Editorial

Pedro André Cerqueira

Faculty of Economics and GEMF,
University of Coimbra,
Av. Dias da Silva 165,
3030-512, Coimbra, Portugal
E-mail: pacerq@fe.uc.pt

Biographical notes: Pedro André Cerqueira is an Assistant Professor in the Faculty of Economics at the University of Coimbra, Portugal. He holds a PhD in Economics from the European University Institute, Florence, Italy. His research interest lies in the economics of European integration, business cycles, growth and open macroeconomics. He has published and refereed internationally in these fields and is also a member of the GEMF research centre.

This special issue accommodates papers that, with different approaches analyse the impact of public policies on the economies. This topic is of particular importance as due to the sovereign debt crisis hitting mostly the Eurozone, there is an ongoing debate in the most affected countries about the state and the usefulness of the public policies and how these policies shape the behaviour of economic agents. This issue contributes to this discussion by presenting a number of papers, in which the first three look to the impact of public policies in growth and job creation and the last two look to how regulation can alter agent behaviour in response to regulations.

The first paper of this issue by da Silva et al. contributes to the overall debate whether green energy policies undertaken by the governments have net economic benefits and if they really lead to a significant job creation as suggested by OECD. With this objective, the authors try to measure the job creation impact of the renewable energy sector (RES) in Portugal using employment multipliers constructed from the 2008 input-output symmetric tables produced by the Department of Foresight and Planning for five subsectors, namely the hydroelectric, the wind, the solar energy through photovoltaic panels, biomass and geothermal. This methodology decomposes the total effects on employment between direct, indirect and induced effects allowing a more systematic analysis of the green policies undertaken.

The authors found that if we only consider the direct impact on job creation of the energy projects implemented by 2008, the biomass, the hydroelectric and wind subsectors accounted for more than 90%. However, when direct and indirect effects are considered the solar energy is responsible for 17% of total job creation and when adding the induced effects the solar is the biggest job creator subsector followed by the wind and the geothermal subsectors.

However, the results obtained before were totals computed from the capacity installed, so to project the number of jobs created by 2020 if Portugal achieved its action plan for the RES, da Silva et al. computed the job creation by MW and GWh. The projected results show that the solar energy from photovoltaic panels would be the

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primary source of job creation whether the basic equipment were produced in Portugal or imported. As for the other sectors, the paper shows that the hydroelectric and the wind subsectors only have an important impact if the basic equipment was not imported, otherwise the total impact would be almost negligible. As for the biomass and geothermal energy sources, the import of basic equipment also lowers the job creation effect but even so these sectors would still have a non-negligible contribution to employment creation.

Overall, the paper concludes that green energy policies by fostering the RES has a huge potential to create new jobs, however, the policy implementation has to take into account the induced effects when supporting the different sources of renewable energy as its impact in total employment differs greatly from one subsector to another.

The following paper from Poças and Soukiazis investigate the cross effects between health, education and standards of living for Portugal. The authors argue that as Portuguese Governments gave priority to investments and public policies aimed at improving the health and education standards, it contributed to a higher economic performance through a cumulative causation mechanism with expanding proprieties. To test their hypothesis they performed an empirical analysis for Portugal between 1972 and 2009 using a simultaneous equation approach, where health status was measured by infant mortality rate, education by secondary enrolment, and an augmented Sollow-Swan growth model to proxy for the standards of living.

Poças and Soukiazis found that the main determinants of health standards improvement were the amount of human resources allocated to the health sector, education and socioeconomic factors such as fertility rates. Contrary to expected, they found that the amount of spending in the health sector does not have an impact on improving the health standards. As regarding education the conclusion are slightly different, as in this case besides human resources the overall financial spending had a positive impact on increasing the education level of the population. Finally, concerning economic growth besides the expected impact of capital investment and employment, they found that both increasing the health and education standards of the population had a positive impact on growth.

Analysing the results obtained, they support the idea that public spending on education or public policies aiming to increase the human resources in the education and health national systems have a positive impact on growth, being that the main link in the growth-education-health system is the improvement on the general population education standards.

If the previous papers look at public policies that are put in place through public spending the next two discuss the impact of regulatory changes or the need of them, as we should take in mind that public policies are also undertaken by simple regulation change.

The paper from De Bruyne and Van Hove measures the impact of EU enlargement and trade liberalisation on the international commerce composition of one city: Brussels. They analyse the determinants of the destination countries of goods and service exports of Brussels from 2002 to 2008 as a whole, but also by using the results obtained they predict the destination markets potential for Brussels exports.

In terms of determinants they added to a traditional gravitational model two variables that measure, respectively, the effects of longstanding integration with EU and the effect of EU enlargement. The authors found in term of determinants of goods and services exports the usual effects found in the literature: the growth rate of the destination country

and distance play a crucial role and that income per capita has no clear cut role being more important in sectors associated with luxury goods as leather and art.

As for the EU integration process they found that the long standing integration and the enlargement have both an important effect in exports. However, the relative importance is not the same for industrial goods and services. As for the industry sector the enlargement to new countries had a huge impact in boosting exports as it has opened new markets to Brussels, being more important than the long standing integration process. As for services the enlargement was not as important as the integration with the ‘old’ countries.

Finally, by trying to predict which countries offer the best opportunities for export growth they found that the growth rate of industrial goods exports might be difficult in the near future, however the more promising markets would be Latin America, Asia and East Europe. As for the services, the prospects of exports are much brighter to almost all trade partners, nevertheless, the more promising markets would be France, Central and East Europe and Latin America.

The fourth paper of this issue, discusses the need of the change of the corporate limited liability regulation. For that purpose, Lysandrou offers a new rationale why this should not be changed. First, the author points to the fact that in the literature the corporate limited liability makes no contribution to economic performance, and that fact coupled with the idea that the limited corporate liability favours irresponsible behaviour gives a strong argument to reform this principle. However, the author points to the fact that the argument that corporate limited liability is economic inessential is not true.

His arguments are on one side founded on the idea that this limited liability is essential to the anonymous and unrestricted trading on the capital markets and, also, he points out that the limited liability is essential to solve the accountability problem making redundant the use of stock options.

As for the first argument, the author argues that investment and portfolio management is today a standardised activity making it accessible to a wider range of the population as the portfolio management costs have declined due to that standardisation of procedures. This allows firms to raise capital and finance themselves in an easier way which promotes the investment in the economy. If corporate limited liability regulation was altered than the financial transactions would have to take care of the financial position of the seller and the buyer as that would alter the perceived risk of the company. This would not only reduce standardisation of the financial products as each transaction would have to be tailored to the agents involved but also would make more difficult for companies to raise capital and making new investments as the financial costs would increase and the number of agents involved on the financial markets would decrease. This would lead to less investment and to lower levels of growth rates.

The second argument lays on the idea that corporate limited liability has favoured the standardisation of the financial contracts and subsequently allowed the institutions which manage the portfolios to be big enough in order to exert power over the managers and protect the interest of the shareholders. Would not that be the case the shareholders would tend to award corporate executive stock options to the managers in order to keep control over them. However, this stock options given to managers can be disruptive of the company performance because not only executives may sell the options before the expiring date, can hedge against any future negative development or, worse, they can

give incentives to company executives to engage in 'earning management' through corruption or other fraudulent accounting practices.

On conclusion, the author argues that there is an economic rationale for keeping limited corporate responsibility as it makes possible to standardise the financial contracts to the public in general with the consequences of making the financial markets more efficient and in solving the agent-principal problem between corporate managers and shareholders. This leads, not only, to higher investment rates and consequently to higher growth rate levels, but also, to a more efficient way of solving the agent-principal dilemma reducing the opportunities of disruptive behaviour from company managers.

Finally, governments have to take into account how agents react towards its public policies, and if they try to subvert the system through bribing or corruption. To know which factors favour this kind of behaviour is important for governments to fight it more efficiently. The last paper of this issue, by Nur-tegin and Sahin, investigate this issue as they try to identify which firm attributes favour bribing behaviour using data from the Enterprise Surveys done between 2006 and 2010 in 114 developing countries.

The factors analysed by the authors ranged from company attributes as if the firm had at least one female owner, sector, how old is the company, the regulation burden that the firm has to tackle, number of inspections by governmental officials, contracts with the government, competition faced from the informal sector, security concerns and if the firm is quality certified, as well as country characteristics: GDP per capita of the country where it operates, country openness and tax burden.

The authors found that companies that tend to bribe more are those that operate in the IT sector, have to deal with more regulation, have contracts with the central government and face more competition from the informal sector. Also, the more open the country is, the more the firms tend to bribe, however, surprisingly the GDP per capita is not important.

So by recognising these factors, governments in developing countries can put in place different policies against bribery and corruption suited to the different companies as in this way they can be more effective without wasting too many resources with those that are less likely to act in that way.

Overall, this special issue gives the idea that public policies are an important factor to growth and employment creation, being by improving health and education standards of the population as shown by Poças and Soukiazis or by providing incentives for investing in certain sectors or directing trade to the more promising markets as shown, respectively, by da Silva et al. and De Bruyne and Van Hove.

Also, when governments put in place these policies, they should think if their regulatory system is adequate and not to change it without measuring the consequences as Lysandrou shows in the case of the corporate limited reasonability laws and to take into account bribery and corruption and have a comprehensive knowledge of the problem in order to put in place policies to counteract it as pointed out by Nur-Tegin and Sahin's paper.