International Economy and Finance

FINANCIAL STRUCTURE AND ECONOMIC GROWTH

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Abstract

In the centre of this paper is the analysis of the financial superstructure, namely to study how and in what extent the financial structures developed by political, economical and financial factors have an influence on the economic growth of a national economy/region. In the last two decades Europe has experienced a significant expansion of financial markets. The international comparative analysis of the bank oriented- and market based financial structures is in search of the explanation of the shift towards the market-based financial structure and the changing role of the relationship-based and arm's- length financing. In the focus of cross-country comparison are primarily the EU countries, especially the new EU member states, where time series analysis can emphasize the relationship between financial structure changes and economic growth.

Keywords: *financial structure; financial intermediation; financial markets; banking*

1. Introduction

"One of the most important problems in the field of finance, if not the single most important one, almost everyone would agree, is the effect that financial structure and development have on economic growth" Goldsmith [1969]

My study is divided into three parts. In the first part, I give an overview of the major factors affecting financial structures, and the evolution of the various financial architectures characteristic of the individual countries. The second chapter is the comparative analysis of market-based vs. bank-based systems and relationship-based vs. arm's length financing systems. In the third part, I take a closer look at the financial structure indexes (size, activity, efficiency) characteristic of certain countries / groups of countries – mainly the Anglo-Saxon countries and the old and new EU member states – during the period between 1997 and 2003. These indexes are suitable for examining trends of change in the relative ratio of banks and markets, as well as the effects on economic development and growth.

2. History of the financial structure's evolution

When examining financial superstructures, we can differentiate between two basic types: bank-based and market-based structures. In a bank-based financial structure, the banks have an intermediary role, collecting deposits and providing loans primarily to the corporate sector. In collecting deposits, they can largely rely on households, as their willingness to take risks is low, and they mostly prefer bank deposits to the various securities. The asset side, on the other hand, is dominated by corporate loans, thanks to the fact that funds acquired from banks is an almost exclusive, and by all means primary means of acquiring external funds. Market financing (equity or bond issues) is only supplementary. The above-mentioned structure is typical mostly of Germany, France and the majority of EMU member states (the Netherlands can be mentioned as an exception), as well as Japan. The other group of countries is characterized by the market-based system, where, due to the highly-developed securities market, businesses give preference to corporate bond or equity issues to funds acquired from banks. For this, however, is only possible if households are more willing to make savings, and give preference to the more risky market assets over bank deposits that grant a fixed return**.** A small part of household savings appears on the market directly, whereas the larger part appears through institutional investors. Accordingly, the dominance of these institutions compared to banks is detectable on the market. The market-based structure is typical of the USA and England.

Most publications (e.g. Alsi Demirguc-Kunt and Ross Levine [2002]) leap to the conclusion that, whereas the degree of development of the financial system has a profound influence on economic results and economic success, the dominance of one or the other financial structure is of lesser importance in this respect. No close connection can be pointed out between the dominance of any type and the success of the economy. The publications suggest that decision-makers should pay attention to the legal and regulatory environment and the reforms that may be necessary in that area, rather than to the prevalence of market-based or bank-based structures. It can be observed, however, that the financial systems of richer countries are much more developed, and therefore the stock exchanges of these countries are far more active and efficient as compared to banks. When examining the legal regulatory environment, the general conclusion can be drawn that the financial systems of countries where shareholders' rights are strongly defended, accounting regulations are well-structured, less emphasis is put on the protection of deposit holders, and the level of corruption is lower, are usually more advanced. On the other hand, countries characterized by weaker protection of shareholders' and loan provider's rights, low-level accounting regulations, high corruption, high inflation and restrictive banking regulations usually have less developed financial systems.

Many economists have studied the connection between financial development (well-functioning financial markets and intermediaries) and growth, leaping to the conclusion that the high level of financial development has a strong positive effect on economic growth. The primary function of financial systems (financial markets and intermediaries) is to forward funds from the savers to the market players, who have productive investment opportunities. This basic function can be split up into three partial functions: the mobilization of savings, the acquisition of information and risk management. By performing these functions, financial systems increase both the quantity and quality of real investment, and thus they also increase general welfare. Financial systems can influence economic growth through three different channels. First, the commissions of financial services motivate the mobilization of the savings of small market players. The financial system can achieve capital and productivity increase through better efficiency, and it contributes to economic growth by cutting the liquidity risk of corporations. Second, better analysis and monitoring by loan providers leads to the more efficient distribution of resources. Third, the improvement of risk sharing aids the launching of innovative projects through the increase of the saving ratio.

Most researchers draw the conclusion that financial intermediaries and financial markets are complementary to each other in providing financial services. Both market-based and bank-based systems have comparative advantages. Financial markets are better at financing new technologies and projects where there is much disagreement concerning the issue of corporate financing, whereas banks are more efficient in handling the conflicts between lender and debtor (moral hazard).

3. Relationship lending versus arm's length financing

Based on the events of the last 20 years, a clear shift towards market-based structures can be observed. As a result of globalization, deregulation and technological development, the size of efficient operation has grown significantly. Disintermediation and the securitization had a negative effect on the profitability of banks, and entailed the necessity to lay off superfluous capacities. Traditional lines of business proved insufficient to maintain profitability, therefore it became necessary to provide supplementary banking services. Since the 1980s, the investment products division has gained increasing importance as part of the banks' core activities, and contributed to their increasing efficiency. Most banks recognized that it is more worthwhile to keep their clients by making investment products available than to lose their deposits. They considered it much more important that the disintermediation process slows down greatly if banks are able to meet the demands of their clients as regards their financial services. In the mid 1990s, numerous studies showed that client retention depends directly on the number of products and services offered by the bank. Gackle [1994].

The market-based and bank-based intermediary systems are difficult to mark off for several reasons. In countries where the structure is traditionally bank-based, like Germany and Japan, there is a stable and long-term relationship between bank and corporation. This is called relationship-based financing. In German banks, the investment division has acquired an important role alongside traditional banking, and now we can speak about the system of powerful universal banks. Through their investment banking activities, the banks can monitor the way corporations enter the capital market. Beyond the loan provider's position, the regulatory environment also makes it possible for banks to hold stakes in corporations. Japanese banks own 20% of corporate shares, whereas German banks have a package of cca. 10%. The same ratio is around 2% in the United States.

Table 1 Indicators of financial development in 1980 and 2000

Country	Bank Loan to Private Sector		Stock Market Capitalization	
	1980	2000	1980	2000
Austria	0,742	1,040	0,030	0,156
Belgium	0,272	0,792	0,090	0,783
Denmark	0,244	NA	0,090	0,686
Finland	0,462	0,464	NA	2,383
France	0,731	0,636	0,090	1,087
Germany	0,864	0,925	0,090	0,668
Greece	0,520	0,566	0,085	0,942
Ireland	0,315	0,793	NA	0,843
Italy	0,555	0,514	0,070	0,703
Luxembourg	1,210	3,367	0,001	1,771
Netherlands	0,632	0,963	0,190	1,070
Portugal	0,855	0,997	0,006	0,567
Spain	NA	0,816	0,087	0,882
Sweden	0,415	0,391	0,110	1,476
Average Cont. Europe	**0,601**	**0,930**	**0,078**	**1,046**
United Kingdom	0,276	1,069	0,380	1,840
United States	0,354	0,379	0,460	1,549
Average Anglo-American	**0,315**	**0,724**	**0,420**	**1,694**

Source: ECB (2003) Rajan and Zingales

In relationship-based financing, the financer (who can be an owner, a sole or primary creditor, a supplier or a customer) makes an attempt to ensure the return on investment by establishing a certain degree of monopoly at the financed company. The lack of regulation and system transparency means that other players have only limited access to the market, and the cost of entering the market is significant. In "arm's-length" financing, however, the financer is protected mainly or exclusively by an explicit contract. In the relationship-based system, the bank has a close relationship with the financed company either because of their past contacts or because of its role as a stakeholder. Therefore, beyond the loan applicant's current liquidity, the bank also inspects its long-term solvency, as well as numerous other factors not mentioned in the contract that help the bank enforce repayment. The current interest rate is negotiable, and is not necessarily in line with the extent of the project's actual risk. In the case of arm's-length financing, the loan applicant can choose from a wide range of creditors, thanks to the accessibility of relevant financial information. The loan contract is concluded for a specified period, the interest rate is competitive, and in line with the risk factor and period of the loan. As the relationship-based system is characterized by the lack of competition, transparency and publicity, the decision-making involves no realistic price signals. As opposed to arm's-length financing, where the loan providers are in competition with each other, and make independent assessments of the project cost, the cost of the loan in the relationship-based system depends on the negotiations between the loan provider and the borrower.

There is no doubt some overlap between bank-based/market-based and relationship-based/arm's length approaches when it comes to the classification of structures / systems of financing. The bank-based structure is primarily, but not exclusively, characterized by the relationship-based system of financing. Venture capital financing is typically relationship-based, despite the fact that it is not a typical banking activity, and can be seen mostly in market-based countries. Similarly, the client's diverse banking relations lead to loss of strength for the individual banks, and point to the formation of a system that shares quite a few features of the arm's-length system. R.G. Rajan, L. Zingales in:ECB [2003]

4. Cross-country financial structure index comparison

For the comparison of financial structures between countries, I used the indexes as in Demirgüc-Kunt and Levine (2002). The authors performed a comparative analysis involving 130 countries using the 1997 data. With the help of these data, they classified the countries by the relative development of markets and banks (size, activity and efficiency) as market-based, bank-based and undeveloped financial structures (the latter term means that both banks and markets are developed below the average level of the examined countries).

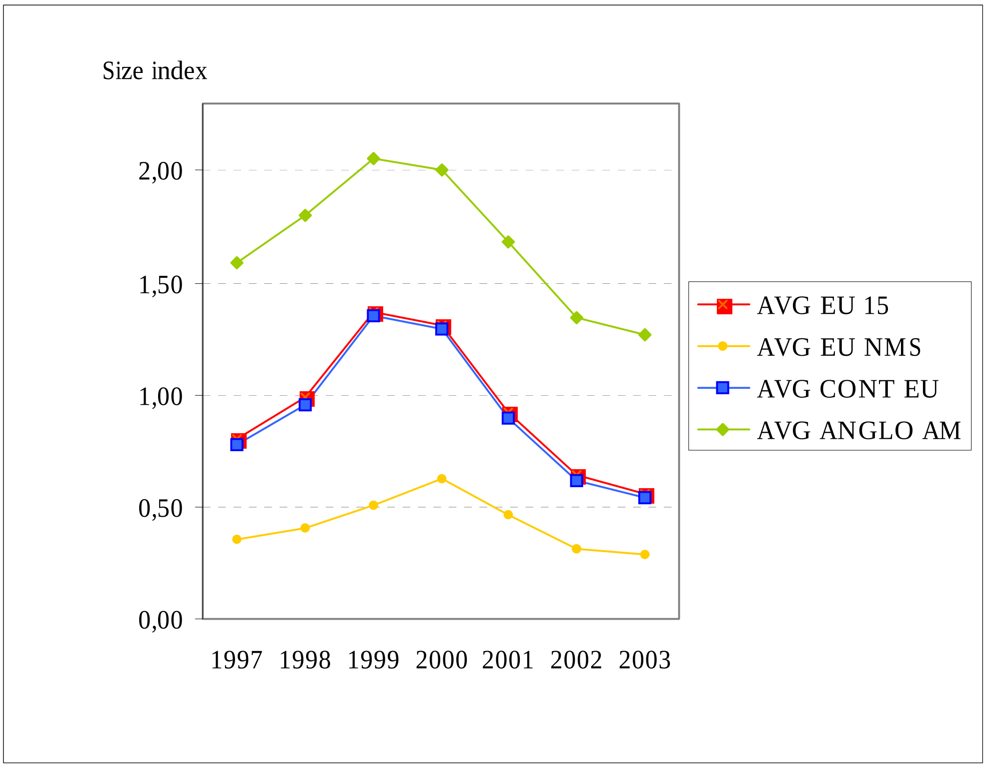
For lack of data, the study does not include the new member states that joined the EU in 2004. The database of the characteristics of the individual countries' financial structures already contains the relevant country data for the period 1997-2003[1]. At the comparative analysis of the financial structure indexes of the different groups of countries, I was interested in whether the financial structure of the new member states (whose growth rate is higher than that of the EU-15) has become similar to that of the old member states, and whether it shifted towards the market-based structure during the seven-year period.

I examined the relative size of banks and the stock market with the capitalization vs. banks indicator, which is the quotient of stock market capitalization and the domestic assets of deposit money banks. To be more precise, it equals stock market capitalization/GDP divided by domestic assets

[1] The World Bank Group: Financial structure and economic development database

of deposit money banks/GDP. The growth of the resulting indicator shows the relative increase of market capitalization as compared to the size of banks. The examined groups of countries were the following: old EU member states (EU 15), new member states (NMS), Anglo-Saxon countries (United Kingdom and United States), and “continental Europe”, i.e. the old member states without the United Kingdom. The chart shows the average index values of the different groups of countries in the given period. Up to 1999 – or up to 2000 for the new member states -, a clear shift towards the growth of the market at the expense of banks is detectable, fitting into a 20-year trend. In the periods 1999-2003 and 2000-2003, however, the trend clearly turned, and the relative size of banks grew at the expense of markets.

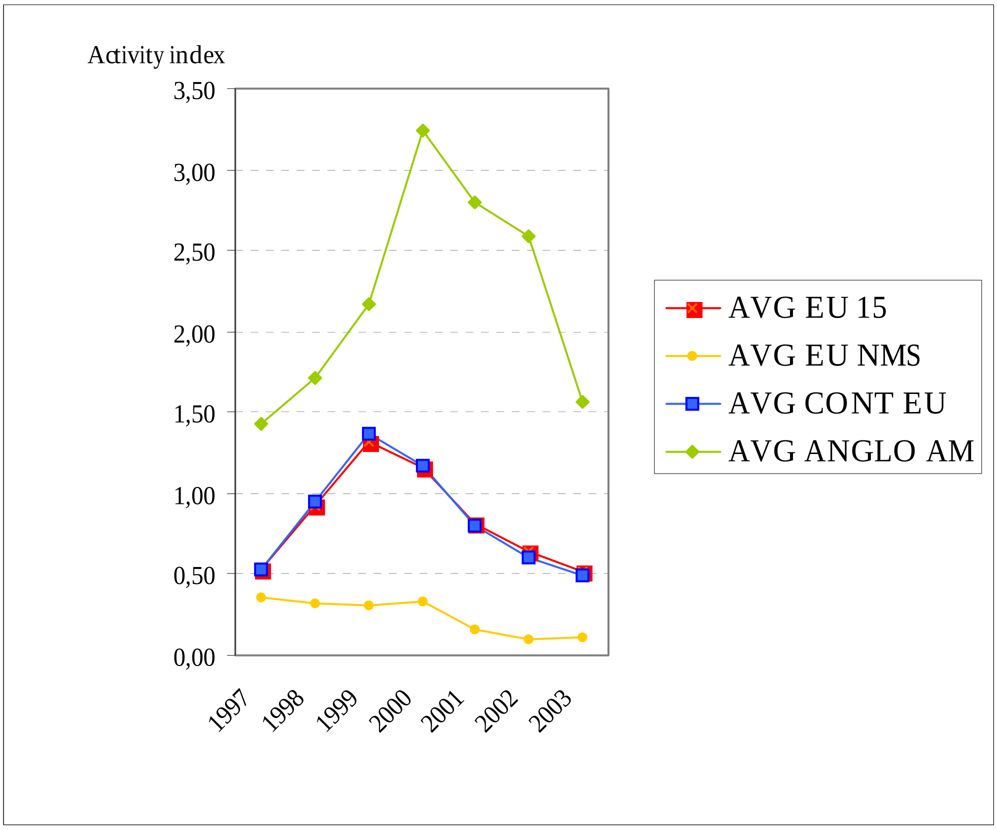
Figure 1 Financial structure size index



Source: Author’s calculation

I interpreted the relative activity of stock markets and banks as the quotient of the stock market indicator ‘total value traded/GDP’ and the bank indicator ‘claims of deposit money banks on private sector/GDP’. The rise of the resulting indicator shows the increasing activity of the stock market as compared to the banks. In Anglo-Saxon countries, this phenomenon can be observed up to 2000, whereas in old EU member states / countries with fundamentally bank-based financial structures it lasted till 1999. The indicator started to fall after this in the above-mentioned groups of countries, whereas in new member states it was on the fall almost throughout the examined period.

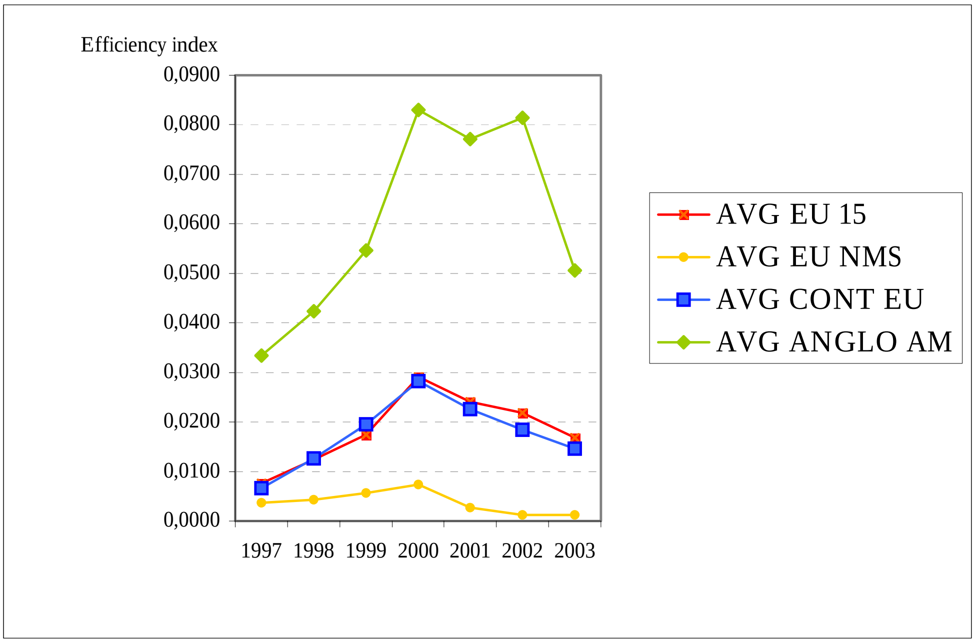
Figure 2 Financial structure activity index



Source: Author's calculation

The efficiency indicator is constituted by the product of the 'total value traded/GDP' and the 'net interest margin/total asset' indicators. The rise of the resulting indicators shows the increasing relative weight/efficiency of the market-based structure, as the increase of net interest margin is indicative of the decreasing efficiency of banks, and thus implicitly indicative of the growing relative efficiency of markets. Drawing a chart of the average indexes of the different groups of countries as a function of time, a clear growth in the relative efficiency of markets can be observed up to 2000. After that, a decreasing trend can be seen in both old and new EU member states, which is strongly characteristic of Anglo-Saxon countries only after 2002.

Figure 3 Financial structure efficiency index



Source: Author's calculation

Obviously, quite a few factors must be taken into consideration for the assessment of the indexes. Naturally, the fall of equity prices must have had a great influence on relative size, activity and efficiency. Earlier studies pointed out that in higher income countries, the activity and efficiency of domestic stock markets grows in comparison with the activity and efficiency of domestic banks. The higher growth of new EU member states as compared to the old member states did not result in a category rise in the World Bank's classification (low income, lower middle income, upper middle income, high income countries) On the basis of the used financial structure indexes, the rise of the activity and efficiency of domestic stock markets as compared to the activity and efficiency of domestic banks is not detectable during the whole period. Up to 2000 relative activity almost stagnated and efficiency was on the increase, whereas after 2000 the values of both indicators fell. However, considering the relative activity and efficiency index of the former and the new member states, there is a clear phenomenon of convergence. The financial structure of the new member states has become similar to that of the old member states.

5. Conclusion

The comparative analysis of bank-based and market-based financial structures can be performed from numerous aspects. The relationship lending/arm's length financing approach enables the more thorough study of the above-mentioned categories. The indexes used for describing the financial structures of the different groups of countries are suitable for analyzing the relative size, activity and efficiency of markets and banks. Based on the trend of the last 20 years, which shows a shift towards market-based financial structures, it can be observed that the relative weight of markets was falling as compared to banks in the years after 2000. However, considering the old and the new EU member states there is a convergence of relativ activity and efficiency of markets versus banks.

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COMPETITION, MONOPOLY AND ANTIMONOPOLY POLICY – INTERSECTION OF HISTORICAL THEORIES

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Abstract

There are two main objects of this paper. The first object is to compare the most important theories and opinions about competition, monopoly and antimonopoly policy. The second object is to summarize some monopoly regulation of this economics theories. All these theories are subdivided into five parts started from the oldest time, e. g. from Aristotle, through mercantilism, early capitalism, theories of A. Smith to the classical Ricardian theories. There is discussed the competition and the origin of the first framework of anti-trust legislation at the break of the 19th and 20th centuries, the Karl Marx's and his followers' theories, the origin of imperfect competition and the system of neoliberal politics. This project was financially supported by the Internal Grant System of Silesian University, IGS SU Nr.15/2005.

Keywords: *competition; monopoly; antimonoply; regulation*

1. Introduction

The main aim of this paper is to summarize and compare the attitudes towards imperfect competition, special towards monopoly and monopoly regulation of some economics theories. It stands to reason that the attitudes of several theories coherent with monopoly and antimonopoly policy were very different during the process of evolution. Above all the evolution of the last century was focused on the theory of dynamic competition. It was made out that monopoly is also limited by the process of making prices. These findings were the sources of new state regulations activities. It is the point, why to analyze the present situation of monopoly regulation and try to find a new arrangement which will make whole economics more competitive.

2. The oldest theories of monopoly

It generally known, that the first man, who wrote about monopoly, was Aristotle. He has introduced a monopoly of marketable goods. There was a man in Sicily who used a sum of money deposited with him to buy up all the iron from the iron foundries, and afterwards when the dealers came from the trading-centres he was the only seller, though he did not greatly raise the price, but all the same he made a profit of a hundred talents on his capital (Aristotle, Politics, 1997, p. 57). It seems to be clear there were a discussion about monopoly in Antique time. The Greece word has two parts – „mono“means one and „polein“ means to sell.

The word monopoly is derived from Greek words meaning one seller. If one company is the only manufacturer of a product, that company has a monopoly. It is able to set its own quality standards and establish selling prices. It can also control middlemen, such as wholesalers and truckers. This does not mean that the monopolist will set the highest possible price for his goods. Market demand will decrease as prices rise. Therefore, the monopolist must set prices that the market will bear in order to make the highest possible profit. The prices will normally be far in excess of actual manufacturing costs and above a normal return on investment.

One-company monopolies are not common in the industries that manufacture products. However, we can have several single-firm monopolies in public utilities—companies that supply gas, electricity, and telephone and telegraph services. In spite of the breakup of the telephone and Telegraph Company, several regional telephone companies have virtual monopolies on service in their areas. In many nations these services are operated by

governments. Public transportation is normally a government monopoly as well. In some countries the government also owns the airlines.
Public utilities in the United States are usually investor-owned firms, similar to other corporations. Although they may be monopolies within their geographic areas, they are regulated by government. Thus the rates they can charge and the quality of service they offer are both subject to standards set by commissions or legislatures.

Adam Smith is writing about monopoly in his An Inquiry into the Nature and Causes of the Wealth of Nations like about an individual or a trading company. This company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market constantly under-stocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate.

The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion, indeed, but for any considerable time together. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give. The other is lowest which the sellers can commonly afford to take, and at the same time continue their business (Smith, A., An Inquiry into the Nature and Causes of the Wealth of Nations, 1976, p. 78).

In the accordance with was written above, wrote Smith that only state could stop the evolution of beginning monopoly. It helped to creative the origin of the first framework of anti-trust legislation.

As Smith was averse to restrains on international trade, so also he was opposed to those on domestic commerce and with colonies. In an age when restrictive preferences, privileges and state grants of monopoly were commonplace, he opposed them all. He also opposed private combinations of producers and workers, although, in a characteristic aside, he noted that there were more laws against combinations by the sellers of labour than against the similar practice by the merchants and manufacturers who employed them. He was not, however, entirely optimistic as to the possibility of contending with private combination. The impulse to such association was strong. In another deathless passage he observes that people of the same trade seldom meet together, even for merriment a diversion ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible, he says, to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary.

A century later, what Smith thought impossible would, after a fashion, be attempted in the United States, and the effort would continue for another hundred years. The Sherman Act and later legislation would forbid those of the same trade, even when gathered for merriment and diversion, form discussing, much less agreeing upon, prices. The prohibition would encounter not a few of the difficulties tat smith foresaw.

From smith has come the commitment to competition as a principle in all capitalist societies – competition that is presumed to ensure optimal industrial performance. Considerably less influential has been Smith's warning as to the institution that, along with the state it might destroy competition. This was the state chartered company – the corporation. Where it had monopoly privileges, as in the colonial era, he was especially critical. But he also thought little of its efficiency. He would be appalled at a world where, as in the United States, a thousand corporations dominate the industrial, commercial and financial landscape and are controlled by their hired management, something Smith thought especially to be deplored. He says, that being the managers' father of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently witch over their own (Galbraith, A History Of Economics, 1987, p. 70).

3. First framework of antitrust law on the break of the 19th and 20th century

On the break of the 19th and 20th century was necessary to start managing the regulation of the monopoly. The competition necessitated to its own destruction. The biggest companies tried to make the lowest prices as was possible and wonted to get exoteric market. So they tried to place another market with new products and services. Because of stronger and stronger competition these companies' costs were pushed lower. The levels of these costs were lower than the demand enabled.

Monopoly as defined above is better termed absolute monopoly and is the opposite of perfect competition. Perfect competition exists when there are large numbers of sellers and buyers of a homogeneous commodity. Each seller accounts for a relatively small share of the market; he cannot, therefore, influence the market price by varying his output, and he cannot increase his price above the market price because buyers would shift to other producers.

Although the concepts of absolute monopoly and perfect competition are useful for the purpose of illustrating economic principles, they seldom if ever occur in reality, where actual conditions range between the extremes of near monopoly and nearly perfect competition. In common usage the term monopoly is often employed to signify a state in which the degree of competition is restricted (but still present), whereas competition is used to denote a state in which competition is less restricted (but still not perfect). The precise dividing line between monopoly and competition used in this way is a question of definition. One generally accepted definition of monopoly is that embodied in British antimonopoly legislation, according to which a monopoly exists if at least one-third of the supply of a particular product or service is controlled by one enterprise or by several enterprises acting in concert with a view to restricting competition. Another name for a market in which a small number of sellers may each substantially affect prices and one another's behavior is oligopoly. Oligopolies often tend to act in concert or, when permitted by law, to form cartels with formal agreements on prices and supplies.

The arguments in favour of monopolies are largely concerned with efficiencies of scale in production, as for example the arguments that in large-scale, integrated operations, efficiency is raised and production costs are reduced; that by avoiding wasteful competition, monopolies can rationalize activities and eliminate excess capacity; that by providing a degree of future certainty, monopoly makes possible meaningful long-term planning and rational investment and development decisions. Against these are the arguments that, because of its power over the marketplace, the monopoly is likely to exploit the consumer by restricting production and variety and by charging higher prices in order to extract excess profits; and that, in fact, the lack of competition may well work against efficiency and lower production costs, with the result that the factors of production are not used in the most economical manner.

It has been one of the principles of free-enterprise economic philosophies that monopolies are, as a general rule, undesirable and need to be strictly controlled. This is not to say that the advantages of monopolistic supply in certain specific areas have not been recognized; it is rather a case of ensuring that monopolies are restricted to these areas and, at the same time, taking the necessary steps to prevent them from exploiting the consumer. A case in point is the natural-gas industry. It is clear that a situation in which individual consumers could obtain their gas supply from competing companies, through competing pipelines and distribution systems, would be a highly wasteful form of competition. The idea of a single supplier, therefore, makes sense in economic terms. In order to prevent the consumer from being exploited, the monopoly's ability to control prices and supply needs to be restricted. This has generally been the view taken of firms operating as public utilities or in technical fields that invite a natural monopoly.

The owners of monopoly fixed the prices of their commodity with exclusive reference to the immediate net revenue which they can derive from it. The increased use of their commodity will before long recoup them for their preset loss. So it is clear that is wonted of calculations by which monopolists should govern their actions, on the supposition that he regards an increase of consumers' surplus as equally desirable to them. In case that the customer's surplus is added to the monopoly revenue derived from it, the sum of the two is the money measure of the net benefits accruing from the sale of the commodity to producers and consumers together. And if the monopolist regards a gain to the consumers as of equal importance with an equal gain to himself, his aim will be to produce just that amount of the commodity which will make this total benefit a maximum. The amount which the monopolist will offer for sale will be greater and the price at which he will sell it will be less if he is to any extent desirous to promote the interests of consumers (Marshall, Principles of Economics, 1961, p. 402). These conditions conveyed to the origin of the first antitrust legislation. The first most famous law leaded to curb concentrations of power ant restrict trade and reduce economic competition were proposed by Sen. John Sherman.

Accordingly, most free-enterprise economic systems have an elaborate framework of laws and regulations aimed at controlling monopoly. The oldest and probably the most vigorous monopoly control legislation is represented in the U.S. antitrust laws. Consisting primarily of the Sherman and Clayton antitrust acts and the Celler-Kefauver Act, they are aimed at preventing agreements among suppliers, the effect of which would be to limit competition, and at preventing mergers between and acquisitions by and of firms, the result of which would be to lessen competition or to create a monopoly. The legislation provides for stiff civil and criminal penalties, and most administrations have tended to enforce the laws vigorously. In areas where monopoly is countenanced, such as in public utilities, a considerable degree of public control is exercised to ensure that monopoly power is not abused. In Great Britain the basic aims of the anti-monopoly legislation are similar to those of the United States, but much greater weight is given to the concept of the public interest. In the United States, any agreement or act that limits competition is regarded as undesirable, but in Great Britain and other west European countries such acts are accepted if they can be demonstrated to be in, or not to be against, the public interest. In general terms, the degree of monopoly tends to be relatively small in the United States; it is considerably more pronounced in Britain, France, and other parts of Europe, where among operating monopolies are a large number of state-owned enterprises (Encyclopedia Britannica Online, http://search.eb.com/eb/article?tocId=9067322).

The Sherman Antitrust Act of 1890, which declare illegal all attempts to monopolize any part of trade or commerce in the U.S. initially used against trade unions, it was more widely enforced under press. Theodore Roosevelt. In 1914 Congress strengthened the act with the Clayton Antitrust Act and the formation of the Federal Trade Commission. In 1920 the U.S. Supreme Court relaxed antitrust regulations so that only "unreasonable" restraint of trade through acquisitions, mergers, and predatory pricing constituted a violation. For instance we can mention some others antitrust acts: The Clayton Antitrust Act of 1914 outlawed unfair price discrimination, interlocking directorates, and holding companies , as amended in 1936 by the Robinson-Patman Act, prohibits discrimination among customers through prices or other means; it also prohibits mergers or acquisitions whenever the effect may be to substantially lessen competition. A 1950 amendment to the Clayton act forbade a corporation to purchase another corporation's assets or stock, if doing so would reduce competition. Labour unions are also subject to antitrust laws (Encyclopedia Britannica Online, http://search.eb.com/ebc/article?tocId=9378482).

In the absence of competition, the supplier usually restricts output and increases price in order to maximize profits. The concept of pure monopoly is useful for theoretical discussion but is rarely encountered in actuality. In situations where having more than one supplier is inefficient (e.g., for electricity, gas, or water), economists refer to natural monopoly. For monopoly to exist there must be a barrier to the entry of competing firms. In the case of natural monopolies, the government creates that barrier. Either local government provides the service itself, or it awards a franchise to a private company and regulates it. In some cases the barrier is attributable to an effective patent. In other cases the barrier that eliminates competing firms is technological. Large-scale, integrated operations that increase efficiency and reduce production costs confer a benefit on firms that adopt them and may confer a benefit on consumers if the lower costs lead to lower product prices. In many cases the barrier is a result of anticompetitive behavior on the part of the firm. Most free-enterprise economies have adopted laws to protect consumers from the abuse of monopoly power. The U.S. antitrust laws is the oldest examples of this type of monopoly-control legislation; public-utility law is an outgrowth of the English common law as it pertains to natural monopolies. Antitrust law prohibits mergers and acquisitions that lessen competition. The question asked is whether consumers will benefit from increased efficiency or be penalized with a lower output and a higher price.

4. Karl Marx and his followers

Marx was unaware of the existence of monopoly in the British economy of his day. He treated monopolies not as essential elements of capitalism but rather as remnants of the feudal and mercantilist past which had to be abstracted from in order to attain the clearest possible view of the basic structure and tendencies of capitalism. It is true that, unlike the classicists, Marx fully recognized the powerful trend toward the concentration and centralization of capital inherent in a competitive economy. His vision of the future of capitalism certainly included new and purely capitalist forms of monopoly. But he never attempted to investigate what would at the time have been a hypothetical system characterized by the prevalence of large-scale enterprise and monopoly.

By accidental monopoly we mean a monopoly which a buyer or seller acquires through an accidental state of supply and demand. The assumption that the commodities of the various spheres of production are sold at their value merely implies, of course, that their value is the centre of gravity around which their prices fluctuate, and their continual rises and drops tend to equalize. There is also the market value—of which later—to be distinguished from the individual value of particular commodities produced by different producers. The individual value of some of these commodities will be below their market-value (that is, less labour-time is required for their production than expressed in the market-value) while that of others will exceed the market-value. On the one hand, market-value is to be viewed as the average value of commodities produced in a single sphere, and, on the other, as the individual value of the commodities produced under average conditions of their respective sphere and forming the bulk of the products of that sphere. It is only in extraordinary combinations that commodities produced under the worst, or the most favourable, conditions regulate the market-value, which, in turn, forms the centre of fluctuation for market-prices. The latter, however, are the same for commodities of the same kind. If the ordinary demand is satisfied by the supply of commodities of average value hence of a value midway between the two extremes, then the commodities whose individual value is below the market-value realize an extra surplus-value, or surplus-profit, while those, whose individual value exceeds the market-value, are unable to realize a portion of the surplus-value contained in them (Marx, K., Capital Vol III., London, UK: ElecBook, 2001, http://site.ebrary.com/lib/oulu/Doc?id=2001686&page=235). It does no good to say that the sale of commodities produced under the least favourable conditions proves that they are required to satisfy the demand. If in the assumed case the price were higher than the average market-value, the demand would be smaller.

Finally, if equalisation of surplus-value into average profit meets with obstacles in the various spheres of production in the form of artificial or natural monopolies, and particularly monopoly in landed property, so that a monopoly price becomes possible, which rises above the price of production and above the value of the commodities affected by such a monopoly, then the limits imposed by the value of the commodities would not thereby be removed. The monopoly price of certain commodities would merely transfer a portion of the profit of the other commodity-producers to the commodities having the monopoly price. A local disturbance in the distribution of the surplus-value among the various spheres of production would indirectly take place, but it would leave the limit of this surplus-value itself unaltered. Should the commodity having the monopoly price enter into the necessary consumption of the labourer, it would increase the wage and thereby reduce the surplus-value, assuming the labourer receives the value of his labour-power as before. It could depress wages below the value of labour-power, but only to the extent that the former exceed the limit of their physical minimum. In this case the monopoly price would be paid by a deduction from real wages (i. e.. the quantity of use-values received by the labourer for the same quantity of labour) and from the profit of the other capitalists. The limits within which the monopoly price would affect the normal regulation of the prices of commodities would be firmly fixed and accurately calculable (Marx, K., Capital Vol III., London, UK: ElecBook, 2001, http://site.ebrary.com/lib/oulu/Doc?id=2001686&page=1153).

Engels, in some of his own writings after Marx's death commented on the rapid growth of monopolies during the 1880s and 1890s, but he did not try to incorporate monopoly into the body of Marxian economic theory. The wholesale merchant, Engel, says quite correctly, that efforts of the syndicate are intended to create a monopoly for itself and to eliminate the wholesale trade entirely. Naturally prices will not be any lower for the retailer. If the motives were not to obtain for the factory and the syndicate the same benefits which accrue to the wholesale merchant, the whole movement would be without purpose (Hilferding, R., Finance Capital, London, 1981, p. 416).

The first who incorporate monopoly into the body of Marxian economic theory was Rudolf Hilferding in his important work, Das Finanzkapital, published in 1910. But for all his emphasis on monopoly, Hilferding did not treat it as a qualitatively new element in the capitalist economy; rather he saw it as effecting essentially quantitative modifications of the basic Marxian laws of capitalism. We must recognize that competition, which was the predominated form of market relations in nineteenth-century

Britain, has ceased to occupy that position, not only in Britain but everywhere else in the capitalist world (Baran A. P.,Sweezy, M., Monopoly Capital, Suffolk, 1966, p. 416).

Rudolf Hilferding writes about protective tariff, which means a constriction of the economic territory, and hence an interference with the development of the productive forces, since it reduces the size of industrial plants, discourages specialization, and impedes, finally, that international division of labour which brings about a flow of capital into those branches of production for which a given country is best suited. This is all the more important in the case of the modern high protective tariff since the tariff rates are frequently fixed less of regard for the technical conditions of production which prevail in particular branches of production, than as the outcome of a political struggle for power among various industrial groups whose influence upon he state ultimately determines the tariff structure. The tariff is a brake upon the development of the productive forces and hence of industry. It means direct deprives industries which are capable of being cartelized of their monopoly of the domestic market, if that monopoly is not already assured by protected freight rates in the case of coal or by a natural monopoly in the case of German potash production (Hilferding, R., Finance Capital, London, 1981, p. 312).

5. Neoclassicism

In the market for consumer's goods a relatively small number of sellers face a large number of buyers, so that the imperfection of competition tells in favour of the sellers. In the labour market the position is reversed. Thus the share of labour in total output is ground between the upper and the nether millstones of monopoly and monopsony. This account of the matter bears a close resemblance to the theory of Lexis, quoted by Engels in the preface to Volume III of Capital. He writes that the capitalist sellers, such as the producer of raw materials, the manufacturer, the wholesale dealer, the retail dealer, all make a profit on their transactions, each selling his product at a higher price than the purchase price, each adding a certain percentage to the price paid by him. The labourer alone is unable to raise the price of his commodity, he is compelled, by is oppressed condition, to sell his labour to the capitalist at a price corresponding to its cost of production, that is to say, or the means of his subsistence. Further he writes therefore that capitalist additions to the prices strike the labourer with full force and result in a transfer of a part of the value of the total produce to the capitalist class. Engels gives (though grudgingly) his approval to this formulation which amounts to the same thing as the Marxian theory of surplus-value. Lexis thus provides a bridge between Marx and the later theory. For Marx's scheme under-capacity working is impossible and the limit to the output of any concern is set, not by the imperfection of the market, but by the capacity of capital. The post dated theories exposed many relatively minor defects in capitalism which Marx, concentrating on major issues, was content to ignore.

The theory is good enough for purposes of a general discussion of the nature of the system. Where outright monopoly rules, or where a group of commodities is produced by a few powerful firms, there is great scope for individual variations in policy, and it is hard to make any generalization at all as to what governs the margin of profit per unit of output.

All this makes a serious breach in the smooth surface of the orthodox theory of value, and it seems that economic science has not yet solved its first problem – what determines the price of a commodity?

In this first statement of the theory of value Marshall wrote, that the great central law o economic science is that producers, each governed under the sway of free competition by calculations of his own interest, will endeavour so to regulate the amount of any commodity which is produced for a given market, during a given period, that this amount shall be just capable on the average of finding purchasers at a remunerative price, a remunerative price being defined so as to allow for normal profits on capital. This statement may be taken to mean two quite different things. It may mean that each producer, governed by calculations of his own interest, endeavours to maximize the profit, at each moment, on his current rate of output, by balancing marginal cost against margin gain.

The other interpretation is that each producer endeavours to fix, not the price which maximizes his current profit, but the price which will be remunerative in the long run. This at first sight seems plausible, but it entirely begs the question of normal profits on which, as we have seen, academic economics fails to provide any theory which is relevant to the real world. Moreover, even if the question of normal profits were settled, it would still remain to inquire what level of utilization of equipment is normal in the long run. Generally speaking, the lower the level of utilization, good years with bad, the higher gross margin required to bring in any given level of profits. But the higher the gross margin, other things equal, the lower the level of utilization, for given the expected fluctuations in demand, the amount of capital seeking employment in the industry is governed by the gross margin established in the market. And the amount of capital employed influences the average utilization per unit of capital. The three determinants, profit per unit of output, profit per unit of capital, and capital per unit of output, ale all interdependent, and the whole analysis dissolves in a haze of doubt.

The Marxian theory might yield the explanation that the development of trade-union power has been just sufficiently rapid to prevent the rate of exploitation from rising with the productivity of labour, while the academic theory suggests that a secular rise in monopoly has been just offset by a relative fall in raw-materials prices. Both explanations are somewhat lame, and the mystery of the constant relative shares remains as a reproach to theoretical economics (Robinson, J., An essay on Marxian economics, New York, 1967, p. 81).

6. Ordoliberalism and dynamic theory of competition

The determination of the value of the monopoly is a special problem, and in solving it we must not forget that in the normal circular flow no motive to form such a value exists, hence the gain is not to be related to any other magnitude. However all this may be, the monopolist can at any rate never say, that they make no profit because they ascribe an extremely high value to their monopoly.

In a discussing Lauderdale's theory of interest Böm-Bawerk also comments upon the case in which a labor-saving and hence profit-yielding machine is monopolized. He emphasizes rightly that this machine will be so dear that no profit, or only the minimum which will just induce people to purchase or hire it, will be connected with its employment. Yet a profit is undoubtedly connected with its production, which is as permanent as the patent. It might be said that the monopoly position is for the monopolist something analogous to a productive factor. Imputation takes place with reference to the services of this quasi-factor of production just as with reference to other factors. The machine as such is not a source of surplus value, nor is its means of production, but the monopoly makes it possible to obtain a surplus value with the machine or its means of production. Obviously nothing is changed if we allow producer and user to coincide in one person. There would be a source of surplus value the existence of which would be explained by the theory of monopoly; there would also be a reason for the assignment of a return to monopolists; and finally the fact that neither imputation nor competition annihilates the return would be explained. However, such monopoly positions do not occur regularly and numerously enough for this explanation to be accepted, and moreover interest exists without them.

There are several designs for escaping market discipline, including that imposed by younger, more adaptable, more aggressive competitors. The first is a return to tariff protection. Faced with foreign competition, the great industrial corporation seeks tariffs and also quotas that will release it from the pressure of market constraints. After ceremonial praise of the free market, the need for a worthy exception is urged. A revival of protectionist sentiment and legislation in the older industrial countries having already occurred in the present, it will do so to even greater degree in the future. Once protective tariffs were for infant industries, now they are for the old and putatively senile.

A second well-established design for dealing with competition is simply to take it over. This is the purpose of the international or multinational corporation. It has long been thought that the latter is an instrument of aggression, even imperialism, on the world stage. Far more important is its protective purpose, its profoundly important service as an escape from the constraints of the market.

Evading market discipline is increasingly apparent in a third design, this is for the older bureaucratically and intellectually more rigid enterprise to assign to firms in the newer industrial lands work that can no longer be performed competitively in the older countries.

Another and final recourse available to aging and inefficient private enterprises is to seek forthright intervention by the government. This, in practice, goes far beyond protection from foreign competition. In the United States the Reagan administration has repeatedly set aside its free market rhetoric to come to the fescue of failing banks and needful exporters and, at unprecedented costs, to protect farmers from the free market. Again there is first the speech on the eternal verities of tree enterprise and then the case for the particular exception (Galbraith, J., K., A History Of Economics, London, 1987, p. 294).

We conclude that sunk costs, unlike fixed costs; can constitute a barrier to entry. In particular, we argue now that fixed costs need not have any detrimental welfare consequences, unless they also happen to be sunk. In an industry whose firms use only capital on wheels or winks, some or all of that capital may be fixed, bud it is not sunk. This means that in the absence of other entry barriers, natural or artificial, an incumbent, even if he can threaten retaliation after entry, dare not offer profit-making opportunities to potential entrants because an entering firm can hit and run, gathering in the available profits and departing when the going gets rough. Such a situation fits our definition of a contestable market, that is, a market vulnerable to costlessly reversible entry, even when it is currently occupied by an oligopoly or a monopoly. The contestable market is a generalization of the case of pure competition, and it offers many of the same benefits. Even if it is run by a monopoly, a contestable market will yield only zero profits and offer inducements for the adoption of Ramsey-optimal prices; an addition, it will enforce efficiency of production, the adoption of new improved techniques as they become available, and avoidance of cross subsidy in pricing .

This resolves the apparent contradiction between our conclusion that fixed costs of sufficient magnitude permit the incumbent to adopt entry preventing prices and the preceding assertion that, in themselves, they constitute no barrier to entry. The availability of sustainable prices does permit the incumbent to preclude entry. But he can do so only by offering the public the very same benefits that actual competition would otherwise have brought with it. With entry barriers, supernormal profits, inefficiencies, cross subsidies, and no optimal prices all become possible. But in a contestable market, which is perfectly consistent with the presence of fixed costs that are not sunk, matters change drastically, and government intervention can contribute far less, if anything, to the general welfare (Galbraith, J., K., A History Of Economics, London, 1987, p. 292).

7. Conclusion

Finally, we come to a variety of artificial sources of unsustainability which result from special disadvantages imposed by public policy upon incumbents over entrants, either intentionally or unintentionally. Examples include regulatory rules on depreciation policy, which force prices for some periods to fall below the pertinent marginal costs; deliberate imposition of cross subsidies designed to benefit groups considered particularly meritorious, environmental regulations, if they are more severe for incumbents; and rules against price discrimination, which prevent adoption of sustainable Ramsey prices Any of these measures, as we have seen, can lead to unsustainability. The way to deal with such artificial sources of unsustainability is fairly obvious. One simply avoids the measure that give rise to them. For one thing, incumbents and entrants should always be treated similarly in any cost-imposing rule. For example, internal cross subsidies, such as those for the elderly should be replaced either by direct government grants of by funds obtained from the imposition of a tax that falls on an equal basis on all firms in the industry.

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UNEMPLOYMENT EVOLUTION AND STRUCTURE IN ROMANIA DURING THE PERIOD OF TRANSITION TOWARDS A MARKET ECONOMY

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Abstract

The period of transition from a totalitarian regime and a supercentralized economy to a democratic state with a social market economy has been and it still is marked with great difficulties and obstacles, both objective and subjective, still coping with a prolonged structural crisis. As far as the unemployment structure in Romania is concerned, we may notice the following features: The unemployment rates by sex had an interesting dynamics; The evolution of unemployment by residential average was relatively stable in the course of time. It had the highest intensity in the urban area. The analysis of the unemployment structure by age groups shows that young people of 25 are the most affected.

Keywords: *transition, centralized economy, unemployment structure*

1. Introduction

In the countries with a consolidated market economy unemployment is regarded as a natural phenomenon which, if maintained within certain limits, may even bring about positive effects by fostering a competitive climate on the labour market; this is an objective element of any market economy, irrespective of its level of development.

It is important to know that unemployment cannot be eradicated; it can only be *improved* and brought to reasonable limits economically and socially.

In Romania, unemployment emerged with the transition to the market economy though the estimations of various authors [1] indicate rates of hidden unemployment reaching 4 – 5 % around the year 1989.

2. Unemployment in Romania after 1989

The economical regressions accompanied for a long time by the prevalence of passive politics, reactive of labour market, have generated the explosion and the perpetuation of unemployment, the beginning of long-term unemployment and the segmentation of labour market.

Because of all these, unemployment has been assimilated in the individuals' mentality and at the level of community quite heterogeneously and not always correctly and coherently, as follows[2]:

- As a *traumatic phenomenon* affecting the *individual,* his personality, the social relations; it may even lead to individual's marginalization;
- As *transitory,* with effects on the individual's professional evolution;
- As *privileged,* providing the individual with certain advantages derived from the combination of social security and the possibility to obtain some other income on the informal market (undeclared work).

Among the main *causes*[3] of unemployment in Romania, we would like to mention:

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[1] Goga, P.A., Mărginean Ş., *Restructurare. Ocupare . Şomaj Restreucturing. Employment. Unemployment]*, P.S.P. & Co SRL Bucharest 2001, pg. 123

[2] Pert, S., *Piaţa muncii în România [Labour Market in Romania]*, CIDE, Bucharest , 1994, pg. 112

- Continuous reduction of social production (which represented in 1999 about 60% of the production level registered in 1989) under the influence of the thorough restructuring processes in the real economy, the standards imposed by Romania's joining the EU as well as other serious errors in the elaboration and enforcement of policies at the macroeconomic level;
- Inexistence of an economic and social development strategy which should have represented the starting point in directing the future structures of employment;
- The difficult start of economy restructuring process and its adaptation to the market economic mechanisms;
- Permanent lowering of solvent demand and the aggregate demand which, not supported by active policies, the investments from the state and the economic agents,brings about the decrease of the activity in many economic units and the increase of unemployment, especially the technical unemployment;
- Almost complete lack of internal investments and the insufficient mobilization of foreign capital.

Internal investments are in they greatest part reduced drastically by the decline of the national economy, the insufficiency of accumulation as well as the perpetuation of a galloping inflation and the starting of a consumption psychosis at the level of population and the economic agents. As far as the mobilization of foreign investments is concerned, the essential elements are not constituted of the richness of resources of the factors of production, but the dimension of the internal market and the economic and political stability.

As the dimension of internal market depends on the solvent demand, we can see that foreign investors are still reluctant.

In Romania after 1989, due to the breaking-up of the traditional structures responsible for the production of raw materials, the reduction in the volume of production, the decrease of supply of goods and services and the reduction of demand for labour force, unemployment increased incredibly fast as the current state of economy was not able to provide with a real social security.

[3] Pert, S., the work cited, pg. 129

It is painful that the Romanian citizen once able to meet the basic requirements to support himself and his family finds, in the current social and economic circumstances, with astonishment, revolt and even desperation that he is no longer capable to do it.

Unknown officially until 1990, unemployment registered a boom in 1991 after the promulgation of the Law 1 / 1991 (at the end of the year 337, 440 unemployed people were already registered, which indicates an increase of 267 thousand persons as compared to February 1991), an unemployment rate of 3% respectively. In the period between 1991 and 1994, the evolution of unemployment was rapid, reaching a climax of 1, 223, 925 unemployed people (at the end of 1994). After 1994, it started to decrease slowly due to the beginning of a process of economic stimulation. From 1996 a new ascending trend began which reached at the end of 2000 the figure of 1,007,131 uneployed workers. From this year, the quota of unemployed workers began to lower again, only 659 thousand unemployed persons being registered in 2003 (see table 1.1 and figure 1.1). Not denying that this evolution which has been registered in the last three years is a direct consequence of economic stimulation, we appreciate that the reduction of unemployment rate as a trend is to be reflected in the increase in the quota of the newly employed people. Nevertheless, figures show that the quota of the unemployed people decreased much more as compared to the quota of the newly employed people. This reality leads us to the following conclusions: either the unemployed workers are no longer registered or they are working without a labour contract.

This evolution of unemployment was the result of the simultaneous action of numerous economic, demographic and social factors. Among these, the economic factors and especially the economic decline played the most important part as well as the reduction of the economic activity, in general, and the industrial activity, in particular.

All the same, the demographic factor is extremely important. Unemployment, as the result of a continuous balancing between the demand and supply of labour, has increased, on the one hand, by the compression of the first, and on the other hand, by the increase of the latter due to massive lay-offs of workers as well the entering on the labour market of secondary and higher education graduates and other categories of unemployed people respectively.

As mentioned above, the information sources regarding the labour market are represented by the administrative ones (M.M.S.S.S.F.)[4] and the

[4] Ministry of Labour, Social Security and Family

AMIGO inquiry to complete the first. As a result of using various criteria (the BIM criteria in the case of AMIGO inquiry and the criteria of lack of a place of work and the registration with the M.M.S.S.F. administrative sources), the following differences are emphasized.

In the analyses presented bellow, to dispose of information in a range as large as possible of characteristics, we shall use both sources and we shall, of course, mention both the source of information and the methods applied (B.I.M. and M.M.S.S.F.)

Table 1. Quota of unemployed persons and the unemployment rate at the registered level and according to B.I.M.

Indicators	***1991***	***1992***	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***
Registered unemployed workers (thousand persons)													
Number of unemployed persons	337	929	1165	1224	998	658	881	1025	1130	1007	827	761	659
Unemployment rate (%)													
Total	3,0	8,2	10,4	10,9	9,5	6,6	8,9	10,4	11,8	10,5	8,8	8,4	7,4
Men	2,2	6,2	8,1	9,0	7,9	5,7	8,5	10,4	12,1	10,8	9,2	8,9	7,9
Women	4,0	10,3	12,9	12,9	11,4	7,5	9,3	10,4	11,6	10,1	8,4	7,8	6,8
Unemployed persons B.I.M. (thousand persons)													
Number of unemployed persons	-	-	-	971	968	791	706	732	790	821	750	845	692
Unemployment rate (%)													
Total	-	-	-	8,2	8,0	6,7	6,0	6,3	6,8	7,1	6,6	8,4	7,0
Men	-	-	-	7,7	7,5	6,3	5,7	6,5	7,4	7,7	7,1	8,9	7,5
Women	-	-	-	8,7	8,6	7,3	6,4	6,1	6,2	6,4	5,9	7,7	6,4

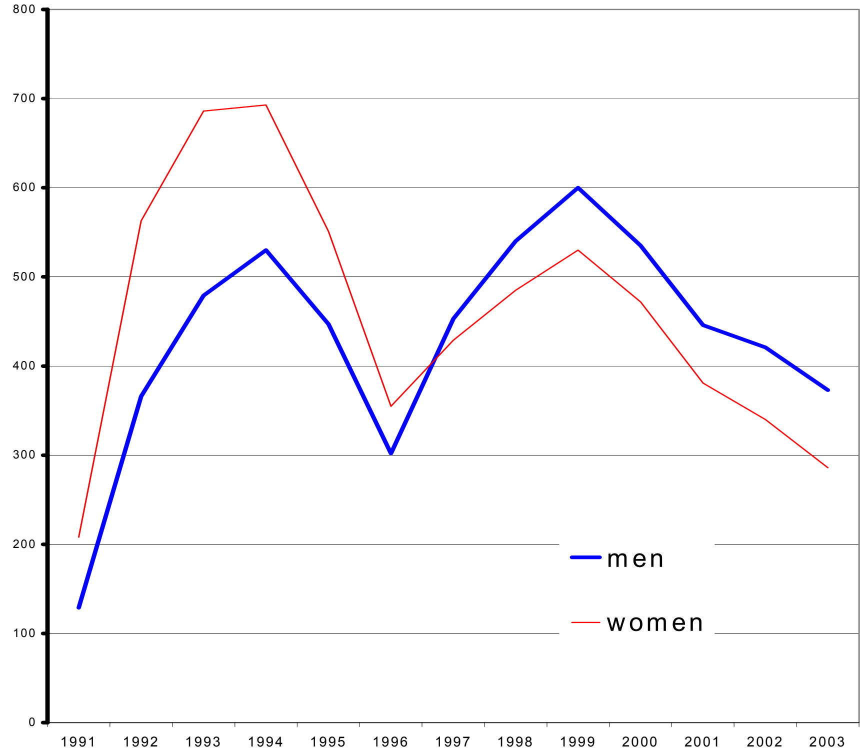
Source: The statistical annual of Romania 1991 – 2004 and AMIGO 1996-2004, I.N.S.

As we can notice from the Table1.1, there are some differences in the area covered by the "Unemployment rate" indicator registered with the employment agencies and the unemployment rate calculated according to B.I.M. methods of AMIGO. The specialists[5] explain the difference between the two series of data in the following manner: there are persons who, while registered as unemployed with the employment agencies, they work outside the legal framework.

[5] Pert, S., *Piața muncii în România [Labour Market in Romania]*, CIDE, Bucharest , 1994, pg. 132

As far as *the unemployment structure by sex* is concerned, until 1996 it could have been seen that the women's unemployment was higher.

Figure 1. Evolution of the unemployed persons by sex in the period 1991 – 2003



Source: It was accomplished based on the information taken from the Statistical Annual of Romania for the years 1991 – 2004.

Everywhere around the world, the level of education and vocational training of women is continually growing. Despite of all these, when the general employment decreases, the labour force represented by women goes through a faster and more intensive erosion than the one represented by men. The factors of such an evolution derive form the particularities of this type of labour force (involved in the process of demographical reproduction) but also of mentalities, behaviours of the economic agents or other economic reasons.

In most of the cases, the dissipation of the productive, creative and participating potential of women's labour force by unemployment is greater as compared to the men's, indicating effects both on the family life and in providing the inter-generation with a demographic balance and training of future generations[6].

In absolute terms, the unemployment level by sex had the dynamics shown in the Table 1.2.

In the period between 1992 and 1996, as an absolute unemployment term and rate (the Table 1, 2 and the Figure 1), the women's unemployment was constantly higher than the men's unemployment.

On this background of 1997, an extremely interesting and rather paradoxical trend emerged: *the decrease of women's unemployment* and the corresponding increase of men's unemployment.

Table 2. Absolute and relative unemployment by sex (1992-2003)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Total unemployed, of which	929.019	1.164.705	1.223.925	998.432	657.564	881.435	1.025.056	1.130.296	1.007.131	826.932	760.623	658891
Women	563.06	685.49	693.34	551.492	355.435	428.620	485.181	530.119	471.608	381.139	339.520	286271
% women, a total of	60,6	58,9	56,6	55,2	54,0	48,6	47,3	46,9	46,8	46,1	44,6	43,4
Men	365.95	479.20	530.58	446.940	302.129	452.815	539.875	600.177	535.523	445.793	421.103	372620
% men, a total of	39,4	41,1	43,4	44,8	46,0	51,4	52,7	53,1	53,2	53,9	55,4	56,6

Source: The statistical annual of Romania 1991 – 2004 and AMIGO 1996-2004, I.N.S.

The causes of such a surprising unemployment reversal in the structure by sex are based on demographic, economic and psycho-social factors, their simultaneous action rendering difficult the precise quantification of the influence of each[7].

Basically, we *appreciate* that it is the question of:

- Cutting down of women's labour supply and the corresponding increase of men's labour force. In the years following the year of 1997, according to the official sources, both the population employed and the women's unemployment were decreasing; moreover, the supply of men labor force increases as a result of lay-offs and reduction of activity on several economic branches (especially the

[6] Pert, S., *Piața muncii în România [Labour Market in Romania]*, CIDE, Bucharest , 1994, pg. 133

[7] Mihăescu, C., *Populație. Ocupare, Trecut, Prezent, Viitor [Population, Employment, Past, {resent, Future]*, Economica Publishing House, Bucharest 2001, pg. 306

processing and mining industry); these were the branches where the population employed and later laid off was preponderantly represented by men.

- Development of clothing industry, garments and shoes, where the labour force is mostly represented by women;
- Women started entering in the occupational atypical structures) part-time jobs, authorized social services, etc. or the “underground” economy.

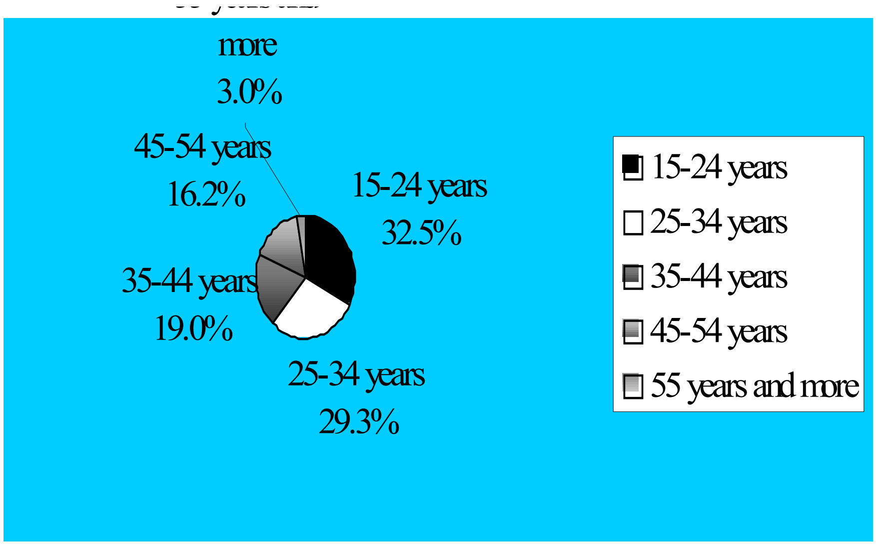
As far as the structure of unemployment *by residential environment is concerned,* the evolution was relatively stable in the course of years, the highest intensity being registered in the urban area where (according to the AMIGO data) the unemployment rate was, on average, 2,4 times higher than in the rural area.

The analysis of unemployment structure *by groups of age* shows that the young people under 25 are the most affected (Figure 2). The lack working places for the young people (though the labor legislation is stimulating for the employers to hire young people) remains one of the most serious and most difficult to solve economic and social problems of transition.

Another aspect to be mentioned is as follows: while a greater number of young people acquire the skills and qualifications required for the various trades, the number of working places does not increase accordingly. Young people who have recently completed a certain stage of education must compete on the labour market with other people with higher qualifications and longer work experience and thus are forced to accept positions of an inferior level, less paid or even enter in the circuit of unprotected labour (undeclared labour); this situation isolate them from society before allowing the to make the first steps in the professional and family life.

The next age group greatly affected by unemployment is the group 15 – 24 years, followed by the group 25 – 34 years which is the main category of population intended for industrial restructuring.

Figure 2. Structure of category of age of the population unemployed as of the year of 2004.



Source : Based on the data from "Labor Force in Romania. Employment and unemployment in 2004", INS, 2005.

By examining the unemployment according to its *duration,* we come to the conclusion that in Romania, though the unemployment became apparent only at the beginning of year 1991, it remained permanent even chronic in only a few years, by the increase of *long – term unemployment.*

The long-term unemployment is the effect of an ever deeper economic and social crisis which has been inducing the reduction of employment and labour force supply.

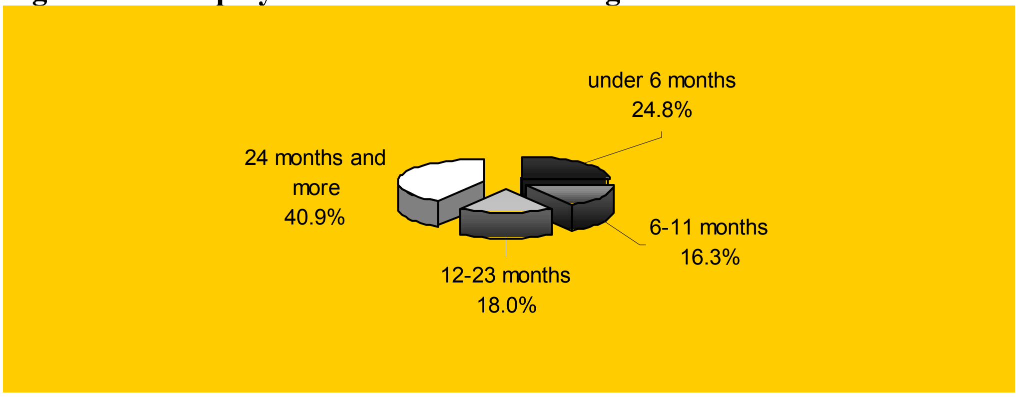
After 1992, it has been noticed that (according to the AMIGO inquiry) year by year, the average duration of unemployment shows increasing trends: from 16, 3 months in 1995 to 17, 9 months in 2001, to 21, 2 months in 2002 and 22, 4 moths in 2004.

In 2004, more than the half of the total number of unemployed people (59, 9%) have been inactive for more than 1 year as compared to a percent of 43, 2% in 1999.

The categories of persons that could be most directly affected by the perspective of unemployment becoming chronic in our country are the workers over 50, the women, the young graduates and the individuals with a little level of qualification.

The structure of unemployment as of the end of 2004, according to its duration (expressed in the number of months) is shown in the figure bellow (Fig. 3.)

Figure 3. Unemployment structure according to its duration in 2004



Source : Based on the data from "Labour Force in Romania. Employment and unemployment in 2004", INS, 2005.

Another form of long-term unemployment which is registered in the official records is the *discouraging unemployment.*

An alarming phenomenon is that the young are the most affected by this type of unemployment. According to the AMIGO[8] inquiry on the integration of the young people on the labour market, at the end of 2004, more than 30% of the total number of people discouraged were young persons, between 15 – 24 years.

Both the discouraging phenomenon and the long-term phenomenon generate serious social effects which, if prolonged, may acquire dimensions difficult to keep under control.

The analysis of unemployment according to the *occupational-professional* structure and *qualification of the unemployed workers* (Table 3) broadens the knowledge area of this phenomenon, suggesting solutions for the increase of employment in the fields that require professional retraining and re-qualification.

[8] The persons discouraged, in the sense of AMIGO, are the inactive persons, willing to work for the following 15 days, who do not have a job and have stated that they are looking for a job but they have not done anything on this purpose in the last 4 weeks or they are not looking for a job for the following reasons: they are not trained from the professional point of view, they think they won't be able to find a job because of their age or they have looked for a job somewhere else and they did not find one.

According to the M.M.S.S.F. records, the occupational-professional and qualification structure is composed of:

- Workers;
- Personnel with secondary studies;
- Personnel with higher studies.

The data in the Table 1.3 shows the massive concentration of unemployment in the category of workers. The quota represented by them (of almost 80% until 1996) gradually lowered, reaching 72, 5 % in 2001, as other categories began to be affected by unemployment. A significant change is also seen in the category of the unemployed workers with secondary studies, the quota of which shall double by the year 1991. In 2002, 2003 the quota of the unemployed workers in the category workers has increased as the quota of category of persons with secondary studies has decreased.

Table 3 Structure of unemployed workers on their training level in the period 1991-2003 (%)

	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Workers	84,1	87,0	85,6	83,5	81,1	79,6	75,9	74,7	73,0	72,1	72,5	76,8	75,1
- of whom women (total of unemployed women)	82,6	85,8	84,4	82,2	79,6	76,2	69,7	67,8	65,3	65,5	65,0	71,0	69,4
Persons with secondary studies	12,9	11,1	12,8	14,9	17,4	18,8	21,7	22,8	24,1	24,7	24,1	20,0	20,7
-- of whom women (total of unemployed women)	14,8	12,5	14,1	16,3	18,8	22,1	27,7	29,3	31,4	30,8	31,1	25,0	25,2
Persons with higher studies	3,0	1,9	1,6	1,6	1,5	1,6	2,4	2,5	2,9	3,2	3,4	3,2	4,2
- of whom women (total of unemployed women)	2,6	1,7	1,4	1,5	1,6	1,7	2,7	2,8	3,3	3,7	4,0	3,9	5,4

Source: calculus based on the data in the Statistical Directory of Romania I.N.S., 1991-2004.

The quota of the unemployed with higher studies was rather changing during this period, oscillating between 1, 5% and 5, 4%, as the clear tendency from 1997 being an increasing one.

From the M.M/S.S.F. data, the most affected by unemployment are the trades in the processing industry (manufacturers-fitters of metallic structures, operators of polishing-rectifying machines, fitting mechanics and machine menders, electricians, fitters and trouble shooters of electrical wires, motor-vehicle mechanics and repairmen). The least affected by unemployment are the economists, the social workers, computer operators.

A deeper analysis of this typology may have positive effects in promoting some retraining and refresher courses, professional reorientation to trades which are actually on demand on the labor market.

3. Conclusion

Concerning the unemployment in Romania, we observe the following characteristics:

- Concerning *its evolution*, we observe that the unemployment registered an explosion in 1991, having a fast evolution and reaching a peak of 1.223.952 unemployed at the end of the year 1994. After 1994, it starts to slightly decrease, on the background of a new process of economic invigoration. In the period 1996-2000 a new ascendant trend started to take place, reaching 1.007.131 unemployed at the end of 2000. Starting with this year, the number of unemployed started to decrease again, reaching 659 thousand unemployed in 2003.
- Without denying that this evolution from the last years is a consequence of the economic invigoration, we consider that reducing the unemployment rate as a tendency is also found in the increase of the number of employees. At the level of numbers, though, the number of unemployed decreased much more compared with the number of those newly employed. This reality leads us to the idea that either the unemployed have gone out of evidences, or were employed without working contract.
- The level of unemployment *on sexes* had an interesting dynamics; in the period 1992-1996, as absolute value and as unemployment rate, the feminine unemployment has been permanently higher than the masculine one. Starting with 1997, a very interesting and somehow paradoxical tendency

occurred: the decrease of the feminine unemployment weight and the corresponding increase of the masculine one;

- The evolution of unemployment on *residential averages* was relatively stable in time, having the highest intensity in the urban area, where the unemployment rate was 2,4 times higher on average than the one in the rural area;
- The analysis of the unemployment structure on *age groups* shows that young people under 25 years old are the most affected;
- The analysis of unemployed *according to its duration*, leads to the conclusion that, in Romania, although the unemployment phenomenon occurred only at the beginning of the year 1991, it became permanent in just a few years, it became chronic, through an increase of the long term unemployment; in 2004 more than half of the unemployed (58,9%) were inactive for more than one year compared to a percent of 43,2% in 1999;
- The analysis of unemployment according to the *professional employment and unemployed qualification structure* indicates the massive concentration of unemployment in the workers' category; a significant change is emphasized within the category of unemployed with medium studies, whose weight doubles compared to the year 1991.

As a *general conclusion*, we consider that the labour force market from Romania after 1990 was characterized by significant mutations. People were obliged to pay very high the transition to a market economy, very many of them loosing their jobs as a result of the imposed restructuring at macro and microeconomic level.

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FOREIGN DIRECT INVESTMENTS – A CHANCE FOR AGRICULTURE AND INDUSTRY

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Abstract

The paper is based upon the last report regarding the global development new vistas lay down by the International Monetary Fund and made public in April this year, which is optimistic regarding the chances of overtaking the world recession. Fields of economy like agriculture and industry will be deeply affected by the new structural changes. The International Monetary Fund’s report shows the weakness of the economies from euro area and it proposals regarding the solutions that could be put into practice. The experts are predicting that the most of the countries will intensify their efforts for attracting new foreign investments. The competition is rising, the investments playing an essential roll in the economical development of a region. For 2005 – 2006 is anticipating an increase of the beneficiaries of the foreign investments, comparatively with the last year. The liberation process of the markets will be expanding so that as many economies as possible should benefit by the foreign investments. In developed economies, the liberation process will have a smaller roll, but the orientation of founds towards the top domains will be more obvious as ever.

Keywords: *foreign direct investment, challenges, Romanian agriculture, Romanian industry, and liberalization*

1. Introduction

Global economic integration is not a new phenomenon. Some communication and trade took place between distant civilizations even in ancient times. Since the travels of Marco Polo seven centuries ago, global economic integration—through trade, factor movements, and communication of economically useful knowledge and technology—has been on a generally rising trend. This process of globalization in the economic domain has not always proceeded smoothly. Nor has it always benefited all whom it has affected. But, despite occasional interruptions, such as following the collapse of the Roman Empire or during the interwar period in this century, the degree of economic integration among different societies around the world has generally been rising. Indeed, during the past half century, the pace of economic globalization (including the reversal of the interwar decline) has been particularly rapid. And, with the exception of human migration, global economic integration today is greater than it ever has been and is likely to deepen going forward.

Three fundamental factors have affected the process of economic globalization and are likely to continue driving it in the future. First, improvements in the technology of transportation and communication have reduced the costs of transporting goods, services, and factors of production and of communicating economically useful knowledge and technology. Second, the tastes of individuals and societies have generally, but not universally, favored taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration. Third, public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration.

These three fundamental factors have influenced the pattern and pace of economic integration in all of its important dimensions. In particular, this paper discusses three important dimensions of economic integration: (1) through human migration; (2) through trade in goods and services; and (3) through movements of capital and integration of financial markets. After examining how fundamental forces have influenced economic integration in these dimensions, the paper concludes with reflections on three issues of general importance to the future course of global economic integration: the importance of communication as an influence on integration; the possibility that we may see a sharp reversal in the general trend of increasing integration, as occurred in the interwar period; and the apparent end of imperialism as a mechanism of integration. Before turning to this agenda, however, it is important to emphasize a key theme that will recur in subsequent discussion: the main factors that drive the process of economic integration exert not only independent influences but also interact in important and complex ways.

2. Interactions Among the Fundamental Factors Driving Economic Integration

Although technology, tastes, and public policy each have important independent influences on the pattern and pace of economic integration in its various dimensions, they clearly interact in important ways. Improvements in the technology of transportation and communication do not occur spontaneously in an economic vacuum. The desire of people to take advantage of what they see as the benefits of closer economic integration—that is, the taste for the benefits of integration—is a key reason why it is profitable to make the innovations and investments that bring improvements in the technology of transportation and communication. And, public policy has often played a significant role in fostering innovation and investment in transportation and communication both to pursue the benefits of closer economic integration (within as well as across political boundaries) and for other reasons, such as national defense.

The tastes that people have and develop for the potential benefits of closer economic integration are themselves partly dependent on experience that is made possible by cheaper means of transportation and communication. For example, centuries ago, wealthy people in Europe first learned about the tea and spices of the East as the consequence of limited and very expensive trade. The broadening desire for these products resulting from limited experience hastened the search for easier and cheaper means of securing them. As a by-product of these efforts, America was discovered, and new frontiers of integration were opened up in the economic and other domains. More recently, if less dramatically, it is clear that tastes for products and services produced in far away locations (including tastes exercised through travel and tourism), as well as for investment in foreign assets, depend to an important degree on experience. As this experience grows, partly because it becomes cheaper, the tastes for the benefits of economic integration typically tend to rise. For example, it appears that as global investors have gained more experience with equities issued by firms in emerging market countries, they have become more interested in diversifying their portfolios to include some of these assets.

Public policy toward economic integration is also, to an important extent, responsive to the tastes that people have regarding various aspects of such integration, as well as to the technologies that make integration possible.

On the latter score, it is relevant to note the current issues concerning public policy with respect to commerce conducted over the Internet. Before recent advances in computing and communications technology, there was no Internet over which commerce could be conducted; and, accordingly, these issues of public policy simply did not arise. Regarding the influence of tastes on public policy, the situation is complicated. Reflecting the general desire to secure the perceived benefits of integration, public policies usually, if not invariably, tend to support closer economic integration within political jurisdictions. The disposition of public policy toward economic integration between different jurisdictions is typically more ambivalent. Better harbors built with public support (and better internal means of transportation as well) tend to facilitate international trade—both imports and exports. Import tariffs and quotas, however, are clearly intended to discourage people from exercising their individual tastes for imported products and encourage production of domestic substitutes. Sadly, the mercantilist fallacy that seems to provide common-sense support for these policies often finds political resonance. Even very smart politicians, such as Abraham Lincoln (who favored a protective tariff, as well as public support for investments to enhance domestic economic integration) often fail to understand the fundamental truth of Lerner's (1936) symmetry theorem—a tax on imports is fundamentally the same thing as a tax on exports.

3. Human Migration

Evidence from DNA has established that all modern humans are descended from common pre-human ancestors living in Africa roughly one million years ago. From that time until a few centuries ago, the most important mechanism for interaction among and integration of the activities of different human societies was undoubtedly people moving from one place to another, predominantly by foot. In the great span of pre-history up to roughly fifty thousand years ago, humans walked out of Africa and settled across the Eurasian land mass. Settlement of the Americas came later; my mother's Native American ancestors probably walked across the land bridge between Asia and North America now submerged under the Bering Strait roughly ten thousand years ago.

Throughout most of historical time, extending back roughly five thousand years, human migration has remained the predominant mechanism of interaction and integration of different societies. Use of the horse and other beasts of burden changed somewhat the technology of human movement (and had a larger effect on methods of warfare), and boats were used to cross water barriers. However, most people most of the time continued to travel by foot. Although migration was slow (by the standards of present speeds of human transport) and often posed considerable risks, it proceeded on a vast scale. Indeed, even for many societies that pursued agriculture (as well as hunting and gathering) migration was a very common phenomenon up until quite recent times—as is testified to by the waves of migration out of Asia and across Europe extending up to roughly 1000 AD.

What fundamental factors were driving these waves of human migration? Relevant technologies (e.g., use of horses) presumably had some effect, and changing tastes may also have mattered somewhat. But, the key factor was surely public policy. In some cases a society would see that it was exhausting the productive opportunities in a particular location and decide to move on. Also, if one society thought it had the military might to improve its welfare by taking over the territory and other property of one of its neighbors, and, perhaps also enslave its citizens it would launch an attack. Seeing discretion as the better part of valor, the society under attack might decide to move on—and perhaps attack somebody else.

For the victor who succeeded in subjugating or driving out a rival society, the result would probably be an improvement in economic welfare. The loser, of course, would lose. The overall result presumably was negative sum. Indeed, in the first work in the entire field now known as social science, Thucydides opens his History on the Peloponnesian War with the following observation:

"...it is evident that the country now called Hellas had in ancient times [i.e., well before 400 BC] no settled population; on the contrary, migrations were of frequent occurrence, the several tribes readily abandoning their homes under pressure of superior numbers. Without commerce, without freedom of communication either by land or sea, cultivating no more of their territory than the necessities of life required, destitute of capital, never planting their land (for they could not tell when an invader might not come and take it all away, and when he did come they had no walls to stop him), thinking that the necessities of daily sustenance could be supplied at one place as well as another, they cared little about shifting their habitation, and consequently neither built large cities nor attained to any other form of greatness. Their richest soils were always subject to this change of masters... The goodness of the land favored the enrichment of particular individuals, and thus created faction, which proved a fertile source of ruin. It also invited invasion."

This ancient observation remains highly relevant today. It reminds us that good governance at the national and international level—especially maintenance of reasonable security for peoples' lives and property—is essential for economic progress. It also reminds us that not all forms of economic interaction among different societies are necessarily beneficial. Globalization by means of the sword, the gunboat, or the slave ship is very different from globalization through voluntary movements of people, goods, services, and physical and financial assets.

Turning to human migration in more recent times, it is useful to distinguish between mass migrations which have continued to occur in response to wars and political and social turmoil, and migrations of individuals and families undertaken primarily for economic reasons. Of course, the two categories are not completely distinct; individual and family decisions about migration are often affected by both economic and non-economic factors. Nevertheless, events such as the mass migrations in Europe that occurred during and immediately after World War II clearly reflect different fundamental factors than those that were primarily at work in influencing migration to the United States during the past two centuries.

4. Economies of scale and agricultural production

Johnson and Ruttan (1993) examined the experiences of large-scale agricultural projects in six different developing countries: the Tanganyika Groundnut Scheme (1947 to 1949); the Molinos Nacionales sorghum project in Venezuela (1964 to 1966); the Dez agribusiness program in Iran (1968 to mid-1970s); Projeto de Jari forest and rice project in Brazil (1967 to the present); the Philippine Corporate Farming Project, started in 1974; and the Hershey's Hummingbird Farm in Belize (1976 to 1992). The key assumption underlying these projects is economies of scale - gaining a more than proportional increase in output for a given increase in all inputs. Economies of scale arise due to the following:

The use of lumpy inputs, such as machinery or management, might lead to economies of scale in the short run. Over the long run, the minimum scale of operations is likely to increase, with the result that the economies disappear. Biological and chemical inputs are likely to be scale neutral.

External economies of scale allow larger farms to buy inputs such as capital, storage, transport and marketing and distribution services at a lower price than is possible for smaller farms. This means that larger farms may have an advantage over smaller ones without necessarily being more technically efficient.

In some situations, Johnson and Ruttan (1993) say scale diseconomies might exist, and this has been used as a justification for land reform. Situations where this can occur are where labor markets might not exist, where transaction costs in labor markets are high and where the effort of hired labor is affected by level of supervision.

Johnson and Ruttan conclude that the consensus is that agriculture is generally not characterized by economies of scale. In the US, changes in the relative price of capital and labor led to a substitution of capital for labor. If there are no economies of scale, then this substitution will occur at all farm sizes. A large part of the capital that is used in the US is machinery. Since machinery allows farmers to work larger areas of land, it may not be all that surprising that farm sizes have been increasing. The seasonal nature of the production cycle limits the opportunity for gains from specialization and division of labor. This is seen by some as a reason for limited opportunities associated with expansion beyond the size of the family farm. Further reasons favoring the family farm are that family labor is inherently more productive than hired labor. Monitoring costs are likely to be much lower with family labor than is the case with hired labor. Further, decisions on the spot are part and parcel of agriculture. With no managers around, hired labor might be unwilling and/or unable to make a decision. As risk increases, it has been argued that farm size should decrease. However, Johnson and Ruttan (1993) note that little work has been done on this relationship. Related to this, it has been observed that it is not a good idea to pool risk across farmers in a given area because of the high covariance of their natural risk. Hence, in risky environments, small farms may be better than large ones. Wealth tends to offset this in the sense that wealthy farmers have been found to be more immune to risks imposed by the weather. Industrial projects are generally perceived to be less risky in developing countries than agricultural projects, with the result that the more industrialized the agricultural project, the less risky it is considered to be.

5. International trade and environment

The impact of international trade on the environment has been a contentious issue since the early 1990s. The debates over the North American Free Trade Agreement (NAFTA) and Uruguay Round of trade negotiations, which led to the creation of the World Trade Organization (WTO), stimulated a great deal of economic research on the ways in which international trade might be environmentally harmful or environmentally beneficial, along with case studies of many industries and sectors.

The last fifteen years have seen major developments in both the theoretical and applied economic literature on trade and the environment. Such issues are also of increasing policy relevance. U.S. Executive Order 13141 and the U.S. Trade Act of 2002 require environmental assessments of trade agreements during the negotiation process. In the European Union, sustainability impact assessments of trade agreements are required as part of trade negotiations.

This special issue of the Agricultural and Resource Economics Review contains papers from a workshop on international trade and the environment that was held in Halifax, Nova Scotia, in June 2004, following the joint annual meetings of the Northeastern Agricultural and Resource Economics Association and the Canadian Agricultural Economics Society. The objective of the workshop was to stimulate research and discussion to improve our understanding of the complex interrelationships between international trade, natural resource use, and the environment, particularly as they relate to agriculture, forestry, and fisheries.

The paper by Brian Copeland in this issue reviews recent work on the implications of endogenous policy responses for the impacts of trade on the environment. As Copeland demonstrates, the effects of trade on the environment can be quite different in the case where the environmental policy regime is assumed fixed and in the case where it adjusts in response to changing economic and environmental conditions.

6. What are some of the critical global change issues?

Over the past two decades, a number of specific issues have gained significant attention and served as the foci of global change research. Critical issues attracting attention include:

Climate Change and Greenhouse Warming, which relates to the potential for greenhouse gases and aerosols emitted as a result of human activities to alter the global climate and cause significant impacts on the natural environment and societal activities;

Ozone Depletion and UV Radiation, which relates to the effects of emissions from human activities on the atmospheric ozone layer, and the consequent reduction in the ability of the atmosphere to screen out ultraviolet (UV) radiation; and

Significant Variations of the Seasonal Climate, which relates to the agricultural, economic, and related effects on human activities of sharp fluctuations and variations in the seasonal to inter-annual climate, particularly the extended heavy precipitation and drought episodes associated with El Niño-Southern Oscillation (ENSO) events in the tropical Pacific Ocean.

These three issues are by no means the only issues of global environmental concern. Extension of agriculture and rapid increases in population are leading to major changes in land use, including deforestation and dry land degradation, which often have detrimental effects on the resilience and complexity of ecosystems. The development of coastlines is altering beach processes, reducing coastal habitats, and making communities more vulnerable to severe weather and sea level change.

To meet the challenge of a changing environment, it is essential to continue to undertake research to improve the predictions of consequences and the effectiveness of options for responding to the impacts of global change.

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