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National School of Political Studies and Public Administration,
National School of Political Studies and Public Administration

2016

Online at <https://mpra.ub.uni-muenchen.de/94487/>

MPRA Paper No. 94487, posted 24 Jun 2019 14:12 UTC

The Challenges of the Administrative Process in a Financial Crisis and their Effectiveness

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Paper published on Procedia Economics and Finance 39 (2016) pp. 827 – 832

Abstract

When we think back to the financial crisis which has been over for a few years now, we can only see the negative aspects. However, the positive aspects are incontestable. One of these aspects is represented by the efforts of making the public administrative processes more efficient. Managers of public institutions were obligated, due to lack of funds, to concentrate on creating and/or developing various mechanisms in order to optimize the internal processes with the intention of assuring the development of their activities and obtaining their overall objective. By doing this, they gained the importance of organizational functions such as internal public audits, internal managerial control and governance. The intent of this paper is to present the efficient process which took place in public administration sector of Romania during the financial crisis and immediately after.

In order to better understand this procedure, a comparative analysis between the process implemented in Romania and the ones applied by the European Union will be discussed. The conclusions which will be formulated due to this study can be applied both theoretically as well as practically.

Keywords: Economic crisis; administrative reforms; sustainability; public administration

1. Introduction

Financial crises are generally events of negative implications on national economies and societies. However, the same events represent also opportunities for improvement of economic and administrative processes. These processes are redesigned, so that they are carried out with increased efficiency, efficacy and economy (Dumitrescu - Peculea, 2015). Also, the assessment of risks is re-evaluated, and strategies are formulated accordingly. This was also the case of Romania. Following the crash of markets in 2008-2009, Romania has appealed to international monetary institutions like the International Monetary Fund (IMF) in order to secure at least partially the financial stability of the country.

Triggered by these institutions, the reforms were oriented towards both cost reduction and efficiency increase in sectors that produce losses for the stats, as well as administrative reforms (Rosenbloom et al., 2009). Due to the influence and demands of Romania's creditors, goals have been revised, strategies have been adapted and processes have been optimized (Pop, 2010). Also, the lack of sufficient funding forced managers of public institutions to concentrate on creating and developing mechanisms that lead to optimization of internal processes (Public Administration Consolidation Strategy, 2014; Dumitrescu - Peculea et al., 2014). Thus, this improvement process did not take place only at government level, but also at institution level.

2. The evolution of the Romanian economy compared to other EU-member states of the east European region

In order to keep up with social dynamics, public administration has developed a series of efficiency growth mechanisms, for the satisfaction of the needs of the society by optimization of their activity. Facing economic crisis, these mechanisms were tested to their full extent. During the crisis, the Romanian public administration saw itself forced to abandon its classic “laissez-faire” approach in order to adopt a more hands-on attitude to the problems it was facing, due to the fact, that government policies implemented and used up to date were actually making the situation worst. Thus new policies concentrated increasingly on spending cutbacks, as well as inflation and deficit control (Mortelmans & Dumitrescu – Peculea, 2015). Also, policies were implemented in order to control the unemployment rate in the Romanian economy.

Table 1. Prognosis and realization of unemployment rates for the period 2010-2014 in percent

Unemployment rates	2010	2011	2012	2013	2014
Government prognosis	7,3	6,4	6,2	6,0	5,8
Real unemployment rate	7,4	5,2	5,4	No data available	No data available

Source¹: National Reform Program; INSSE (National Institute of Statistics) - Statistical Yearbook 2013

Also the evolution of unemployment rates in Romania was generally better than the one in other countries in the region, as table 2 shows:

Table 2. Unemployment rates for Romania and other eastern European states for 2008-2011

Unemployment rates	2008	2009	2010	2011
Bulgaria	5,6	6,8	10,3	11,3
Greece	7,7	9,5	12,6	17,7
Hungary	7,8	10,0	11,2	10,9
Poland	7,1	8,1	9,7	9,7
Romania	5,8	6,9	7,3	7,4
Slovakia	9,6	12,1	14,5	13,7

Source²: INSSE - Statistical Yearbook 2013

It must be also said, that while Romania had a better evolution compared to other states in the region, there were countries which continuously reported better numbers of unemployment. For example, we mention Austria and the Czech Republic, which had constantly lower unemployment rates for the same period. Regarding inflation and price indexes the situation presents itself as follows: for the period between 2011 and 2014 a constant decrease of the inflation rate was foreseen, from 6,5% to just under 3%.

Table 3. Prognosis and realization of inflation figures for the period 2010-2014 in percent

Inflation	2010	2011	2012	2013	2014
Projected inflation	6,1	6,5	3,5	3,2	2,8
Real inflation	8,2	3,4	5,1	1,9	1,5

Source³: National Reform Program; BNR - Annual report on inflation (2010-2014)

Also, for comparison to other states, the price level indexes have been gathered by the National Institute of Statistics. For consistency, data for the same countries, namely Bulgaria, Greece, Hungary, Poland, Romania and Slovakia have been taken into consideration. This data is presented in table 4.

¹ http://www.insse.ro/cms/files/Anuar%20statistic/03/03%20Piata%20fortei%20de%20munca_ro.pdf

² http://www.insse.ro/cms/files/Anuar%20statistic/23/23%20Statistica%20internationala_ro.pdf

³ <http://www.bnr.ro/Raportul-asupra-inflatiei-3342.aspx>

Table 4. Price level index for Romania and other eastern European states for 2008-2012

Unemployment rates	2008	2009	2010	2011	2012
Bulgaria	43	45	44	45	45
Greece	90	93	92	92	89
Hungary	66	60	60	59	57
Poland	68	57	60	59	58
Romania	56	50	50	51	48
Slovakia	66	68	67	68	68

Source⁴: INSSE - Statistical Yearbook 2013

The price level indexes in table 4 are measured in relationship to the respective country's total GDP. The values shown are in relationship to the European price level (EUR27=100). One can observe that Romania, Poland and Hungary show similar descending trends, while Bulgaria, Greece and Slovakia show a more constant price level index. Also, it can be observed, that the highest fall of the price level index for Romania, Poland and Hungary is registered between 2008 and 2009, coinciding with the collapse of markets because of the crisis. The data is represented graphically in figure 1.

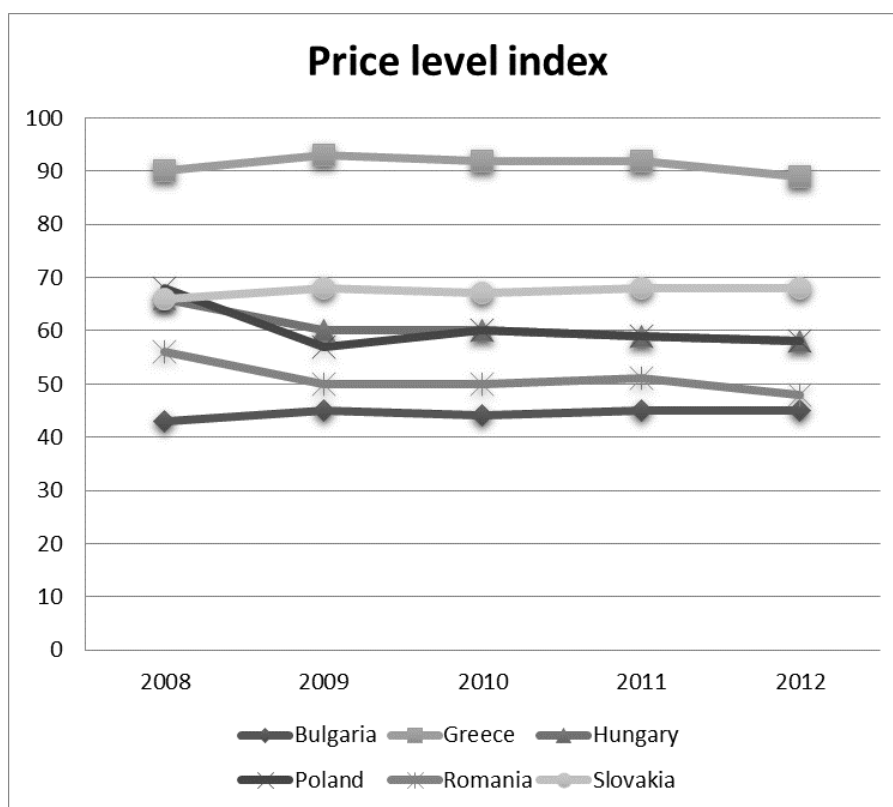


Fig. 1. Price index evolution for Bulgaria, Greece, Hungary, Poland, Romania and Slovakia for 2008-2012⁵

3. Public administration reforms in Romania during the economic crisis

It may seem logic that countries in the same region show similarities in their evolution. However, this may not be entirely accurate. Since governments make decisions independently from each other, and given fact that each country has entered the crisis on other premises, it is not a sure thing that the developments of these countries are the same. That being said, it is important to consider

⁴ http://www.insse.ro/cms/files/Anuar%20stastic/23/23%20Statistica%20internationala_ro.pdf

⁵ Source: INSSE - Statistical Yearbook 2013, http://www.insse.ro/cms/files/Anuar%20stastic/23/23%20Statistica%20internationala_ro.pdf

the conditions in which the anti-crisis reforms were implemented, to understand how and why these reforms worked in favour or against society. In what concerns Romania, they were oriented towards increasing efficiency to public sector activities to compensate for budget cutbacks and personnel layoffs.

In the pre-crisis period, the public apparatus expanded on the premises of the EU-Integration and accelerated economic growth. Since the EU-admission necessitated increased human resources for its preparation, an expansion process of the public administration personnel took place. This, corroborated with a neglect or perhaps misunderstanding of the term “sustainability” and the misleading belief, that “nothing as bad as the financial crisis” could happen, lead to an overconfidence in the stability of this oversized system.

Conditioned by both the changing economic conditions, and dwindling budgetary resources, the oversized administrative apparatus was turning into a budgetary burden. In these conditions, the governmental focus shifted towards maintaining the capacity to deliver public services while increasing the sustainability and efficiency of public sector activities (Davidescu, 2013). However, since assuring correct levels of sustainability and efficiency were long term projects, and since the shortage of budgetary means was threatening to financially cripple the administrative system, a set of immediate measures and actions was taken, among which we mention:

- In order to assure the necessary liquidity, agreements with international credit institutions like the International Monetary Fund were signed;
- All wages of personnel in the budgetary system was cut by 25%;
- Personnel layoffs, by either merging public institutions, into larger ones, or, in some extreme cases, closing down of public institutions. Also, personnel reaching retirement age have been laid off.
- Blocking of personnel acquisitions in all public institutions;
- Increase of taxes and introduction of new ones. Especially Vat was raised from 19% to 24%. A new form of tax was the tax on special buildings such as high voltage masts.

These were temporary measures, taken by the Romanian government in order to balance out the budget, in order to avoid payment incapacity of the Romanian state (Filip, 2015). Most of the measures taken have already been undone. Others are in the process of being corrected. Thus personnel acquisitions were the first to be restarted, in some cases, as early as 2010. Also, the wages of public sector personnel has returned to their previous levels. The process of lowering VAT to its former value of 19% is nowadays in preparation. For this, a new fiscal code has been approved in the second half of 2015. The reduction process is a two stage process. By January 1 2016, VAT will be reduced to 20%, and by January 1 2017, a second reduction of VAT to 19% will be carried out. Also, until 2017 some taxes, that have been proven not to be as effective as planned will be eliminated, one of these being the above mentioned tax on special buildings. As a general remark, in the past two years, Romania has known an intense process of fiscal relaxation, in order to boost consume and increase budgetary revenues at the same time.

These temporary measures were eliminated as economic and administrative reforms of the public sector have set in and have shown results. These reforms, whose implementation has started during the worst period of the economic crisis, as part of a broad strategy to secure the stability of the Romanian public apparatus and also of the Romanian economy in general, were also demanded and negotiated by the international creditors, who signed financial aid agreements with Romania, and supported by the European Union. These reforms were oriented among other towards:

- Increasing the sustainability and effectiveness of public sector activities;
- Increasing control over the spending processes of public funds in institutions;
- Reducing the burden on the budget caused by inefficient state owned companies by privatization, public listing or closing. Also, for this purpose, the legal framework insolvency has been adapted;

- Increase of budgetary revenues by optimizing tax collection processes;
- Intensified fight against corruption.

It must be mentioned, that not all reforms and actions were as effective as planned. For example, the combination between increasing existing taxes and introducing new taxes, and intensifying tax collection processes turned to increase the tax evasion phenomenon, rather than bring more money to than budget. However, according to the Romanian government, as the fiscal relaxation process began, there was a significant reduction in tax evasion.

Also, the privatization program of inefficient state owned companies did not have the expected results. Although there were some companies that have been privatized, most of them still are state property, the most important of them being the Romanian Company of Postal Services (Compania Nationala Posta Romana) and the twice failed privatization of the Romanian Freight Railway Company “CFR Marfa”. However, generally speaking, the reforms undertaken by the Romanian governments during the crisis had positive effects all together. The increased control over budget spending in the public sector, combined with the intense focus on sustainability of public sector activities materialized by:

- New approaches in financial management;
- Gain in importance of activities like public audit and internal managerial control;
- Introduction of governance processes at the level of administrative units.

In all, the positive effects of the anti-crisis reforms not only helped Romania survive the difficult times between 2008 and 2013 but have effects that can be felt in these days. Examples are the intensified anti-corruption efforts and efforts against tax evasion that can currently be noticed in Romania.

4.Short conclusions

The fact that countries in this region have known similar developments during the period of the crisis is not as obvious as one might think. Seeing that each country had to fight off different problems, some of them still remaining as present today as they were five years ago, and seeing how these problems were treated differently by each country, the question of the common goal of economic stability and convergence in the region is only natural.

The fact that, despite different approaches a common development has been reached is due to coordinated efforts of governments, the European Union and international credit institutions. Thus, the east European region emerged from this crisis with at least some of their lessons about sustainability, control and efficiency learned, and generally, as a stronger and more cohesive region all together.

Acknowledgements

This paper was possible with the financial support of the “Interdisciplinary comparative analysis on the impact of crisis measures in some Member States of the European Union: present and future”, (AIC- IMAC-UE5) – Exploratory Research project financed by the National University of Political Studies and Public Administration.

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