

## CONVERGENCE, COHESION. WHAT SHOULD THE “EU NEW COMER ROMANIANS” AIM FOR?

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*Abstract: The analyses carried out both at the centre (Brussels) and at the destination (member states) (ab)use of the principle that in public expenditure terms “spent money means well-spent money” and consider that absorption capacity equals economic performance (equated quite disputably with disparity reduction). The aggregate Keynesian perspective provides the main argument in favour of this interpretation: EU funds lead to GDP growth (economic growth). This vision overlooks the crucial importance of resource allocation micro-processes, private property and business activity. Therewith, the process of making European funds profitable and, consequently, the EU convergence feasible depends on the extent to which the absorption environment is structurally reformed. The “cohesion paradox,” which can be formulated like “least underdeveloped regions have relatively higher chances to attract European funds, while disparities compared to relatively less developed regions might even intensify”, can be broken only through multi-dimensional reform, immaterial to whether we speak about Romania, or Ireland, or Portugal, or Spain, or Greece.*

*Key words: EU funding, EU regulations, private property, competitiveness, convergence, cohesion.*

*JEL: H0, I0, O5, P5*

### **Economic and social cohesion (issues)**

#### ***On convergence dialectics. Nominal versus real convergence***

The two large types of convergence – *nominal* and *real* – are usually considered at least distinct if not somehow opposite. The distinction itself between the two follows a classical separation – between *real economy* (aspects related to production, commerce, services) and *symbolic economy* (aspects related to the financial-monetary part of an economy). However, this distinction is artificial to a certain extent – even if it has a heuristic-operational utility – and rather recalls the vision that in economy money is a mere “veil”, cash and financial flows being only the necessary consequence of real flow movement. From another perspective, that of a paradigm that considers money itself a driving force of the market, the separation between *the real* and *the symbolic* (or *real* and *nominal*, to use the same words) decisively loses relevance. Why would the unemployment rate be, let us say, a more “real” aspect of the economical situation of a certain area than the inflation rate? In other words, why would the possibility to get a job necessarily be more “real,” more tangible, than the reduction in the purchasing power?

In view to extrapolate the above, we might point out that there is no difference of nature between nominal and real convergence issues; on the contrary, the two of them can reinforce each other. *The so-called nominal convergence would be an important premise of real convergence to the extent that, on one hand, nominal exigencies “clean up government’s behaviour” and, on the other hand, “the main ingredients of economic growth are the private property, the free entrepreneurship and the accumulation of capital”*

(which presupposes a healthy currency to allow accurate business calculations). Some of the European economic mainstream believes that nominal convergence criteria might be incompatible with economic growth. The key to understanding these issues is to abandon the simplistic “numerical”<sup>157</sup>, aggregative vision and to adopt in exchange an *entrepreneurial approach* of economic performance whereby nominal convergence and single currency become brands of the European way of reform. Criteria are not only displays of an anti-inflation obsession, “but also a truly economic performance framework to unleash private businesses and restrain government fiscal-monetary discretionism. Nominal convergence criteria are a key ingredient for real convergence!” (Spiridon 2004, pp. 22-23)

### ***Natural convergence and “self-chosen disparities”***

The simple but fundamental question to which the ordinary treatment of the convergence and cohesion issue fails to answer is: why cohesion or convergence (howsoever they may be expressed) is necessarily beneficial for everybody. And here there is possible that certain communities do not recognise generally accepted standards (GDP/capita, productivity; employment; infrastructure, etc) as elements of welfare. If we think – from the perspective that Romania is an orthodox country – of the orthodox areas populated with monasteries (Mount Athos; certain areas of Moldavia), it might be possible that the similarity with rich areas from the EU’s hard core will not only be a priority but quite an inconvenient. Moreover, in order to reach certain internal consistency, the European model – that treasures non-discrimination ideal - should reflect on the particular communities issue (we could add here a part of the gypsy community) and on how such communities see the desideratum to “converge” with the rest of the European communities.

Therefore, the idea of “self-chosen disparity” should be firstly accepted during the discussion on convergence and only then, should the convergence issue be raised. This point, however, leads to a fundamental question: how necessary is government or inter-governmental intervention (especially the cohesion policy instruments) to build convergence. Even the underlying neoclassic model of the absolute beta convergence idea recognises the normal convergence of a space/area within which capital and labour force (not to mention goods and services) circulate freely. Thus, economic policy measures for cohesion might concentrate on building this necessary premise: *freedom of circulation*, because there is the risk that the attempts to go beyond *natural convergence* might actually undermine it.

### ***Cohesion policy and its possible weak sides***

#### **In principle (back to Economic Fundamentals)...**

Basically, the European Union economical-social cohesion policy reduces to two large instruments: *intergovernmental transfers of funds* and *regulations*.

The economic theories indicate us two major obstacles to its success: *calculation chaos* and *moral hazard*.

- *Moral hazard*: a (national or European) public/civil servant is not motivated by profit & loss to behave for the interest of the taxpayer-consumer. If it is possible for him to establish a “priority” or to change the result of a public tender in favour of political clientele, his county or simply to his family, nothing can guarantee he will not do it.
- *Economic calculation*: the fundamental instrument that makes possible for the production structure such as that of modern contemporary economies to be maintained through rational allocation of resources is *monetary calculation*. If expected revenues from an investment project do not exceed expenses (both present and anticipated), the concerned project *will not* be carried out at market conditions (under voluntary exchange conditions). In general, the so-

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<sup>157</sup> The rationale of instruments emphasizing real convergence (sigma, beta versions – absolute or conditional) does not start from realistic intuitive elements, but it is a product of the use of mathematical-statistical tool: dispersion and regression. In other words, no fundamental issues related to convergence are raised (what is it and especially, why is this beneficial), but it is tried to give the answer to an implicit question like “what can we say about convergence by using the statistical-mathematical tool.” The official methodology favours the statistical correlation for the detriment of fundamental causal economical explanations. The impact of a measure of policy (e.g.: cohesion policy) cannot be observed either empirically or by putting the empirical measurements into a model, despite the quantitative precision impression of the model observations or results. See, for example, the non-homogenous assumptions (and the results) between the three models used in the European Commission’s report (HERMIN, EcoMod and QUEST) partly inspired by new-Keynesian theories that can demonstrate how imperfect this way of decrypting economy remains.

called disadvantaged areas have, due to various reasons (remoteness, unqualified and relatively expensive labour, low demand, ill-conceived regulations etc.), few chances to carry out profitable projects. The idea of regional policy based on intergovernmental transfers of funds disregards this very type of market verdict. The market gives the following message through its business elite: in such and such region, currently such and such projects are not feasible (profitable); bureaucracy disputes this very verdict of the market without, however, having the intellectual instruments to actually do/replace it (that very monetary calculations it had given away)!

Then, the persistence of disparities despite cohesion assistance should be interpreted differently. This may mean that either institutional incentives are still weak or adverse natural data cannot be overcome or that self-chosen disparities may exist (see previous comments), so the 'remedy' should be accordingly asserted and applied in order not to break the very principle of any cure: *primo non nocere*.

... and in practice (back to Benchmark Integration)

### ***The Irish case: reduction of public expenditure, superior to the incoming European funds***

For the occurrence of „the Celtic Tiger” phenomenon multi-causal explanations are often given, such as *European transfers* (agricultural subsidies, plus structural funds and cohesion funds), *“knowledge-based economy”*, or the *deregulation and fiscal –budgetary exemption*. Nevertheless, which is the true story of Irish success?

In the last two hundred years, Ireland has been the poorest region in the British archipelago. After the accession of Ireland to the EEC, in 1973, “the catching up” has become the main objective, but the initial instruments have been typical for the governmental Keynesian activism: high public expenses in order to absorb unemployment, high taxes, high credits for the public sector. The public debt level also became very high, but taxes, extremely high, could not be safely increased anymore.

Belonging to the ECC has deprived Ireland of monetary “expedients” such as monetary inflationary expansion in order to finance the public debt was incompatible with membership of the European Monetary System (EMS). The Irish government had to discover other principles of action, which would be regarded in the nowadays social Europe as “attacks” to economic democracy: in 1988, the government from Dublin applied the most drastic reduction of public expenses in the last decades<sup>158</sup>, solving the fiscal crisis. The economic freedom extended vigorously, and the role of the government in economy diminished adequately.

The Irish recipe of development would be the classical recipe (ante- and anti- Keynesian): *the decrease of weight of the public sector in the economy, small and balanced budgets, monetary stability, free foreign trade*. Another Irish “secret” of early stage reform: *absence of populism and trans-party compromise*. The power and the opposition were hand in hand in 1987, year ‘0’ of reforms, with social partners getting involved in a „social contract” both responsible and responsibility fostering: the government committed itself to low taxes and low inflation rates in exchange for payment requests moderation on the part of trade unions.

The virtuous and disciplinary effects of EU membership materialized between 1990 and 1995 in form of a very responsible monetary and fiscal behaviour – the Maastricht criteria have disciplined the public finances (the budget deficit and the public debt), and the perspective of adopting the Euro has disciplined monetary management.

At the same time, the tax burden was to be relaxed both at the income tax and corporate profit tax level. Subsequently, the government from Dublin shocked once again. Accused by the states from the same „social Europe”, whose capitals migrated towards the island, for „distorting competition” due to the existence of some “special areas”<sup>159</sup>, where corporate taxes amounted to 10% (while the general level amounted to 24%), Ireland had to comply and levelled taxes to only 12,5%.

After a sustained *forcing* with growth rates of over 5% between 1990-1995 and over 9% between 1996-2000 – and somewhat lower afterwards (we will see why) –, with important capital inflows (especially American), flourishing exports, a good demographic growth (as compared to the continent’s „hardcore”),

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<sup>158</sup> For example the costs for health have been reduced by 6%, those for education by 7%, agriculture had a lower budget by 18%, the military expenses have decreased by 7%, and the roads and dwellings received 11% less!

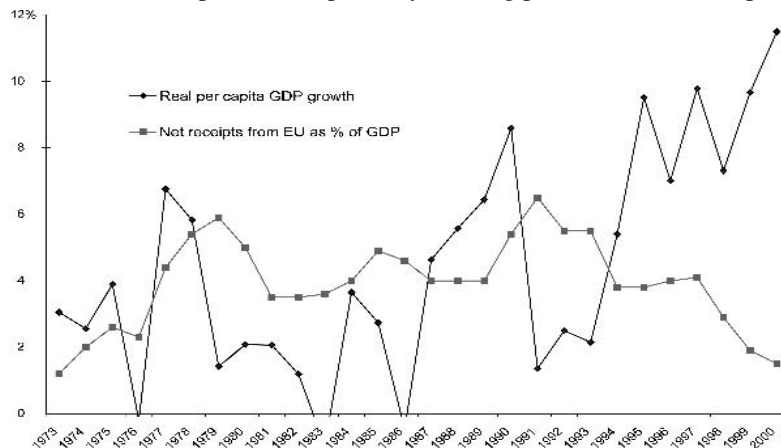
<sup>159</sup> The Shannon area and the Centre for Financial Services from the International Airport Dublin.

and with the acceptance of the idea of immigration, productively inserted in society and not on the pay roll of social security, as elsewhere, Ireland<sup>160</sup> has accomplished „more than catching-up”, having at present, after Luxemburg, the highest „positive” difference as compared to EU average: 145% the EU GDP/capita average.<sup>161</sup>

As for the European funds and the possibility for them to be the main explanation of the Irish economic success, we shall just notice that:

- a) public expenses cuts were higher than the European funds entries,
- b) there is a negative correlation between the economic growth rates and the amount of financial assistance<sup>162</sup> and
- c) there is no other major recipient country of such transfers from the European Union (and nowhere else either) which had similar satisfactory performances.

So, the Irish example is, most probably, a living proof of the force of private free enterprise.



**Fig. 1. Net European transfers and growth rates in Ireland (Source: Department of Finance, Ireland (2002)).**

The slowing down of the Irish economic growth, after the beginning of the 2000's, must be interpreted with nuance: either by the conjuncture changes in the world economy – after 2001, USA, Ireland' s main trade and investment partner, entered into a period of recession because of the volatility of the previous growth, which resulted in the fall of the prices of listed securities, coming from the technology intensive sectors („tech bubble burst”) –, or because of the occurrence of certain contagions with ideologies such as the „Welfare State”<sup>163</sup>.

None of these invalidates or fully accounts for the recipe and the significance of growth spurred by economic freedom.

#### **Portugal: the EU funds have not compensated the structural reform deficit**

Two decades have passed since Portugal joined EEC and it continues to be one of the ambiguous stories of the “(financially assisted) development by European integration”. Providential after the right-wing dictatorship of Salazar (which was economically rather open towards the exterior), and after the left-wing

<sup>160</sup> The pre- community Estonia has also a story of the economic reform, similar in its essence: tariff and non-tariff unilateral “disarming”, early privatization, current and capital account liberalization, taxation unique quota, eliminated subventions, budget balance imposed by the law. (Magnus Feldman and Razeen Sally, “From the Soviet Union to the European Union: the political economy of Estonian trade policy reforms”, 1991-2000)

<sup>161</sup> And the second most reduced fiscal burden in EU – 31%, as compared to the average level of 46%. See also Dorgan (2006).

<sup>162</sup> Empirically, if the European funds had represented a major cause of the economic growth, it would have been expected that the respective growth had been the highest during the period when the fund transfers would have been the biggest.

<sup>163</sup> “Over the last 5 years, the country has been sliding into the abyss of rising government spending, indirect taxation increases and more regulation and state involvement in the economy.” De Vlieghe, M. et al. (2006)

democracy which succeeded it (along with the “Carnations Revolution” in 1974), its entry into the European Community marked the destiny of probably the most “Balkan”-like economy of Western Europe. Portugal’s accession in 1986 produced, until the beginning of the ’90’s, only a percentage point movement, as compared to the revolution in ’74, of the real convergence with, at that time, EU-12. The structural-type discipline – and less the fund-irrigated “catching-up” –, imposed by the EU accession, has begun to be treated responsibly only recently, the latest Portuguese governments choosing for a long while to “sacrifice” the sanitary, nominal convergence, for a misunderstood real convergence.

The economic growth, recorded in Portugal, has stayed below the EU average, starting 1999. The convergence increased by 21 points from 1974 until 2002, reaching about 74% from the EU-12 average. But from a different perspective, the GDP/capita decreased from 80% the average of the future EU-25 (1999), to 70%, last year, (or 74% from the average of the future EU-27), given the fact that fund entries were higher, as cohesion country, than for any other performers in catching-up! After 2000, the Czech Republic, Malta and Slovenia (from the group of the new EU member states), as well as Greece (from the old cohesion countries in EU-15) outran Portugal in GDP/capita growth rate.

Today, Portugal’s economy is marked by chronic backwardness in the classifications of almost all the European economic performance indicators. (The increase of GDP in 2006 was the lowest not only in the European Union, but even in the entire European continent).

The history of economic slippages in the last years shows that Portugal was the first member state to receive warnings of penalties for failure to comply with the Stability and Growth Pact terms – the out of control governmental expenses pushed the budgetary deficit in 2005 to 6,9%, the highest level in Euro land at that moment.

At present, the Portuguese government, run by José Sócrates proposes the continuation of the „lisbonization” of the pan-European economic reform, but the Portuguese vision seems to more clearly emphasize today a discipline of means. At home, Sócrates has already started to clean up the public finances. In his last two years as Prime-Minister, the budgetary deficit has been lowered from 6,9% to 3,8% “and lowering”<sup>164</sup>, and by rising the minimum legal retirement age from 60 to 65, Sócrates intends to continue the structural depressurization of his country’s budgetary deficit in order to bring it, in 2008, below the 3% limit imposed in the EU.

If the Portuguese talk about Ireland as about a “small and atypical” economy, to which the comparison would not be relevant, the comparison to Spain is not at all unreasonable. Portugal shares the peninsula with Spain, which is a country perceived as the locomotive of Iberia, and where the annual rate of economic growth has been of around 3% in the last decade (except for one year).

The explanation of the unequal performances between the two states varies among analysts, but the essential cannot be avoided: Spain has reformed the public sector and disciplined the public finances before EMU accession and not afterwards, as in Portugal.

When the interest rates converged downwards at the end of the ninth decade, with EMU joining, Portugal did not capitalize on the premises of economic growth by making budgetary “provisions” to cover future deficits, but forced an amplification of the growth rate by an expansionist budgetary-fiscal policy. The failure to seize this opportunity indicates why the European funds, as generous or well-oriented as they could be, could not find but a shaky ground for fructification.

The funds represented on average 2,3% from the Spanish GDP between 1990 and 2000 and 3,8% respectively from the Portuguese GDP, while the nominal economic growth was of 2,5% in Spain and 2,6% in Portugal. Moreover, the contribution of the cohesion funds in the public investments was, between 2000 and 2006 of 60%<sup>165</sup>, the highest share in EU-15. But the result was the one already mentioned: growth rates which persist in remaining under the EU average.

Instead of conclusion (Some lessons for Romania, arisen from the evaluation of the old cohesion countries knowledge)

- a) the structural reforms should be carried out and improved. In accordance with different international and national estimations, Romania has a moderate free market, the most critical distortions being: the registering of the property rights, distortions of certain

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<sup>164</sup> The Economist, 2007.

<sup>165</sup> Fourth Cohesion Report.

markets, numerous zones of corruption ( the legal and administrative system, underground economy of great extent), high taxation on employee, the number of taxes etc. At the same time, the extent of turning into account the European funds depends on how much the environment is structurally reformed. Only by means of a multilateral reform the „paradox of cohesion” can be broken, and this may be so expressed: the less underdeveloped regions have pretty larger chances to attract European funds, and the disparities, given the poorer regions, could grow.

- b) the steady grow of capital supply is a necessary premise for the competitiveness and convergence increase ; it can be done either on the account of the public sector (in Romania the public investment, as a share of GDP (3%), is less than in other new member countries), or the private one. The last way implies, firstly, bringing down vast FDI, the way that represented the main explanation of Ireland’s success!
- c) high investment in human resources. In the National Plan for Development, the human resources are on the 4th position among the most important factors of development. But, the direction toward the increase of the competitiveness (foremost, of the productivity) implies the creation of assets and services that include high qualified labour. For comparison, on the first place, among the decisive factors of the economic growth in the National Development Strategy of the Great Britain for 2003, there were: skills created by education and the training of the human resource, followed by the other factors. In the Ireland success formula also entered, before all, according to its officials, „education, education, education”!<sup>166</sup>

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<sup>166</sup> Bal, 2007.

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# MODIFICATIONS RÉCENTES, APPORTÉES PAR LE PARLEMENT EUROPÉEN À LA « NOUVELLE POLITIQUE EUROPÉENNE DU TOURISME »

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*Les institutions européennes ont eu, ces dernières années, une série d'initiatives visant la réglementation de certains aspects liés à l'activité de tourisme. Parmi ces initiatives, la Communication de la Commission (de 17.03.2006), intitulée « Une nouvelle politique du tourisme: renforcer le partenariat pour le tourisme en Europe ».*

*Le Parlement européen a adopté, dans ce domaine, le 17.10.2007, une résolution qui apporte une série d'amendements à cette « nouvelle politique européenne du tourisme ». Tous ceux impliqués dans le tourisme roumain doivent absolument connaître les prévisions de ces documents des institutions européennes, afin d'adopter leurs politiques et stratégies futures.*

*Mots-clé : tourisme, politique, stratégie, objectifs, mesures*

## **1. Initiatives et mesures concernant le tourisme, adoptées par les institutions européennes**

Parmi les plus importantes initiatives et mesures visant le tourisme, adoptées par les institutions européennes, dans les dernières années, on peut mentionner les suivantes [1]:

- On a mis en place, auprès de la Commission Européenne, un « Groupe Durabilité du tourisme européen », composé d'une représentation équilibrée de tous les « acteurs » importants du tourisme et chargé de proposer un cadre d'action détaillé, nécessaire à l'élaboration d'un « Agenda 21 du tourisme européen ».
- L'adoption, par la Commission Européenne (par la Décision n° 2003/287/CE, de 14 avril 2003), du label écologique communautaire – ECOLABEL – a eu une grande importance pour le tourisme. Tout opérateur touristique, qu'il s'agisse d'une chaîne d'hôtels ou d'un gîte rural, peut demander ce label écologique (écolabel), symbolisé par une fleur, à condition de satisfaire préalablement à des critères minimaux en matière environnementale et sanitaire. Ultérieurement, par la décision de 14 avril 2005 (2005/338/CE), la Commission Européenne a aussi adopté les critères pour accorder le label écologique pour les services offerts par les hébergements en plein air.
- Parmi les nouvelles initiatives de la Commission, la Communication intitulée « Une nouvelle politique européenne du tourisme : renforcer le partenariat pour le tourisme en Europe » a joué un rôle important dans le domaine touristique. Dans cette Communication, la Commission européenne insiste sur la nécessité d'une réponse politique harmonisée au niveau de l'UE, aux défis auxquels le tourisme européen est confronté et propose l'amélioration de la réglementation dans ce domaine, par une compétitivité accrue : étendre l'utilisation des analyses d'impact aux nouvelles propositions, simplifier la législation européenne existante, consulter les différentes parties prenantes, dans le processus d'élaboration des politiques UE etc.
- En 2006, la Commission a lancé le Prix pour les « Destinations Touristiques d'Excellence », pour l'année 2007. Ce prix, accordé chaque année, est ouvert à tous les Etats membres et aussi aux pays candidats. Chaque pays participant à la compétition devra sélectionner une