominent politicians were facing transparency and legitimacy problems in their offices. The legendary liberal Alvaro Alsogaray, who was trying to attract a variety of minority groups that had never succeeded in elections, drew sectors of the Right wing to create a party that would have some power of representation. He formed the UCD (Union del Centro Democrático - Democratic Centre Union), supported by professionals and intellectuals who, following the international trend, favored the new market economy.

¹ It is important to note as well that the unionist leaders were divided in two: those who preferred a fluid communication with the military authorities - the "participationists" - and those who, without taking extreme action, preferred a more aggressive attitude, such as Lorenzo Miguel and Saul Ubaldini (See Di Telia and Torcuato, 1999).

The Left was supported by the PI (Partido Intransigente Intransigent Party), formed by youngsters with a deep revolutionary ideology and led by Oscar Alende¹.

According to the panorama we described, we could say that Radicalism, as compared to the other parties, presented a democratic, tolerant, and ethical attitude, as opposed to what was offered by its peers.

The goal of this piece is to show that deep institutional, political, economic, and social changes manifested themselves until the return of democracy in 1983. But these changes changed their path in 1989, and up to the present time this deviation has left us in uncertainty of how they will develop in the future.

The road to democratization

Alfonsín administration was conditioned by three circumstances: a) the Armed Forces, b) the violation of Human Rights, and c) the economic situation. There can be no doubt that these were three pervading problems throughout his time in government. The president adopted a position with the members of the military elite that was more rigid than the one the Peronists would have adopted if they had won the elections². The Peronist party opposed the government from the Cámara de Senadores (Senate), where it represented the majority, by repelling laws that needed to be urgently passed. One of the most important episodes was the case of the new Unionist Law, which granted unionist minorities some acknowledgement, and would bring about the decentralization of the administration of Union funds. This in turn prompted the CGT (Confederación General del Trabajo - General Labor Confederation) to show its disapproval by means of noisy strikes against the government. These strikes were carried out supposedly to protest against the economic situation, but they evidently had a political tinge. Alfonsín succeeded in keeping his head over water through the increasing turmoil. In the Parliamentary elections of 1985, Radicals retained their majority in the Cámara de Diputados (House of Representatives from each province), because the divided Peronists continued to lose the support of the middle class. However, in the provincial elections of 1987, the Peronist candidates to

¹ Oscar Alende withdrew from the UCRI-Union Civica Radical Intransigente (Intransigent Civic Radical Union), whose main figure was Frondizi.

² During the political campaign, Alfonsín accused the Peronists of consorting with the military. Nevertheless, it should be noted that since the Revolución Libertadora (Freedom Revolution) in 1955 in general the military coups used to proscribe Peronism. In spite of these contradictions, it is clear that Radicals kept a more democratic attitude, while Peronists were more combative and were not open to agreements and to the democratic building of the country.

Congress won over the Radicals by 41% against 37%, and they extended their influence to nearly all the provincial governments.

Economy turned out to be the hardest problem to solve. Following the failure of his first measures, in 1985 Alfonsín summoned a team of technicians led by Juan Sourrouille. They elaborated an economic plan called "Plan Austral." In the beginning, this Plan was successful, inflation decreased to 1-2% a month, and confidence was returning.¹ But this stability did not last long and there was a succession of economic plans ("Australito" and "Plan Primavera") which failed in decreasing inflation. Finally, in February 1989, the political situation worsened, even when the next president - Menem - had already been chosen and there were only some months left for Alfonsín's administration.² The outlook of a violent and aggressive Peronism forced some private sectors to start buying dollars and keeping products from the markets. This situation, together with the problems caused by the economic plan, speculation, and a succession of Economy Ministers who were not able to handle the crisis, unleashed hyperinflation.³ Hyperinflation forced the Radical government to resign and give way to the recently elected president, Dr. Carlos Saul Menem.⁴

Peronism in power: Carlos Saul Menem

As he took office as President, Menem had all the reasons at hand to alter his political course dramatically. He consorted with the Right wing to appease the political and economic situation by appointing Nestor Rapanelli - a representative of Bunge y Born, Argentina's most important grain exporter, as Economy Minister and Domingo Cavallo as Foreign Affairs Minister. He also appointed Alvaro Alsogaray as a Government Consultant, thus consolidating a liberal position in his administration. This came to upset some sectors of Peronism that did not like Menem's attitude. Unions, which were fully Peronist, showed their disapproval and this caused a division within the CGT. Thus, the unions' political influence weakened against the upward movement of private companies.⁵

In our view, this new economic policy reflected the situation of some European parties - similar to Peronism in that they were low-class based. These parties were forced by the international economic situation to consort with their previous enemies and to launch measures that contained many elements of the liberal capitalism from the last years of the last century. The dismemberment of

¹ Ferrucci (1991).

² Ossona (1992).

³ Vitelli (1999).

⁴ Beckerman (1990).

⁵ We have to take into account that unions were the mobilising power of Peronism, but with Menem they declined and in many cases even consorted with him.

the Soviet welfare state - beginning with the fall of the Berlin Wall in 1989 - constituted another reason for Argentina's new political orientation. The lack of efficiency in the administration of the State, which had been going on for decades, had brought about a favorable predisposition in the middle and higher classes towards the privatization of state-run companies, which were causing a great fiscal deficit.

About this, Torcuato Di Tella comments: "As regards this topic, attitudes were often contradictory. For instance, in 1986, most people in the urban centers thought that the State should control prices (83%) and impose a freeze on rents (75%), and that it should provide a job for every person in need as well (83%). This was the argument behind believing in the action of the State when that represented a personal benefit, without necessarily thinking about the possible setbacks or secondary consequences. At the same time, however, there was a general belief in the greater efficiency of the private companies against the state-run ones. In a survey carried out in 1990, 78% of people believed that it was better if most of the companies were in private hands, and a 71% believed that it was more urgent to increase production than to insist on a proper distribution."¹

After he had announced the measures he would take, Menem's popularity increased. In spite of this, the relation between the two sectors of orthodox Peronism deteriorated. Some decided to separate from the Peronist party - the so-called "Grupo de los ocho" (The eight group), but in elections they were not able to fulfill their expectations.

In January 1990, the Economy Minister, Erman Gonzalez, surprised the population by changing the money deposited in banks by bonds with high interest rates due in ten years, thus literally confiscating the savings of the middle class in what was called "Plan Bonex."

This and other measures did not stop prices from increasing, so hyperinflation continued. Going against the basic principles of classic Peronism, Menem and his ministers launched a privatization program, selling state-run companies to private investors. In June 1990, he sold ENTEL, the state-run telephone company, to a holding of French, Italian and Spanish investors. In July 1990, he sold Aerolineas Argentinas (Argentinean Airlines) to Spanish Iberia, and he also announced that he intended to privatize electricity, coal, natural gas, the railways, and the State's marine fleet too. From that moment on, the neo-liberal economic policy seemed to have succeeded. In 1991, Domingo Cavallo was appointed Economy Minister. He extended the privatization campaign, which earned the government several million dollars in 1994. He centered his program in the "Ley de Convertibilidad" (Convertibility Law) that reduced

¹ Di Tella and Tocuato, op.cit.

public expenditure according to income, forbade the emission of currency and finally established a 1 to 1 correspondence between the Argentinean peso and the American dollar. The confidence in the currency became the key of economic credibility and helped a significant increase in the arrival of foreign investment. Cavallo also elaborated a change in the payment schedule of the foreign debt in 1992 - "Plan Brady", while the World Bank and the International Monetary Fund supported his deep economic measures. Finally, inflation decreased from a 4900% a year in 1989 to less than 4% a year in 1994, thus getting to an economic development rate of 6% a year. This process was called by the main international economic thinkers "The Argentinean economy miracle."

What did the "Plan de Convertibilidad" consist of?

The "Plan de Convertibilidad" (Convertibility Plan) was born out of the need of setting rigid rules in a country coming out of continuous crises and a long history of inflation. By putting this plan into practice, the inflation rates reduced dramatically to the normal levels of developed countries. The tax on inflation was eliminated, credit returned - long-term and with low interest rates - and there was a general belief that income was continuously increasing, and, more importantly, there was a favorable international context as regards interest rates for loans. This context brought about a development of demand and of internal economic activity, particularly in Latin American countries. The crisis of 1995 ("Tequila effect" and the crisis in Southeast Asia) evidenced that the previous growth had caused an imbalance in the foreign debt that was hardly viable in time. This was the consequence of the increase in demand in a context where related prices were highly distorted. Some of this policy was only an electoral maneuver, and some of it aimed at promoting investment, thus increasing productivity.

This distortion of related prices, caused by confidence in the currency, reduced the possibility to compete, and here the Argentinean experience differs from that of Chile and Southeast Asia. In these two cases, the favorable currency gave exports the dynamic element of growth, but this was not the case in Argentina. The Argentinean economic model did not increase the possibility of competition or the exports. It turned out to be much more harmful in terms of social situation and employment, because it excluded a large part of the population. In addition, it could not hold with a structure of related prices that had nothing to do with its starting point, and that lacked the necessary tools for a renewal in both economy and labor.¹

¹ Machinea (1998).

This Plan lacked the specific policies that are necessary in the field of production and social compensation. It did not have any policy aimed at prompting small and medium-size companies to export, or to develop new technologies so that they could revitalize their industry. The lack of measures that should increase demand of workforce raised certain doubts about the viability of growth and caused a regressive distribution of income. To all this, we must add the government's failure to create policies to compensate the social harm done by the Plan, and the process of change within the State. The consequences were an increasing exclusion of large portions of the population and a marked polarization of society.

Another important change during Menem's first administration took place in 1994, when the government was granted Congress approval to amend the National Constitution. As was agreed between Menem and Alfonsín,¹ by means of the amendments, the time in office would be reduced from 6 to 4 years, but re-election would be allowed; the authority of the president to rule through emergency decrees was limited; and there would be created the office of "Jefe de Gabinete" (Head of Ministers). The person appointed for this office could be removed by the majority vote of Congress.² The amendments also strengthened the Judicial Power and granted autonomy to the City of Buenos Aires. The advocates of this constitutional reform insisted that the amendments could improve government responsibility, by decentralizing power and instituting a new check and balance system.

It is interesting to consider under this light the process of amending the Constitution. For the political science, this process is a very interesting one, due to the dynamics that came into play during its different stages. Following the trend of the neo-contractualist positions in current political science, we could say that an amendment to the Constitution implies a reformulation of the social contract between those who govern and those who are governed. From the perspective of liberal democracy, in a process of amendment many things come into play, mainly the terms under which society shares its sovereignty in the political sphere, the procedures to do this, its rights, and the way government is to be conducted. But Constitutions might have a further function above the one of establishing what actions are to be allowed and which are not. Constitutions should also have the function of creating availability of power, turning a political system into a continuous source of active power to carry out social transformation projects. This can only be done by those who have legitimacy and knowledge, so that political participation of citizens can be increased.³

¹ Radical Party leader.

² This introduced Parliamentary authority.

³ Wolin (1981).

The policy of generating power has been historically determined by a system of added benefits. Power, in any society, is an important resource that society itself has to generate. We believe that the Argentine society has lost great amounts of power from the times of the return to democracy in 1983 to present time. There have been many signs that show a growing lack of interest in public affairs. Among these, we can mention the general feeling of disappointment about politics, the wearing out of the politicians' credibility, the stiffness of the participation procedures, and finally, the surveys carried out on the population in recent years. In this context, it is necessary to assess the amendments carried out in 1994, in relation to the possible solutions to the problems we have described. We think it is important to take into account how costly it was to carry out the immense political effort necessary to amending the Constitution. It was a very high price to pay, we could even say unique in the institutional history of any country. Even today, it is difficult to assess what was the actual cost of this amendment. A clear example is the division of Radicalist leaders into those who were for the agreement and those who were against it. This division was just the tip of the iceberg for a party in deep crisis, forced to choose between the agreement and a possible defeat in the coming plebiscite. The process of amendment can be seen from many different perspectives. One of them is the basic expectations that led to it, although it would not be enough to consider this as the most important aspect. In this respect we do not think we are mistaken in saying that the final outcome of this amendment, born out of an agreement between two political parties, was only a manifestation of this agreement and it did not show a one and coherent logic. Nevertheless, we believe that this was not the main flaw in the amendment. What we can say is that, in this process, many problems were solved by means of transactions between two amendment projects that had originated in expectations that were not only different, but also in many cases even contradictory. The amendment agreement was only that, and not an agreement in government. It was bound to finish only in the passing of some sections of the law and the withdrawal of a Supreme Court judge. The laws necessary to putting into practice the control measures proposed by Radicalism were only a bunch of disconnected and complicated rules. As it was, they were mostly implemented through some unimportant laws in a Congress where Radicalism did not represent a majority. In exchange, they only received the possibility of re-election in the hands of a Peronist president.¹

Leaving aside the peculiarities of the process in Argentina, we have to consider certain aspects when evaluating the amendment to the Constitution. The main source of problems related to the expectations around this amendment was the idea of a lighter Presidentialist system. To deepen our analysis we first need

¹ Chalmers (1977).

to look at the characteristics attributed to this system.¹ The system, which has been widely analyzed by specialized authors in Latin America, tends to favor the Executive power over the other powers in government. Abusing this characteristic has led presidents in different circumstances and places to obtain great power, thus invading the sphere of the other powers. Despite this, the idea of a lighter Presidentialist system has some obscure aspects that we deem interesting to clarify. The Presidentialist system not only includes the Executive Power, it includes other powers in government and the governmental agencies controlled by it. Of course, the system has certain limitations. For example, the best possibility of the opposing party lies in waiting for the failure of the current government, or better, the disintegration of the ruling party.

Finally, we would like to consider the need to draw attention to the almost automatic association between the Presidentialist system and the bipartisan system. This association can be put down to the fact that while the winning party takes all the power, the options tend to polarize among those having more possibilities.

In our view, the Argentinean political system is in for future conflict, which will affect the quality of the democracy that is being built. The reforms on the Legislative and Judicial power will have some effect in the middle and long term, but they will not be enough to eliminate those problems that brought them to their current state.

The true function of the Head of Ministers is far from clear. There are certain similarities between this office and the system of the Republic of Weimar - the name given to Germany after World War I. Here two fronts were threatening with removing the premier: the president and the Congress. Under the circumstances, it was very difficult to follow any government plan. Trying to soften the Presidentialist system, lest the governmental crisis should become a crisis in the whole system, the plan ended up causing never-ending conflict between the powers of State.

To sum up, the most important changes in Menem's policy the Convertibility Plan, the privatization plan and the amendments to the Constitution - were not as efficient as they should have been in solving the socioeconomic problems of the country.

But there were also negative aspects that can be blamed on Radicalism, for instance the fact that the amendment to the Constitution implied Menem's continuity in office. This being so, the privatization plan continued, following the neo-liberal economic model. Entire towns that had developed thanks to the exploitation of non-renewable resources such as oil and gas were devastated.

¹ Riggs (1988).

Their inhabitants had worked under the protection of national companies, and when these were gone; their situation became critical because there were no jobs available for them. The measures proposed regarding education and health produced antagonism between the provincial governments and Unions, causing outbreaks of violence.¹

In Argentina, the deep changes of the last years have altered the power of action of the basic institutions in society, due to a weakening in the power of the State. The State, currently pervaded by a heavy bureaucracy and in need of technical support, has difficulties in answering the claims of society.² Although Congress is still the gravitational centre of the political system, the independent institutions represent a possibility created by society itself. These institutions represent a link between the political system and the social sphere of the "Tercer Sector" (Third Sector), in a new attempt to achieve social development.³

The capacity to rule and the Third Sector

The capacity to rule is an elusive concept, its definition and even its existence depending on the confidence each society has in its government and in the process that makes it possible. In today's world, and particularly in Argentina and Latin America, the issue of the capacity to rule is again under the spotlight.

Those Latin American countries that could never guarantee the capacity to rule, even when they had achieved certain growth, are currently facing a sad picture: growth is being threatened by political turmoil. Consequently, the capacity to rule in the political arena is now becoming an important element of the context under which development is possible.⁴ This issue is often seen only under the light of the government's ability to manage development, but legitimacy and governmental stability depend on more than that. In order to understand this concept fully, we need to examine a number of processes. The most important of them are those related to the strengthening of society, civic culture development, economic orientations, and behavior, and the inclusion of larger portions of the population in the production system.⁵

The economic policy also determines the capacity to rule. In the first place, the characteristics and efficiency of the economic model affect the conditions under which the capacity to rule develops. The context in which the industrialized countries could be governed in the past was characterized by economic growth, social prosperity, and state intervention. Things would have

¹ Fernandez and Gaveglio (1998).

² Programa de Naciones Unidas para el Desarrollo (1998b).

³ Fernandez. Arturo/ Silvia Gaveglio, op. cit.

⁴ Tomassini (1993).

⁵ Tomassini (1992).

been different in a context of slow economic development, reduction of public expenditure, consumption and credit, and State shrinkage. In the second place, these conditions and consequently the capacity to rule, depend on the economic model in force. In the case of Argentina and other Latin American countries, the difference is that these are still developing countries, and they had to learn how to handle their political and institutional systems in only two centuries of autonomy. They inherited the political structure of the colonizing countries that were rich in tradition and experience. This immaturity and the lack of institutional stability are only some of the differences that Latin America presents. To sum up, we could say that, since they gained their independence, Latin American countries inherited European civic culture. Nevertheless, in most cases, this was only restricted to the ruling classes, and worse, only during the early years.¹

In the last decades, Latin American economies have tended to adopt an economic model based on the change of the production system, technological modernization and an opening to foreign markets, followed by an increased ability to compete internationally. Latin American societies have accepted that it is necessary to follow this model. Regrettably, a rigid implementation, lack of power of decision or efficiency would impair the capacity to rule in these countries. We could say then that the capacity to rule depends on the concurrence of many elements, such as the ability to maintain the system stable. The assurance that the strategy can be continued in time is also vital, even when this means protecting it from the unfair austerities imposed by the internal and international oligarchy over the majority, or from dangerous popular reactions.²

The capacity to rule does not originate in or depend on the efficiency, honesty and transparency of the State, but on a national agreement on the one hand, and stability, growth and moral integration on the other hand. Among the possible measures to adopt we find: the decentralization of State action, privatization of state-run companies, outsourcing of certain services, deregulation of certain areas in economy, strengthening of private companies and modernizing workforce-management relations within them, and finally assuming public responsibilities. Some of these measures are already being taken in Latin America and Argentina. The reform of the State is being carried out according to a number of parameters.³ These are: the strengthening of civil society, a tendency towards political pluralism, the consolidation of a dynamic market economy, and social integration based on the inclusion of the largest possible number of citizens in the production process.

¹ Tirado (1997).

² Londofio and Moser (1996).

³ Diaz (1996)

In Argentina, the latest changes have altered the potential functions of basic social institutions. Mass-media, private interests groups, and social demonstration practices are replacing the political parties that used to represent the link between government and population. One of the greatest divides is the one that separates the political system from society. It is clearly necessary to reinforce the bond between the political representatives and the social and economic institutions. The State, pervaded by a heavy bureaucracy and in need of technical support, has problems in answering the claims of society.¹ Although Parliament is still the gravitational centre of the political system, a new opening for intermediary institutions can be seen at the very core of society.

There is clear evidence that a new participation culture is rising. There is wide agreement today regarding the relevance of the political and social institutions stability as the only way to reach a stable and strong democracy. Here we can see the importance of the political parties, of the institutions of society and of the Third Sector. Society's capacity to act has been almost completely destroyed in Argentina. Figures show that governmental support for education, health, and security is decreasing. In addition, there are high levels of unemployment and sub-employment. And even those who do have a job in many cases do not earn enough to full-fill their basic needs.²

This is a country where people, due to the lack of resources they suffer in young age, do not have the slightest possibility of reaching the educational standards necessary for competing on the job market. This is caused not only by lack of money, but also, in many cases, by malnutrition. The solution is not giving schools some computers, but fighting malnutrition. If this is not done, people will not be able to fit in a society that is increasingly competitive and sophisticated.³

It is important to highlight, however, that malnutrition is not only an Argentinean problem. It is a worldwide problem, and is even more serious in Latin America. The golden age of neo-liberalism as the economic policy of the Latin American governments led to this situation. Different political parties do not have great differences as regards this issue, and although they may seem to have opposite orientations, most of them have adopted neo-liberalism as principle. An exception to this, however, is the Argentinean president, Nestor Kirchner, who was elected in 2003. Liberalism is supposed to be a doctrine that encourages economic growth, while taking technical progress from the high to the lower classes. After having tried it for some time, we can say that these ideas are mistaken, and we have the argument of reality to support our opinion. Neo-liberal policies cannot be applied anymore, they are twenty years old and are

¹ PNUD (1998)

² Basic needs mean all those products that are necessary for subsistence and do not include any luxury product. See Ferrucci (1991).

³ Banco Mundial (2001).

showing signs of decline. This is not a mere debate about theories: facts themselves are claiming for a change. For example, according to neo-liberal ideas, it is important and necessary to promote a free market economy. Doing this, competence is encouraged and this in turn makes prices go down, thus improving the standard of living. This idea has not worked at all in Argentina for the last ten years.

From now on, we need to pay close attention to what is happening in Argentina. After 1990, Argentinean society has been trying to go back to the idea of a welfare state. This policy, that has shown many correctable flaws, has also shown that it can challenge the theories and practices of neo-liberal economic policy.

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**INSTITUTIONAL CHANGE IN EU:
HOW MUCH "FREE MARKET", HOW MUCH "WELFARE STATE"?**

*Cosmin Marinescu and Anisia Popescu**

Abstract

Recent evolutions in Europe raise questions on the viability of the actual economic and social model that defines the European construction project. In this paper, using the logics of economic theory, we will try to explain the viability of institutional European model that stick between free market mechanisms and protectionism. The main challenge for the EU is about the possibility to bring together the institutional convergence and the wellbeing for all Europeans. This is the result of the view, still dominant, of European politics elite, according to which institutional harmonization is the solution of a more dynamic and prosper Europe. But, economic realities convince us that a harmonized, standardized Europe is not necessarily identical with a Europe of harmony and social cooperation.

The challenge for future in EU consists in the reaction and evolution of the European institutional arrangement post-integration faced with the necessity to reform the services sector in accordance with the free market criterion. If „development through integration” seems to be harmonization through institutional transplant, how could then be the European model one sufficiently wide open to market which create the prosperity so long waited for by new member countries? The second part of the paper will bring into discussion a number of issues related to the actual success and/or the failure of completing the internal market in the services sector. We will discuss the role of competition policy in liberalizing the market of services using examples of the EC decisions and ECJ jurisprudence. Then we will recollect the success and the benefits of liberalizing network industries in Europe. Finally, we touch upon the sensitive issue of services of general interest. Based on these findings we note that there is still a long and painful way to go towards the overprized completed single market, at least in the services sector.

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Harmonized Europe or European Harmony?

Latest news presented great union demonstrations that almost paralyzed symbol towns of EU. Worried and astonished, we assisted to the terrifying show offered to the entire world. “Bolkenstein Directive”, against which were hundreds of thousands of European people, seemed to become a horror movie title that threatened to dethrone social privileges of the welfare state. In France, politics proposed in order to liberalize the labor market turned Paris in a siege capital, through which unions almost colonized the state. This is the image of an unprecedented institutional crisis that characterizes the present social arrangements of UE.

There is no doubt that we speak about an amazing state of affairs, contrary to “social cohesion and solidarity” challenges that begin and end almost all EU programmatic documents.

European integration is built on a system of common policies negotiated and adopted by European governments. This integration process is not the result of the political constraints abolition, it does not mean free market and competition mechanisms, despite all efforts towards these. We can speak about a political-bureaucratic option towards *what should be the economic and society European model*. And this political normative derived into an institutional arrangement exported, with the highest fidelity possible, to member countries and to those that applied for membership.

We are all aware of the confusion that the philosophy of EU political elite makes between “harmonization” and “harmony”. In fact, harmonization is another way of speaking about “unification”, meaning accepting a unique rule, in fact “standardization” that European institutional arrangement propose to almost all social life sectors.

Harmonization architects seem to ignore what is most important precondition for the economic prosperity, meaning diversity, competition between different institutional arrangements and, in globalization terms, even between different fiscal systems. Competition is the only one that can improve the situation, meaning reducing tax burdens and improving public services.

Within economic sectors, same as in music, harmony does not derive from unanimity agreement, but from diversity agreement. This could be the future of fiscal Europe: European contributors capitalize the inter-jurisdictional differences, and those will facilitate tax competition. For the very moment, hundreds of young French go abroad trying to escape from the French tax system rapaciousness. Which could be the harmonization scope? To stop the free movement of production factors by constraining the other European countries to “harmonize” (it could be also read “increase”) their tax system to rough requirements of welfare state.

Free market vs. protectionism

The entire EU institutional arrangement - with American pedigree at its origins - is fundamentally the result of the European political system. Despite many economic arguments being quoted in favour of European integration, the defining source of the European project is, par excellence, primary a political one. Initially, the energies of the European integration were animated by the necessity to build a (political) power to counterbalance the American „imperialism” and the un-precedent taking aim of East Asia. In time, the economic dimension gained (an) increasing importance.

But who are the creators of this political project and what were they aiming at? The founding fathers of the „United States of Europe”, starting with Jean Monnet, were convinced that the „high” European authorities would have the capacity to plan the economic development overriding the economic principles of the market. We talk here about the model of an economy built via and surrounding the state policies and budgets? As shown in *Institutions and Prosperity. From Ethics to Efficiency* (Marinescu, 2004), the allocation of public resources does not impede the exigencies of economic calculus and of markets, but rather political rationales. In fact, the political allocation of resources bears the stamp of any governmental budget. European budgets are built on an immense scheme of subsidies, aids, structural funds and financial external assistance. All this explains the redistribution of resources in the European space via governmental budgets, the European budget and the common policies.

The candidate countries, being in the position of net-receivers, consider this a very positive process, at least at this stage. Since the Marshall Plan, it became clear that the dramatic expansion of „foreign aid” programmes is the result of a political option and not necessary of an efficiency criterion. Hence, the impossibility to assess whether the politically „exported” resources will serve a real economic need or will only contribute to feeding corruption and the “ossification” of the state elites. Billions of dollars external aids offered generously to the African countries by international financial institutions had a modest efficiency or proved to be painfully failure in reducing poverty (India, some countries from Latin America or Africa). Numerous studies have shown that external financial assistance neither creates, nor is it correlated with the essential sources of prosperity. If liberty is the determining source of prosperity, one could notice that a reduction of economic freedom is often – paradoxically - the result of foreign aid increasing¹. Setting external fund at the foundation of a country’s

¹ See the works of Lal (2002), Bauer (1993), Johnson (2003), Bandow and Vasquez (2001). For example, Bandow and Vasquez demonstrate the obvious inefficiency of foreign aid in India’s case: starting with „*first five year plan*”, since 1951 till 1990, India received the highest financial

economic success is a dismal illusion. This approach neglects the role of liberal policies (some of them even anti-European) in creating prosperity. Ireland is a very good illustration of the case when the reduction of public expenditure exceeded the inflow of European funds.

In its essence, the transition to market economy resides in the generalization of the private property as a fundamental institution and its logic corollaries: economic freedom, markets and economic calculus. For all candidate countries, excepting probably Estonia, embracing the European model was the equivalent of reducing the degree of state intervention in the economy and accompanied by an expansion of the market mechanisms. From this point of view, for the governments of Central and East European countries, accession represented an external constraint favouring the completion of reforms towards the market. For example, the liberalization of external trade (the adoption of a common trade policy), reducing the barriers to foreign investment and the free movement, the competition policy in general which can clarify the national business environments and even the almost obsessively invoked safeguard of legal stability and certainty.

However, the very European model itself is insufficiently open to the market mechanism in order to rapidly induce in the candidate countries the long waited for prosperity. Moreover, embracing this model requires costs which are far from negligible and which can reflect in the slow down the economic performance. The so much wanted economic growth is the product of economic liberalization and market mechanisms. Prosperity is not a spontaneous result of gaining the EU membership, but of sound economic policies which stimulate capital accumulation, investment and entrepreneurship.

CEE economies are emerging economies for which economic progress and spread of prosperity via the market could be more important than the protection by the state of consumers' interests, job security or other aspects related to environmental protection. Moreover, it has been admitted that the implementation of European rules in labour, agriculture and environmental sectors is associated with huge costs, which would vitiate the potential for economic growth.

For instance, if the European environmental regulations were immediately applied, they would sentence the Romanian economy to stagnation, by the imposition of the required high standards and prohibitive costs. It is

assistance of all developing countries, estimated at more than \$55 billions. Almost all of these foreign aids were "captured" by corruption and opportunistic political programs (of nationalizing sectors and enterprises – on „capitalist" money!!), that lead to political elite "ossification". Today, after over 50 years of centralized economy, a similarly high percentage of Indians (almost 40%) live at the limit of survival. Except a few cases, when the foreign aid proved fruitful - million of people where saved from starvation in 1950 and later on in 1960, the external financial assistance rendered a complete failure, encouraging corruption and socialism.

understandable why, at present, the most stringent standards and legislations regarding environmental issues are to be found in the developed countries: improving the environmental quality is the consequence and the reflection of an improvement in the standard of living. Empirical studies have shown that environmental standards tend to rise with the GDP/capita. This means that the European exigencies should give priority to the fast economic growth in the CEEC which should be followed, rather than preceded, by an improvement in the environmental standards. Besides, the possibilities of reforming the present approach (state ownership, high standards and huge governmental spending) through the systematic expansion of the private property in the environmental sector are an illusion.

Two years ago, the moment when ten central and eastern European nations were joining the EU, bringing the total number of members to 25, a great hysteria against “Polish plumbers” broke out. Being convinced that free movement of labor—a very possible pillar of the EU—would bring about a lot of poor central and eastern European workers desperate to earn better salaries or apply for welfare benefits in the richer nations, western Europeans began to demonize Polish plumbers. But only three countries out of the 15 old members states of the EU – Great Britain, Ireland and Sweden - decided to give workers from the ten new member countries the freedom to live and work almost without any restrictions. The other EU members imposed a seven-year delay on allowing those workers into their countries.

Based on official data given by every country from EU, the European Commission has published a report which proves the 12 protectionist countries were dead wrong. The three countries we have spoken about - that lifted restrictions on labor mobility - have seen their economies grow more and create more jobs than the rest due to migrant workers having essentially filled skill shortages in construction, restoration, and other services (many of them are dentists and bus drivers.) There has been no “invasion” of central and eastern European workers. Ireland, where the number is a bit higher, though still small, represents an exception as the workers are no more than 1 percent of the working-age population in the recipient countries. Moreover, restrictions have not stopped workers from moving to those western European countries that chose to keep them out—we can speak here about the underground economy. On the contrary, Austria, the country that places the greatest restrictions on foreign workers, is also the one that got the highest number of migrant workers—all of them being “self-employed.” And in those countries where they were welcomed, there has not been an increase in the number of people applying for welfare benefits—the great majority of workers simply want to work.

How to react to such a situation? On one hand, countries like Finland, Greece, Portugal, and Spain raised the issue of lifting the restrictions and. On the other hand, Germany, France, and Austria announced that they would keep the restrictions. What should mention the next report regarding France, as it is a country registering stagnation due to protectionist legislations¹.

Protectionism provides an open space for *rent seeking*. An uncompetitive environment is not good for consumers as they are prevented from buying the best products, for employees as they are prevented from working for the most efficient companies and, in the same time, for a better paid job and last, but not least, for shareholders as they are prevented from getting the highest value for their investments².

Although labor force and services liberalization represent principles established from 1957 within Rome Treaty, lying at the very heart of EU, in fact both workers and services providers that want to operate outside the origin country face off a lot of barriers, social, legislative and/or bureaucratic.

But, European Commissioners seem to be more and more convinced that reforming the traditional arrangement is absolutely necessary. Under these conditions, Achille's heel of ongoing reforms in EU seems to be services market. "Bolkenstein Directive" – after the name of its forerunner, the former European Commissioner for Internal Market, Frederick Bolkenstein - is his last major legislative proposal. It is designed to make the market for services within the EU as free as the market for goods. Its particular sting is a country-of-origin clause which would allow a Polish, Baltic or Hungarian person, say an architect or a market research agent, to sell a service in Germany or France while only paying the (low) social insurance premiums and taxes due in his home country. This is taken in Western Europe as a quite flagrant licence to practice "social dumping", the undercutting of decades of socialist achievements, and is political dynamite. President Chirac of France has promptly "vetoed" the directive and was joined,

¹ French President Jacques Chirac denied the idea that his country has recently become more protectionist, sustaining that France is as protectionist as it has always been. The ten industries about which President Chirac and Prime Minister Dominique De Villepin, classified "strategic industries" are the followings: private security, arms manufacture, biotechnology, pharmaceutical labs that produce antidotes, nuclear power, cryptology, computer security, defense contracting, the interception of communications, and casinos. All these deserve protection against foreign takeovers. Yet the problem is not just that the French will protect their national champions at the expense of consumers—or rather taxpayers, since part of their electricity and gas bill is paid by general fiscal revenue. The real problem is that because France is a strong player in the European arena, it's setting a precedent that is already being followed by many others.

² The sector where protectionism is extremely dangerous is the energy one. All companies have to be big and profitable and not dependent on public money or state protection. The unique market liberalization is the necessary condition for the Old Continent to begin to grow again. The choice that European leaders are called to make is very important for our common future as a wealthy region.

though in less peremptory style, by German Chancellor Schroeder. Brussels says the directive has been issued under existing powers, cannot be "vetoed" and will stand. The French government of course will do as it pleases. It will not be the first time that it refuses to apply a directive or honor a treaty; its contempt for the deficit limit it signed up to in the Maastricht stability pact is eloquent proof that the EU cannot force a major member country to do what it really hates doing.

Institutional transplant of European centralism

There are two ways in which the national governments could react to the generalization and the intensification of competition: giving up to the market forces or forming a cartel. The first means the consolidation of freedom and a greater prosperity, the second one erodes freedom, determines the preservation of the *status quo* and only redistributes wealth.

The first way reflects the generalization of the institutional competition, which represents the spontaneous adjustment of the national institutional arrangements with the aim of improving competitiveness and economic performance. IN the context of globalization – intensification of cross-border trade and the increased mobility of factors of production – economic systems are prone to certain adjustments and even to institutional changes of high magnitude. Under the new circumstances, the institutional competition – the competition between rules – is the natural consequence of technological and organizational innovations. These have induced the increase in the mobility of goods and people at international level, the unprecedented development of communications through the reduction of transaction costs. Thus, the opportunities offered by the external market are greater and their fructification becomes more advantageous.

The European model of institutional building and political governance corresponds to the second path. This derives from the European political elite belief that the politically and economically uniformed, harmonized United Europe will better resist the “disruptive” forces of globalization. In this view, the *acquis* would represent an instrument of harmonization through institutional transplant and the taking over the legislation *corpus* (*acquis communautaire*).

The Brussels bureaucracy, also called Eurocracy, has developed specific forms of hierarchical coordination and administrative harmonization (read *standardization*) in almost every domain of public policy. The transposition of the 97.000 pages of European legislation means importing institutions, administrative structures, legal practices and economic policies. The *acquis* illustrates probably the best way the legislation can be turned into a governing (political) instrument, thus creating a radical discrepancy between Legislation (governing regulation) and Law (applying the rule of law through the distinction between good and evil).

Moreover, the project of the European Constitution, the longest and most politicized constitution of all times - 270 pages and 70.000 words, in comparison with the only 17 pages and 4.500 words that the USA Constitution counts) is a clear example of European centralism at economic, institutional and political level.

With regard to the constitutional arrangements, one needs to mention that the most important difference between the American Constitution and the Constitutional project of the European Union resides in their view on “rights”. The „Bill of Rights” of the US Constitution consists in a list of individual rights against the state and its constraining powers, the „Charter of Fundamental Rights” of the European project consists in a long list of rights to the state monopolized services, like the right to education and health, the right to security, social assistance, right to work etc. The US Constitution is largely build on the philosophy of “the right to ...” (ownership) because, lastly, the philosophy of the natural right of John Locke demonstrates the human rights cannot be conceived other than as ownership rights. In turn, the European constitutional project talks about “the right of...”, a concept that implies the very undermining of the true human rights, by the expansion of political power and the authority of the state over the life of the individual. By the sacrifice of these fundamental principles of law, the authors of the constitutional treaty project have overloaded the vessel of social rights with nothing else but privileges that dilute the concepts of contract and individual responsibility, favouring set up of a union like, collectivist regime.

The accession process, as it was conceived, was based on the creation and consolidation of an executive specialized branch at national level, which favours the executive component of government. This derives from the fact that the negotiating process and the adoption of European norms is, in reality, an administrative exercise which has the nature of consolidating even more the “statist model” in Europe through the perpetuation of the welfare (redistributive) state and the social market economy model - a model whose economic performances are more and more modest. The fact that the whole process of EU enlargement has developed in a purely elitist, technocratic way has eroded the public support and the trust in the integration process. This could explain why, in what regards the enlargement issue, the public opinion in many European countries is less enthusiastic than in the Brussels officials’ declarations.

From an economic perspective, it is not clear why should EU be an centralized institutional and political arrangement. The free market and competition are capable of boosting Europeans prosperity without necessarily regulating the size and shape of fruits and vegetables, as it happens with the European legislation. Almost all economic and social policies and subject to “harmonization” at a pan-European level while enlargement based on a strictly conditionality system becomes a powerful instrument of reducing diversity.

At fiscal level, harmonization could lead to the alignment of taxes “higher” at the level of most burdensome fiscal regimes. It is alarming that European officials tackle the competition issue only half the way: competition is good, but not between governments (at fiscal level). It seems ironic that many European officials have shown concerns for the fact that some countries use fiscal dumping as more and more business turn towards more friendly fiscal jurisdictions. Moreover, both at EU and OECD level, there are concrete proposals for fiscal harmonization in order to prevent the damages of fiscal competition!! These measures are meant to prevent the national governments to resort to the fiscal competition “gun” as the main means of rending their business environment more appealing; this is similar with prohibiting the entrepreneurs to use all the tools and instruments they know for obtaining the best quality product in the least costly way. In that case, the constitutional rights of American and Swiss citizens to legislative proposals of fiscal reductions should be forbidden, since this would lead to the reduction of revenues from taxation to the German or the French government?! And, to finally conclude on the issue of fiscal competition, we should quote Pascal Salin who said that prosperity needs not to abolish the “fiscal paradises”, but to abolish the „fiscal hell”...

Theoretically, *fiscal competition* is the natural consequence of the mobility of taxation base between the states. As a non-cooperative game between governments, the fiscal competition generates the incentive to reduce the fiscal pressure for the taxation bases with a higher mobility and the increase of the burden for the factor of production and activities less mobile. As globalization diminishes the possibilities for monopolies to resist in different markets, so it acts towards the limitation of the monopoly of governmental power. Consequently, governments that cannot resist fiscal competition could exhibit the tendency to operate at a higher level of constraint of the political monopoly, in a fiscal cartel very likely to be built at European level.

At present, the ample technological and institutional changes facilitate the international migration and the intensification of fiscal policy in the labour markets, a factor whose mobility has increased significantly: the high tech sector specific skills, artists, sportsmen, all place their activities taking into account the friendliest fiscal jurisdiction. For instance, the fiscal authority in France reports that each year, thousands of tax-payers leave the country for fiscal reasons; a large number of French entrepreneurs place their operations in UK; the strong relief of fiscal pressure in Ireland has reversed the traditional trend of migration.

At sector policy level, guided by its aim to “organize” (read make uniform) whole sectors of economic activity, the European Commission has adopted the strategy of „common policies”, based on the proliferation of regulations, administrative controls and political subsidies. What are the results? The ACP - an

expression of the view that private agriculture is impossible – has deprived consumers, contributors and even farmers. The Brussels fixed prices did not prevent the rural exodus; they have put pressure on households' income, while the protectionist policy diminishes the benefits from agricultural cheaper imports. Moreover, as a result of accession, the farmers in the new Member States will have to reduce their output in conformity with the already negotiated and arbitrary established quotas together with the European decision making bodies, based on un-loyal competition grounds, despite the fact that old Member States export more to Easter Europe than they import. But how do the production quotas – a concept reminiscent from the old soviet system - shake hands with the idea of a true, compete internal market?

The welfare state or the redistribution that deprives

When the economic history of Europe from the last third of 20th century will be written, we will understand the whole series of battles that national governments have launched against the economic reality, with the mere illusion that victory can be granted by the embodiment of a simple majority. In this period, Europe was dominated by the institutional arrangement of the welfare state, whose practices were promising education, healthcare, security, prosperity, jobs, in a word happiness for everyone. For the achievement of this goal, national governments understood to increase governmental spending to over 50% of their GDP¹.

Beyond the increase in public spending, the welfare state machinery was fortified by numerous protectionist laws, ranging from an extremely elaborated system of “working rights” to a huge administrative mechanism in the social insurance and social care. The almost full subordination of the economic to the political was justified, on a large scale, by two reasons. The first one, packaged in cheap electoral pills like „The man counts more than the market” or „In democracy, it is the votes that decide, not the dollars”, is based on the fallacy that man, on one side and dollars, on the other side, have conflicting interests. The second reason, one that amplified the invasion of economy by a multitude of “welfare” policies consists in the unhappy belief that the redistribution of income by the government through taxation and policies is an act of “social justice” and a moral duty.

The institutional arrangement initially named “welfare state” was later on recalled in numerous programmatic declarations of EU as the “European model. This very skilful linguistic manoeuvre is meant to underline the clear antagonism

¹ In 2005 the governmental spending reached 53% of GDP in France. That was accompanied by solemn promises from the political power to effectively control public spending within the next years, so that they would decrease to (sic!) 51% by 2010.

of the „European model” in contrast with the „Anglo-Saxon” or, even further, with its political rival, the „American model”. In this sense, the supporters of the institutional construction of the EU try to accredit the idea that the performance of this „European model” will be the more obvious, the more the good Europeans will disagree with the cultural model of Anglo-Saxon origin.

Obviously, the claim that, at present, this „European model” would be representative for all Europeans is biased. Essentially, the nature of the „model” is French-German. Its essence is derived from the French socialism of military Gaullist inspiration, from the German social-democracy and the doctrine of the unions¹. Thus, the European model gets attached, as it is the case for any „rational planned” society, to its own system of cultural values, meant to clearly illustrate the dislike of the Anglo – Saxon civilization, still liberal, but more and more to a lesser extent.

The fundamental trait of the “European model”, taken over *ad-litteram* from the arrangement of the „welfare state”, consists in the redistribution of welfare in the society. Nowadays, the political redistribution of property is considered, even amongst economists, a “natural” prerogative of the state. But the institutionalization of the redistributive practices of the *welfare state* produces, during time, as it has been proved, two types of consequences that inhibit economic prosperity².

a) *At economic level*, the incentives for work, initiative and entrepreneurial activity are negatively affected; a decrease in the rate of capital formation, the disincentive of the investments with depressive effects on the economic activity.

b) *At socio-cultural level*, changes occur in the social structure regarding the types of personality and character of humans. Social assistance is the one that creates a “mentality of assisted” and favours the collectivist and equalizing cultural values.

Beyond the precarious realism of the policies of the European welfare state, the main goal of the “model” consists in developing a vast scheme of social security, starting with the full monopoly of state in the education sector, goes further with the legal protection of labour places, the best paid holidays, the

¹ The European Union tradition is well known. The Americans had spoiled theirs by the capitalist „spirit” that animated the initial development of their economy. If *socialism* was aiming at collective state property on capital, the *union-ship* (as a doctrine and a tactic) had as a fundamental goal the abolition of the separation of workers from the means of production and consequently the annihilation of the entrepreneurial spirit (see Ludwig von Mises, 1966, chapter XXXIII).

² See Marinescu (2004) Ch. 5 on Political institutions: the power of non-owners, p. 181-236.

lowest duration of labour-time that ever existed and ends up with the social insurances for the unemployed and the state pensions.

But which are the economic costs of this social „generosity”? First, we need to understand this public “generosity” is built on higher taxes that have always defined the welfare state institutional arrangement. The redistribution mechanisms and the burdensome taxation are the very sources of the economic problems that Europe faces at this moment. First, we talk about a very pale economic growth experienced by some of the *hard-core* members of the Union. Economic growth rates of 1-2% have become almost a rule, thus being official figures of the economic counter-performance in the EU. Happily, the economic growth deficit in the EU raises serious constraints for the European elite in continuing to rolling systematically the social (read “political”) leverages of “welfare”. Secondly, it is the serious frictions in the way of the realization of “social harmony” whose source resides, ultimately, in the administrative defection of the labour market mechanism. During the thirty years since the “social model” became a political must, unemployment exploded from an average of 4% to over 10% in France and to approx. 12% in Germany. And from the side-slip of the labour market (if we allow ourselves to call it labour market) to the undermining of the fundamentals of civilizations, of “social cohesion” (a concept so dear to the planners of the EU) are only a few very small steps.

The morale is that social policies meant at ensuring social cohesion end up by off-setting economic growth and implicitly, the creation of jobs, which also explains the dramatic tensions in the labour market in countries like France and Germany. Moreover, the partisans of the “European social model” proved the misunderstanding of a simple economic logic when they claim that unemployment is high in Europe because the model is not “social” enough...or “European”, which holds the danger of giving birth to an even more stringent need of European “harmonization. In reality, unemployment is the consequence of a labour market stiffens by its own over-regulations by the job protectionism. This is contrary even to the principle of “freedom of contracts” by a fiscal burden that ruins the incentives of entrepreneurship, hence the scarcity of the newly created jobs. In an economy dominated by the public sector, the thirty years time of economic socialist policies have spoiled the incentives of the entrepreneurship and turned the “working class” to an amorphous mass continuously nourished with preferential legislation¹.

¹ In „*Winning Policy Battles, but Losing the War Against Economic Realities*”, Anthony de Jasay (2006) shows how workers benefit from the „social model” compared with the ones exposed to the market’s whims. When some years ago Toyota set up a division of its automobile assembly-lines in the industrial region from Northern France, the president of the company expressed his satisfaction for this choice by contrast to UK because „English workers can allow themselves to be cheeky while French cannot”.

An U-turn in Community law

Although for some three decades the Community adhered to what one would call the protectionism of the public utilities at national level, making them practically carved out of the internal market, the same Community embraces quite an opposite view nowadays. Since the late 1980s, the EU made great strides in the liberalization of network markets. One should notice that the core article on which both views are based has never been changed.

Art. 82, former Art. 86 of the EC Treaty is a compromise article balancing the Community interest - integration, as expressed in basic treaty provisions – and the member states' interest – the reasons of granting an exclusive right. The hard-core provisions of the internal market include free movement, free establishment and effective competition. With respect to undertakings, art. 82 (former 86) states that “Member States shall neither enact nor maintain in force any measure contrary to the rules in this Treaty, in particular to those rules provided for in art 12 (discrimination in what regards nationality) and articles 81 to 89 (rules of competition: antitrust and state aid control). This provision taken literally is (or should function) as a liberalization clause. However, one could get exactly the opposite conclusion from the 2nd paragraph where the same art 82 states that if undertakings have been entrusted with “services of general interest”, the subjection to treaty rules is conditional. It is particularly the case of network industries. The derogation is meant to protect the public-service function, as the rules *‘apply insofar as the application of such rules does not obstruct the performance, in law or in fact, of the particular task assigned to them’*. The old approach that ruled for three decades was to take for granted the fact that traditional public utilities needed exclusive rights for the performance *‘of the particular task assigned to them’*. Challenging the very existence of such legal monopolies or their exercise of exclusive rights occurred very rarely and did not have an impact on the markets.

Starting with the early '90, a different approach was embraced. The first change was marked by the Corbeau case, when the *necessity test*¹ was introduced in order to trace the boundaries of the Belgian postal monopoly. This test opened the pathway towards more fundamental queries, such as the necessity of the exclusive rights² for the universal service itself, with or without uniformity of tariffs.

¹ Basically, the test consists in answering the question on what public service obligations would the utility be unable to meet without being a legal monopoly?

² The issues is whether or not there exist other less restrictive, pro-competitive solutions to the same problem that would not fragment the internal market by reducing competition.

A second step forward was done by the need for justification of the exclusive right on the member states, what is called in legal terms “the burden of proof”. This is another radical change of approach, opposite from the past when the existence of the natural monopoly was legal if motivated by a public service. In this respect, the new interpretation of law forced national policy makers into a functional reconsideration about the rationale of utilities regulation.

It is true that solely the interpretation of the same old legal bases, in our case a few Treaty articles cannot by itself be considered responsible for this change of approach. There are other factors that play a role: actual observations of the network markets, trendsetting at national level, even the reasoned proposals from the Commission (many times the forerunner in the liberalization process). But, again, although ruling more in favor of the new approach¹, the ECJ tends to allow considerable margins of discretion to member states (Blum, 2000).

A similar situation arises via regulation and fragmentation of internal market by self-regulation. In this case, it is not the state-monopoly, but the very national suppliers of services that would impose regulations hindering competition. In a decision dating April 2004, the Commission imposed fines on the *Belgian Architects Association* (BAA) who had infringed Art 81 of the EC Treaty by adopting and making available a minimum fees scale as "guideline" for its members. The fee scale contained in the so called *Ethical Standard 2* had a prescriptive character instead of being just a descriptive codification as claimed by the Association. The BAA had hindered price competition within this liberal profession for a time span of over 35 years.

One should see this very special case of art 81 application within the general framework of the Commission policy towards liberal professions and in the light of previous decisions² where no fines or only symbolic fine were imposed. In its Report on Competition in Professional Services (February 2004), the Commission stressed the need to *encourage the national regulatory authorities and professional bodies* to revise and amend their restrictive rules.

The BAA case is also to be seen in the wider context of the intentions of former Commissioners Monti and Bolkestein to liberalize liberal professions, a sector which is still highly regulated and the decision refers to a relatively new field of application of competition rules. This very decision has very often been presented by the lobbyists as an example of Commission ‘interfering with the right of and principles of subsidiarity’, which happens very often when people

¹ In market sectors, probably the greatest impact of the Commission in giving the sign towards more ‘free’ movement of services and it the rulings of ECJ can be seen on telecoms and broadcasting. In postal services, the Corbeau has limited the scope of monopolies on express mail services.

² For example 1993 *CNSD - Italian customs agents* - and 1996 *Fenex - Dutch forwarding agents*.

only have superficial knowledge of the field and when enough rhetoric can weight into the favour of the louder voice.

Liberalisation and regulatory reform

Despite the efforts of Commission, a forerunner of liberalization, backed up or encouraged by ECJ decisions, we need to remind that the nature of network liberalization is being *recent, gradual, uneven and complex* (Pelkmans, 2002). One should also keep in mind the very truth that competition policy is weak when the host country regime is still the rule in EU, which is the case, at present, in the services sector. Therefore a different approach was needed, and that was exactly the idea of the regulatory reform, coming as a proposal in the Bolkestein directive.

Most of the recent progress in the area of services was based on agreed liberalization and approximation, sometimes called harmonization. The use of directives adopted by codecision by the Council and Parliament represent a regulatory approach towards liberalization. The Commission, making use of its right of initiative, took often the risk of pushing towards more liberalization, while encountering the opposition of the member states representatives in the Council. Once a proposal passed this first obstacle, another staunch opposition would come from the majorities in the European Parliament, with MEP being persuaded to vote against for ideological reasons or for fear of the protests of the so well organized lobbyists of the public-service unions.

Different stages of the regulatory reform process and the level of competition differs significantly between sectors. While several empirical studies provide quantitative evidence of the sector-specific and economy-wide benefits of regulatory reforms in network industries (seen in terms of price level reductions, relevant for consumer welfare but also lowering inflation). Other research give evidence on the regulatory heterogeneity playing the role of an obstacle on the international trade for services. Increased competition (in terms of liberalization, privatization, unbundling, etc.) is generally associated with lower price levels, expanded output and labor productivity gains.

However, regulatory reforms do have some short-term costs, mainly in the form of initial employment losses. The ultimate impact on sector and aggregate employment depends on the labor market's ability to adjust to a changing economic situation. Service quality and the extent of R&D and innovation expenditures appear also to be positively linked to regulatory reforms. All in all, the empirical results in the literature tend to confirm that regulatory reforms in network industries enhance consumer welfare.

From a legal point of view most of these industries are now fully or largely subject to competition. With regard to telecommunications, regulators are gradually adapting the current regulatory framework to the new business

environment by lessening regulation where competition has emerged and strengthening it where incumbents still retain a dominant position.

Generally speaking, the experience of EU network industries demonstrates that an appropriate regulatory framework is indispensable in order to create *de facto* competition in these sectors, even after markets have become legally open. In other words, the ‘quality’ of the regulatory framework has a considerable impact on the extent to which regulatory reforms in network industries will result in price falls and other positive economic effects.

Competition and regulation - blurred

Although it is very difficult to isolate competition policy as a stand-alone policy when applied to services and especially when applied to network industries, one cannot notice the role played during time as well as the inevitable regulatory or quasi-regulatory aspects to be taken into account, that meaning that competition policy itself deviates from traditions in assuming quasi-regulatory functions. One cannot make a full analysis without touching on aspects like the general relation between EC competition policy and EC regulations in network industries, the thrust of rulings of the ECJ on network industries, the ‘essential facilities’ doctrine as an alternative to regulation, the problem of defining ‘relevant markets’ as well as the question whether the EC merger control application to network market regulation.

In the telecoms package, for example, in explicit attempt is made towards giving competition policy a quasi-regulatory role. That means, procedures, deadlines and published in the Notices and Guidelines are closer to en-ante rules rather than ex-post policy. On one side, significant market power in the telecoms sector (what corresponds to the dominance concept in competition policy) is to be employed in an ex-ante manner, with a legal basis for regulatory obligations.

The telecoms sector is a clear example of success for the Commission using its single instrument, the Directive, to show how free markets can perform better than monopolies, even in the case of SGI and public utilities. Moreover, the backing offered by the Court rulings, although surprising, nourished Commission’s determination to pursue the course of network liberalization in very sensitive area.

Is there an internal market for services? Is there an internal market for network industries? At least in the telecoms and the postal services, that would not be the case. In the telecoms, licencing is still too discretionary¹. Although quality is higher and there is some convergence in prices, there is yet no removal of

¹ There is no European licence and no mutual recognition, that meaning that the so distortive host country control continues to be the rule. There is still hope that the mobile companies will create the virtual European networks. In the postal services, the situation is worse, with large part of the industries still reserved, including all cross-border Reims II.

frontiers. As yet, none of the networking industries is operating in a genuine internal market.

Not yet ready to serve?

All major network industries are now subject to processes of liberalization and minimum regulation. Competition policy has been, at least during Monti's and Bolkestein's mandates, actively applied, trying to send clear signals towards need of opening national markets, also as a pillar of the more extensive process of liberalization in the services sectors. Although we only marginally touched upon the examples from two sectors – namely telecoms - where the liberalization was more successful than in the other areas -, and postal services, in spite of the highly technical issues, we can still draw some more general conclusions.

There is a stringent need that European, especially member states come down from what is called the high-handed rhetoric of the Lisbon European Council and formulate a truly well-considered strategy for liberalization of services in general and of network industries as well.

The Bolkestein directive is remarkable in a number of ways. Firstly, it aims at solving what we cannot exaggerate by calling an anomaly in the internal market, when the free movement of services, expressly mentioned in the EC Treaty, is working badly, randomly, be it in regulated on non-regulated areas. This situation is, economically speaking, a huge source of waste and foregone potential. The draft of the directive has one important feature – it is based on the “origin principle”, as opposed to the distortive “host country principle”, a rule that fragments the market and gives national authorities the discretion towards selection and restriction of foreign economic agents in their services markets. Few directives are based on the origin principle (TV without frontiers and the e-commerce directive), which makes the directive so special both from a legal and economic point of view. The directive is meant as a framework directive, feature that renders it as extremely complex and technical, and in many cases inaccessible to the public, a characteristic that makes it also prone to misunderstandings and which can raise unfair criticism.

The proposal has given rise to a tremendous emotional opposition, often with improper accusations and highly politicized debates at all levels. A few sticking points in the overly politicized debate are about two clusters of issues: on one hand, health and education, as long as not commercialized, do not fall under the head “services of general (non-economic) interest”, which will fall under the draft. On the other hand, the opponents of the directive say that labor protection via the posted workers directive and Rome I and II convention on labor contracts, is insufficiently shielded from the origin principle. While the Council in its

common position excluded only "non-economic services of general interest", MEP and rapporteur Gebhardt proposed, according to her report, only 11 technical changes. Amongst these, to exclude all services of general interest (SGI), arguing that "SGI are by their very nature non-economic".

Under the light of these, the very proposal to erase the services of general interest from the Directive will practically carve out the very core of the liberalization process from the legislative proposal, already a fragile compromise, rendering the document obsolete and lacking substance.

Although the spirits were not high on this issue, one could still hope that the proposal still bearing the seeds of a true and complete free internal market for services, planted by the liberal technocrat, i.e. the Commission, would not be completely washed away by the conservative "voice of citizens" as it sounds in the European Parliament, after having partially overcome the greed of the conservative "voice" national protectionism.

Unfortunately, the recent vote in the Parliament proved that Europe is still not ready to accept the most needed reform. The "historic compromise" although "still expressing the common goal of opening up the internal market for services" is very different from the text that would have indeed paved the way to services freedom in the European space. Not only is the scope of the adopted directive reduced, but most important, the 'country of origin principle' was completely moved away from the text and a new wording introducing far less legal certainty was introduced – the so called 'freedom to provide services. The Parliament also introduced the reservation that member state's "requirements with regard to the provision of a service activity, where they are justified for reasons of public policy, public security, social policy, consumer protection, environmental protection and public health" still apply. As the European Trade Union Confederation declared, on 15th of November, "the European Parliament (EP) has approved at second reading the modified Services Directive, burying for once and for all initial Bolkestein proposal". Thus, the convictions of the welfare state have won again in the battle with the free market.

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ORGANIC AGRICULTURE IN EUROPEAN UNION.
THE CASE OF ITALY

Iuliana Mircea*

Abstract

This study aims to approach some interesting points of view on-looker the organic agriculture in Europe, a new relative area of modern agriculture, which is in a continuous development nowadays.

The organic agriculture has a very important place in the agriculture in Europe and in entire world. In contrast to other parts of European agriculture, organic farming is a growth sector. Although rapid growth has been observed in absolute terms, the organic farming sector is still quite small, covering only about four percent of total agricultural land area in the EU. Due to differences in support between Member States and regions, large differences in the development stage of the organic sector exist.

The term "organic agriculture" refers to a process that uses methods respectful of the environment from the production stages through handling and processing. Organic production is not merely concerned with a product, but also with the whole system used to produce and deliver the product to the ultimate consumer. Two main sources of general principles and requirements apply to organic agriculture at the international level. One is the Codex Alimentarius Guidelines for the Production, Processing, Labelling and Marketing of Organically Produced Foods¹. The other is the International Federation of Organic Agriculture Movements (IFOAM), a private-sector international body, with some 750 member organizations in over 100 countries. IFOAM defines and regularly reviews, in consultation with its members, the Basic Standards that shape the "organic" term¹. According to the IFOAM 2002 Basic Standards, "organic agriculture is a whole system approach based upon a set of processes resulting in a sustainable ecosystem, safe food, good nutrition, animal welfare and social justice. Organic production therefore is more than a system of production that includes or excludes certain inputs."²

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¹ Scialabba, Hattam (2002, p. 3-5).

² IFOAM (2002)

According to the Codex Alimentarius, organic farming involves holistic production management systems (for crops and livestock) emphasising the use of management practices in preference to the use of off-farm inputs. This is accomplished by using, where possible, cultural, biological and mechanical methods in preference to synthetic materials.

The Codex guidelines specify¹ that an organic production system is designed to:

- “enhance biological diversity within the whole system;
- increased soil biological activity;
- maintain long-term soil fertility;
- recycle wastes of plant and animal origin in order to return nutrients to the land, thus minimising the use of non-renewable resources;
- rely on renewable resources in locally organised agricultural systems;
- promote the healthy use of soil, water and air as well as minimise all forms of pollution there to that may result from agricultural practices;
- handle agricultural products with emphasis on careful processing methods in order to maintain the organic integrity and vital qualities of the product at all stages;
- become established on any existing farm through a period of conversion, the appropriate length of which is determined by site-specific factors such as the history of the land, and type of crops and livestock to be produced”.

Organic livestock farming is based on the principle of a close link between the animals and the soil. The need for a link with the soil requires animals to have free access to outside areas for exercise, and also implies that their feed should be not only organic, but preferably produced on the farm. This sector of organic farming is, moreover, very strictly regulated by provisions on animal welfare and veterinary care.

The objectives of organic farming are identical whether we consider crop products or animal products: they comprise the application of production methods that do not damage the environment, more respectful use of the achievement of high-quality agricultural products.

On 24 June 1991, Council Regulation (EEC) No. 2092/91 on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs was adopted. Council Regulation (EEC) No. 2092/91 applies to non-processed crop and animal products, to processed agricultural products intended for human consumption, and to animal feed², where labelling ,

¹ CAC (1999, point 7).

² Article 1 of Council Regulation (EEC) No. 2092/91 of 24 June 1991 on organic production of agricultural products and indications referring thereto on agricultural products and

advertising material or commercial documents include the indication in use in each Member State suggesting to the purchaser that the product was obtained in accordance with the organic production method defined in the Regulation.

Organic farming aims at sustainable farming by means of a specific farm production system offering an alternative to the more traditional approaches to agriculture. It emphasises the use of management practices avoiding off-farm inputs and responding to a consumer demand for naturally-produced foodstuffs (excluding as far as possible the use of synthetic substances). In particular, organic farmers are concerned about producing agricultural products while minimising the negative effects on the environment, preserving as far as possible natural resources and maintaining biological diversity on farms and their neighbourhood.¹ Rules have therefore been introduced to ensure the protection and the respect of organic farming methods.

Farming is considered to be organic at European Union level if it complies with Council Regulation (EEC) No. 2092/91. This Regulation has been amended on several occasions, in particular in 1999 when the Council extended its scope to cover organic livestock production (No 1804/99). In June 2004, the European Commission adopted the “European Action Plan for Organic Food and Farming” whose objective is to facilitate the ongoing development of organic farming in the EU with 21 measures to be implemented.

According to European Action Plan for Organic Food and Farming, impact of organic farming is very important for the environmental protection. The main benefits of organic farming relate to:

- Pesticides – restricting the use of pesticides, as in the case of organic farming, improves landscape, water quality, wildlife conservation and also the faunal and floral diversity.
- Plant nutrients – organic farming usually results in lower nitrate-leaching rates than those achieved on average in integrated or non-organic agriculture, as shown by studies on autumn nitrogen residues in the soil of almost all relevant crops.
- Soil protection – management practices used by organic farmers, such as growing catch crops to reduce nitrate leaching, wider and more varied crop rotations, and mixed grazing to reduce mono-specific overgrazing, all help to protect the soil.
- Biodiversity and nature protection – organic farming contributes to the preservation of species and natural habitats by means of its reduced inputs, its

foodstuffs (OJL 198, 22.7.1991, page 1); (see also the Council Regulation (EC) No. 1991/2006 of 21 Dec. 2006 amending Regulation (EEC) No 2092/91);

¹ Kristiansen and Reganold, (2006, p. 3).

high share of grassland with in holdings and its grater use of indigenous breeds and plant varieties.

- Animal welfare – organic farming may have a positive impact on animal welfare since the standards for organic farming include several requirements in this area that go further than the statutory provisions¹.

At EU-25 level, certified organic and in conversion area is 5.7 mio ha and represents 3.6% of the utilised agricultural area. At EU-15 level, certified organic and in-conversion area increased from 0.7 mio ha in 1993 to 5.1 mio ha in 2003.

There are substantial differences between the individual countries regarding the importance of organic farming in EU-25. In 2003 Italy had the most important organic area with more than 1.0 mio ha - about fifth of EU-25 – followed by Germany, Spain and United Kingdom, all three countries with about 0.7 mio ha, and France with 0.55 mio ha. The most important organic area in the EU-N10 is located in the Czech Republic with 0.25 mio ha and Hungary – 0.1 mio ha.

In 2004, 11 Member States were above the EU-25 average of organic area in utilised agricultural area: Austria 9.7%, Italy 8.1%, Sweden 7.2%, Finland 7.1%, Greece 6.8%, Denmark 6.1%, Czech Republic 6.0%, Slovenia 4.6%, Estonia 4.6%, the United Kingdom 4.3% and Germany 4.3%. Some of these Member States had already substantial share of organic area in 1993, but the ranking was different: Austria 4.0%, Germany 1.4%, Sweden 1.2%, Finland 0.9%, Denmark 0.8% and Italy 0.6%².

Compared with 1999, all EU Member States increased their organic land. The highest increases in 2003 occurred in those Member States where the share was relatively low in 1999 – Greece (tripling the area), Portugal (+50%). With the exceptions of Austria (+10%), the Czech Republic (+15%), the United Kingdom and Germany, the increases werw relatively low in Member States, having a share in total utilised agricultural area above the EU-25 average.(Figure 1)

¹ European Action Plan for Organic Food and Farming, Brussels, 10 June 2004, Commission Staff Working Document;

² Thielen (2005).

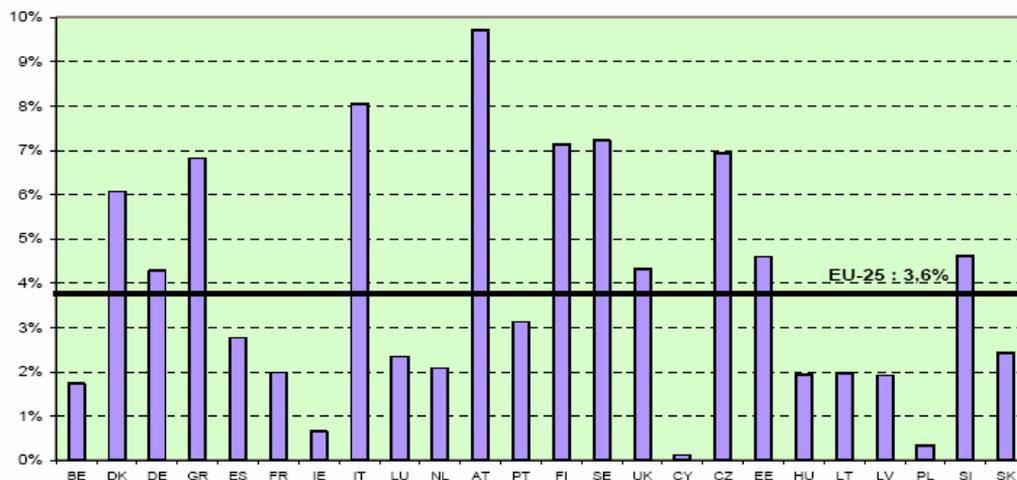


Figure 1: Share of organic area in utilised agricultural area in EU-25 in 2004 (%)

At EU-25 level, 149 000 holdings are certified organic and in-conversion holdings which represent 1,4% of total agricultural holdings. For EU-N10 organic holdings represent a share of 0,25% in total holdings.

In the EU-25, the average organically cultivated area per holding at 40 ha was significantly larger than the average area of conventional holdings at 15 ha of utilised agricultural area. Compared to the average conventional holding, organic holdings are particularly large in two Southern Member States: Greece and Portugal – it might be influenced by relatively high share of olive groves. However, in the Member States with the most important share of organic holdings are United Kingdom, Austria, Finland and Denmark (Figure 2).

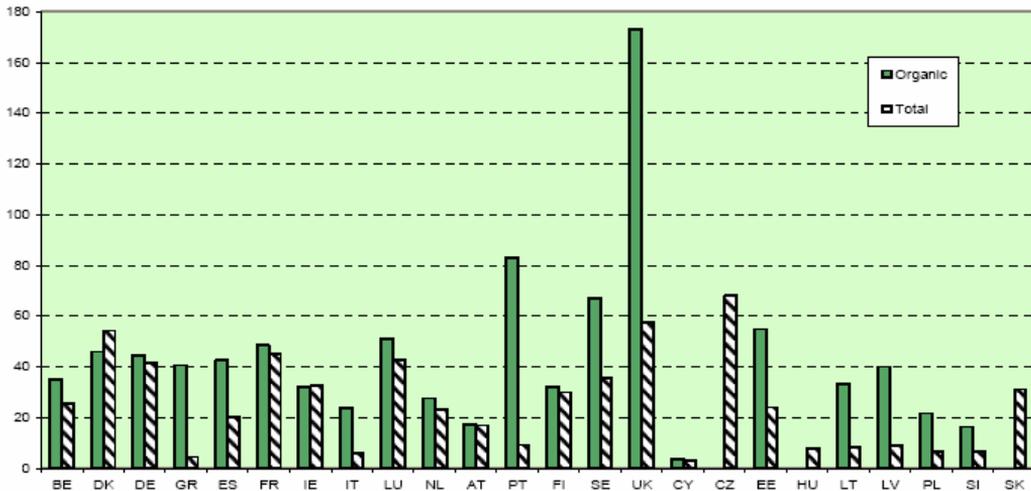


Figure 2: Utilised agricultural area per holding in EU-25 (ha).

In 2004, Italy had the largest number of organic holdings (31% of EU-25 total), followed by Austria, Spain and Germany with about 19 000-17 000 ha each. Over the period 1999-2004 the highest annual increase in number of holdings was noticed in the United Kingdom (13%), Spain (11%), Luxembourg (11%), Portugal (11%) and France (10%). In the same time, the number of holdings slightly decreased in Austria over this period.

Organic agriculture in Italy

In Italy the earliest pioneering experiences in organic agriculture date back to the nineteen-sixties, but only took off in the nineteen-seventies, involving more and more farmers and consumers seeking an improved quality of life and consumption.

During the mid eighties, the first local coordination agencies established the "Commissione Nazionale Cos'è Biologico" (National Commission for Organic Agriculture). Made up of representatives of organisations and consumers' associations from each Italian region, the Commission established the first nationwide self-regulatory standards for organic farming. Once EU-Regulation 2092/91 was implemented, the numerous small associations of organic farmers and the producers and consumers committees operating in every region reorganised themselves, joining forces through mergers and a federative network. Today, there are 16 officially recognised certification agencies operating in Italy. In the nineteen-nineties the organic sector in Italy showed one of the largest average annual growth rates in Europe. Since 2002 the number of farms has, however, decreased, because in some regions aids are not available any more.

Most of the Italian organic farms are in the South and the Islands (32 %), even though with the recent decrease of the numbers of farms the share of the farms in the South went down. In Sicily organic farming developed at a very fast rate, with the number of farms increasing 2.5 times and land area almost doubling between 1993 and 1995. In comparison, the average rate of growth for the whole country was 123% and 126%, respectively, for the same period. The development in Sardinia is more recent, and mainly due to the application of EU Regulation 2078/92. When pastures were admitted to qualify for aid, many sheep-grazing pastures were converted into organic ones (for the most part, Sardinian farmers are sheep breeders and producers of the well known "pecorino" cheese). However, on both islands the number of organic farms recently dropped.

Tuscany and Emilia-Romagna have experienced pioneering organic movements dating back to the early 1980s. Indeed, out of the 16 certifying bodies five (ICEA, BioAgriCert, Codex, CCPB, QC&I) are based in Emilia-Romagna or Tuscany. Olive trees are grown by 60% of Tuscany's organic farmers, while cereals and fruit & vegetables prevail in Emilia-Romagna. Both regional governments have approved special laws after EU Regulations 2092/91 and 2078/92 to regulate and promote organic farming. Apulia in the South of Italy has also had a very recent growth, mainly due to policy support. Its main crops are durum wheat, olive oil and vegetables.

Since most farms are stockless (with some notable exception like the Parmigiano area in Emilia Romagna, the sheep breeding area in Sardegna or the Chianina Cattle breeders in Umbria and Tuscany), most grass is sold to nearby farmers or used as green manure. Cereals follow, dominating the cropping pattern in regions like Puglia, Sicily and Emilia Romagna. Organic rice is grown in Lombardia and Piemonte. Olive trees characterize most of Italian landscape and therefore thousands of hectares have been converted into organic management, as well as vineyards. Large orchards can be found mostly in Emilia Romagna, while small scale production is scattered everywhere. The same can be said about vegetable production, that is lagging a bit behind the expectations, mainly due to technical problems and the comparative low level of subsidies.

Agritourism is a characteristic feature of the Italian countryside and it has also experienced a huge development in the last years. On the organic farms, it allows not only to diversify income sources, but also to sell farm products and to educate the guests about the benefits of organic foods, once back home. In 2000, the number of organic farms was up to 595 all over the country, decreasing next year to 471. Almost half of them can be found in the four Regions of Central Italy, with Tuscany in leading position.¹

¹ Santucci and Pignataro (2002).

Italy's Certifying and Inspection Bodies. At present, nine Certification bodies operate nationwide in Italy. Some of them were initially cultural associations, as the Biodynamic Association (est. 1947), Suolo e Salute (est. 1969) and AIAB – Associazione Italiana per l'Agricoltura Biologica (est. 1988), linking producers, scientists, consumers etc, aiming at the development of organic farming. They organised conferences and training courses, published magazines and lobbied for recognition of organic farming. In 1993, the Italian Minister of Agriculture recognized three new organizations: AMAB – Associazione Marchigiana per l'Agricoltura Biologica -, AgriEcoBio and BioAgriCoop. So, the total number of certifying bodies was up to seven. In the German speaking Province of Sud Tirol, at the border with Austria, the German Certification Bodies Biozert and IMO are authorized to operate.

AIAB-ICEA is the largest Certification Body and probably the best known association at national and international level. It certifies about 24% of farms and 29% of the organic area. Suolo e Salute is the runner up, with respectively 20% and 16%. The third biggest Certification Body is Bioagricoop, with 15% of farms and 18% of surface.

The Biodynamic Association and AMAB still pursue stricter production codes than those established by the EU regulations and therefore farmers respecting these guidelines can even put these labels on their products. This nine Certification Bodies dispose of about 90 local offices, staffed with 1.000 agronomists and other technicians, properly trained, who are responsible for inspecting the farms, the processing plants, the storage facilities, in order to verify the respect of the EU Regulations and of the Production norms established by the various associations, for products not covered by the EU legislation.¹

Organic farming is one of several approaches to sustainable agriculture. It represents a very important agricultural system because reduces or eliminates water pollution and help conserve water and soil on the farm. During the last three decades, the rapid increase of agricultural production in the European Region has been achieved mainly through the application of technologies involving intensive management, often at the cost of progressive deterioration of resources, and causing certain negative environmental impacts. The encouragement of farm production systems which place greater reliance on organic recycling, biological nitrogen fixation, and control of pests and diseases by husbandry methods is becoming an explicit objective of government policies for agriculture in many industrialized countries. The development and adoption of such systems are increasingly recommended as an alternative solution to present-day agricultural and environmental problems.

¹ Biobank 2004.

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THE NATURE AND DIVERSITY OF GOVERNMENTAL ACTIVITIES

Marilena Zuca*

Abstract

In this article, I discuss the Governmental Accounting Standards Board (GASB), which establishes accounting standards for state and local governmental units and which is a sister organization of the Financial Accounting Standards Board (FASB). I also discuss the nature and diversity of governmental activities, the objectives of governmental financial reporting, the two different kinds of flow statements that are used to present operating statements for governmental activities, and other reporting.

1. Governmental Accounting Standards Board

Its Purpose, Structure, and Location

In 1984, the Governmental Accounting Standards Board was created as an arm of the Financial Accounting Foundation (FAF) to establish state and local governmental accounting standards. Thus the FAF now oversees both the FASB and the GASB. The GASB has a seven-member board (appointed for five-year terms), with a full-time chairperson. A simple majority (four votes) is needed to issue a pronouncement (compared with a super-majority of five votes for the FASB). The GASB is located in the same Norwalk, Connecticut, headquarters as the FASB.

No Authority to Establish Standards for the Federal Government

The GASB does not have authority to establish financial reporting standards for the federal government. The Federal Accounting Standards Advisory Board (FASAB), which functions independently of the FAF, the FASB, and the GASB, however, proposes reporting standards to (1) the Office of Management and Budgets (OMB), (2) the General Accounting Office (GAO), and (3) the Treasury department, all of which issue their own standards.

Status of Pre-GASB Standards

Prior to GASB's creation, state and local governmental accounting standards were established by various bodies (the last one being the National Council on

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Governmental Accounting—NCGA— which made some major reporting improvements during its existence from 1978 to 1984) These various bodies were sponsored by the Government Finance Officers Association (GFOA), which is for the governmental sector what the American Institute of Certified Public Accountants (AICPA) is for the private sector. The GFOA's web site is <http://www.gfoa.org>.

State and local governmental accounting standards in force at the time of GASB's creation continue in force until their status is changed by a subsequent GASB pronouncement (as mandated by GASB Statement No. 1, "Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide").

The Jurisdictional Arrangement for the GASB and the FASB

The current jurisdictional arrangement (effective since November 30, 1989) for the GASB and the FASB is that each board has primary responsibility for setting standards for the reporting entities within its jurisdiction. Under this arrangement, an entity subject to the jurisdiction of one board

1. Is not required to change its reporting methods as a result of a standard issued by the other board.
2. Must follow a pronouncement of the other board if required to do so by the primary board.
3. May elect to follow the pronouncements of the other board (or look to other sources for guidance) when the primary board has not addressed a specific issue. Furthermore, a governmental unit that elects to use such FASB standards must use them on an all-or-nothing basis; thus a governmental unit cannot pick and choose among those FASB standards (the ones that do not conflict with or contradict GASB pronouncements).

Governments have the option of consistently following compatible FASB guidance issued after November 30, 1989, for activities reported as (1) business-type activities in government-wide statements and (2) Enterprise Funds (discussed later).

2. The Nature and Diversity of Governmental Activities

Governmental operations are unique for several reasons: (1) their absence of a profit motive, (2) their extensive legal requirements, (3) their diverse activities, and (4) their use of fund accounting.

The Absence of a Profit Motive: What to Measure?

The fundamental difference between the private sector and the governmental sector is that the former is organized and operated to make a profit for its owners while the latter exists to provide services to its citizens on a substantially nonprofit basis. In the private sector, profit measurement is possible because a causal relationship exists between expenses and revenues: costs and expenses are incurred to generate revenues. As a result, it is appropriate to compare these categories and determine profitability. The services of governmental units, however, are not intended to generate revenues. Thus revenues are not earned; they stand alone. This circumstance raises two key questions:

- > Should revenues be compared with the costs of providing services?
- > Is some other comparison of inflows and outflows more appropriate?

Extensive Legal Requirements

Constitutions, charters, and statutes regulate governmental units. Many legal provisions pertain to financial accounting areas. For example, certain activities or specified revenues must frequently be accounted for separately from all other operations. The uses of certain revenues may be limited. In some instances, a certain method of accounting—such as the cash basis—may be stipulated. We discuss the accounting ramifications of these requirements later in the chapter.

Many governmental units are required by law to follow GAAP and be audited annually by outside CPA firms or governmental audit agencies.

Diversity of Activities

Governmental activities are tremendously diverse and are classified into three broad categories:

1. **Governmental Activities.** Activities that do not resemble commercial activities are classified in this category. These operations provide primary services, and they are normally financed from tax revenues. Examples are education, public safety, the judicial system, social services, and administration.

2. **Business-Type Activities.** These activities resemble commercial activities. Usually financed wholly or partially from user charges, these operations may be considered secondary services. Examples are utilities, public transportation, parking facilities, and recreational facilities. Business-type operations usually have the objective to earn a profit or recover a certain level of operating costs from fees charged the public for their use.

3. **Fiduciary Activities.** These activities pertain to accounting for assets held by a governmental unit as trustee or agent. The most common example is a pension fund for current and former public employees. **Key Point:** These assets and their earnings benefit parties other than the governmental unit or its citizens.

The Use of Fund Accounting

Because of the legal requirements pertaining to financial accounting areas and the diversity of governmental activities, the use of a single set of accounts to record and summarize all the financial transactions of a governmental unit is neither legally possible nor practical. Accordingly, the GASB Codification requires that governmental accounting systems be organized and operated on a fund basis. Under a fund-based accounting system, certain activities are accounted separately from all other operations. Thus each governmental unit uses multiple general ledgers (if 10 funds are used, 10 different general ledgers are used). The GASB Codification defines a fund as follows:

A fund is ... a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Balance versus Net Assets Terminology

The difference between a fund's assets and liabilities might be loosely thought of as the fund's "equity." This term, however, is deemed inappropriate except for business-type activities. The following table shows the terminology used:

Governmental Activities

Fund Statements:

Fund balance—

Reserved

Unreserved

Government-Wide Statements:

(Same net assets categories as used for business-type activities)

Business-Type Activities

Fund Statements and

Government-Wide Statements:

Net Assets (or Fund Equity)—

Invested in capital assets,
net of related debt

Restricted

Unrestricted

3. The Objectives of Governmental Financial Reporting

GASB Concepts Statement No. 1, "Objectives of Financial Reporting," sets forth three overall objectives of governmental financial reporting and nine additional objectives that flow from the three overall objectives.

4. Measurement Focus: What Flows to Measure for Operations

The concept of measurement focus pertains to presenting in an operating statement information concerning flows for a period of time (examples are (a) cash flows, (b) cash and receivable flows combined, (c) cash, receivables, and accounts payable flows combined, or (d) all assets and liabilities flows. Thus measurement focus is exclusively an operating statement concept of "which assets and liabilities should be included in the flow presented in the measure for operations."

Because of the diversity of governmental activities, the reporting issue is raised as to whether (1) the same flows should be measured for all three types of activities or (2) different flows should be measured.

As a point of reference, recall that business enterprises (proprietary in nature) present an operating statement called an income statement. An income statement measures the inflows and outflows that impact an entity's net asset's (total assets—total liabilities) for a period of time. Thus an income statement uses the economic resources measurement focus. In addition, business enterprises present a statement of cash flows, which has a much more limited measurement focus than that of an income statement. Thus business enterprises present two flow statements.

Business-Type Activities of Government

Some governmental activities are managed in a manner similar to those of business enterprises because the objective is to recover either all or a majority of the cost of providing services through user charges. For such activities, it is sensible to use the economic resources measurement focus and thus present an operating statement that shows revenues, gains, expenses (including depreciation expense), and losses. Rather than calling this operating statement an income statement, however, the title "Statement of Revenues and Expenses and Changes in Net Assets" is deemed more appropriate in view of the fact that the intent is not to generate income or maximize profits as in the private sector. Thus a statement of revenues and expenses for business-type activities answers the following questions:

1. What revenues were generated during the year?

2. What expenses were incurred during the year?
3. What was the improvement or deterioration in the governmental unit's overall economic condition as a result of events and transactions that occurred during the year? (Stated differently what was the change in net assets that resulted from operations?)

A Secondary Statement as Well

It is also sensible to present a statement of cash flows for business-type activities, as the private sector does. This comprehensive manner of reporting (two flow statements, one of which is the economic resources measurement flow), is required in both fund statements and government-wide statements for business-type activities. Consequently, negligible reporting issues exist for business-type activities. In contrast, reporting governmental activities has historically been quite controversial.

Governmental Activities of Governments

For governmental activities, the reporting issues are (1) whether to use the same measurement focus (economic resources measurement locus) as for business-type activities or a different measurement focus and (2) whether one or two flow statements are needed. The various proposed alternative flows that are possible—for the operating statement—are as follows:

1. Flows of economic resources and claims against those resources that impact net assets (the economic resources measurement focus discussed earlier).
2. Flows of cash (A very narrow measurement focus).
3. Flows of current financial resources (essentially cash and receivables) and claims against those **items that will** be paid **in the** current period or shortly thereafter (the current financial resources measurement focus). Thus it measures the impact on certain net assets (certain current assets - certain current liabilities).
4. Flows of total financial resources (essentially cash, receivables, prepaids, and inventories) and claims against those items that will be paid in the current period or shortly thereafter (the total financial resources measurement focus).
5. Flows of current financial resources (essentially cash and receivables) and claims against those items that were incurred in the current period—regardless of when paid.
6. Flows of total financial resources (essentially cash, receivables, prepaids, and inventories) and claims against those items that were incurred in the current period—regardless of when paid.

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**THE ROLE OF FOREIGN EXCHANGE RESERVES: ANOTHER
VIEWPOINT**

*Bogdan Glăvan**

Abstract

Discussion around the optimality of foreign exchange reserves has intensified recently, due to a seeming inefficient increasing of foreign reserves, especially in the developing world. This paper presents the state of this issue, challenging the conventional perspective according to which foreign exchange reserves are needed in order to preserve the stability of exchange rates. It argues that reserves' a

Foreign exchange reserves in the world: a synoptic view

The role and the optimality of foreign exchange reserves in the international monetary system have been for long time interesting issues in the literature on international monetary economics. Discussion around these problems has intensified lately, as a consequence of a noticeable increase in the magnitude of world foreign exchange reserves. Indeed, “one of the most striking developments of the last few years is the enormous increase of foreign exchange holdings by central banks, especially in many emerging and transition economies” (Vaubel, 2005, p. 1). This observation is upheld by another keen analyst of the international economy: “Foreign exchange reserves held by developing nations are today at an all time high, and stand at levels that are a multiple of those held by advanced countries (in relation to their incomes or trade)” (Rodrik, 2006, p. 2).

As this author illustrates, unlike developed countries, developing countries have constantly increased their holdings of foreign reserves, not only in nominal terms, but also relative to their GDP. More exactly, the foreign reserves/GDP ratio is ten times higher now than three decades ago, when it was roughly equal to the ratio kept by the rich countries.

This trend has been especially abrupt after the 1997 Asian financial crisis. Since then, monetary authorities in emerging markets in East Asia have more than doubled their stockpiles of foreign exchange reserves; by the end of May 2002,

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they held \$845 billion, or 38% of the world total. Of these countries, China, Taiwan, Hong Kong, South Korea, and Singapore rank just behind Japan as the world's biggest holders of foreign exchange reserves – together those five countries hold reserves totaling nearly \$700 billion.

Among the developing countries, the increase in official foreign exchange holdings has been largest in Africa (+180 per cent), Eastern Europe (+176 per cent) and Asia (+145 per cent). Overall, the largest increases took place in Algeria (666 per cent), Russia (531 per cent), India (372 per cent), Lithuania (360 per cent), South Korea (350 per cent), China (272 per cent).

Romania's foreign exchange reserves is currently 50 times higher than the level existent in 1996. It covers 6 months of imports and is almost double the amount of foreign short-term debt.

Reasons

Among the main reasons for accumulating foreign exchange reserves is the role they can play as a buffer or shield against financial crises. Countries with higher (net) levels of liquid foreign assets are better able to withstand panics in financial markets and sudden reversals in capital flows.

In the face of an increasing number of international financial crises (notable examples include Mexico in 1995, East Asia in 1997, Russia in 1998, Turkey in 1994 and 2001, Brazil in 1999, and Argentina in 2002) a growing literature emerged on the level of reserves necessary to adequately insure against shocks. In that literature, several basic benchmarks for emerging economies were suggested.

First, it was argued that countries should preserve reserves equal to short-term external debt. The rationale for this correlation is the following. Countries that may be vulnerable to a capital account crisis can benefit from holding reserves sufficient to cover all debt obligations falling due within the coming year. This benchmark, known as the Greenspan-Guidotti rule, is the most widely preferred benchmark for measuring vulnerability to capital account crisis, and its relevance to currency crisis prevention has the strongest empirical support.

Secondly, economists maintained that foreign exchange reserves should be equal to roughly 5-20 percent of M2. Behind this policy prescription lies the hypothesis that paper money has to be covered by "something" – a valuable thing, which in the past was gold. Countries that intend to maintain a fixed exchange rate need to hold higher reserves relative to M2.

Thirdly, some argued that reserves should be equal to three or four months of imports. This criterion is especially relevant to low-income countries exposed to current account shocks and without significant access to capital markets.

The emerging economies among the top ten reserve holders maintain reserves far in excess of nearly all of the benchmarks, as shown in the table below.

Developing countries adequacy reserve ratios, 2005

Country	Debt	Reservs/M2	Reserves/Months of imports
	Benchmark		
	1.00	0.05 – 0.20	3.00
China	11.58	0.22	15.72
Taiwan	5.95	0.35	15.65
Russia	4.43	0.93	16.40
India	4.29	0.80	13.17
South Korea	2.63	0.21	7.93
Malaysia	3.09	0.43	7.49

In addition to all these reasons, it is said that central banks accumulate foreign exchange reserves for political reasons. Public choice literature asserts that central banks seek to obtain or increase their power and prestige.¹

The costs of keeping foreign exchange reserves

Some economists have started to question the utility of such enormous accumulation of foreign exchange reserves, emphasizing the costs associated with this policy. Intuitively, the opportunity cost of hoarding money is the income that could be gained if the same amount of cash is invested in profitable economic projects. As Rodrik (2006, p. 2) explains, “central banks hold their foreign exchange reserves mostly in the form of low-yielding short-term U.S. Treasury (and other) securities. Each dollar of reserves that a country invests in these assets comes at an opportunity cost that equals the cost of external borrowing for that economy (or alternatively, the social rate of return to investment in that economy). The spread between the yield on liquid reserve assets and the external cost of funds – a difference of several percentage points in normal times—represents the social cost of self-insurance”.

¹ See, for example, Vaubel (1993).

Another viewpoint

From the very beginning it should be pointed out that under a gold standard, foreign exchange reserves would be completely unnecessary. The keeping of foreign exchange reserves is a normal feature of a system of coexisting (i.e. competing) fiat money producers. Only in a system of paper moneys issued by independent central banks, each of these institutions seeks to “hedge” its currency against the potential risk of depreciation. It can do so either – the easy way – by refraining from inflating the money supply or – the hard way – by accumulating foreign exchange reserves in order to “defend” the value of its currency when the general public chooses to turn to a different currency.

Thus, the existence of foreign exchange reserves grants each central bank a “space of manoeuvre” within which it can engineer an expansionist monetary policy without the fear that inflation could be nipped in the bud by the changing preferences of an alert public. In other words, it is a way to enhance its credibility. As Vaubel (2005, p. 3) explains further, “this option of increasing the money supply without depreciating the currency is also highly attractive to politicians who want to generate a boom at the time of the next election. Under fixed exchange rates and possibly even under flexible exchange rates, foreign exchange “reserves” facilitate monetary political business cycles.”

From a larger perspective, the policy of accumulating foreign exchange reserves is self-enforcing. On the one hand, it allows domestic central bank to increase its money supply without fear of suffering depreciation. On the other hand, it turns into a higher demand for the international currency hoarded as foreign reserve. But this increase in demand provides to the foreign money producer the same opportunity of extending its own money supply without running the risk of generating a monetary crisis. In the words of Vaubel (2005, p. 7), “thus, by accumulating foreign exchange reserves, the domestic central bank tends to encourage inflationary monetary policies abroad. The Bundesbank committed this mistake in the final years of the Bretton Wood System – it even contributed to the American pre-election boom of 1972. The central banks of the emerging and transition countries have been doing exactly the same in the recent past” (Vaubel, 2005, p. 7).

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Anexes

Table 1

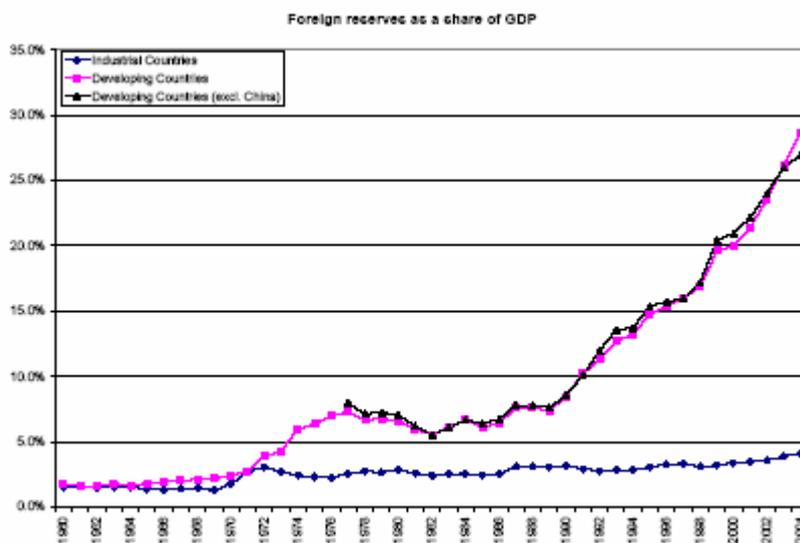
Official Foreign Exchange Holdings, in billions of SDRS

period (end of):	1996 (1)	2003 (2)	(2) / (1)
industrial countries	501.8	742.7	1.48
of which:			
- Europe	304.7	208.2	.68
- Japan	144.2	439.3	3.05
- Australia	9.7	20.2	2.08
- Canada	12.5	21.2	1.70
developing countries	587.3	1,285.5	2.19
of which:			
Asia	339.9	833.4	2.45
- China	73.0	271.3	3.72
- India	13.7	65.7	4.80
- Indonesia	12.4	23.4	1.89
- Korea	23.1	104.0	4.50
- Malaysia	18.2	29.3	1.61
Middle East	57.8	94.5	1.63
Africa	21.8	61.0	2.80
- Algeria	2.9	22.2	7.66
- Morocco	2.6	9.2	3.54
- Nigeria	2.8	4.8	1.71

South America	106.9	128.6	1.20
- Mexico	13.3	38.9	2.92
Eastern Europe	60.9	168.0	2.76
- Croatia	1.5	5.5	3.67
- Czech R.	8.6	17.7	2.06
- Lithuania	.5	2.3	4.60
- Poland	12.4	21.4	1.73
- Romania	1.5	6.1	4.07
- Russia	7.8	49.2	6.31
- Slovak R.	2.4	7.9	3.29
- Slovenia	1.6	5.6	3.50
- Turkey	11.4	22.7	1.99
- Ukraine	1.3	4.5	3.46
all countries	1,089.1	2,028.2	1.86

Source: Vaubel, 2005.

Figure 1

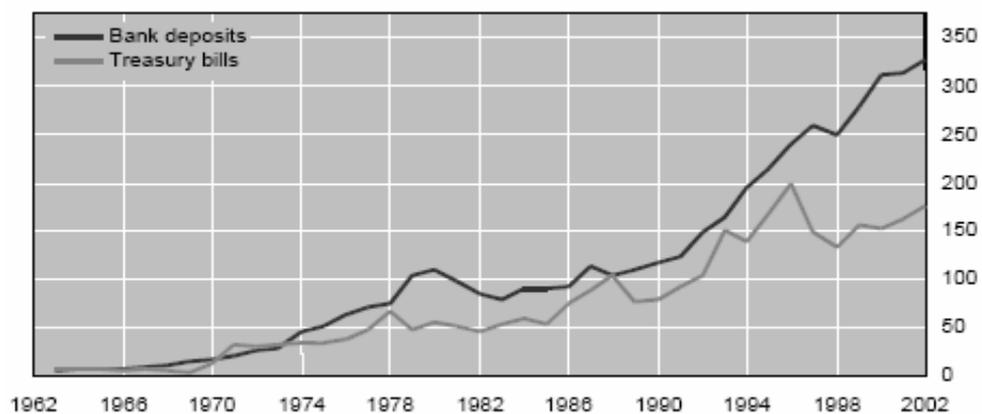


Source: Rodrik (2006)

Figure 3

Official holdings of Treasury bills and bank deposits

In billions of US dollars



Note: Bank deposits include money market paper held in the United States.

Sources: US Treasury; BIS.

**MANAGEMENT THROUGH BUDGET IN THE CONTEXT OF U.E.
INTEGRATION AND ECONOMIC CHANGE**

Anca Cruceru*

Abstract

In the context of E.U. integration and economic change emerges a new organization (the firm) based on knowledge, which uses as managerial method, a method of financial management- the management through budget. Having in view a profitable activity, this method assumes solving three interdependent problems: financing (attraction and using of the capital), risk (removal of the bankruptcy risk) and performance (obtaining the performance- rationality and maxim efficiency of the activity). These fundamental problems were at all times, but their importance magnified now, at the beginning of the 21st century. By solving these problems and taking into account the implications of change on the organizations, we can adapt to the European requirements and we can raise competitiveness on the E.U. market.

The Management of Change

The basic characteristic of the 21st century is change, which emphasizes renewal, but also incertitude and risk, that means both the design of a new organization (the firm) and a greater diversification of knowledge.

Change aims at all types of organizations and the permutation of the clock-like organization in a continuous organization.

The essential goals of change are:

- putting into practice the knowledge on tools, products, processes, work design and on knowledge itself;
- the organizational culture which assimilates change quickly and positively;
 - a new type of management, capable to anticipate, conveniently, the requirements of change, to make the co-workers realize its importance and operate it quickly and with maximum results, under the available circumstances;
 - the permutation of the strong points into something useful and of the weak points into something irrelevant;
 - getting the strategic advantage;

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- client orientation;
- the transition from the organization of activities in operations to the organization in business processes.

Change must begin from top to the bottom hierarchy, the role of management of change being essential. Change has, as “enemies”, inertia, conservative attitude, comfort, self-complacency and arrogance.

Change fails when its meaning and risk are not understood. To succeed, we need to change the corporate culture, in such way that every person should find their place in the firm of the future. We need to develop an organizational culture centred on the values of knowledge and communication.

Change assumes a management of change supported by management of exception, diversity and instability.

The organization (the firm) newly emerging in the context of this change is based on risk management which can appear because of the pressure of the competition, the development in science, the changes of the company policies in general, globalization, the pressure of legislation and the financial inspection.

The firm of the 21st century needs to improve in order to avoid the firm risk:

- vision on the way of using information about risk in the decisional process;
- the preparation of the personnel for using the information about risk in adopting decisions;
- the development of some ample criteria for measuring the managerial performances, behind those traditional;
- the use of risk to obtain a better activity of accounting, audit, planning, programming and implementation;
- the permutation of the process of understanding risk into an efficient one;
- the implementation of risk management does not have to be only an answer to effective risk, but to the way in which the firm organizes, allocates the responsibilities, approaches risk management and implements it.

“The organization of the future” is the organization that has covered the phases of growth and using knowledge, as a competitive advantage. It is also an organization with new functions: coordination, protection and integration of knowledge. And, as a new element, it has the managers of knowledge. It is an organization that learns, which is characterized by the “learning of change”. On this background, the readjustment of resources and activities takes place, through confinement of the traditional ones, based on material resources and maximization of those based on intellectual, intangible resources. The new firm adopts a new mode of organization, with less structured networks, with semiautonomous teams, with greater mobility and initiative, reducing the hierarchical levels.

Simultaneously, with the emergence of the new organization we can develop management of knowledge, as a science, but also, as practical activity, as subject matter, with functions and principles and with implications in the components of the management system of the organization.

Incertitude, the last element which “defines” change, accompanies both risk and renewal, because these elements depend on one another.

Within the “organization of the future” results should be the most important, not the efforts. The results can be obtained by exploiting the occasions, not by solving the problems. Thus, we must allocate the resources to the occasions and not to the problems.

For a correct allocation of the financial resources, a specific method of management can be used - management through budget.

Management through Budget

Management through budget represents a managerial method mainly applied in the financial management (management of profit, of the financial and patrimonial statement of a firm and certainly removing the risk and incertitude within the firm). The method of management through budget is based on checking the accomplishment of the budgets anticipations drafted at the level of the firm and its organizational links.

The budgets anticipate the cost limits within which the firm objectives and its organizational links must be achieved and, if it is possible, the incomes obtained by meeting those objectives.

The budget is in fact an anticipative or prospective analysis (it aims at the perspective of the activity) which starts from a post- factum analysis (concerned with the present and the past).

The budget of revenues and expenditures will reflect the mode of combining, administrating and using the financial means and will assure the information input needed for substantiating the decisions regarding the administration of the organization.

The management through budget represents a continuous activity which spreads one year, in all the domains and processes that characterise the organization.

The correct budgeting of the activity assumes reorganization, restructuring, reforming to be framed in the quantitative and efficiency limitations imposed by the financial division, the financial decisions.

This managerial method through budgets, assumes the achievement of the following assumptions and requirements:

- a system of balancing (revenues- expenditures, receipts- payments);

- a strategy and an adequate programme for assuring and using the resources and for obtaining profit;
- the structuring of the firm on profit and loss centres;
- a system of balancing in efforts and effects;
- essential requirements: adequate organizational and functional structures, adequate informational system, adequate accounting organization, etc.

If we use this method, we must constitute in the organization, centres of internal transaction for the most important activities.

The internal transaction centres can be: revenues centres, expenditures centres and profit centres.

A. The revenues centres are those organizational links in which we can appreciate the monetary activity knowing the incomes realised.

B. The expenditures centres are those organizational links in which performances can be measured according to the framing in the level of the expenditure budget.

C. The profit centres are those organizational links in which we can appreciate the performances through the realised profit, calculated as a difference between revenues and expenditures. In this case, the inspection is oriented on the realised level of the indicators of the incomes and expenditures budget and especially of the profit.

“The application of the management through budgets assumes the next phases:

- the dimension of the goals under indicators;
- the elaboration of the budget’s system at the level firm;
- the organization of the informational system as an addition for the budgets;
- the coordination of the budget’s system;
- the control and appreciation of the accomplishments.” (1.)

Thus, using this method, we will know better both the expenditures and the revenues of the firm, elements which are at the base of a budget. The budget can help us solve the fundamental problems of the E.U. integration and the economic change that characterize this century.

A consultant in the domain, affirmed: “To know where to get the capitals from, on time, in the needed structure and at the lowest costs, to know how to allocate them with the lowest risks and to obtain the profits expected by all the “actors” on the stage of the firm, is a true fascination.” (2.)

This opinion represents, in essence, the role of financial management and his importance and anticipates, also, the fundamental problems of Romania from the integration perspective and economical change.

The Fundamental Problems: Financing, Risk and Performance

The fundamental problems start with financing, assuring capitals. Without capital we cannot realize the objects of a company, we cannot be engaged in business, and, as a result, we cannot carry on an economic activity. Without capital, the firm cannot develop, the investments are absent, or have a small value.

The second matter, risk, mostly derives, directly or indirectly, from the business risk. Essentially, the business risk, is the bankruptcy risk, which is a sum of the economic and financial risk (that means no liquid assets, no solvency, which eventually is based on the failure of the anticipated profit and a faulty management of receipts and expenses). To all these, we can add the effect of the other types of risk (political, judicial, etc.). We try to remove risk or to minimize it, through a better administration.

The third matter, performance, is characterized by 2 parameters: quality and profit. Quality without profit is, in fact, non-quality, while obtaining profit without quality is a form of disguised larceny. To have performance, a firm, must obtain profit, to sell products or to perform services with a very good quality and with a lower price. The firm must have very small costs. The profit, is, the rationality of every economical activity, being the motivation or the mobile of any activity, because without profit we cannot justify the economic activity. To maximize the profit in a firm is the principal criterion of rationality and efficiency.

Conclusion

In practice, using management through budget, knowing as well as possible, the activity of the firm and by an efficient planning of this activity, we will be capable to control much better the destination of the capitals (the financing of the firm), we will be capable to discard risk and to increase performance.

Performance, along with financing and risk, represent current and long-term matters, which should draw great attention on all managerial levels of the firms to assure an easier insertion on the E.U. market.

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ROMANIA'S HUMAN RESOURCES
IN THE EUROPEAN UNION ACCESSION CONTEXT

Alexandra Ionescu*

Abstract

Human resources have always been mobile, and nowadays more than ever, this quality is essential. The migration of Romania's human resources is, no more at its beginnings. But if people want to work outside Romania's borders, should know how to do it, legally and professionally.

Romania's accession to European Union managed to create confusion around the people, concerning the learning system and the labour market. All the rules were taken as a must do rather than a must understand. As an exemple to sustain this saying we have the must change the universitary studies structure and the must work at an european level. And the most important issue is that these two variables were taken separately.

What should we always take into consideration is the fact that to gain productivity of labour one must put into the efficiency ecuation the variables: study level and labour field. The result of this ecuation can't be other than economic growth.

For being economically competitive on the European Union market we have to put on this market reliable products at the requested standards. Regarding the human resources, the reliability is materialized into professional competence. The "Bologna Process" offerd us the reference points for reorganizing the universitary studies structure in order to be able to distinguish the qualification levels closely connected to the labour market requests.

Labour fields (sectors, employers, trade unions) can be described as the relation between offer and demand. Labour markets function through the interaction of workers and employers. And in the context of Romania's Accession to the European Union we can discuss about the relation between Romania's workers and European Union employers or vice versa.

These facts being given it is vital for universitary studies structure to be redefined only from the labour market demands point of view. In order to do that, first, we have to take into reflection the globalization trend that shows us we have

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to establish a connection between Romania's Labour Market and European Union Labour Market.

The binding agent between the two markets is no other than European Qualification Framework. What other better way to follow in the context of globalization, than to have common settlements?

Putting into use the European Qualification Framework will facilitate labour market mobility across borders, using the communication between systems, following the transparency and the recognition of studies and competencies at an european level.

Using the European Qualification Framework and adapting the learning system to it, Romania will be able to put on the European Union market, human resources having recongnised knowledges and skills.

Regarding human resources, it is vital to access the information given by the European Union, for guidance in this tranzition period through which Romania passes, and to use information for the intelectual and professional forming.

Understanding the need of common settlements proves that Romania has realized that, in order to gain productivity its market has to align to the internationalisation of trade and tehnology.

And the best road for aligning to the european standards is to have access to the newest information. The lifelong learning system applied also in Romania will strenghten the human resources competitiveness on the European Union market and will also increase the human resources adaptability to different work places and structures.

Romania's human resources, in the European Union accession context, have to adapt in order to be efficient. It is hoped that until 2010, the European Qulaification Framework will be implemented and the universitary studies structure will be changed.

For this to be done, the information that reaches the people has to be relevant and signifiant.

Living in a globalized society based on knowledge, the human resources have to cooperate- national and also international – because lifelong learning can be applied, only through a variety of partenerships between people, institutions, countries¹.

The starting road for an international cooperation is to create european networks regarding professional forming. In order to be accepted on the European Union market, Romanians, have to reach the standards used in the European Union.

The most important issue is that, the European Union, through its institutes, has offered us support, for lifelong learning. As an exemple, to sustain

¹ National Council of Adult Professional Forming-Official Gazette, nr 1/2003

this saying, I offer the 2002 PHARE project, regarding "Support for the Labour and Social Solidarity and Family Ministry regarding the Continuous Professional Forming" and also the 2004 German-Romanian Project concerning the "Quality Assurance in Romania's Professional Forming". Discussing about the university studies structure, we have the "Bologna Process" that gave us the reference points for quality growth in the learning process.

What must Romanians understand, is that, Romania's accession to the European Union will not bring major changes in short time, because the migration of the human resources, is a process that lasts since the 90's, and the differences between Romania and other states from the European Union, will not be overtaken on the morning of January the 1th, 2007.

The labour force migration, reached the point were over two million Romanians work outside the borders. The problem is not, how many people choose to work in another country, the problem is: under what circumstances.

The reality is that, a large procent of these two million Romanians, are young and willing to accept anytype of work, not taking into consideration the specialization gained in the home country. It is difiult and unsatisfactory to work below the real intelectual and professional level.

During these 16 years of transition, Romanians have had problems, concerning the recognition of the diplomas gained in the country, they had to pass difficult examination to prove that they are really capable in their field.

The European Qualification Framework helps preveting this from happening, since the core characteristic is represented by the existence of an hierarchy of eight reference levels for the qualifications.

Each level of reference corresponds to a combination of knowledges, skills and general competencies. Level one represents basic general knowledges and competences, level eight represents specialised knowledge and competencies¹.

In the last period, after the Romanians proved their professionalism, recruitment firms have been created, to find more reliable and competent specialists. Statistics show that the most needed, for the European Union, are IT specialists, doctors and engineers.

Using common settlements, offers the possibility, having the needed knowledges and competeces, to apply for a job according to the gained intelectual and professional level, without passing through suplimentary examination.

¹ Commission of the European Communities- Commission starr working document- Towards an european qualification framework for lifelong learning Brussels 08.07.2005, SEC (2005) 957.

Discussing about the financial part, it is to be said, that also the salary will be offered at that level, and will not be any longer needed to accept the first offer, just to have a workplace in the European Union.

The migration of Romania's human resources is, as one can clearly see, no more at its beginnings. Learning from the past experience is a wise thing to do. Over two million Romanians traded their workplaces for better ones outside the borders, and as a result Romania will have to bring human resources from India or China .

What is real, is that anterior to January the 1st 2007, were choosing to work outside the borders, mostly human resources prepared for the executive positions, but now it is believed that a great percent of Romania's leaders, people trained to work in leadership positions, will be offered great opportunities to work in other European Union countries. More exactly is that specialists will leave the country for better work conditions and salaries.

Statistics¹ show that the Romania's medium gross proceeds was in value of 1120 RON, that being the equivalent for approximately 330 EURO, which is the reason for which more people choose to emigrate, even though this represents accepting any kind of work.

The strategy, believed to give results, is not a persuasive one. Why? Because it is said, that specialist, must work in other countries to gain more experience and skills, to work at an globalized european level, and to convince Romania's employers to raise the level of the salaries, for them to come back, in order to help Romania's economic growth. But the question that raises upon is : will the human resources come back to work in their natal country, after tasting the financial power offered outside the borders?

The European Union accession will, no doubt, offer the intellectuals workplaces at their real value. "But what will this leave us with?" is a question at which Romania's authorities must think and find solutions.

Is a success for Romania specialists to be wanted by the biggest european companies, but is a problem that the specialists will actually migrate, leaving Romania with a lack of experts, which will last until other spacialists will be form. And that can cause a semnificatibe economic deficiency.

The difference between the actual specialists and the ones to be formed, is that the existing specialists have experience and don't posses only a theoretic approach in their field.

It is proposed that concomitant, to the transition from the Romania's Qualification Framework to the European Qualification Framework, and also from the classic universitary studies structure to the Bologna approach, to be

¹ National Institute of Statistics -Press Release-nr 28 from June the 5 th, 2006, regarding the salary, in april 2006.

introduced the obligation of the practice during the studies, and not only for a semester, but along all the years of study, so that the future specialist to be, can maintain the connection with the labour market in his field, and also to gain experience.

Introducing an extended practice, involves also a relation between institutes, companies and universities, and it also involves offering recommendations at the end of the practice period.

Statistics¹ show an evolution of the activity in the industry, construction, commerce by retail and services:

Evolution	Industry	Construction	Commerce by retail	Services
Economic Status	↗	↗	↗	↗
Number of employees	→	→	→	→
Prices	↗	↗	↗	↗

So, more workplaces will be created in Romania, as a result of the growth of the activity.

The practice is the best way, for the human resources, to become an specialist. As it is known, after graduating, one can not apply, mostly, for a job in the specialization domain since one has a lack of experience. Practice must be put at the level of experience, even though was not made under a paycheck support.

A person can become specialist only if it takes an activity and makes it step by step and understands it, not if it studies for three, four or five years in a library.

¹ National Institute of Statistics -Press Release-nr 48 from October the 2 nd. 2006, regarding the salary, in april 2006.

That is the reason for which, the states that form the European Union thought at the European Qualification Framework as an settlement that shows not only the level of knowledges obtained during the learning period, but also the skills and competences of a person.

Aligning ourselves, as a country, to the common settlements is an important step to be made, but the purpose of the aligning must not be “working in another country” but “helping Romania’s economic growth” and “helping Romania to become a real competitive force” on the European Union market.

And from this point of view a culture mult be created, Romanians must be well informed about the advantages of working outside the border and the advantages offered by the home country.

It is to be said, as I underlined above that over two millions Romanians work in other countries, but a small procent of them work on their specialization and with legal forms, meanwhile, statistics show that over 50% of the foreigners work in Romania with legal forms.

The reality is that, for now, Romanians desire to work outside the borders even though that means working with no legal forms. This issue should not offend us but it should make us wonder, “why is that?” and “what can we do about it”.

The answer to the first question is simple and real: because not creating conditions for the human resorces to evolve, managed to give birth to a chain of weaknesses.

When Romanians leave the country, they must have a contract with a foreign employer, or they should have a period in which they can sign a contract with foreign employers. That includes an surveillance from the Romanian authorities, to help finding workplaces and also to help preventing “no legal forms” work.

Regarding Romanians contribution to the state authorities, must be taken into consideration the next hypothesis: romanian specialists do not have conditions to work in the country, so they leave outside the borders, paying taxes to the institutes of the country in which they work, leaving us with a minus of contributions for our institutes (Health, Education, Social Security and others).

That means that the active labour force has to pay more taxes to cover also the taxes of the ones that left the country. The taxes being too big, the ones who did not choose to leave the country, in the first instance, are starting to think about it, now. And as a last resort, Romania will have to hire other countris human resources, paying them the same salaries as in their own countries.

The solution, for preventing this from happening, is creating opportunities for the young specilalists inside our borders; and by opportunities, is to be understood: institutes where they can observe the practical approach of an process

after learning about it, workplaces after graduation, with no “at least one year experience in the field”¹ and financial offer at their level.

Implementing the European Qualification Framework, with the purpose of raising ourselves at the European standards in order to offer products and services at the requested level, helping Romania to become more competitive, is the starting point for offering young specialists new opportunities. It is real that, it will be a long process but it is a Future, and for the young specialists to stay in the country must exist something to believe in.

In time, after Romania manages to overtake the differences between her and the other European Union countries, and will start to put on the market, on time, reliable products, she will have the financial power to keep its specialists and to request also specialists from outside the borders, to gain information and experience, in order to offer needed products at the needed standards.

The migration of human resources should not be understood as: the possibility for our specialists to work outside the borders and never return in the home country, but as an exchange of specialists; that means that if five Romanian specialists leave the country five European specialists must enter the country, so Romania can maintain a higher competitive level.

Romania's human resources in the European Union accession context, will pass through different changes, as it follows: at the beginning a large number of human resources will leave the country, in search of better paid workplaces, then after gaining experience and financial power will come back in the country, to start new businesses that will lead to Romania's economic growth.

When this will happen, we will have two types of specialists: the ones formed in the country² and the ones formed outside the country³, and also opportunities for both.

It is a big step for Romania to become a part of the European Union, and for the human resources is a major step, considering that until now, for the economic growth of a country, were discussed only: technology, innovation and the efficient distribution of the goods and services issues, from now on, the human resources quality will be essential for raising Romania's competitive level.

¹ If the work experience will be a condition for being hired, and no chances for this to be gained will be offered, the young specialist will have no chance in working on their qualification, and they will try to find better conditions in the other European Union countries.

² The intellectual and professional forming will follow the „Bologna Process” reference points and also the skills and competences given in the European Qualification Framework.

³ The forming outside the borders will be fundamental on the experience gained by working, with legal forms, in the European institutions.

A study¹ shows that Romania has, for the moment, a lack of labour force in the construction field, even though the researchers appreciate that this will be one of the domain that will evolve.

One of the cause of this lack, can be considered the migration of the unqualified labour force from Romania to the other European Union states.

The results of the study show that, the most predictable result on the labour market in 2010, will divide the request for qualified personnel, as it follows: 35-37% in commercial services, 22-24% in industry, 20-21% in agriculture, 10-11% in public services and 6-7% in constructions.

For making this previsions for 2006-2010 period were taken into consideration a 5,5% anual economic growth, an 35% increase of the gross investments and a 6% work productivity growth.

In the accession to the European Union context, new qualification will appear, an Romania's human resources will have to adapt. This is the reason for which until 2010, the Ministry of Work Social Solidarity and Family, has to adapt Romania's Qualification Framework to the European Qualification Framework.

Until 2010, the new university studies structure would have been implemented and understood and the labour market would have found the balance between demand and request.

Today's labor economy faces new challenges entirely unlike those of the past, when a workplace offered stability. With increased international outsourcing human resources have to be flexible in order to adapt to new types of labour.

In conclusion, the university studies structure and content must be in permanent coordination with the labour market demand, in order to form needed specialists that find after the graduation a workplace. Also the professional forming of Romania's human resources must adapt to the European Union demands, in order to have an unique labour market the people must follow the same standards.

The previsions given by the researchers, for the 2006-2010 period, can be considered a fundamental base, for the following professional forming. In order not to have a lack of specialists in one field or too many specialists in another, the reserchers give the orientation points for people to choose qualifications in the Romania's European Union Accession context.

¹ "The Evolution of employment on Romania's labour market in the 2010 year " – initiated by the Ministry of Work, Social Solidarity and Family, and realized by the Scientifical Research National Institute in the work and social protection field , Bucharest, 2006-. The study was made on 1.100 companies from the eight development regions.

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**THE FRAMEWORK OF NEW REGIONAL COOPERATION FORMS IN
MEDITERANEAN AREA: SERBIA AND MONTENEGRO IN THE
FOREIGN POLICY STRATEGY**

*Slobodan Pajovic**

Abstract

After the fall of the Berlin Wall we have witnessed new initiatives and common actions, oriented toward a better understanding and intensification of multilateral cooperation among all european peoples. The goal of these actions is to achieve a more efficient employment and distribution of natural resources, and trade liberalization. On the other hand, these new political trends can have positive effects on regional stability, security, economic cooperation, including resolution of conflicts

After the fall of the Berlin Wall, in the geopolitical european constellation one could talk about the new european architecture and, objectively, new social and economic phenomena occurred on our continent. This new chapter in the contemporan history of Europe created different opportunities about democracy and transition to the market economy of all East European countries, including those in the Mediterranean area. These phenomena are an outcome of dividing blocks and disparition of bipolar separation, as well as the effect of the wish manifested by most members of the Warsaw Treaty to join militarily, political and economic the Western Europe.

Besides the change in the global policy, as well as the positive implications generated at the continental level, we have witnessed new initiatives and common actions, oriented toward a better understanding and intensification of multilateral cooperation among all european peoples. Within this framework, we must point out several new forms of regional and sub-regional cooperation outside the European Union: Alps-Adria, Adriatic cooperation, Balcanic cooperation, the Central and South-Eastern Black sea Initiative.

The development of different forms of regional and sub-regional cooperation, in the context of the crisis in former Yugoslavia, reflects the pragmatic interests of Southern, Eastern and Central Europe. The states of this region attempt to establish new forms of multilateral cooperation, with a view to fundamental economic objectives, in completely new conditions. The goal of these actions is to achieve a more efficient employment and distribution of natural

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resources, and trade liberalization. On the other hand, these new political trends can have positive effects on regional stability, security, economic cooperation, including resolution of conflicts. The crucial hypotheses of these new trends in the field of European international relations, especially when it comes about new alternatives, formal or informal models of regional and sub-regional cooperation point to the fact that, contrary to past experience, these regions will develop on new foundations and criteria. That is, we must replace past political and military criteria with an emphasis on those elements leading to the discovery of opportunities for participation to new variables in multilateral cooperation. In these circumstances, the word “region”, which traditionally is related to a geographic entity, has to be completed through the discovery of productive, cultural and other type of relations. Reasons for regional expression can be manifold (political, economic, historical, ethnical, linguistic etc.) and they depend, in the first place, on the historical moment when inherent political relations within national or multinational states have been created.

When we speak about cooperation in the Mediterranean area we need to emphasize a number of important characteristics of the region. It is widely known the fact that Mediterranean Sea provided this region with an historical role in securing peace and security in Europe and even in the entire world. Geographic and geostrategic location is not only a relation among various civilizations, nations, cultures, religions, economic and political traditions, but also, draws borders between the Islamic and Christian world, between the developed and underdeveloped world, between democracy and authoritarianism.

Keeping in mind all these factors (of integration or disintegration), this region can be seen as a network of contradictions and divisions, a phenomenon with deep historical roots. Considerations about vulnerability and conflictual state expressed at the highest political level demonstrate a clear and direct interdependence between security in the Mediterranean area, and Europe, in general, and global security. Despite these difficulties, the main objectives of future development of international relations in the Mediterranean region have to be redefined and new ways for collaborations among different countries have to be discovered.

This is the reason for which scientists, experts in international relations will have to promote the idea of international cooperation as a fundamental condition for the future of Mediterranean area and the entire world.

Even given the process of a powerful globalization, at the worldwide level, when Europe becomes a complete and complex entity, all regions and especially Mediterranean region seem to recover what it was thought they lost as an entity. One can see that, in the last years, in Mediterranean area there are many efforts directed especially toward the valorification of resources in nonpolluting

conditions. Most states in the region have contributed to the so-called “Blue Plan”, as part of the attempt to save and preserve the environment.

The Catalan Institute for Mediterranean Studies in Barcelona has elaborated common strategies of action in the cultural field. Despite apparent discrepancies, cultural relations which maintain the identity of each culture continue to develop. Cultural dialogue will lead to an acceleration in the regional interactions.

When we speak about the new forms of regional and inter-regional cooperation it is important to emphasize that governments of Italy and Spain, the initiators of the Conference for Security and Cooperation in the Mediterranean Area (CSCM), which was held in Palma de Mallorca on September 24, 1990, used the expression “Mediterranean” in a larger sense, to include countries in the Balkans, Black Sea and even Central Europe. Mediterranean multilateralism can be consistently defined as the amount of different forms of cooperation which occur on different fields associated with this phenomenon. In fact, we can identify the importance of the partenariat between European Union and the Mediterranean countries, and, simultaneously, we can analyze individual and subregional models of cooperation, such as cooperation in the Adriatic and Black Sea area.

We must reconsider the traditional concept about security, which include economic, not only military, aspects. Undoubtedly, regional trends have become increasingly obvious: regional political strategy has to change into a pragmatic model of development, based on consensus, in order to reach a high pace of political and economic development.

Because of all these considerations, there is no reason for postponing the development and enhancement of cooperation relations between regional and subregional structures: Balkans – Adriatic Sea, Danube – Adriatic Sea, with a view to create the necessary conditions for a necessary resurrection of the expression “Adriatic”, for cooperation among countries with sea border. Italy, Slovenia, Croatia, Yugoslavia and Albania are not only Adriatic countries, but also an integrant component of civilization in this part of the world. Some of these countries have established secular relations with Central Europe, Balkan area and states in the Black Sea region. As an independent international forum, the Center for Mediterranean studies can organize scientific meetings in order to stimulate contacts among Adriatic states, which have been cut off as the former Yugoslavia disintegrated. There are many possibilities of cooperation in the Adriatic area: for example, the creation of the Adriatic Fund – through contributions from the states in the region – to promote and support the development of “Adriatic” expression in science, culture, ecology and tourism. The new Adriatic space will be open for different initiatives which will enhance the cooperation in the area; cooperation in the Adriatic area can be extended to professional organizations, businessmen association etc. Cooperation in mass-media, for cultivating and developing the

concept of “Adriatic” is equally important, because this will encourage peace and security and revitalize all the models of cooperation in Adriatic region.

According to the theoretical model of complex interdependency, Latin American regionalism has been profoundly redefined and modernized by introducing various models of formal and informal bilateral, sub-regional, regional, and inter-regional cooperation initiatives. This experience is based on the high degree of interaction at different levels (presidential, ministerial, experts, civil society, etc.) and intensification of political relations among these countries, especially in the context of the evident positive changes in their political orientation: process of democratization, economic stabilization, and further development of democratic institutions and human rights.¹ This means that in Latin American practice we can identify a phenomenon of intensive diversification of regional cooperation, which includes the possibility for individual states to combine at the same time bilateral and various multilateral forms of cooperation. All this is possible since there is a natural and logical connection, positive historical heritage in the form of shared regional identity, similarities in the political and economic sphere, as well as in those matters that are important for the international status of the region. Therefore, it seems that the most important results of these positive internal changes are the corresponding improvements at the international level, where we can detect a new and strengthened international status of Latin America in general and in particular in the relations with USA². In short, the Latin American region represents a very good example for studying the phenomenon of globalization and its results. In the political area, democratically elected governments lead almost all Latin American countries - after many years. This has generated a strong will to undertake concrete actions and practical measures at the individual, bilateral, sub-regional, regional and interregional levels, and to coordinate different projects in the spheres of foreign affairs, economic development and integration, culture, education, science and technology, ecology, antidrug strategy, etc. The fact is that Latin American countries - unlike the Balkan ones - are involved individually but also as a regional bloc in the general context of opening up their economies and societies to the challenges of globalization.

Due to all these changes, we can say that starting with the 1990s; the traditional Latin American regionalism was successfully transformed into "open regionalism". This new form of regional cooperation represents an effort to achieve compatibility of regional economic and trading arrangements with others similar around the world and in accordance with the global trading system supervised by

¹ Gerd Langguth, *Positive Signals after the Lost Decade: Change in Latin America*, Aussenpolitik III, 1997, p. 278-290.

² Alberto van Klaveren, *Integration Now: Option for Latin America*, Mirneo, Santiago de Chile, 1994.

World Trade Organization¹. In fact, the principal idea of this new regional philosophy is to ensure that regional agreements will function in practice, with the following main objective: to build the bloc capable of further global liberalization and of increasing progress in the region. The concept of "Open regionalism" has been adopted as a fundamental principle of MERCOSUR, ALADI, MCCA, Association of Caribbean States (ACS), Community of Andean nations (CAN), North American Free Trade Association (NAFTA), the Group of Three (G 3), numerous bilateral arrangements, or the recently promoted South American Community of Nations².

The results of regional economic and trade integration are impressive and provide optimism for the future. The Latin American experience demonstrates two possibilities for developing countries to join globalization:

- Searching for a increasingly competitive place in the world market, which means the dynamic modernization of production and society;
- Further strengthening of regional identity in the form of political, economic, and cultural integration and cooperation.

In addition, we have to mention the successful integration of certain Latin American countries in global trade models of trade liberalization, such as North American Free Trade Association (Mexico, Chile or Central American countries); full membership of several Latin American countries to Asia-Pacific Economic Cooperation (APEC)³ or successful institutionalization of cooperation of some Latin American countries with the European Union (Mexico and Chile, bilaterally). Finally, current negotiations between EU and MERCOSUR will lead to the new partnership with the most representative South American economic and political bloc.

To sum up, the Latin American experiences demonstrate that besides regional integrations, there are also a large number of existing regional institutions that are coordinating the cooperation in other fields, especially in the field of information, culture, science and education. There is no doubt that regional changes stemmed

¹ <http://iie.coim/publications/wp/1997/#notel>

² «Comunidad Sudamericana de Naciones» was inaugurated at the Summit of South American Presidents that was held in Cusco (Peru) on December 8, 2004.

³ Mexico, Colombia, Argentina, Brazil, Chile, and Peru are Latin American countries that institutionalized their relations with APEC. Nevertheless, all countries of this region are very interested in strengthening cooperation with the Asian region. In this respect, a special kind of interaction is realized with East Asian countries. This Forum (Ealaf) was institutionalised in 1999 and its members are: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, Venezuela, Singapore, Brunei, Cambodia, Thailand, Vietnam, Philippines, Malaysia, Laos, Indonesia, Burma, Japan, China, South Korea, Australia, and New Zealand.

from the opinion that it is necessary to encourage further strengthening of regional identity because it represents the basis of the process of formation of an economic bloc that could participate successfully in the globalizing trends of cooperation in the contemporary world.

3. Serbia and Montenegro-Latin America: present-day relations

When speaking about the foreign policy of the recently established State Union of Serbia and Montenegro, we have to underline the following priorities:

- Negotiations with the European Union as the main foreign policy strategic objective;
- Normalization of the relations with USA after the NATO attacks against former Yugoslavia;
- Normalization of relations with NATO and negotiations oriented towards the integration into NATO structures (firstly, "Partnership for Peace");
- Negotiations concerning the future status of the Serbian province of Kosovo and Metohija, currently under UN Protectorate;
- Normalization and development of political, economic and all other forms of cooperation with the West Balkan countries;
- Further intensification of the regional Balkan cooperation;
- Development and diversification of the relations with other regions and regional organizations in the world.

The so-called "European potential of Serbia-Montenegro" could be important, having in mind its strategic position as the bridge between Europe ~ and Asia, between the Balkans and Russia. Furthermore, we have to take into consideration its special significance for the reconciliation in the Western Balkans area. According to the current internal and external situation of the State Union, it is evident that foreign policy is subordinated to the fulfillment of the conditions for access to the EU, especially the cooperation with The Hague (ICTY) as the essential requirement for further movement towards EU integration.

Internally, the political and economic situation is quite unstable, due not only to the aspiration of the current Montenegrin government, which by insisting on a referendum and on the full independence of this Republic obstructs the process of political and economic transition. All this has a direct influence over the capacity and functionality of the foreign policy strategy of Belgrade. We are underlining in the first place the existing low level of coincidence and consensus in the process of formulation of the state union's common strategy of foreign policy.

If we bear in mind all these facts, it seems quite difficult to promote new foreign policy concepts and activities outside the mentioned EU and North Atlantic priorities. Anyway, Belgrade must be aware that it is not positive for the future of the country and its international position to neglect the potential of cooperation with other non-European partners. Serbia and Montenegro, or in the future, Serbia individually, have quite promising perspectives to develop different kinds of cooperation with other countries and regions in the world as the only way to diminish the high level of dependency on EU and USA. We should like to demonstrate this hypothesis by analyzing the potential of relations with Latin American countries at individual or sub-regional and regional levels.

4. The historical heritage with Latin America and perspectives for the 21st century

Well-known Mexican economist Victor L. Urquidi, former president of the reputable El Colegio de Mexico, the International Economic Association (1980-1983) and member of many scientific institutions worldwide, stated, in his study "New Economic Relations between Europe and Latin America," that former Yugoslavia was the only socialist country that managed to establish and develop significantly - as distinguished from other socialist countries - trading cooperation and investments in the Latin American region, excluding naturally the special relations between Cuba and the former USSR¹. This opinion is quoted in order to demonstrate that Serbia and Montenegro have a positive historical heritage and some comparative advantage compared to some other Balkan countries, including those that originated after their separation from ex-Yugoslavia.

A very good example is represented by the case of Serbian *Energoprojekt. Company*, which has a 35 year-long experience of activity in the Andean region. The company has its regional headquarters in Lima (Peru) and its reputation is great due to successful business activities realized in that part of the world. We should especially stress the construction of many capital development projects, including the construction of the irrigation system Chira-Piura in north Peru that stalled in 1971 and was finished a few years ago. This and other developing projects were co-financed by World Bank, Energoprojekt and the Peruvian government. The Energoprojekt experience shows the advantage of our country compared to other Balkan countries, since according to our research results (Lima, July-September 1997), not a single other Balkan company was significantly present in that part of Latin America.²

¹ Victor L. Urquidi: *Hacia una nueva relacion entre Europa y America Latino.*, Sintesis. No.4, January-April 1987.

² For further information on Chira-Piura and the presence of Energoprojekt in Peru, see: Mil anos atras, Caretas, October 19, 1996.

In fact, at the beginning of the 21st century, this historically important heritage must be used functionally as the basis for the new conceptualization for Latin American strategy of our Ministry for Foreign Affairs, oriented to revitalizing cooperation with this part of the world. Regardless of the changed international constellation, including the changes on the geo-political map of the South Slave region and those surrounding Serbia and Montenegro, we think that it is very convenient to start defining the priorities in our relations with Latin America, but with utmost pragmatism. The policy of Belgrade towards Latin America must be based on clear economic and political interests and projections. Documentation on the achieved level of cooperation in the past shows that the territory, economic capacity and potential of today's Serbia-Montenegrin State Union represented the nucleus of the relations of former Yugoslavia with these countries. But today, this new political, economic and cultural strategy must take into consideration that some important countries of that region - primarily Chile and Argentina - would develop intensive relations with Croatia (due to a numerous Croat emigration to these countries), in spite of the limited economic potential of this country¹. On the other hand, the emigration factor offers a certain lead to our country compared to other Balkan states, except Greece, which has a numerous and influential emigration in Argentina, Chile and Brazil.

The first task should be the urgent study of our interests in Latin America within the redefined foreign policy platform of the new state union. It requires the identification of new priorities, with special emphasis on economic and commercial cooperation. To achieve it, we have to reconsider seriously the new political and economic reality in Latin America and accept the fact that, in addition to the government sector, the private one would be one of the main protagonists of this relation, due to the changed circumstances for business in this region and the world. Better said, the private sector is the most agile social and market factor: corporations, foundations, private financial institutions, specialized agencies, universities and specialized research institutes, nongovernmental organizations, etc.

The new strategy for the development of the Serbian-Montenegrin-Latin American relations must benefit from all the advantages of double communication channels: bilateral and multilateral. In practice, this would mean that the strategy

¹ It was a great mistake of the Ministry' of Foreign Affairs to close our Embassy in Santiago de Chile three years ago, which led to the same decision of the Chilean government a year later. The potential of our relations with Chile is quite promising, having in mind (the cooper industry, the high level of compatibility in agricultural production and the possibility⁷ to common access to the globalizing world market. In addition, some Chilean experiences in political and economic transition are very important from the perspective of the Serbian internal policy.

of Serbia and Montenegro towards this part of the world would rely upon the combination of individual and compatible regional Balkan interests. In addition to the existing bilateral cooperation, this would also open possibilities to initiate contacts with one or several existing models of regional or sub-regional integration in Latin America - for instance with the MERCOSUR countries, the Andean Pact, the Amazon pact or the Central American Common Market. At the same time, this strategy would promote the idea of establishing interregional cooperation between the Balkans and some of stated groups.

The most important question is related to the capability and readiness of the political elite and diplomacy of Serbia and Montenegro to coordinate certain aims of our Balkan policy in very pragmatic and professional manner with a new and still unformed Latin American political platform in those segments where there are certain parallel characteristics and correspondence of our interests with the interests of some other Balkan states. Accordingly, after certain verifications, Belgrade would be capable to introduce gradually in its Balkan policy compatible interregional aims from its Latin American strategy.

It is very important to point that nearly all the Balkan states reduced their political, economic, and commercial relations with Latin America starting from the 1990s, when the priority of negotiating the insertion to EU was clearly the dominant foreign policy objective. Taking into consideration all these elements, it is recommendable for Belgrade to reinstate the new form of dialogue with our regional partners promptly, because none of them is attractive individually as a partner for the majority of Latin American countries or regional bodies. These efforts have to develop systematically and gradually a new Balkan regional strategy towards Latin America, based on a wider Balkan consensus and a higher level of regional cooperation. At the same time, this strategy would depend on the consolidation and development of the economy of Serbia and Montenegro, as well as on the overall political situation in the union.

We also have to stress that the Argentinean Council for International Relations (Cones Argentina Para lass Relations Internationals - CARI), together with the Romanian Association for International Law and International Relations (ADIRI) and the Ukrainian National Institute of Strategic Studies (NISS), organized two very important seminars - in 1996 and 1997 - precisely on the subject of the cooperation between MERCOSUR and the countries of the Black Sea region. In 2000, there was another important conference in Sofia on a similar topic, but it was organized by the Bulgarian Center for Development Studies (CDS), which tried to include the Balkan region into the relations of MERCOSUR with these parts of Europe. Finally, our Ministry of Foreign Affairs organized a conference dedicated to the business relations between South-Eastern Europe and Latin America (November, 2003).

5. Some concluding remarks

There is quite a strong pessimism in our state union concerning the relations with Latin America. This attitude is the result of primarily obsolete traditional knowledge and approach that is clearly limited by outdated geographical criteria and ignorance regarding the contemporary Latin American economic, commercial, and technological potentials. Despite this fact, we think that the situation is now much more favorable for the evaluation of the new contemporary' criteria of cooperation with that part of the world. Namely, the process of political and economic reforms, which is in progress or is, completed in both regions, offers a number of topics of common interests: trade liberalization, establishing of free trade areas, market economy, joint venture projects, etc. It is also possible to formulate common interests towards some other region - for instance, towards the market of the former USSR, including the Black Sea region.

At inter-regional level, we should speak in favour of the idea of establishing the General Balkan Deposit in one of Latin American states. The intention would be to boost expansion of our exports and of the exports of those Balkan counties that would support the strategy of connection and cooperation development with that region. Elaboration of this strategy requires a very careful and well-measured assessment, based on extremely expert research and analysis. Parallel to this, it would be very useful to suggest to our Latin American partners to open a Latin American Information Center in one of the Balkan capitals. This could be logically Bucharest as the centre of the only Latin origin culture in our region. A relevant Balkan Information Center in the capital of one of Latin American countries should also be founded, in the country that shows the greatest interest, and is willing to be the main co-initiator of such conceived strategy of inter-regional model of cooperation. In addition to the cultural, educational, and scientific promotion, the interdisciplinary concepts of these centers would enable them to grow into entities that would thoroughly support various forms of cooperation between the Balkans and Latin America¹.

Finally, according to our assessment, the future bilateral relations between Serbia and Montenegro and countries of Latin America must be based on the following elements:

- Re-establishing regular political dialogues with the most important countries in the region (Argentina, " Brazil, Chile, Colombia, Mexico, Cuba, Peru, and Venezuela), considering the fact that in the course of the Yugoslav

¹ This idea was also verified during the author's stay in Lima (1997). Peruvian Ministry of Foreign Affairs expressed then considerable interests in strengthening of Peruvian-Yugoslav and Balkan cultural and scientific relations.

crisis the official contacts were reduced or ceased. This measure would imply full normalization of our diplomatic relations with Latin American countries, not closing our embassies, as was the case of Chile in 2002. We would note here that in October 2003, the Minister of Foreign Affairs of the Republic of Peru, Mr. Alan Wagner Tizon, officially visited Belgrade, after seventeen years since the interruption of the political dialogue with that country.

- Urgent introduction of new forms of cooperation at a bilateral and inter-regional level. Priority should be given to the cooperation in the field of science and technology, taking into account that the achievements of our country, but also of the Balkans, and the level of development in these fields are still attractive enough and financially more accessible to some Latin American countries. We are suggesting systematic exports of knowledge and technology, especially in the fields of construction, chemical and pharmaceutical industry, and metallurgy. This would also include training of personnel capable of maintaining and improving certain technological processes based on domestic scientific and technological knowledge and equipment.

- Further intensification of agriculture and food production, which have particularly good perspectives regarding cooperation. Serbia and Montenegro, as well as the rest of Balkan countries, would have to use to the maximum their biotechnological potentials and knowledge.

- Reaffirmation of cultural, educational and scientific cooperation, as the most appropriate instrument for a systematic approach and better understanding between the countries of the Balkans and Latin America. The existence of huge cultural ethnic wealth in both regions influences this segment also the fact that there is a great interest in Latin American civilization in Serbia and Montenegro. As for Belgrade, we should point out that it is necessary to start restoring all forms of cultural, educational, and scientific cooperation, especially in the segment referring to the reciprocal award of scholarships for post-graduate studies.

**PERFORMANCE AND TECHNOLOGY ON THE TRAVEL
INDUSTRY**

*Daniela Firoiu, Cezar Mihălcescu, Camelia Gheorghe**

Abstract

Much of the technological development taking place in the travel trade and transport sectors is, surprisingly, still at the embryonic stage. The extent to which the subsectors utilize the technology will undoubtedly grow substantially in the future. This may have the effect of increasing the market or alternatively it may merely displace business by changing channels of distribution.

Introduction

Technology, which includes IT, influences organizations in a variety of ways. In summary, technology alters the skills requirements for individuals, it changes jobs and the way they are done. It can also alter relationships between individuals and departments within the organization and may affect some relationships outside the organization with customers and suppliers. It is likely to be a major factor in determining the type of information available and how the information is used and consequently how the organization operates. Developments in technology may cause some jobs to disappear, for example traditional newspaper typesetters, but it can also open up new business opportunities which create jobs, for example the growth in telephone banking and insurance which rely heavily on advanced computing and communication facilities. Some of the more important elements outlined are developed below. Technology simplifies and reduces tasks needing manual skills and strength especially in factories and all forms of production. Properly applied, it can increase productivity.

The use of technology requires more problem solving skills and the ability to interpret data and is thus likely to lead to a widening gulf between skilled and unskilled workers. Routine tasks requiring a low level of skill are disappearing fast. As an example the copy typist has all but disappeared from many offices.

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The availability of word-processors, flexible printers and photo-copiers have effectively eliminated copy typing.

Computers, screens and communication equipment have made it possible to combine jobs which were previously carried out separately. In the process it has also enabled the tasks to be carried out by lower-level staff - known as empowering. As an example, consider the range of tasks now carried out by a British Telecom tele-assistant. Dealing directly with a customer by telephone and having the customer's account and service details displayed on the computer screen the assistant can deal with such matters as; settling account queries, initiating new services required by the customer, taking orders for new equipment, changing payment methods, deleting services no longer required and so on. Previously such tasks were carried out separately by manual methods and there were inevitable delays. Nowadays they are dealt with immediately by one person. The use of appropriate technology in properly planned systems can have dramatic effects on operations. There are numerous examples; travel and holiday agents are all linked by networks directly to the databases maintained by airlines, railways and holiday companies making possible virtually instantaneous booking, computing cash tills and bar-code readers in supermarkets are linked to computers and form part of an integrated stock control, ordering and sales analysis system without which modern supermarkets could not function.

Technology can also influence the way organisations interact with customers, suppliers and competitors. Sometimes, because of the investment required and the mutual benefit competitors collaborate over technology. For example the banks exchange clearing information in compatible form and allow other banks' customers to use their cashpoint machines. Sometimes suppliers supply free hardware and software to customers in order to make switching more difficult and costly. Pharmaceutical companies, airlines and holiday providers frequently do this. The increased use of IT systems in manufacturing means that much closer liaison is required between suppliers of components and final assemblers. As a consequence, stock control and ordering systems are frequently shared and there are often direct computer to computer links. It is worth noting that as well as increasing efficiency the close linkage means that a major assembler of, say, cars or domestic appliances, can exert considerable influence on their suppliers.

Research over many years has confirmed the influence of technology on organisational structures and on the way they operate. For example; Woodward found that when organisations were classified in order of the technological complexity of their production systems each production system was found to be associated with a characteristic pattern of organisation. Typically it was found that the number of levels of management increased with technical complexity leading to 'tall' organisations whilst simpler technologies were able to operate with flatter

structures. The span of control of supervisors was at its highest in mass production and decreased in process industries.

Based on information transmission by telecommunication lines, the viewdata is one of the earliest technologies available to the travel trade and transport sectors. The system uses a telephone line, a modem, a keyboard and a VDU to enable communication between leisure travel agents and tour operators or other companies reservations systems.

The system gained in a short time popularity because it proved that it was relatively inexpensive, relatively easy to use and reasonably reliable.

In 1980s it was introduced for the first time, in USA, computerized reservations systems (CRS), as a response of the deregulation in the airline industry. Therefore, a vast array of services and fare type become available and the potential of these new systems as “sale tools” was quickly recognized. Even if first only the airlines were involved, the tour-operators entered the market in 1976 when Thomson’s Open-line Programme (TOP) was introduced.

Suppliers, utilizing CRS, recognized the opportunities that these offered for product display and sales worldwide. This had clear implications for the competitiveness of firms and so the all-encompassing global distribution systems (GDS), with which the travel industry is familiar today, developed out of the early CRS. This has also partly resulted from the growth of the air traffic. There are now six dominant GDS – Amadeus, Sabre, Galileo, Apollo, Worldspan, System One.

Taken together, videotext networks and GDS technologies have a number of advantages for the travel agents: instant information provision, complete reservation facilities, organizational improvements (integration of “back-office” functions, e.g. accountancy / personnel ; integration of “front-office” functions, e.g. customer records/itinerary construction etc.), financial and operational control, market research and strategic planning. In addition, the larger travel agents experience a better coordination and control between remote branches and headquarters.

The internet, intranets and extranets

The Internet is a diverse series of networks owned and operated by Internet service providers.

Unlike both viewdata and CRS, with their travel related focus, the Internet has both a far wider audience and application. The travel business was one of the first to embrace online technology. Whilst the many sites sell flights, hotel accommodation and car hire, the sophistication and capabilities of the sites are often not as advanced as those in other business areas.

The Internet is still relatively young and changing constantly. The US domestic Internet market has been growing at a phenomenal rate since the mid-1990s. Growth on a large scale has only more recently begun elsewhere in the world. In March 1999 Mintel commissioned research through NOP which found 13 per cent of adults to have a personal computer with Internet connection in their home. Some other adults were expecting to become connected and yet others will have access to the Internet at their place of work. Clearly any increase in the number of adults able to access the Internet has implications regarding how many are able to use this as a method for booking holidays. Only around a third of those with access had made a purchase online yet selecting holidays / flights from travel agents / tour operators was the second most popular use of the Internet.

The future size of the market sector is equally difficult to estimate although it is generally recognized that the market sector is growing rapidly. Internet sales are expected to grow as consumers become more familiar with this distribution channel. The medium is highly suited to the sale of late availability products. It is however argued that consumers still like face-to-face contact, particularly when booking a costly main holiday.

To date, the vast majority of travel booked online has been airline tickets and whilst this is likely to continue to dominate, other travel products including car hire and package holidays may account for a greater percentage of total sales in future.

Among the advantages using this method of booking are: access 24 hours / day, available from the comfort of one's own home, speed, simple to use, comparison of different principals sites is possible, a variety of online travel agencies exist, useful tool to research options, cost reduction. Of course there are a few disadvantages too, like: problems with speed in some countries, customer service requirements not always met, problems with access in some countries, telephone charges high in some countries, the complexities of the industry may not be fully appreciated by the consumer, could be complicated / confusing for some, problems with cost in some countries. All of this reflects not only differences between countries (some have more advanced technology than others) but also differences in consumer perceptions – what appears easy to use to one consumer may appear complex to another. Generally, younger consumers are more comfortable with the Internet than are older consumers.

A variety of organizations and systems have evolved around Internet technology. "The Corporate Team" for example operates an online booking service providing corporate travelers with access to more than 500,000 hotels worldwide. This service completely bypasses the conventional GDS and therefore also GDS fees. The Corporate Team promotes itself as enabling companies to enforce travel policies by controlling which hotels are made available to business

travellers based on employee status and suchlike. It is accessible online via the company intranet or the Internet.

The Internet is also providing unique opportunities for multimedia presentations, transforming uninspiring, text-based screens of GDSs into interactive electronic brochures.

Specialist online airline and travel agency sites are being continuously developed at present. Whilst many of the established high street travel agents have been slow to develop their online offerings, other so-called.com organizations have established web-based travel intermediaries. Some of the main specialist online travel services are: British Airways.com (launched in 1995, BA's website was one of the first airline websites to go live), Bargainholes.com (the company claims to be the largest online package holiday), Deckchair.com (the company aims to simplify the process of accessing destination information), ebookers.com (the company offers worldwide flights and hotel booking, car hire and travel insurance as well as travel holiday), Expedia.com (a leading provider of branded online travel services for leisure and small business traveller), Lastminute.com (set up as an Internet travel company selling late holiday deals online, moving unsold capacity for operators), Travelocity.com (the company has a five year deal to be the exclusive provider of travel booking sites on all AOL properties).

According to C. Tyler it was the online travel agents who took an early lead in terms of online market share with some 80 per cent of online travel sales made via these sites in 1996 whilst only 20 per cent were made direct to the airlines. This Tyler partly attributes to the fact that most airlines were slow to develop effective, fast and easy-to-use airlines. This is easily understandable in the case of the smaller airlines as the costs of a good online site can be prohibitive. More recently, major airlines have been upgrading their sites with some offering non-air-based travel products alongside their own products. Customers also like to have a choice of both fares and routings which, of course, favors online agencies over online websites. In order to pursue the right combination of airline sites consumers may need a high degree of knowledge regarding which carriers operate on which routes (depending on the complexity of the journey). Added to this, time searching the different airlines sites can be extremely time-consuming.

In addition to the major online specialist travel service providers outlined above, there are numerous specialist companies. Indeed, it can be argued that the medium lends itself to the needs of specialist operators and the travelers they aim to attract. There are specialist online travel companies for women-only travel organizations such as www.adventurewomen.com and www.arcticladies.com. A specialist online winter sports site is being created as two specialist online travel sports sites merge into an online business called IfYouTravel.com.

A useful way of employing online technology is to use this to remove unsold stock at the last minute in order to overcome some of the difficulties caused by the perishability of the travel product. One means of doing this is to hold online seat auctions as pioneered by Cathay Pacific USA in 1995. According to Tyler, this has the added advantage of drawing attention to new destinations or website improvements and so are used also for promotional purposes. He describes a further way of clearing inventory, used by Priceline.com, whereby prospective customers “bid” for tickets. This involves the prospective traveler in filling out a ticket request form on the company’s website, stating where and when they wish to travel and the price that they are willing to pay. Priceline then examines the seats at its disposal from participating airlines and informs the traveler within 24 hours as to whether or not their bid has been accepted. Bids that are too low will be rejected and the consumer then has the opportunity to submit additional bids using different airports or dates. The downside to use of the system includes that tickets are non-refundable, non-exchangeable and non-endorsable as well as which flexibility is required in terms of flight times, stops or connections en route may be necessary and no choice of airline is offered.

A further, price-sensitive technological aid to travel booking consists of robotic search engines. These are designed to search a range of participating airline and GDS websites for the lowest fares on specified routes and dates. intelliTRIP, developed by TRIP.com is an example of such a system currently dealing with flights originating in the USA on particular carriers.

CD-ROM technology

This technology enables travel and tourism providers to promote their services in a less traditional manner than the ever-popular holiday brochure. Despite its potential, this technology has not been used extensively by the travel and tourism industry to date. Virgin is one of the companies to use this though having introduced a Ski-D-Rom brochure in 1996 to guide viewers through a range of holidays. The 1998 disk, which was offered to customers for £10 (refundable if they booked a Virgin holiday), featured the following: visual graphics, videos of all resort areas, virtual tours of three areas by helicopter, nine interactive ski trail maps, interactive street maps, photo galleries with full screen pictures of the resorts, on-screen prices for all holidays.

Virtual reality

Like CD-Rom technology, virtual reality offers great opportunities to aid the promotion of travel and tourism products by enabling potential consumers to experience a “virtual tour” and make a more informed choice as to whether or not

to visit a region, resort or even a particular hotel. This technology could help with even more specific decisions such as choice of cabin on a cruise.

In common with other commercial areas, travel and tourism could benefit from smart card technologies. These cards contain a miniature computer processor chip with memory. Amongst other applications, smart cards could be used to record frequent flyer programme (FFP) points and for accommodation check-in.

Electronic ticketing

In common with most of the main developments in the airline industry this form of “paperless travel” originated in the USA and has since moved into Europe and Asia. Whilst not yet the norm, the use of electronic tickets, or e-tickets, has expanded rapidly.

Their use offers a number of advantages for both airlines, such as: savings in ticket distribution costs, savings in revenue accounting and billing processes, reduction in handling costs associated with paper; and consumers, such as: ease of use, impossibility of ticket loss, flexibility, time-saving, faster check-in.

E-tickets can be purchased by telephone, through the Internet, at airline counters or travel agents. Typically consumers pay with a credit card and receive a confirmation number at the time of booking. Once at the airport, the passenger simply needs to give their name and show some identification or the credit card used to make the booking. They usually receive a boarding pass in return. This form of “paperless travel” is not however without its problem:

- Government regulation require “notices” to be provided to passengers on international flights and in Europe the onus is on travel agents to inform passengers of their travel rights under the Warsaw Convention. This may involve sending a letter or fax to the traveler.

- E-tickets cannot be used by passengers on journeys with more than four flight sectors or those involving more than four different carriers

- If a passenger, with an e-ticket, misses a flight or needs to make a schedule change it is difficult for other carriers to honour tickets without proof.

The idea behind e-ticketing is to remove the paperwork from ticketing although in reality airlines often send written confirmation of the booking. Expedia introduced e-ticketing for customers booking BA flights. Users get an e-mail confirmation of the booking and then simply turn up at check-in their credit card.

Multi-media kiosks

Electronic systems enable customers to research and book travel products through networks of self-service kiosks. Whilst these systems are still emerging

and not yet widespread, they offer considerable scope for the future of travel distribution. Non-travel retailers wanting to develop travel-related sales yet without the expertise to do so easily could employ these as a means of establishing a travel sales interest.

Teletext is a popular consumer method of researching package holiday options, especially late availability products. Thomson acquired two leading teletext agencies, Team Lincoln and Manchester Flights. Travel House is one of the UK's largest Teletext agents.

Interactive Media Initiatives

E-map online which was introduced in relation to their Internet offering, also has eight interactive TV services with cable company networks. This offers a further means by which consumer can access information from home. The company is also trialing hand held devices including WAP (wireless application protocol) phones with Nokia 7110.

The number of households subscribing to digital TV services will influence the extent to which shopping for travel and holidays via interactive TV will take place. NTL, a cable company, for example, has launched digital cable TV which provides an interactive channel. Whilst it is not certain what proportion of subscribers will wish to buy travel and holidays in this way, household penetration of digital TV is 31 per cent by the last years.

Some leading travel companies are already developing a presence on interactive TV. Going Places is a content provider for the interactive television service OPEN. The system enables customers to access a mixture of information, including video clips, on destinations, resorts, flights and hotels. This is in addition to the company's presence on Teletext. Similarly, Thomas Cook has signed an interactive TV deal with Teletext. The UK's first home shopping TV channel, TV Travel Shop, describes itself as providing a travel agency service in the comfort of the customer home. The UK's first home shopping TV channel has grown substantially since it was launched as Europe's first transactional travel channel in 1998. It is carried on satellite, cable and digital TV presenting studio reports and interviews, destination "brochure" films, special programmes featuring exclusive offers and newsroom-style bulletins with up-to-the-minute special offers. TV Travelshop is fully bonded with ABTA and works in conjunction with leading tour operators including Airtours, First Choice, Kuoni and Virgin Holidays. Sales in the first year reached £72 million and TV Travelshop is now available in more than 7 million homes across the UK. Further development is planned with new digital TV channels, a website and interactive television.

Wireless Application Protocol (WAP) Phones

At this time wireless application protocol phones are an emerging technology. WAP gives Internet access, via a mobile phone or palmtop, delivering information via the Internet to consumers on the move or away from their usual access site. Competition for the third generation (3G) phones is likely to be fierce given the fact that a single global standard could emerge reasonably quickly. Early versions are mobile phones that comply with the wireless application protocol standard way of transmitting real time content. This allows mobile phones to browse the Internet. Successful contents businesses will take advantages of the inherent characteristics of these little devices. The geography is very important in this situation. Whilst handheld devices are mobile, their position is instantly identifiable. Identification of “content” that knows where the user is and offers content tailored to that geography might therefore be appropriate. The potential for relevant application of this technology to tourist could exist for example through provision of weather forecasts, restaurant locations and even bookings. The integration of computers and wireless technologies will undoubtedly impact on the travel market.

Major carriers usually offer bonus miles for bookings made directly through the airline’s website. A few years ago, United Airlines offered 4000 frequent flier miles to each customer for the first United ticket they bought directly through United’s website in order to promote this method of booking.

Discounts linked to bookings made via airlines’ own websites have met with opposition from the American Society of Travel Agents (ASTA). The US Department of Transportation was asked to investigate airline Internet “fare wars”. The investigation aimed to determine whether or not these were unfair and deceptive practices under the Federal Aviation Act by discriminating against customers without Internet access. The airlines argued that there were sufficient public Internet access points.

E-commerce is a major expansion area for most of the large tour operators. Some showed reluctance towards the adoption of key technologies in the past yet most now have realized that they cannot afford to be without it. Large airlines are equally keen to keep abreast of technological developments and to implement these appropriately. As an example, British Airways set up a special airline taskforce in 1999 to ensure that the company stays at the forefront of e-commerce.

Technology and the small operator

ITs can help smaller operators to conduct business on a level footing with their larger counterparts. The Internet for example enables smaller tour operators

to compete with the promotional reach and distribution strategies of the mass market players. This has clear implications for an industry characterized by a polarization between a handful of extremely large, dominant companies and a proliferation of small, specialist firms.

The Association of Independent Tour Operators (AITO) is currently helping smaller tour operators to offer their services on-line. The traditional Viewdata systems are prohibitively expensive for these organizations.

Conclusions

Whilst technology has been rapidly diffused with some sectors of travel trade and transport, other sectors have shown less willingness to embrace the technology and are likely to suffer for this. Debate surrounding the future of the retail travel sector in an age characterized by both established and emerging technological means of reaching the traveling public appears likely to continue for some time to come. The need for technology and technological expertise is increasing the numbers of barriers for both travel agents and tour operators. It could equally be argued however that this is decreasing the number of barriers as the falling costs of technology and telecommunications could however help to offset the barriers in the longer term.

Technological developments are likely to continue apace in travel and tourism. The emerging market for wireless portable appliances and especially Internet-enabled mobile phones will result in a boom similar to that caused by the emergence of the Internet. Whilst the early versions which are appearing at this time are restricted in both form and content, they could point the way to the future. Indeed, mobile electronic commerce (m-commerce) applications for small mobile phones are still limited but market researchers suggest a rosy future for it.

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REFLECTIONS

PERSPECTIVES FOR THE INTERNATIONAL ROLE OF EURO: A COMMENT

*Simona Poladian**

The introduction of the single currency in the Euro Zone is a historical change in the international financial architecture. The increasing significance of the new currency is the result of the 12 EU member's decision to leave the national currency in favor of Euro. The entire GDP of these 12 countries almost equals that of USA and their contribution to world trade is 25% bigger than the USA proportion. On longer term, the newly member states together with Denmark, Sweden and United Kingdom, the 3 older EU members who already have rejected Euro currency, is preparing for fulfilling the Euro Zone convergence criteria and this process will increase the Euros' international significance in future.

The question that arises from this is what would happen if Euro is limited only to EU or if will be a currency more and more used on the international scene.

Carsten Hefeker, Professor of economics at Siegen University and also researcher at the International Economy from Hamburg has elaborated a couple of studies on the Euros' international role. Looking in the past, we could remember the speech of Charles de Gaulle, the French President on the Breton Woods meetings that accentuated the "dollar's extraordinary privilege" that allowed to USA having huge current account deficits covered mainly by currency emission¹. The most part of EU countries accepted the dollar as a most popular currency. In our times, China plays such a role that covers the American deficits by Dollar acceptance in its international reserves. The Chinese official reserves are approximately 989, 9 billion dollars in September 2006. However, the Chinese request for American Dollars is part of China Mercantile Strategy². In the same time the growing Euro reserves represents another Chinese strategy, which is not,

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¹ This is the famous Triffin Dilemma, described in "Gold and the Dollar Crises", published by Yale University Press, in 1960.

² See Dooley (2003).

a negligible fact taking into account the size of Chinese economy. If one day a significant part of China's Dollar reserves would be changed on Euro the international consequences will be huge. However, it is impossible to put in practice immediately this intention.

In addition, Professor Hefeker mentioned the possibility the East Asia to approve a currency basket with a large proportion of Euro. All these strategies are proves that the international architecture is ready to change into a system based on both Dollar and Euro in financial and trade markets.

I will mention some of considerations that might highlight the international role of Euro.

The international role of a currency is a consequence of its utilization in the world trade transactions¹. A currency serves to the following goals:

- Payment tool;
- Transaction tool;
- Saving mean.

That's why a currency it is used for international payment, goods and services denomination in international trade and increasing of reserves on longer time. In consequence, the international role of a currency is increasing in line with its stability. The international investors don't prefer a weaker currency because it brings inflation and cannot fulfill the third criterion, reserve accumulation. A powerful currency is used for international bond issues and also as a second currency in countries with large inflation. The American Dollar still has taken advantage on the fact the USA is the most important commercial and military force from the world. For the last few years, the commercial partners have preferred a certain currency for their transactions and for that, they tried to stabilize the rate of exchange between their own currency and that preferred currency. Take the China example. In the USA's scientific area, it is appreciated that the China's mercantile spirit is on the base of such a long stability of Renmimbi/ Dollar rate of exchange. China's monetary authorities buy dollars avoiding currency appreciation, which implies the increasing of its dollars reserve. Countries use this strategy if they don't want to lose such an important sale market.

There is a physiological factor also. The more people buy the same currency, the more attractive is for others this currency.

The so-called "externalities networking" makes this currency to be preferred in a group of countries. The increasing of these countries produces a bigger international prestige for this currency. The increasing of the states that prefer Euro contributes to an extension of commercial partners that prefer Euro and this creates an intense Dollar competition on the international scene. This effect

¹ See Kindleberger (2005).

explain why the Dollar became the first currency after Breton Woods and why the preference for dollar extended on the almost whole international trading area even in states that were not in the Dollar influence zone. For example, US Dollar is preferred in Argentina's commercial trade because is easier to change the pesos by Dollars and then to allow the imports from Russia than to allow the direct pesos/ Rubles exchanges. There are no so many pesos buyers by selling rubles on the international scene in comparison with those who want to buy pesos by selling dollars or to buy rubles by selling dollars. A thin transaction gives a cheaper price for that currency and also a more volatile rate of exchange.

Otherwise, the preferences changing in the world Financial Markets and Mercantile Exchanges transactions for other currency are more costly because this implies new programmers used by computers and also changes in banking operations. In opinion of Professor Carsten Hefeker this step could be in favor of Euro unless the Dollar utilization would become expansive as a consequence of a to high inflation induced by American Dollar (import of inflation) and/or the other UE partner countries would utilize in their transactions.

The preference for Euro has another reason, namely the replacement of national currencies with Euro in Euro Zone, from January, 1, 1999 when Euro entered in the monetary circuit (first step was the Euro launching on the banking system and only then on the monetary circuit). This changing determined some Western African states to modify the transaction system in Euro, because the main trading partners are the states from Euro zone.

In we are looking back we could observe the same procedure when the Dollar took the first place from Sterling, the most attractive currency in the XIX and the first halve of XX century. Sterling covered approximately 30% from the total international trade exchanges in the XIX century. At that time, UK was an empire and London was the most important financial market from the world. Sterling was a prime currency even after the British Empire dissolution when gradually USA, German and French economies registered substantial economic growth. In the 1920-1930 other currencies such American Dollar and French Franc were preferred in the same time with Sterling. After FED creation (USA Central Bank) the active and efficient Dollar management was possible. Only after the Second War, the international role of Sterling diminished significantly and the American Dollar took its place.

In our days, London remains one of the most important financial markets in the world. The passing from a currency to another is not an instantaneous moment and historical evolution proves this statement.

The increasing of Euro role in the world

There are some factors that determine the increasing role of Euro in the world. The sustainable demand for Euros from the countries that pegged their currencies by Euro plays a key role and that stimulates the increasing Euro utilization in world transactions.

First, the newly EU states affirmed their responsibility to adopt Euro when they fulfill the convergence criteria. Slovenia already passed to Euro at the end of 2006 and the first Slovenian Euro coins entered in circulation since January 1, 2007.

The EU enlargement in next years will stimulate the Euros' increasing role. Both groups of countries are agreeing to adopt Euro by fixing the rate of exchange between their currency and Euro.

However, the most important think is the fact that Russia and China declared the intention to pass to an exchange regime based on a basket where Euro would keep the majority. The main implication of this step would be huge, but we must take into consideration that China has the biggest dollar reserves from the world. This means a more precaution from the Chinese part. My opinion is that gradually Euro becomes the most desire currency in world. Nevertheless, the trend is determined. What we don't know is how long would take to make such a historical transition in Euro favor.

A Dollar/Euro bipolar international system is a good solution for the moment. A rapid conversion of all dollar reserves is not a solution for principal actors from the international financial scene.

The Paper "Enlargement and the International Role of the Euro" published in May 31, 2006, by the analyst Benjamin J. Cohen, has suggested that "Europe's joint currency is fated to remain a distant second to America's greenback long into the foreseeable future because of three structural factors – relatively high transactions costs, due to inefficiencies in Europe's financial markets; a serious anti-growth bias built into the institutions of Economic and Monetary Union (EMU); and, most importantly, ambiguities at the heart of the monetary union's governance structure."

In this paper, Benjamin Cohen extended his earlier analysis, focusing in particular on the impact of enlargement on the governance structure of EMU. "From the start, internationalization of the Euro has been retarded by a lack of clarity about the delegation of monetary authority among governments and EU institutions. The addition of a diverse collection of new members, with significantly different interests and priorities, can only make the challenge of governance worse, exacerbating ambiguity at the expense of transparency and accountability. Enlargement will diminish, not expand, the euros' attractiveness as a rival to the greenback." he added.

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ROMANIA AND THE UNITED NATIONS REFORM: A COMMENT

*Nicolae Idu**

After Romania joined NATO in 2002 and EU membership has been perceived as more and more feasible, its involvement in U.N. peace-keeping operations and multi-national military activities aimed at preserving international stability has become an important component of its foreign policy. In spite of its financial resources scarcity, budgetary constrains and new nuances in the public opinion on that subject, this line will be escalated once assuming the EU membership obligations. It is equally true that Romania is charged with a certain transatlantic ambivalence, indicating its special security arrangements with the United States. This occurs within the context in which the Union is lacking consensus and coherence on its own international and security policy. But Romania's President, Traian Basescu, stated at the High Level Plenary Session of the General Assembly of U.N. on September 14th, 2005 that "Romania aligns fully with our (European) Union and successive Presidencies that dealt with the U.N. reform". On this occasion, he characterised the U.N. as "the centerpiece of the multilateral system", a collocation in line with the "effective multilateralism", the keyword of the 2003 European Security Strategy whose godfather was Javier Solana.

As a medium-sized country with a European hat, Romania constantly supported the U.N. reform process, advocating for a more efficient use of the organisation's internal resources, eliminating duplications, efficient management of the document flow with the U.N. Secretariat, better use of the human resources, a strict financial control with an emphasis on the assessment of the cost/benefit ratio. According to the Romanian Ministry of Foreign Affairs one can add some other topics, such as reviewing the organisation's mandates, rejuvenating the General Assembly, enhancing consistency of the development, humanitarian assistance and environment systems.

As a member of the Security Council between 2004 and 2005, Romania made a real contribution to enforcing the provisions of the Final Document concerning the regional organisations by promoting a draft resolution on U.N.'s cooperation with regional organisations in stabilisation and post-conflict reconstruction processes. It was the first time in the history of this U.N. body to approach such a subject.

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During this period Romania was also involved in the debates regarding the Security Council reform with a view to increasing its representativeness and efficiency. Currently, the European membership of the Security Council covers more than 30 percent of the voting rights, i.e. U.K. and France as permanent members and Greece, Denmark ('Western European and others') and Slovakia ('Eastern European'). Ulrike Guerot and Antonio Missiroli underlined last year in the *European Voice* that the five countries represent less than one-twelfth of the world population. As it was demonstrated in the past, European countries, particularly France and U.K., do not have the same azimuth when speaking and voting in the Council meetings. Therefore, on medium and long-term, for a country like Romania, ranking seventh among the future 27 Member States according to the nominal voting power, one single seat for EU in the Security Council could be a solution to maximize its influence on world-wide politics. On the other hand, this would be in line with Romania's initiative to promote regional organisations' involvement in U.N. affairs, including the opportunity for a better representation of Asia and Africa in the U.N. structures.

During the elections for one of the first formal results of the U.N. reform process, Romania got - on May 9th, 2006 - the Human Rights Council membership. An important task and test for the Council will be the setting-up of the *universal periodic review system* to investigate and assess the *human rights standards* around the world. Romania does not agree with the claims on the lack of credibility of the Council and the consequent relocation of this function outside of the U.N. structures. However, according to the 2006 *Index of Economic Freedom*, published by The Heritage Foundation and The Wall Street Journal, one can note that less than half of the U.N. membership is economically "free" or "mostly free". Indeed, who is judging whom?

Romania assumes that protection against security threats is not anymore just about taking them up with resolute action and sustained investments. For President Basescu this is "the rationale for Romania's joint endeavours with partners and allies in shouldering stabilisation and reconstruction in Iraq and Afghanistan". There are over 2,000 Romanian peacekeepers on duty around the world, which places the country as a major contributor in a wide range of U.N.-mandated and U.N.-authorised operations. As a future EU Member State, Romania would not encourage the displacement of EU Rapid Reaction Force around the world without the consent of the U.N., but it is in favour of setting up a rapid consultation procedure in order to align the EU troops actions with the U.N. decision principles and objectives. The increasing threats of international terrorism in Europe could at a certain stage change the rules of the game and under these circumstances Romania will not avoid to align itself to the new realities.

