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EDITORIAL

This is the first issue of the second volume of *Czech Journal of Social Sciences, Business and Economics* (CJSSBE), starting its second year of publication. As noted previously, the aim of CJSSBE remains to provide a platform that supports the transmission of new scholarly discoveries in the fields of social sciences, business and economics and we have been excited about offering a platform that supports scholars in building upon intellectual treasures and advancing our understanding about various fields of research in novel and meaningful ways. Capitalizing on this effort, we now focus on furthering our scope and consolidating our position in both conceptual developments and practical applications in the fields covered by the scope of our journal.

The research papers presented in the first issue address a number of topics covering the main three fields: social sciences, business and economics.

The papers that belong to the first field include the narrative of the coverage of Soviet periodicals of the history of national movements and ethnic political conflicts in the Soviet Union and its republics in 1987-1991, elaboration on a model of improving teachers’ strategies in the foreign language training, and presentation of a simulation model of techno sphere of an institution of children’s supplementary education in Russia.

The papers belonging to the second field include the identification of mechanisms of formation and use of funds in the process of personal financial planning and the presentation of the “Burgo” model used to calculate profits in McDonald’s fast-food restaurants.

Finally, the papers belonging to the third field include those elaborating on the main drawbacks on the European system of central banks, and attempting to unveil why European countries cannot comply with EU directives.

We trust that you will enjoy reading the present issue, and we look forward to presenting you our next in summer 2013!

Wadim Strielkowski
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Abstract

The paper is aimed at elaborating a set of methods for the analysis of periodical media as a source in studying the history of national movements in the USSR in 1987–1991. The authors postulate the necessity of finding a new approach different from that applied to analysis of the Soviet print media of previous periods. Along with formal retaining of censorship, ‘glastnost’ and contention within Soviet and national elites led to the situation when information featured in mass media was a multi-faceted reflection of historic events. Broad range of views and opinions then existed and application of comparative technique allows us to restore an objective picture of historic reality of national movements’ activity during the Perestroika.

The technique of source analysis of periodical press material on national movements includes several levels of research: 1) studying particular material of individual publications in republican and central mass media; 2) diachronic analysis of material published in individual editions, identifying evolution of their social and political character, economic ownership or ideological bias; 3) combination of historic comparative analysis and semiotic analysis. The most promising area for comparative analysis is print media in Russian, which was aimed at channeling information both to regional and federal public. Only such complex approach enables us to refer to periodical print media as a source in history.

Keywords: periodical media as a historic source, historical research methods, nationalism, national and nationalistic movements, USSR crisis and disintegration

JEL classification: N44, N94

Introduction

Value of such sources as periodical print media for historical research is still a debatable issue. Analysis of this set of sources is in itself one of the most complicated techniques to be applied by a historian. Media texts of totalitarian regimes are particularly problematic for studying. Ideological predetermination and formality of these texts result in historians’ challenging impartiality of covering historic facts in media. The
facts themselves also tend to be unreliable. At present, unbiased source analysis of official Soviet print media is urgent. It requires a number of problems to be resolved. At the same time it presents the most numerous and easily available set of sources in the history of Soviet society. Moreover, the extent of press freedom in various periods of Soviet state development was different. During Stalin’s ruling and the stagnation period mass media represented only official, strictly censored point of view. During intraparty discussions among Communists in the 1920s, and in the time of Khrushchev ‘thaw’ censorship restrictions were slacked a little and certain discussions were allowed on the public issues. The press of Perestroika, ‘glasnost’ and ‘new thinking’ period has a special place in this respect. The degree of press freedom achieved despite formal retaining of censorship in the late 1980s allowed raising the most urgent problems of the Soviet state and society. So called ‘national question’ was one of such issues. At the same time, decreasing professional skills among journalists and editors resulted in using unchecked information and appearing of lots of ‘hot facts’ in publications. To much regret, it was particularly characteristic of the papers devoted to interethnic relations and historic topics. Due to these contradictory trends, source analysis of newspaper and magazine texts calls for complex, systematic and thorough investigation. The present paper is focused on elaborating optimal technique of analyzing the Soviet print media as a source in the history of national movements and ethnic and political conflicts in the late USSR. As a result, it proved necessary to complete several stages of research, which are covered in the present paper.

First, we had to study the literature on the history of Perestroika and the techniques of analyzing the Soviet periodical press as a source of historic information. Theoretical and practical investigation of the phenomenon of press during Communist regime is the key problem in this research. Second, the peculiarities of mass media development during the Perestroika period were identified. Third, the role of periodical print media was determined within the corpus of sources which enables us to study the history of national organizations development and their ideology formation. In spite of traditional composition of this source complex (memoirs, print press, documents of the organizations themselves and state authorities), application of semiotic and comparative methods allows us to reconsider and reevaluate the role of periodical print media in studying national movements history. Four, based on the research conducted we determined a number of levels of periodical press material analysis, which levels make it possible to apply print media as an informative historic source on ethnic political and regional conflicts of the Perestroika period, as well as in determination of the role of national organizations in these conflicts.

It is worth noting that the relevance of this research consists also in the fact that up till now ideological engagement and opportunism typical for this subject-matter have determined prejudiced and politically motivated approach to periodical press as a source in national movement studies.

**Overview of the research literature**

Over 20 years passed since disintegration of the Soviet Union. The giant Eurasian empire disappeared under the influence of the whole set of internal and external factors. The reasons of disintegration of the USSR have been the subject of analysis in numerous memoirs and scientific papers. However, it is necessary to note the existence of a number of gaps in studying of this process. The authors pay a lot of attention to
such issues as economic and political crisis, the roles of Gorbachev, Yeltsin and their associates, the events related to the August Putsch, etc. Thus, the object of studies is primarily the history of disintegration of the central authorities and Soviet economy as a whole. The history of Perestroika in the Soviet republics and their movement towards independence has been studied in details in memoirs and historical research papers of politicians and scholars of the post-Soviet states. However, the issue of comparative analyses of events, facts and movements in national republics during the Perestroika period and disintegration of the Soviet Union proved to have been studied insufficiently. These papers mainly postulate crisis within Communist governing bodies and dynamic growth in national movements which, according to many authors, were to play the leading role in disintegration of the Soviet state. Popular fronts in Estonia and Latvia and ‘Sayudis’ in Lithuania were the pioneers on the way to establish independence. Following them national movement emerged in other republics. Nevertheless, the history of these organizations discussed in research papers still has numerous points of debate. While studying Russian and western historiography, one may form an impression that it was the activity of these structures that became the decisive factor in disintegration of the Soviet empire and overthrow of the governing Communist authorities (Anatomiya nezavisimosty, 2004). Conservative Russian historiography represents them either as ‘Western agents’, or as failure of KGB experiment (Ligachev, 1999). It appears that the pattern of interaction between national movements and official authorities had a more complicated and controversial character based on, among other factors, the situation in each particular republic. With all their seeming similarity, nationalism as an ideology and national movements as driving force actualized themselves in specific forms and practices in each particular republic.

There exists quite an extensive set of sources which enables us to study the history of political movements of the Perestroika period. At the same time we have to state that at present writing an impartial and comprehensive history of Perestroika is an extremely complicated process. Too little time has passed since the dissention of the late 1980s – the first half of the 1990s, too green are the wounds and injuries taken by the participants of military conflicts. Too many opportunistic political considerations interfere with scientific research in this area. Every historian setting out to write a history of Perestroika experiences powerful emotional and ideological pressure of post-Soviet republican authorities, participants of the events, representatives of diasporas and national minorities.

A researcher in the history of national movements in conditions of regional or ethnic political conflict faces a lot of challenges, and the key one among them is the possibility to preserve the impartiality of a research. To solve this problem one has to overcome strictly national and ideology-driven vision. Giving credit to the patriotic feeling of Armenian, Azerbaijani, Georgian, Ossetian, Abkhazian historians, we cannot but observe that in republican national historiography impartiality of research is often simply rejected as a scientific principle. A similar approach was expressed by a participant and a historian of Nagorno-Karabakh conflict Arsen Melik-Shakhnazarov:

“…the author speaks from a particular ideological stand, rejecting a false principle of equal distance to both parties’ positions. For, what average value can exist for a victim and a torturer, a nation, fighting for their natural right to live and create on their native land, and occupants, pursuing the goal to violently annihilate this nation?” (Melik-Shakhnazarov, 2009: 13). That is why Transcaucasian authors consider it as their
primary goal “to demonstrate inside of numerous myths and falsifications spawning in
great number around the Nagorno-Karabakh issue” (Ibid.: 13).
The same, for instance, can be referred to ‘historic’ opposition of Georgian, Abkhazian
and Ossetian scholars, ‘Russian’ and ‘Ukrainian’ historiographies of the Ukraine.

In studying the Perestroika period strictly emotional and ideological problems are
accompanied with a number of source studying issues. Firstly, it is an absence of a
stable and representational complex of reliable sources. Memoirs of the participants of
the events are quite numerous. Their authors are both statesmen from central Soviet
governing bodies (Boldin 1995; Gorbachev 1995; Pavlov, 1993, Varennikov, 2010;
Yanayev, 2010; Yeltsin, 1994; and Zyuganov, 1997), and representatives of the
republics (Agaev, Ali-Zade, 2006; De Vaal, 2005; or Pompeyev, 2010). However, they
are regretfully rather subjective, unreliable and politically coloured. With the passage of
time many facts have been either forgotten or interpreted in a different way. Thus, the
memories of the participants of the events can definitely be used in studies, though on
the basis of thorough comparison with other kinds of sources.

Owing to the fact that a large extent of political nature in this issue has been retained so
far, documentary and archival corpora of sources on the history of formation of national
political organizations are very limited. Many documents are closed or published in
abridged version. Some part of the documents was completely destroyed during the
years of conflict. It holds particularly true of the territories of openly military
conflicts (Nagorno-Karabakh, Georgia, Transdnestria, etc.).

A great number of materials on national movements and conflicts of the Perestroika
period were published in print media. Unfortunately, an extensive stratum of
information on the events of Perestroika and the history of national movements remains
almost unclaimed. What is urgent is impartial source analysis of these materials.
However, as we have already pointed above, the question of value of such a source as
periodical print media still remains under debate. This situation is caused by a number
of factors.

The first problem formulated in scientific literature is the understanding of periodical
print media as a particularly structured phenomenon. So far the experts have not reached
the common view as to how the periodicals are to be treated: either as a single set of
sources or as various types of sources collected within one space. The fact that
periodical press carries texts of various genres on its pages makes some researchers
pose the question of refusing periodical press the status of a single historical source
(Rynkov, 2011). V. M. Rynkov suggests considering each individual publication in a
newspaper or a magazine as a separate source unit (Ibid.). L. N. Pushkarev, pointing
diversity of periodical materials, still viewed them as a single complex having “common
feature uniting them all … irrespective of which type of sources they belong to”

As to the complex of periodical print media pertaining to national movements and
conflicts in the USSR republics, the variety of text genres and styles is really great.
They include official documents of Soviet and Communist governing bodies of the
Soviet Union, republics and autonomous entities, publications of informational and
analytical genres, various types of fiction and features. Text material is supplemented
with photo footage. Besides, many texts possess structure and composition so complex
that it is virtually impossible to refer them to one particular genre.

Based on this variation of genres and themes it appears that semiotic analysis should
become the key element of studying separate newspaper texts. That is, it is necessary to
analyze not only ‘what is written’ (semantic aspect), but also ‘why and when it is written’ (pragmatic aspect). The main part of semiotic analysis is studying the form of a publication, its location in a periodical, images related to the text, etc. We can postulate that a wide variety of texts and images raises a question of interconnection between individual and complex studying of the periodical media texts on national conflicts of the Perestroika period.

The second problem, which a historian faces while analyzing periodical media texts is a question of reliability of the Soviet periodical print media. Journalistic writing and periodical media as a source on the history of the Soviet period have been investigated for quite a long time. Consideration of this problem field can be found both in educational editions of the post-Soviet period (Danilevskiy et al., 1988: 621-634, Kabanov, 1997; Medushevskaya, 1996; SMI i politika, 2007: 62-65), and in summarizing scientific papers (Pressa v obshchestve, 2000; Professionalizm istorika, 1994: 84-104). In general, total dependence of the Soviet print media on the Communist party ideology and policy is stated, as well as unreliable and propaganda character of this press. “In societies with dominating authoritarian and totalitarian regimes where there are no alternative communicative media, mass communication turns from a means of impartial and unbiased informing of a society into a tool of canvassing and propaganda. Losing its function of real communication media for various social groups, they acquire the function of social constructing of mythological reality instead, which has completely virtual nature” (Mass Media, 2007: 17).

At the same time in identifying peculiarities of various periods in the history of the Soviet periodical print media and journalism, historians agree on a fundamental difference between mass media of the Perestroika period from those of the previous periods. In Russian historic science this period is universally considered as a time of dramatic increase in the role of print media in society and the time of journalistic boom. Researchers observe that it is due to the flourishing of historical journalism in the Perestroika period that the breakthrough in understanding the past and present of the Russian and world history could take place. However, “journalistic storm” (Kuznetsova 2000) of the Perestroika period regretfully brought about and was accompanied with opportunism and decrease of professional level in mass media. Even professional historians attracted with the surge in intellectual environment emancipation accepted the language and style of journalism. Understanding the past turned into sweeping criticism and search for ‘hot facts’. The present was vigorously contrasted to ‘the administrative command Soviet past’ while idealizing pre-Soviet period (in Russia, that of the Russian Empire, in Azerbaijan – Azerbaijani Democratic Republic, in Armenia – Armenian Republic and Great Armenia). The Ukraine started to revise actively the role of such historic characters as Daniel, Prince of Galich (King Danila), Bogdan Khmelnitsky, and Getman Mazepa, with the discussions around the Ukrainian Insurgent Army (UPA) activity and its leader, Stepan Bandera, being the most publicized ones.

‘Glasnost’ and slacking of ideological diktat of the CPSU led to fundamental transformation of the information field created by the print media. Soviet mass media of Gorbachev period reflected all complex and multi-faceted changes going on, struggle between factions in the party elite, social dissenton on ideological and ethnic basis. In the situation of ideological, political and military conflict newspapers and magazines became a specific sort of tool and weapon to fight the ‘enemy’, to attract allies and to consolidate their own ethnic group. It became a normal practice with ideology of confrontation to consider opponent’s views not as a point to debate, but rather as
'downright falsification and a lie' (e.g. Armenian vs. Azerbaijani print media, republican vs. central press, democratic vs. conservative one). Claims for the single right understanding of situation resulted in application of exclusively ‘one’s own’, specially selected samples from periodical press in historic papers. Thus, ‘historical concept’ was not based on the whole corpus of sources, but was constructed from publications of ‘one’s own’ press or artificially selected materials of ‘opponent’s’ periodical media. Foundations of ‘objective’ approach of such kind were laid in scientific academic press of the Perestroika period (Yumatov, 2010: 95 - 99). In this respect the role of national intelligentsia of the Soviet republics has not been completely studied and evaluated yet. The leading role in this group was clearly taken by humanities scholars. It is from this social group where future leaders of national movements and post-Soviet states emerged: Zviad Gamsakhurdia, Levon Ter-Petrosyan, Abulfas Aliyev (Elchibey), etc. Some of them had already proved themselves nationalists and dissidents by that time. It was the scholars who turned history and philology into a tool of political struggle. Studying this political set of tools will enable us to trace the evolution of nationalistic ideology in the Soviet republics, to determine the role of national academic intelligentsia in this process. The main source base on this set of issues also includes mass media in general and academic and periodical press in particular. It was in the print media where new ideas were first proven and national history was constructed. Mass media shaped the ‘image of enemy’ which was identified as ‘Soviet (Russian) Empire’ or as former ‘brotherly peoples’. In this respect the material from academic editions of the republican Academies of Sciences in Armenia and Azerbaijan is quite illustrative: Newsletter of Social Sciences of the Armenian SSR Academy of Sciences and Bulletin of the Azerbaijani SSR Academy of Sciences (History, Philosophy and Law series) of 1987 – 1991. At first, the dispute touched upon a problem seemingly far from the contemporary period, namely, the problem of ethnic and cultural attribution, territory and history of so called ‘Caucasian Albania’. Azerbaijani scholars (Buniyatov 1965, Neymatova 1985, Mamedova 1986, Aliyev 1974) wrote that Syunik (Zangezur) and Artsakh (Karabakh) were regions of Caucasian Albania and were populated by Albanian tribes. Caucasian Albania was regarded as pre-Azerbaijani state. According to the researchers, the population of Syunik and Artsakh spoke the Syunik (Artsakh) language and was turned into Armenian culture and converted into Gregorian confession not before the X century. They claim the region of Syunik to have been an independent country, separated from Armenia, and mention it separately locating it between Armenia in the west and Artsakh in the north. Armenian scholars argued that Armenians are indigenous population of Caucasus (Akopyan 1984). Regions of Syunik, Artsakh and Utik were Armenian ethnic and cultural regions since ancient times and were not parts of Caucasian Albania. They claimed that non-Armenian population had appeared in Nagorno-Karabakh not earlier than two centuries ago (Akopyan, 1990; Akopyan, Muradyan and Yuzbashyan, 1987; Arutyunyan, 1987; Barsegyan, 1989; Grigoryan, 1989; Karagezyan, 1988; Sarkisyan, Muradyan, 1988; S vazyan, 1987). The dispute on the ancient history of Nagorno-Karabakh was conducted in a very tough and uncompromising way. Below there are a few quotations from this ‘academic dispute’ of 1987-1988:
“In the person of Mamedova and others we see the people who would oppose Albanians themselves with great severity, if they happened to appear on the banks of the Kura nowadays. There are no real Albanians, and in this sense they are ‘lucky’, for they can be proclaimed predecessors of the Azerbaijani people and one can speak in defense of their interests. But there are Armenians of ‘Eastern territories of Armenia’ in Nagorno-Karabakh and neighbouring districts, amounting to hundreds of thousands, whom they want to call Albanians” (Arutyunyan, 1986: 56).

“Syunik is a historically Armenian region with Armenian population since ancient times, it is the family territory of the Sisyakyans, who have the Armenian origin. Contrary to Z. Buniyatov’s wishes, it has never been a part of Albania” (Karagezyan, 1988: 60).

“For a variety of reasons, and primarily due to Iranian linguistic attribution of Midians, they had to refuse from once developed ‘Midian theory’ of the Azerbaijani people origin. And it was replaced with ‘Albanian’ one: they say that Azerbaijanis are Islamized Albanians, and Artsakh and Utik are parts of Albania and, therefore, all ancient and medieval culture of these regions is Azerbaijani one. Though this theory is in the height of its fame now, it is going to have the same destiny as the first one” (Mikaelyan, Hurshudyan, 1988: 46-47).

Armenian scholars even coined a special term to denote the views of their academic opponents – ‘Buniyatovshchina’ (Sarkisyan, Muradyan, 1988: 41-49).

In layman’s terms, these articles seemed to have been exclusively academic dispute of the two schools of science. However, in semantic respect the focus theme of the discussion was to prove vernacular status of either Armenian or Azerbaijani population on the territory of south-west of Soviet Azerbaijan. It was not accidental that as early as in 1987 a purely academic, closed dispute around the doctoral thesis of F. Mamedova entered the pages of non-academic print media (Sarkisyan, Muradyan, 1988: 41-42).

First, on 14 of August, 1987, the Armenian newspaper Grakan Terte (“Literature Newspaper”) published ‘Official Response’ of the USSR History Institute of the USSR Academy of Sciences in the Armenian language (signed by its Deputy Director A.N. Sakharov) to the Senior Fellow of Literature Institute of the Armenian SSR Academy of Sciences A. Mushegyan, whose letter drew attention of the supreme Communist party bodies and the USSR State Commission for Academic Degrees to the fact that the book by F. Mamedova “Political History and Historical Geography of Caucasian Albania” (Mamedova 1986) issued in 1986 reviews some facts of the Armenian history in an unscientific and prejudiced way. The response contained the conclusion on F. Mamedova’s ‘superfluous knowledge’ of the themes which her book was devoted to.

An answer from Z. Buniyatov followed promptly. The Azerbaijani newspaper Adabiyat va inchasanat (“Literature and Art”) in January of 1988 published an article titled “The Truth is Immortal” in the Azerbaijani language, an analogous publication in Russian appeared under the title “Patronizing Apologist” (Buniyatov, 1987: 133-136). As a result, the central academic organizations of the USSR, whose authority at that time was still quite high, were drawn into the conflict, notably on the Armenian side. Besides, publications in national languages were aimed primarily at the republican intellectuals and population, while publications in republican academic journals were designed for Russian speaking readers, Soviet academic community and opponents. That is why such tough epithets were used, accusations of falsifications were made and statements appeared that the publications “do not contribute to mutual understanding of historians and societies of both republics – Armenia and Azerbaijan” (Sarkisyan, Muradyan, 1988: 46-47).
The dispute reached as far as the claim to introduce “open responsibility” of the academic opponents (Sarkisyan, Muradyan, 1988: 48 - 49). The highest degree of odious transfer of political realities into historical science was reached in the dispute going between Yu.I. Mkrtumyan and M.M. Guseynov during a meeting in History Department of the USSR Academy of Sciences. The point of discussion was the cultural attribution of Paleolithic sites (whether it belonged to Armenia or to Azerbaijan (!)) and the correct name of a Paleolithic (!) cave in Nagorno-Karabakh: Azykh (if it belonged to Azerbaijani Paleolithic Age?) or Azokh (if it belonged to Armenian Paleolithic Age?) (Soveshchaniye, 1988).

The search for proofs of a “vernacular character” became the main task of historians and historiography scholars, and later on, of journalists and politicians of all national republics.

From 1988 on, they started animated discussions on other problems in the history of those nations. The key element of the national ideology became the concept of martyrdom and victims sacrificed for Motherland.

The evolution of views of the both sides on the Soviet national policy is of special interest. Prior to the early 1990s the sides accused each other and Moscow of perverting Leninist principles and support of Stalinist pattern of establishing autonomies (Indzhikyan 1988, Mirzoyan 1988). Since the early 1990s, when it became clear that the central authorities in the person of Perestroika elite took a vacillating position and was unable to take tough measures, the republican press demonstrated quite a different tone of writing. It became a trend to criticize imperial policy of Moscow. Supporters of anti-Bolshevik nationalist organizations – ‘Musavat’ in Azerbaijan and ‘Dashnaksutuyun’ in Armenia – became national heroes.

In general, summarizing this ‘academic’ discussion between Armenian and Azerbaijani historians one must point out that the nationalist ideology actively promoted by the representatives of republican academic community in academic editions and in printed media can be reduced in brief to the following key points:
1. Vernacular character of their own ethnic group on a particular territory.
2. Opposing side being regarded as an alien ethnic group.
3. Victimhood and martyrdom of their own nation in the fight for independence of Motherland and negative role of the opponents in this respect;
4. Historic forms of actualization of the national state;
5. Struggle and sorrows due to the imperial and totalitarian domination;
6. Historic events being projected onto the modern conditions;
7. The necessity of creating sovereign national state to overcome social and economic as well as ethnic and political underdevelopment.

Armenian-Azerbaijani conflict concerning Nagorno-Karabakh was covered in quite many details in republican and the USSR mass media. However, it seems that prior to the conflict entering the stage of armed fight, scholars, politicians, and journalists of both sides shaped a certain ideological scheme, which, whatever strange it would sound, was absolutely identical for the both sides from the structural point of view. To the full extent this scheme was expressed in the materials of academic journals of Azerbaijani and Armenian Academies of Sciences. Later on, it was these considerations that were represented in the ideology of nationalist movements of Azerbaijan and Armenia and were proposed as arguments in the dispute over the Nagorno-Karabakh territory. This same ideology was laid in foundation of the state ideology of the South Caucasian independent states following disintegration of the USSR.
Similar ideological conceptions with specific variations concerning historic and linguistic points appeared in other national republics as well. The Soviet print media of that period did more than only reflecting reality seen from various viewpoints. They constructed that reality. The press was a tool of shaping public opinion, manipulating events and manipulating the society. The editor-in-chief of Sobesednik weekly (at present, also Director General of ‘Sobesednik’ Publishing House) Yu. V. Pilipenko, who has been holding this position since 1989, reflected in this connection: “Now I recall those old time when each newspaper piece, even the smallest one, received some kind of response, be it the one of public, the CPSU Central Committee, or the Young Communist Union Central Committee, without hesitation” (“Ya chto...”, 2011). Diversification of political and social field led to the situation where mass media did not already reflect the interests of ruling CPSU elite (as had been before the Perestroika period), though they still were not information tools of commercial groups (as was in the period following the Perestroika). The unique position of the periodical press during the Perestroika period consisted in the fact that it was not completely the official press, but at the same time it did not turn into commercial one. From our point of view, this particular position allows us to raise a question of urgency of elaborating specific methods and mechanisms of source analysis of periodical press and journalistic writings issued by the participants of conflicts during the Perestroika period. The matter is in the period of 1988-1991 social and political orientation of an edition was not determined by formal belonging of its founders al all. Let us remind, for instance, that Komsomolskaya Pravda and Sobesednik, being formally editions of the Young Communist Union, in fact reflected the viewpoint of the ‘democratic wing’ of the Perestroika elite (led by A.N. Yakovlev), and later on, of Russian ‘democratic’ opposition (A. Sakharov, G. Starovoytova, etc.). Pravda and Sovetskaya Rossiya, holding the status of Communist Party central editions, reflected basically the situation as viewed by the conservative part of Soviet elite (Ye. Ligachev). Bakinskiy Rabochiy, Kommunist from Yerevan, Sovetskiy Karabakh from Stepanakert, being official press of the republican Communist party and Soviet government, at the same time often acted as the main informational ‘troublemakers’. Moreover, during the Perestroika period ideological position of newspapers and magazines evolved and transformed rapidly. Most part of central and republican periodicals worked their way from law-abiding, ideologically determined ones to oppositional and radical towards the authorities. Thus, the classical technique of source analysis consisting in determining the ‘owner’ (financial or ideological) in this case has no sense. At the same time, in the process of transition to cost recovery and self-funding print media had to pay attention to the most burning issues, which stirred the overpoliticized Soviet society of that time. That is why it is politics and history that became the most demanded topics in periodicals. Discussions on ‘interethnic relations’ and ‘interethnic conflicts’ became one of the main themes for all the print media in the country. Corpus of materials devoted to these problems is immense. They have already been applied to by the researchers for studying the processes of disintegration of the USSR. However, the value of the periodical press of the Perestroika period as a historical source does not seem to be completely estimated in historical science. The reasons for this underestimation are quite clear. From the one hand, materials of the central press were traditionally challenged in regional and republican communities on the basis of general drawbacks of all the USSR official print media. This is not a secret that during Perestroika the notorious General Directorate for Literature and Publishers, which
fulfilled censoring materials of periodicals, continued its activity, although this control had already slacked and had no total character. The theory of ‘press as a mirror of life’ promoted by the chief ideologist of the reformist wing A.N. Yakovlev limited the possibilities for censoring considerably. This led to a substantial differentiation of the viewpoint on the Soviet reality. We can observe the significant difference in selection of facts and interpretation of events in the press of various republics and autonomous entities and in the consideration of the central print media. In particular, materials from Sovetskiy Karabakh and Bakinskiiy Rabochiy, Moscow News and Krasnaya Zvezda, Komsomolskaya Pravda and Sovetskaya Rossiya, Sobesednik and Pravda are among bright examples of ideological opposition. Thus, the degree of freedom and diversity of the Soviet print media was sufficiently high.

As for the views of adversaries in ethnic and political conflicts on the official Soviet press, they are quite controversial. Armenians, Azerbaijani, Georgians, Abkhazians, Chechens, Ossetians, Moldavians, Ukrainians have accused and are still accusing it of being biased and prejudiced. At the same time, it is materials from the official Soviet press that are used to prove their own positions. Therefore, a question arises of the actual role and value of the official Soviet press in studying the issues of Caucasian conflicts. In considering military conflicts, one should take into account one more feature of the central press. In the conditions of severe opposition, all-Union editions provided external view on the situation, reflecting the vision of the public, which was not directly involved in the conflict. It is urgent to refuse from disdainful attitude to press as a source and to try studying development and mechanisms of intensification of conflicts in Nagorno-Karabakh, Abkhazia, South Ossetia, Transdniestria based on the textual materials of that time with the help of this peculiar ‘first draft of history’ (Kuznetsova, 2000).

Taking into account bias and ideological pressure as a ‘generic feature’ of the Soviet periodical press, and with due consideration of ideological transformation of the print media during the Perestroika period, it is urgent to develop specific forms and techniques of analysis, along with traditional ones, for this complex of sources on the history of national conflicts. It is the press of Perestroika that at any given moment supposes, rephrasing F. de Saussure’s statement, both the established system and its evolution; at any given moment texts in periodicals are both current activity and a product of the past. Therefore, one should combine diachronic and synchronic analyses. It is necessary to employ not only methods of historical science but also those of linguistics.

Probably, in considering the technique of source analysis of periodical press materials of the Perestroika period on national movements it is necessary to distinguish a number of research levels:

1. Studying particular material of individual publications in regional, republican and central mass media. For completeness of analysis it is possible to carry out investigation of periodical press in selected regions and territories geographically close to each other. Perception of the conflict in remote territories of the USSR can be reflected in print editions of Siberia and Far East.

Studying separate materials involves checking the contents of publications, identifying and characterizing the author of the publication, and the reasons for its publication. Analysis of particular texts calls for application of semiotic method to studying the material. The important goal is identifying semiotic formulas and semantic archetypes of the period. The tasks of this stage of studies is identifying ‘general information
field’, separating and analyzing common and specific themes. In this respect one has to bear in mind that, as a rule, the publications in the central press were connected with the periods of conflict escalation. In republican press there were no breaks, otherwise they may have been made deliberately (for instance, ‘black’ January of 1990 in Azerbaijan).

2. Diachronic analysis of material of each individual edition (newspaper, magazine, etc.), identifying evolution of their social and political character, economic ownership or ideological bias.

3. The third level requires combination of historic comparative analysis and semiotic analysis. In particular, synchronic comparison of materials featured in various editions is to be exercised identifying semantic contradictions and similarities. Semiotic analysis of individual synchronic texts and thematic lines is also to be fulfilled in diachronic context. ‘Readers’ letters’, ‘Veterans’ addresses’ and other similar genres are particularly interesting for this type of analysis. Studying evolution of verbal ideological formulas (e.g. ‘in the brotherly family of the USSR peoples’, ‘have lived together for ages’, ‘reasonable aspirations of the Armenian people’, ‘heinous falsifications of … scholars’, etc.) demonstrates development in position of both the media themselves, and the central and republican authorities. It is also vital to analyze the images of people, their characteristic features, and answer the questions ‘Who says this?’, ‘Whom does he address?’, ‘When was the text created?’ and so on.

The most promising area for comparative analysis of the issues of Perestroika period conflicts in the USSR appears to be republican print media issued in Russian and central editions. The point is the articles appearing in the press issued in national languages were directed mostly at their own ethnic groups and pursued the goal of discrediting the opponent and consolidating their own ethnic group. Editions printed in Russian were aimed at channeling information both inside and outside (both to their own population and to the opponents, and also to the central authorities and military people, etc.). Thus, all principle disputes until 1991 were carried on in Russian. And only since 1991, when the sides were finally separated between each other and also from Moscow, Armenian and Azerbaijani became the main languages of the official republican press.

Therefore, we identified a number of levels of material analysis:

- facts and themes proved across the whole information field;
- facts and themes which are covered exclusively in the press of autonomous entities, republics, and in central print media;
- facts and themes within all-Union press;
- themes and facts of the democratic press (Komsomolskaya Pravda, Sobesednik, Moscow News, Izvestiya);
- themes and facts of the conservative Communist press (Pravda, Sovetskaya Rossiya, Krasnaya Zvezda).

Each of the aforementioned levels requires checking facts, referred to in the publications, with archival materials, documentary sources and memoirs. Only such complex approach enables us to identify all possible information layers of periodical press as a source in history.

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A MODEL OF IMPROVING TEACHER’S STRATEGIES IN THE FOREIGN LANGUAGE TRAINING

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Abstract

The article focuses on developing the teachers’ skills which are integral to the processes of professional decision-making where teachers are constantly involved. The paper gives an overview of a model of teachers’ development offered by innovative educational processes, activity of the teachers on the organization of foreign student training activity, etc. It describes the results of the authors’ modeling on adapting the presentation reliability development among the business students in the foreign language training process.

Keywords: professional decision–making, approaches and methods, foreign language teaching

JEL classification: A12

Introduction

Few would now doubt that people learn best when they are relaxed, comfortable, unstressed, interested and involved in what is going on, and motivated to continue. Regrettably, there is no definitive list of what makes an environment conductive to foreign language learning. We can not say, for example, that «the more a teacher smiles, the more relaxed the students are». Nonetheless, there may be a lot to be gained from developing an awareness of the affective factors that influence foreign language learning.

A key factor in planning and organization of foreign language learning is an understanding of aims. One way of clarifying and classifying aims is that offered by Brown (see Brown, 1989) who differentiates between pedagogic, foreign language learning and social aims:

- **Pedagogic aims**: these are the overall syllabus goals, both short and long terms,
- **Foreign language learning aims**: this is at the lesson level and relates to why learners are asked to do what they do at any phase or sub-phase of a lesson,
- **Social aims**: these relate to the social climate in the classroom and the shorts of roles that will expected of learners.
Another way of perceiving and classifying aims is at two levels of task and language (see Williams, 1989). At the task level, the aims are often non-linguistic, for example, finding out about other class members’ attitudes to a topic through questions based on a survey. At the level of language, the task is supported by linguistic aims, for example, practicing the language of information-seeking based on a survey of attitudes.

**Foreign language teaching as a holistic process**

When one teaches, she or he is often so absorbed in the purpose, procedure and logistics of our lesson that she or he is not able to observe processes of learning and interaction as they occur through the lesson.

Being an observer in the classroom, rather than the teacher, releases us from these concerns and affords us the freedom to look at the lesson from a range of different perspectives outside that of the actual lesson plan of the teacher. For the teacher, the freedom is particularly important, in a way, this stage in the foreign language training is like to the «silent phase» of a beginning foreign language learner who listens, looks, observes, considers, analyses, reflects, but significantly is not required to produce. Communication of this kind gives the foreign language learner a very particular role: they listen, read and also they are exposed to the target language but they do not have to respond (see e.g. Dulay, Burt and Krashen, 1982).

A teacher with the freedom to observe the foreign language training is allowed time and space to become familiar with the culture of the classroom – its agenda of customs, expectations, patterns – before having to try on any active aspects of the teacher’s role (see Wajnryb, 1991).

Developing the skills of observing serves a dual purpose: it helps teachers gain a better understanding of their own teaching, while at the same time refines their ability to observe, analyse and interpret, an ability which can be used to improve their own foreign language training. The development of the skills of observing is integral to the process of professional decision – making in which teachers are constantly involved.

In recent years a lot of attention has been given to the varying roles that a foreign language teacher has. Increasing emphasis has been placed on the less obstructive roles such as monitoring the foreign language use and facilitating communication.

In some versions of the communicative and task-based approaches there is often no formal phase. Nevertheless, even with the welcome increased focuses on a student talking time over a teacher talking time, the skill of presentation remains a key one in the repertoire of a foreign language teacher, as learner often look to the teacher to perform this role.

What motivates learners? Why do people sometimes put so much effort and energy into learning another language? In trying to understand the motivation that drives the foreign language learning, major experts have in the past tended to divide motivation into two categories: **instrumental** and **integrative** (see Gardner and Lambert, 1972).

However, **instrumental** motivation refers to wanting to learn a foreign language because it will be useful for certain «instrumental» and practical goals, such as getting a job, reading foreign newspapers or texts, passing an exams or obtaining a promotion. This category also includes more negative factors such as fear of failure.

**Integrative** motivation, on the other hand, refers to wanting to learn a foreign language for reasons of understanding, relating to or communicating with people of the culture who speak it.
Motivation for teaching and the processes behind: empirical results

In the past, it was considered that learners with integrative motivation were more successful than learners with the «lesser» drive of instrumental motivation. More recent studies (see Giles and Byrne, 1982) have cast a doubt on this assumption. It is now believed that the categories of instrumental/integrative are not quite as distinct as may have been previously depicted: a learner’s motivation may contain a blend of elements from both categories. It is also considered that the former correlation between integrative – success and instrumental – less success is in fact quite facile and fails to reflect the true complexity of motivation.

What has emerged is that whatever the basis of the motivation of the learner, its level (high/low) has an impact on expected learner roles. Highly motivated learners are more likely to synchronise their roles willingly with the teacher’s of a foreign language role, and are more likely to cooperate with the teacher in the various processes involved in foreign language learning (e.g. student’s science conference, students’ projects, etc.).

The student’s science conference “Globalization and contemporary economy” was held by the Chair of English Philology Tomsk State University on 17 May 2012, where the students’ business projects were represented. This conference gave a fresh challenge to discuss many difficult issues among foreign language teaching.

The objective of this task of the article is to raise awareness of the key components of a successful student’s presentation:

- there is a preliminary stage of presentation,
- to prepare a list of key parts of a presentation,
- to use the data have collected and awareness of the effectiveness of the various parts of presentation,
- to make yourself familiar with the chart and diagrams,
- to discuss the presentation along with the foreign language teacher in a number of different lessons before a conference.

Students have to consider their list of the various key components of a presentation, then to say what they believe to be the purpose of each. The students practice their foreign language in a very controlled way under the close guidance of the foreign teacher. It is important that the students could understand the language – both its form and meaning – prior to the drill phase.

What are the implications of drilling with or without attention to students understanding? What is revealed, in each case, about the teacher’s approach to the foreign language training for student’s presentation: most presentations would be so much better if they were prepared more thoroughly. Students have to know that about 95% of how well their presentation goes is determined before you ever start.

It is extremely important to adapt the style of the student’s presentation to the audience. Students need to know not only why they are there, what knowledge the audience has and what the audience expects.

In some cases, it is not so much the presentation in itself that counts, but what impression student makes as a person.

It is not a bad idea to have some kind of route which shows how students is going to progress through the presentation, this will also help you to clarify the ideas while student is actually preparing the presentation.
Also the task for the foreign language teacher is to explain students not to be afraid to keep on summarizing what they have already said. People tend to remember things better if they have been repeated several times, though of course try to do this from different angles.

A common fault is to see a presentation merely as a means of disseminating information. What student has really got to do is to gear people into acting on what student has said, on the message student has given them.

According to the author’s experience as a foreign language teacher the majority of presentations have been heard frankly to walk out of. The thing is it is not the content that is necessarily bad, but the way it is delivered. If student spent as much time learning how to use their voice, their intonation, how to stress certain words, as they do in preparing their visuals, they would give a whole lot better presentation.

A fundamental rule is to tell the audience what they need to know, not everything that student knows.

Rules of presentations and teaching development

Thus, more than 25 million business presentations are made every day. It is said that separate studies have shown that professionals consider communication skills more important than technical skills, and that effective speaking before a group is considered to be the main indicator of likely career advancement.

A study done at the University of Minnesota revealed that if you stand up and give a presentation using visual aids, your audience is 43% more likely to be persuaded. It has been estimated that an audience will forget more than 75% of what they hear within 24 hours. Words alone accounts for 7% of impact in face – to – face communication, voice quality 38%, and visual factors 55%.

Thomas Leech suggested that «the most valuable of all talents is that of never using two words when one will do». It is considered that concise language reflects the principle of KISS – «keep it short and simple» (see Financial Times Management, 1982).

Of all the information the mind stores, 75% is received visually, 13% through hearing, visual aids improve learning by 200%, retention by 38%, and understanding complex subjects by 25% to 40%. Meanwhile, it is known that visual aids in color get an 85% higher attention span.

The difficulty in this type of task, as in many aspects of observing learning, is that learning itself is not directly visible.

It has long been known that teaching does not equal learning, that what a teacher goes into a classroom to teach may not match what the learner perceives the lesson to be about or what learning is achieved on the part of the learner. This is because the construction of meaning is on essentially personal experience for each individual.

Teaching aims, for example, should not be confused with learning outcomes, as these will vary according to how the learner acts on the input. We therefore must guard against making simplistic equations or drawing conclusions about learning based only on observable data. With these reservations in mind, we might proceed to consider how learning appears to be happening for some learners.

The model of teacher development strategies guides the thinking and design of task is that the reflective practitioner (see Schon, 1983; Richards, 1986; Bartlett, 1990), that is a teacher who is discovering more about their own teaching by seeking to understand
the processes of teaching and learning in their own. This model has a number of key features which are worthy of description:

- the model is built on an «assets» rather than a deficit «premise»: teachers bring to their own development a whole host of skills and experiences that will serve them. However, the process of foreign language learning is an active, not passive one: the teacher is actively reflecting and exploring, not, as it were, «being developed» by someone else whose job might be to provide assessment and answers;
- the concept of foreign language learning related to this concept of active engagement is as the construction of personal meaning. In this view of learning, the teacher does not learn solely by acquiring new information or knowledge about teaching, such as new procedures or techniques, but through thinking new ideas in the light of past experience, fitting new ideas into her or his thinking, reappraising old assumptions in the light of new information. New information is therefore absorbed in a way that is creative, dynamic and personal, that will mean something different to each person receiving the information;
- following on from this notion of the personal construction of meaning is the point that teachers themselves are the primary initiators of their own development. The spirit of inquiry, the wish to reflect on one’s own teaching, perhaps to explore other paths, comes from within the practitioner; it can not be imposed from outside and then measured by some objective assessment tool. Therefore, the teacher is the one to determine and define their own end-point or expected outcomes;
- the broad goals of the foreign language learning must respect the agenda of the individual and must aim towards teacher autonomy, not dependence. Therefore, the nature of this model of teacher development can not offer formulaic, top-down prescription. Not only do these tend to close off the pathways to autonomy for the teacher, as well as invest responsibility for change, instead of shifting it to the teacher, but they simply can not provide answers for anything other than low–inference – readily learnable – skills.

Conclusions

The more we have discovered about the classroom, the more we have come to respect the fact that the preparation of teachers involves teaching both low–inference skills, such as giving instructions or eliciting language, as well as higher – level decision – making (for example, skills such as interpreting learner error as «salary» or «wage», or knowing when and when not to correct). The former are less readily learnable, being more abstract, more conceptual and more complex. Richards (1990) percieves that there is a dilemma that is a challenge to teachers: how to deal with the fact that the linkage of low–inference teaching skills does not necessarily result in good teaching. He calls for an approach to teacher training that accommodates both holistic and atomistic approaches, what he calls the macro- and micro-perspectives. Thus, this article aims to follow this model for improving teachers’ strategies, to bring to their development all skills and experience, to be actively exploring, to call for an approach to the foreign language training that accommodates both communicative-cognitive and project (presentation) approaches through the tasks to guide the teachers
to observe, reflect on their experience and observation, and to take control of their own learning.

**Literature**


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SIMULATION MODEL OF TECHNO SPHERE OF AN INSTITUTION OF CHILDREN’S SUPPLEMENTARY EDUCATION IN RUSSIA

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Abstract

The article in hand is based on the results of a research carried out by order of Ministry of Education and Science of the Russian Federation (reg. № 01201268480) and pertains to the definition of technosphere, surveying the approaches to its formation and development and describing the model of technosphere for an educational institution.

Key words: technosphere, educational institution, institution of children’s supplementary education, artifacts, technology, resources, new information technologies, technologies for competencies, personal qualities

JEL Classification: A20, I21

Introduction

“Technosphere” is a term that is frequently used to describe modern civilization, the state of the art and the level of reality transformation methods defining the prime factor of societal development. The term itself was introduced by scientologists and social scientists in the 1940 and the 1950s. Still “technosphere” lacks the exact definition, its essence being mostly described with a view to the purposes of its formation (Popkova, 2005). In accordance with this point, the main goal of technosphere development is seen in people’s effort to enhance the quality of life and satisfy the wants. From this angle technosphere is regarded as one of the four components of “noosphere” – the top stage of biosphere development resulting in the formation of a civilized society whose rational activity becomes the determinant of viable development.

Technosphere is viewed in historical, philosophical, culturological, scientific and technological as well as social perspectives. From the historical angle technosphere has developed as a result of the evolution of biosphere and the living organisms, the uprise of humanity, the appearance of instruments of labour, the progress of technology and social welfare. In terms of philosophy issues concerning the functional aspect of technosphere, its limits, stages of progress, factors stipulating for the man-made impact on the environment are of primary interest. Cultural studies allow for a broader definition of related terms due to an extended scope of the “technology” concept adopted here: it is described as including both artifacts and ideational skills and technologies as well as the interaction of man and technology in the social (the way technological expansion affects the processes of modernization, social stratification, politics and economy), psychological (the acceptance and assimilation of new technologies, technology and psychology of small and medium-size groups, human
engineering) and cultural (technology and axiological norms, technology in cultural creative work, technology in cultural communication) contexts (Sheykin, 1996).

In the scientific and technological perspective technosphere is considered as the interaction of man and technology occurring in various activity types. Here technosphere is not merely a passive object but an active factor determining the transformation of the interrelated systems (biosphere, sociosphere, culture, education, etc.). The social aspect of technosphere involves the study of the progress and characteristics of social processes from the point of their exposure to technology and technological processes.

The concept of technosphere allows for the narrow and broad treatment. In a strict sense technosphere is a total of the technological tools supporting human vital activity (L.Gutner, I.Ignatyeva). In an extended sense technosphere is viewed with reference to the whole of the technologized biosphere with the inclusion of life domain, technical reality and mankind (R.Balandin, V.Shchurov) (Motorina, 2011). Besides, technosphere is considered as a means of direct and indirect impact on the transformation of human civilization: the direct impact is achieved through the progress of technology, while the indirect influence is exercised by the development of social relations as well as people’s skills, qualities and abilities to employ new technologies and equipment for the benefit of modern civilization.

Thus, technosphere is a sphere whose formation results from technical and technological progress brought forth by man and mankind. It covers all artifacts and processes (including the physical infrastructure of people’s vital activity) emerging in consequence of direct or indirect man-caused change of biosphere and Earth’s geologic spheres.

The formation and development of technosphere in the age of new information technologies, automation and cybernation of man’s life and professional activity demanded a thorough review of organizational principles for training and education that would facilitate the achievement of the current level of societal development. Modern education is to take into account the peculiar properties of human existence that have come into being under the influence of technosphere, with the fact of man living in technologically advanced and information-intensive reality standing out (Druzhilov, 2001).

Technosphere and education

With respect to education, technosphere should not be limited to the informational and communicational provision of educational process with computers and digital equipment. The treatment of the technosphere of an educational institution as a total of the education content, norms, resources and technologies as well as all associated communications and social relations, seems more reasonable.

The concept of the technosphere of an educational institution is made up of the following components:

- **Implements, equipment and infrastructure** of the technical and technological development of the institution;
- **The aggregate of technologies for activity arrangement**, including information and communication technologies, technologies of social relations;
- **The aggregate of technologies aimed at the formation of learners’ competencies, personal qualities and social meta-knowledge**, meeting the demand of the
technologically advanced civilization (these involve the technologies employed for obtaining ideational skills required and admitted by society to match the current level of its development).

It should be mentioned that by ideational skills we understand a person’s skills, competencies and automated abilities to pursue a course of behavior required and admitted by society to match the current level of its development. The formation of skills regulated by the ideational law is not aimed at the increase of sensory happiness, satisfaction or use. The law is to be observed as one observes the commandments, protecting the values that reflect modern social relations, the state of the art and the technological level.

Supplementary education of children stands out as a self-contained component of the educational system of Russia. It is implemented in specialized institutions of supplementary education, schools, nurseries and institutions of other agencies and departments – culture, sports youth outreach, in private organizations. Supplementary education today is a functioning educational subsystem, an integrated task-oriented process enabling every child to realize his / her personal right of freely opting for educational goals, self-determination and methods of achievement thereof. Moreover, the unique potential of supplementary education expands the opportunities of the educational system as a whole, plays an important part in its modernization, i.e. assists in the provision of continuity of education programs and curricula as well as the enhancement of personal, creative, practical and social components of education content. The search of new models of activity arrangement that would account for the peculiar features of Russia’s social and economic development, the social procurement of the innovative economy for the training of a technologically advanced and socialized person is of great importance for a modern institution of supplementary education.

Development and simulation of technosphere

The simulation of the technosphere of an institution of children’s supplementary education allows distinguishing the following elements: goals, tasks, content, provision, results (Zolotoreva, 2012).

The goal of developing the technosphere of an institution of children’s supplementary education is defined as creation of conditions for the technical and technological progress of the institution with regard to the current state of the art and the level of scientific methods of modern civilization transformation as well as the demand of the labour market, providing for the moulding of learners’ new personal qualities, professional competencies, social meta-knowledge and ideational skills, raise of educational standards, catering the needs of the personality, society and state.

The tasks of technosphere development include:

- Assessment of demands placed by the labour market in the context of development of modern society’s technosphere;
- Formation of the technospheric infrastructure of an educational institution including a body of resources that would provide for the high quality of supplementary education and meet the demands of modern civilization and the labour market, serve personal needs and public interest;
- Improvement of material resources of the institution in accordance with the current state of the art;
- Development of technological processes and technologies pertaining to training and education (including information and communication technologies, technologies of social relations);
- Provision of syllabuses relevant to the expectations of the labour market and aimed at the moulding of learners’ new personal qualities, professional competencies, social meta-knowledge and ideational skills;
- Raising of standard provision of technosphere development in an educational institution.

The content of the technosphere of an institution of supplementary education for children implies the equipment of the new syllabus in its invariant and variable-based components with regard to the branches of activity, new technologies, new social relations, demands of the innovative economy and labour market. Here the learner is not a mere working object of the technosphere who considers it as a means of obtaining the desired things, but the creator of the technosphere and its component parts. Only such an approach provides for the development of personal qualities and professional competencies required by modern economy and labour market.

In the context of the developing technosphere of an educational institution the content of education is expected to have the invariant and variable-based components. The invariant part of the education content is determined by the general requirements of the normative basis of modern education and labour market placed on an employee, his / her personal qualities, professional competencies, social meta-knowledge and ideational skills. That is why we strongly believe that every syllabus of an institution of supplementary education must provide in its invariant part the formation of qualities that would correspond to the current level of technosphere: professional competencies (including skills of critical information processing, ability to make non-routine decisions, creativity, ingenuity, enterprise, readiness for team collaboration, innovative activity and ability for scientific and technical research work) and personal qualities (ability for efficient self-fulfillment, for independent and effective solution of problems and tasks, workmanship, involvement in the social life, self-confidence, orientation on accomplishments in social, economic, political and public spheres, in sports and arts, etc.). The variable-based component of education content is conditioned by the present-day requirements made on the focus and specific traits of the syllabus or curriculum (including the curricula of supplementary education).

The resource system of the technosphere

The resource system of the technosphere is used to create an infrastructure of an educational institution that would contain technical, technological and methodological support, staff assistance, information and other types of resources’ provision. Technical resources include the following:
- Modern equipment and tools as well as materials required by learners for their work in design and engineering fields;
- Demonstration equipment for making presentations and holding web-conferences (a screen and a projector), permanent and fail-proof access to the Internet;
- Personal computers and firmware complexes for carrying out numerical experiments and realistic simulations;
- Classrooms arranged in accordance with modern technical requirements.

**Technical support** implies the provision of quick and efficient maintenance of all technosphere components, including equipment repair, software update, etc. Technological resources may include software and technological support:

- computer technologies and software for computer-assisted design (e.g. AutoCad), project management, (e.g. Microsoft Project), graphic design and image processing (e.g., Adobe Photoshop и CorelDRAW), software for communication provision, modeling, etc.
- technologies aimed at developing meta-subject competencies, personal qualities and ideational skills (communication technologies, technologies developing a person’s innovative potential, entrepreneurial competencies, etc.)

**Methodological resources** imply the inclusion in programs and teaching manuals of descriptions of various techniques, technologies and software as well as instructions for their use. The methodological support is based on the following:

- creating conditions for the development of new methodological resources of modern laboratory, training and research facilities, elaboration of complexes of teaching materials, materials and manuals for software programs, multimedia materials and means of didactic support of the educational process among them;
- arrangement of an exhibition centre to enable teachers and learners to get acquainted with modern laboratory facilities and up-to-date methodological resources;
- development of new methodological resources on the basis of the equipment making up educational and technological modules;
- development of new methods and techniques of teaching sciences and engineering as well as communicative, designing, research, analyzing and organizational skills;
- elaboration of teaching materials and means of psychological and didactic support of the educational process, curricula and programs;
- search, systematization and formation of a databank accumulating the experience of providing supplementary education in the sphere of new technologies;
- implementation of the newly developed methodological resources.

Methodological resources must contain recommendations on the formation of meta-subject competencies, personal qualities, ideational skills and invariant requirements to learners’ personal qualities and professional competencies. The teaching staff must provide for the functioning of the institution’s technosphere and have the following characteristics:

- A degree in the field where technosphere is to be used. It means that the teacher does not only have the command of computer or software program use, but is also skilled in implementing special-purpose equipment, specific techniques and technologies of training and education;
- A high level of real abilities and skills to practice various education techniques and technologies as well as operate special-purpose equipment and software;
- Potential for further advancement in mastering the requirements placed on the technosphere of an educational institution and its use in the education process.

Staff assistance may include:
- Closing the gaps in teacher training in the field of engineering and high technologies (advanced training courses);
- Acquainting and training teachers to use methodological resources and laboratory developments, including those in the sphere of innovation technologies, as well as methods of implementation of high-tech laboratory equipment in the education process (workshops, roundtable conferences, etc.)
- Involvement in the education process of engineers and other tech-savvy (including high technologies) specialists;
- Advanced training in the educational support of gifted children.

Information resources may involve the following:
- Selection of specialized literature, arrangement of counseling assistance;
- Development and production of custom-tailored educational and advertising materials on the activities of the institution – for learners, teachers and instructors, information officers from business and industry;
- Creation of an Internet portal of the educational institution;
- Regular address dispatch of news and information bulletins on the activities of the institution;
- Interaction with employment services, preparation of research reports on the promising labour markets;
- Organization of theme-based seminars, conferences and Doors Open days, preparation of materials for mass media;
- Distribution of information on new publications in various activity profiles of the institution.

**Conclusion: results of the technosphere formation**

The results of the technosphere formation are seen in the creation of an infrastructure of an institution of supplementary education that would contain a material and technical basis correspondent to the current state of the art and meeting the demands of the labour market; methodological support reflecting new educational and information technologies; teaching staff capable of implementing new technologies in the education process and helping learners (first of all, gifted children) form competencies with regard to the current level of societal development and the demands of the present-day labour market.

Thus, the technospheric development of various aspects of social life is a norm today. The introduction of information technologies in the system of education and their implementation in the classroom has become a top-priority area in the system of education. The efficiency of development of the technosphere of an educational institution depends both on the didactic quality of hardware and software programs and
on the teacher’s expertise, his/her willingness to practice new technologies in the education process.

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THE IDENTIFICATION OF MECHANISMS OF FORMATION AND USE OF FUNDS IN PROCESS OF PERSONAL FINANCIAL PLANNING

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Abstract

In the current economic conditions aspects that characterize the structure and dynamics of household consumption expenditure gain special importance. This paper presents results of an empirical study of the structure of income distribution of the population. The data obtained in the study were analyzed using statistical methods and highlights the criteria which determine the direction of spending disposable income of households. The study revealed the ambiguity of the criteria of motivation for household financial decision making and to show the relationship of individual economic decisions within the personal financial planning and polemical aspects of the effectiveness of laissez faire policy and state regulation of the economy. Our result present consideration of the principles and levels of financial planning represented function that allows assessing the impact of factors that determine the magnitude and direction of consumer behavior and spending of disposable income households. It is concluded about non-optimal nature of the consumer behavior of the population, caused by asymmetric information, the elements of role models, stereotypes and other factors.

Keywords: disposable income, policy laissez faire, financial decisions, households, personal financial planning, consumer behavior, consumption, savings.

JEL classification: G02, G19, G29,

Introduction

At the end of the 20th century a special area of economic knowledge was forged – the financial theory. This area considerably differs from other economic sciences and its focus, and methodology. Modern economic realities based are on the basis of large arrays of accumulated information, and extend the planning instruments and financial management at all levels. The specificity of financial theory is its focus on the study of operations in a non-static economy, that is, transactions in which the significant role played by the factor of time. Namely time reveals the dual nature of financial transactions, since it determines the possibility of enforcement of obligations. The subject of financial science should not be regarded as fully formed, and in this regard, it is possible its extension within the framework of the neoclassical theory. In modern practice, the neoclassical approach remains relevant in many areas of financial theory and provides an opportunity to justify intuitions in corporate, personal and public
finance. Since the days of Adam Smith in the scientific world there is an on-going discussion on the effectiveness of laissez faire policy and speak out the arguments "for" and "cons" of state regulation of the economy. During the 19th and 20th centuries and today the arguments of Smith and his opponents used to construct a variety of models and theories of science in finance. The followers of Adam Smith are supporters of economic policies, including deregulation of certain sectors of the economy, tax cuts and the slowing growth of the public sector. Smith's opponents are perceived today as supporters of industrial policy, defending the economic planning and oppose the policy of laissez faire. With the reduction of state intervention in the regulation of the economy, the markets are monopolized, which paralyzes the competition and generates negative externalities effects, the occurrence of asymmetric information and other market failures. Ultimately, the position of laissez-faire leads to an unacceptable degree of social inequality in society and reduce the efficiency of the economy.

**Economic systems and financial economy: the model**

The industry of theoretical economics, under which examines aspects of political-social, issues affecting public and personal finance, received the name of economics welfare. Economics welfare is based on three basic concepts, the first of which answers the question: will the common good of the economy resulting from the competing manufacturers and consumers. The second concept is related to the problem of distributive justice and answers the question: can the common good in an economy where allocation decisions are taken centrally - the state, achieved by using modified market mechanism, or whether the market should be abolished. The third concept addresses the general question of the definition of public welfare, whether it is provided through the market, or through centralized political-economic mechanisms. The interest of modern welfare economics experts explain the fact that it allows you to expand the possibilities of solving the problem of the existence of ways to transform the interests of individuals in the public interest, without prejudice to the effectiveness of economic development.

With an abundance of positions and views on the formation of an optimal mechanism for regulation of the economy, the stability of the Russian market system is largely determined by political aspects and the realization of the budget process.

Financial science identifies several levels of financial planning, as a mechanism for accumulation and redistribution of funds:

1. State;
2. Corporation;
3. Individual (household level).

Financial planning at the household level is a set of financial decision-making processes to achieve an acceptable quality of consumption in the current period and the formation of sufficient savings for deferred consumption of the family (her economic security).

The total amount of cash expenditures of households, emerging as the cumulative cash flow from existing sources of income of individuals, determines the nature of their financial decisions. The value of the aggregate disposable income can be represented by a function, by which affect exogenous and endogenous parameters. The most important parameters, among these, are:

1. The level of income. In this case we are talking about the value of disposable income that households allocate to current consumption and
direct the savings in the traditional sense - as a savings or deferred consumption and / or capitalize, creating an additional source of income (investment).

2. Level and dynamics of prices, to which are oriented in the planning of their household expenses.

3. Public policy in the field transfers (TR) and procurement (G). This indicator is most relevant in the Russian context, since the pensions allow much of the population to provide a low level of satisfaction of needs.

4. State tax policy that affects both the decisions of households and the investment climate and investment activity of economic agents.

5. The level of interest rates in the economy that determines the attractiveness of deposits and loans and the impact on consumer optimism of the population.

6. The needs of households as a set of individual preferences.

These parameters, in turn, determine the consumption will be increased or not, which products and services will be a priority in consumption and in respect of any goods will be decided to reduce their consumption, and in respect of which - on the contrary, it is decided an increase in the proportion of households in the consumer basket, and others.

The value of cash expenditures of households in this context should be interpreted as a function of the considered variables:

\[ C_{\text{fin}} = F(I, PP, Gv (TR,G), Tax, R(i), Needs, \ldots). \]

where

- \( I \) - the level of households income;
- \( PP \) - the level of prices;
- \( Gv (TR, G) \) - government spending (including transfers);
- \( Tax \) – taxes;
- \( R (i) \) - interest rates;
- \( Needs \) - the needs of households.

The weak link in the formation of this function is that it ignores the impact of business on financial the decision by households. Excluding this criterion, due to its ambiguous nature, alters the impact on the financial motivation of the household. This happens due to the underdevelopment of the Russian business of corporate responsibility relative to workers and staff. Domestic corporations are not considered social investment, as effective from an economic point of view, the financial investment. At present, the theory of strategic management of large companies dominates the notion of charity or paternalistic nature of the social objectives (tasks) of the company. These objectives (targets) played for business support role, which leads to destructive consequences for the economy as a whole: to violate a balanced functioning of companies and to ignore the complexity of the development of society.

Another assumption of existence of a function is the exclusion of the two periods which are taken into account by households when making financial decisions about the structure of their budgets. First period - is the cost of current consumption. Cash flow, financing the costs of this period is determined by the current level of income, prices and interest rates, as well as consumer preferences.
The second period - the future or deferred consumption, the magnitude of which depends largely on the expectations regarding the dynamics of price and permanent income, tax and state social policy, interest rates on loans and deposits. Distorting effect on the results of an investigation of the proposed functions bring the some aspects of information asymmetries and uncertainties, that encourage people to seek ways to minimize costs in the form of stereotypes and common patterns of behavior. Imitation the behavior of surrounding individual close social group or an information cascade, implemented with the focus on the opinions of others, which people used to trust.

**Empirical study**

Identification of a subjective criterion, inherent to households during the personal financial planning (personal financial planning) formed the basis of the author's empirical study of the structural distribution of the aggregate disposable income of the population. The study encompassed the sample survey of 1 456 respondents revealed the criteria of motivation financial decisions of households when planning their personal budgets. The findings, obtained in the course of the survey illustrate the structural distribution of the aggregate disposable income on consumption and saving. Groups of respondents ranked on several criteria, including: income level, age, marital status, presence and number of children, education and housing. Table 1 shows the dependence of the volume of consumer spending and savings of the magnitude of wealth of the family.

**Table 1: Distribution of household disposable income**

<table>
<thead>
<tr>
<th>Income, rubles a year</th>
<th>Percentage of population, % of respondents</th>
<th>Consumption, %</th>
<th>Savings, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>200 000 – 300 000</td>
<td>29</td>
<td>94</td>
<td>6</td>
</tr>
<tr>
<td>300 000 – 400 000</td>
<td>44</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td>more 400 000</td>
<td>27</td>
<td>78</td>
<td>22</td>
</tr>
</tbody>
</table>

**Source:** Own results

In accordance with the theory of underconsumption Hobson, Foster and Ketchings, the greatest savings are those with the highest incomes, and vice versa: households that have the lower income, much of it directed at current consumption. Table 2 shows the distribution of income of respondents, selected by age.

**Table 2: Distribution of household disposable income on age criteria**

<table>
<thead>
<tr>
<th>Age, years</th>
<th>Disposable income, rubles a year</th>
<th>Consumption, %</th>
<th>Savings, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 – 26</td>
<td>236 400</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>27 – 35</td>
<td>304 800</td>
<td>91</td>
<td>9</td>
</tr>
<tr>
<td>36 – 50</td>
<td>444 000</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>51 - 60</td>
<td>366 000</td>
<td>74</td>
<td>26</td>
</tr>
</tbody>
</table>

**Source:** Own results

The survey results clearly indicate that a greater proportion of savings in those aged 51 to 60 years. This is because the people of this age range have adult children living, as a rule, separately and are able to support themselves. At the same time, persons aged 18
to 26 years does not form savings, because they have relatively lower income levels among all groups surveyed and are influenced by stereotypes in the simulation of the behavior - herd behavior, which increases their consumer spending up to 100%.

Table 3 shows the structure of consumption and savings identified by the survey respondents according to marital status.

**Table 3: The distribution of disposable income of persons of different marital status**

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Consumption, %</th>
<th>Savings, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>85</td>
<td>15</td>
</tr>
<tr>
<td>Not married</td>
<td>93</td>
<td>7</td>
</tr>
</tbody>
</table>

**Source:** Own results

The results show that marital status is a factor influencing the structure of income distribution as follows: persons who are married, saving twice the share of disposable money than people who are not married.

The next selection criterion of the respondents was the presence and the numbers of children in the family, the survey data are presented in table 4.

**Table 4: Distribution of household disposable income depending on the availability and number of children**

<table>
<thead>
<tr>
<th>The presence of children, their number</th>
<th>Disposable income, rubles a year</th>
<th>Consumption, %</th>
<th>Savings, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>No children</td>
<td>240 000 – 540 000</td>
<td>81</td>
<td>19</td>
</tr>
<tr>
<td>One child</td>
<td>250 000 – 300 000</td>
<td>96</td>
<td>4</td>
</tr>
<tr>
<td>Two children</td>
<td>290 000 – 460 000</td>
<td>93</td>
<td>7</td>
</tr>
<tr>
<td>Three or more children</td>
<td>270 000 – 350 000</td>
<td>97</td>
<td>3</td>
</tr>
</tbody>
</table>

**Source:** Own results

The absence of children helps families to build the greatest amount of savings - nearly one fifth of the income. At the same time households that have three or more children, consume 97% of their disposable income. These results are explained by significant costs of raising children, the cost of preschool, school and higher education, medical care and others.

Element of the survey was to investigate the dependence of the formation of consumption and savings in individuals with different levels of education, whose results are shown in table 5.

**Table 5: The distribution of disposable income of the respondents depending on the level of education**

<table>
<thead>
<tr>
<th>Education</th>
<th>Disposable income, rubles a year</th>
<th>Consumption, %</th>
<th>Savings, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>The initial</td>
<td>214 000 – 232 000</td>
<td>98</td>
<td>2</td>
</tr>
<tr>
<td>Secondary vocational</td>
<td>240 000 – 360 000</td>
<td>89</td>
<td>11</td>
</tr>
<tr>
<td>Higher</td>
<td>240 000 – 540 000</td>
<td>77</td>
<td>23</td>
</tr>
</tbody>
</table>

**Source:** Own results

The survey revealed that individuals with higher education have more income and respectively distribute it so that the savings exceed 20% of their budget.
A criterion for the presence of their own homes has identified the trend shown in table 6 that follows.

**Table 6: Distribution of household disposable income depending on the availability of homeownership**

<table>
<thead>
<tr>
<th>Availability of housing</th>
<th>Disposable income, rubles a year</th>
<th>Consumption, %</th>
<th>Savings, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>The own home</td>
<td>240 000 – 540 000</td>
<td>87</td>
<td>13</td>
</tr>
<tr>
<td>The rental housing</td>
<td>320 000 – 540 000</td>
<td>91</td>
<td>9</td>
</tr>
<tr>
<td>Living with parents</td>
<td>220 000 – 370 000</td>
<td>77</td>
<td>23</td>
</tr>
</tbody>
</table>

**Source:** Own results

One of the important factors considered by households at financial planning, respondents were described as availability of homeownership. This factor makes notable adjustments to the overall picture of the results of the survey, because the person renting the house have a relatively higher disposable income, but less than its share of direct savings.

**Elaboration of main results**

In general, the study found the average level of consumption at the level of 87.5% and, respectively, 12.5% of savings among all categories of respondents. Such a structure of income distribution in the process of personal financial planning is sufficient evidence of a small magnitude of accumulated funds. In addition, has a value of the structure of consumption expenditure of households, which suggests predominant share of service costs, the amount of which varies around 70%. A significant amount of current expenditures indicates a small value of funds allocated for the purchase of investment goods and human capital formation: expenditures on health care and education, the purchase of household appliances, automobiles, leisure and entertainment. This character and the structure of distribution in domestic practice, due to relatively low-income households, negative adaptive expectations about prices and their dynamics, the generally low confidence in the financial system from the population. Consumer behavior of households can be characterized as non-optimal, defined by the value of disposable income and subject to the influence of individual preferences in the within ranking groups. The process of financial decision-making reflects an intermediate step towards the welfare of society, which is the total value of well-being of individual households.

An investigation conducted by the author, is aimed at identifying a subjective criterion, typical for households in the process of personal financial planning. Financial planning is the process by which individuals and families realize their desire to achieve several goals. Among these goals are the most common a store of value for children's education, or the formation of pension contributions, the purchase of housing, and others. Personal financial planning to varying degrees, most people are busy, because it involves making decisions about current purchases made every day. Personal financial planning is based on the following actions:

- ranking of financial goals;
• decision on allocation of funds to the selected target, or a decision about the source of its funding. Such a solution could be formation of the deposits or insurance savings;
• follow the elected plan and its correction, if necessary.

Conclusions

An important consideration when forming the model and identify the principles of personal financial planning is to determine the personal financial goals. This requires consideration of each of the components of financial planning. The complexity of the implementation of this study is at the variety of individual preferences, conditioned by objective differences between people. In addition, many people are making decisions in one area does not always adequately assess its impact on others - previously taken or planned in future decisions. Another important factor in making adjustments in the personal financial planning is the external conjuncture. The set of exogenous factors shaping the environment for family financial planning includes the state tax policy, inflation, the existing and expected income, and other factors. Thus, households in the initial stage of personal financial planning personalize financial goals and setting objectives for priority areas for future spending.

Literature


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"BURGO" MODEL AS A TOOL OF CALCULATING PROFITS IN McDonald's FAST-FOOD RESTAURANTS

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Abstract

This article aims at calculating profits in McDonald’s chain fast-food restaurants in the Czech Republic. Using “Burgo” model developed by McDonald’s in order to analyze the division of costs in various fast-food restaurants, we are attempting to examine the validity of one of the main motivations of franchisor for providing a licence - the expectation of increased efficiency of the branch., since part of its restaurants is run by the company itself and part is owned and run by the franchisees and these two groups can be easily compared. The data about the operation of its restaurants, partly owned by company itself and partly by franchisees, was a ground for a comparative analysis which was carried out subsequently. The results of this study verify the assumption, that franchisees are generally able to achieve better efficiency of the operation of the branch than managers in position of casual employees. Furthermore, there was not found any evidence that would indicate that the pressure on lowering the expenses negatively influences the quality of the provided service.

Keywords: demand and supply chains, profit, earnings, fast-food industry, McDonald's

JEL classification: D24, L11, M20

Introduction

The words "franchise" (indicating a form of business) and "franchising" (indicating the business using this system) come from medieval France, where the term "la franchise" meant exemption from customs duties and taxes (Řezničková, 2004). It was also used for naming privileges transfer to a third party for a consideration which has been authorized to manufacture or trade in the State (Czech Franchise Association, 2008) or other privileges granted for consideration nobility (Vojík, 2007). Strong growth in popularity of franchising came up after the First World War in the United States. After World War II, the U.S. became franchise already quite common form of business, which soon spread to Europe and then to the whole world. Currently, it is one of the most popular forms of business at all. The real development of franchising began in the United States and later Western Europe until after the 2nd World War II. At this time there were rapid changes in the market, it became more and more competitive, small and medium entrepreneurs to apply it more and more difficult. This led them to seek new development opportunities
and thus to franchising. This system business began to expand rapidly for example, motels, beauty shops, repair shops, cleaners and employment agencies. Franchising was therefore at this time already used as a complex form of business and not primarily as a distribution method, as it was from 19 century to the early 1950th (Řezníčková, 2004). The first large franchise chains were built in the 1950th by McDonald's firms Holiday Inns of America, which operated restaurants, or hotels. These two chains have become pioneers that eventually followed today many well-known companies, such as Kentucky Fried Chicken (KFC) in restaurants or Hilton and Sheraton hotel industry. (Řezníčková, 2004).

The first franchise systems in post-Communist Czechoslovakia occurred in 1991, when the local market, companies Yves Rocher and McDonald's (Řezníčková, 2004). The spread of this form of business in the early days was by no means easy. Defended his inexperience with this particular system and business as such (Vojík, 2007), development was slow because the foreign companies operating these concepts did not have confidence in the Czech legislation and also did not find enough suitable candidates for a license. A significant problem was also a lack of equity between the bidders.

**McDonald’s fast-food chain in the world and in the Czech Republic**

The first McDonald's restaurant was opened (and existed in its original form between the 1940s and the 1950s) by two brothers Dick and Mac McDonald in San Bernardino, California. But it was not they who stood behind perhaps the most popular fast food chain in the world. In 1954, McDonald restaurant with an unusual and effective operation attracted the attention of a descendant of Czech emigree Alois Kroc, Ray Kroc. He was fascinated by the quality and at the same speed with which customers were served at the first McDonald's restaurant that he came out with a proposal to build an extensive network of branches throughout the United States (Love, 1995).

The new McDonald’s company started in the United States and very quickly expanded to the whole world. In the 1960 and 1970, the fast food chains were established in Canada, Australia, Japan and Germany. After the fall of the Iron Curtain in the 1990s, the famous restaurants were opened in Central and Eastern Europe. The beginning of the campaign in this direction and also for symbolic politico-economic break can be seen opening McDonald's restaurant on Pushkin Square in Moscow, which took place in January 1990 (Love, 1995). Currently, McDonald's operates its restaurants in 118 countries with more than 31,000 restaurants with one new restaurants opened every seven hours on average. The success of this company is demonstrated by the fact that it is the second most popular brand (Our Company - About McDonald's, 2009) and the 5th most valuable brand in the world. Year by year, the profits and the turnovers of McDonald’s shift upward by 3 per centage points. The growth of the brand value is pacing by 34% over the last few years. At present, therefore this value according to the methodology of Millward Brown exceeds $ 66 billion (Brown, 2009).

McDonald's entered the then undeveloped Czechoslovak market in 1992 with an opening of a restaurant in Vodičkova street in the centre of Prague. That same year the company opened another two premises, again in Prague, on Wenceslas Square and the area called Angel. Over the next 10 years the rapid expansion followed and the company opened about 5 to 10 new restaurants every year (see Table 1). McDonald's strategy at that time was to open as many restaurants as possible with a goal to occupy
the entire Czechoslovak market. Thus, many restaurants were built and put into operation, even though they appeared to be unprofitable. As it turned out, restaurant locations were chosen correctly, because nowadays are McDonald’s restaurants are highly profitable, even though many of them were not profitable in the first years of operation.

McDonald’s restaurants were typically constructed almost entirely in large cities of over 80,000 inhabitants which more or less corresponds to the regional centres with sufficient purchasing power. Other locations were significant traffic communication hubs, such as highway Prague-Brno or Prague-Hradec Králové. On the highway, the company wants to focus on the future development, as for example the restaurant on the the planned motorway between Prague and Usti nad Labem. New restaurants were also opened in the former district cities, especially in those with more than 50 thousand inhabitants.

It would seem that McDonald’s is already well established in the Czech Republic. Specifically, by the 2009 there were 78 restaurants meaning a business account of about 130,000 people. The numbers of McDonald’s in Western Europe and the United States are about 25,000 and 50,000 respectively. Although the level of the U.S. will probably never be reached, not would it be desirable, however, the current leadership of McDonald’s is unquestionable. Czech food market is still not saturated which evidenced by the fact that new food chains such as Hooters, New York Plaza and Pizza Hut are entering the country.

Table 1: Business results of McDonald’s in the Czech Republic in 1992-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Employees</th>
<th>Restaurants</th>
<th>Customers</th>
<th>Investment (CZK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>121 000 000</td>
<td>230</td>
<td>3</td>
<td>3 318 000</td>
<td>180 000 000</td>
</tr>
<tr>
<td>1993</td>
<td>255 000 000</td>
<td>465</td>
<td>8</td>
<td>7 182 000</td>
<td>250 000 000</td>
</tr>
<tr>
<td>1994</td>
<td>419 000 000</td>
<td>695</td>
<td>15</td>
<td>11 310 000</td>
<td>320 000 000</td>
</tr>
<tr>
<td>1995</td>
<td>482 000 000</td>
<td>1420</td>
<td>22</td>
<td>15 999 000</td>
<td>280 000 000</td>
</tr>
<tr>
<td>1996</td>
<td>899 000 000</td>
<td>2145</td>
<td>33</td>
<td>20 556 000</td>
<td>380 000 000</td>
</tr>
<tr>
<td>1997</td>
<td>1 202 000 000</td>
<td>2635</td>
<td>43</td>
<td>25 800 000</td>
<td>330 000 000</td>
</tr>
<tr>
<td>1998</td>
<td>1 356 000 000</td>
<td>2700</td>
<td>48</td>
<td>25 950 000</td>
<td>260 000 000</td>
</tr>
<tr>
<td>1999</td>
<td>1 485 000 000</td>
<td>2760</td>
<td>53</td>
<td>27 489 000</td>
<td>180 000 000</td>
</tr>
<tr>
<td>2000</td>
<td>1 617 000 000</td>
<td>3156</td>
<td>60</td>
<td>31 492 000</td>
<td>160 000 000</td>
</tr>
<tr>
<td>2001</td>
<td>1 770 000 000</td>
<td>3480</td>
<td>62</td>
<td>33 600 000</td>
<td>155 000 000</td>
</tr>
<tr>
<td>2002</td>
<td>1 961 000 000</td>
<td>3550</td>
<td>68</td>
<td>36 500 000</td>
<td>195 000 000</td>
</tr>
<tr>
<td>2003</td>
<td>2 073 402 000</td>
<td>3600</td>
<td>70</td>
<td>38 113 780</td>
<td>87 800 000</td>
</tr>
<tr>
<td>2004</td>
<td>2 140 667 000</td>
<td>3600</td>
<td>70</td>
<td>36 123 000</td>
<td>60 490 000</td>
</tr>
<tr>
<td>2005</td>
<td>2 282 022 000</td>
<td>3600</td>
<td>72</td>
<td>37 000 000</td>
<td>145 003 000</td>
</tr>
<tr>
<td>2006</td>
<td>2 576 112 000</td>
<td>3700</td>
<td>72</td>
<td>44 505 674</td>
<td>128 000 000</td>
</tr>
<tr>
<td>2007</td>
<td>3 202 690 000</td>
<td>3800</td>
<td>74</td>
<td>53 516 243</td>
<td>180 000 000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20 639 203 000</td>
<td>448 454 697</td>
<td>3 291 293 000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: McDonald’s (2009)

Recent economic and financial crisis impacted the position of McDonald's making it more attractive as a place for buying cheap food. Globally, it is not yet possible to determine the position of the company but it may vary considerably in different countries. In Western Europe, primarily in the United States, eating in fast-food restaurants is seen as one of the cheapest ways of eating out. Economic downturn in
certain cases causes customers to shift to cheaper conventional restaurants, including fast-food chains. In the rest of the world, namely in the Czech Republic, McDonald's position is different. Prices are not much lower than in conventional restaurants, often comparable to or even higher, so this form of eating here, obviously not in the same position as in the most advanced economies. Due to the overall economic downturn, it is therefore possible to expect a decline in sales even McDonald's.

**McDonald’s model of franchising**

An important factor behind the success of McDonald's is its franchising model of operation. The first of franchising rights were given to the McDonald’s restaurant in 1996 and since then it has also most recently opened establishments maintained by that form of cooperation. Franchisers now operate 46 restaurants in the Czech Republic which accounts for 62% of the total, and there is a constant increase expected in this area (McDonald’s in the Czech Republic, 2009).

In the Czech Republic, there are currently officially two types of franchises offered: the Fast and BFL (Business Facilities Lease). When buying a franchise is licencista Direct from the outset owns the complete restaurant equipment. With this form of franchising are linked following the initial investment:

- First Deposit (interest free deposit) - 15 000 USD
- Second Entry fee or purchase a license for 20 years - 45 000 USD
- Third Cost of restaurant equipment - kitchen appliances, space for customers, cash system, etc. - about 12.5 million CZK.

At least 40% of these payments must be available in cash, while the rest can be paid out later and in the form of a bank loan.

BFL program is designed for above-average potential candidates, but who do not have enough capital to get direct franchise. In this case, it is sufficient to purchase the license initial investment that costs about 1.5-2 million CZK, which is used to cover the deposit and the purchase of the first feedstock supplies. Franchisee thus do not become the owners directly, as in the first scenario, but only have the restaurant and rented it to three years. This time would make it possible to accumulate enough capital for it to be able to make payments for direct franchise, which provides the gateway to the BFL program.

In addition to the upfront investments, franchisees at McDonald's might joined the model of interim payments. They represents both variants calculated as a percentage of current gross sales in a given month, and are used primarily to cover the costs associated with ongoing franchisee training employees, developing new products and general advice. The rate on these payments in 2007 was about 5% on average. In the case of the BFL, these fees in the first three years are a few percentage points higher, as well as serve as payment for the hire of equipment. It is due to the "marketing fee" which covers the cost of a national marketing campaign, such as advertising on television, radio and billboards, resulting in a 5.5% rate (Czech Franchise Association, 2008).

**“Burgo” model: main parameters and estimation**

Comparison of costs in the McDonald's fast food chain is based on comparison of empirical values of the operation of franchise restaurants with the values which would
theoretically yield the same revenue at McOpCo restaurants. Empirical data are specific percentages of the average monthly cost of the above categories, which in 2008 was achieved by individual license restaurants. These values is compared with the theoretical values which correspond to a given level of sales, according to the model "Burgo," which was created by McDonald's headquarters to calculate the distribution of costs in McOpCo restaurants. Before the model will be further described and explained, it is appropriate to introduce, on which stands theoretical foundations.

These are simple linear regression model. It can be briefly described as follows: Suppose that the given variables, and where, where it is assumed that data are generated as follows: The equation is comprised of the following variables:

- explained variable
- explanatory variable
- intercept, absolute member
- clone coefficient
- disturbance,

Model defined by the equation is called a simple linear regression model. Simple means dependence on only one explanatory variable, also called a linear regressor indicates that one unit change $x_0$ always causes the same change $y$, regardless of the amount of the original variable $x$.

In practice, however, are not usually the parameter values and known, but they can be estimated for example by the method of least squares, or OLS (Ordinary Least Squares). This consists in finding such an estimate, the parameter that minimizes the sum of squared expression.

OLS estimation method is unbiased and if the sequence of random variables, for which they are valid, then the best estimate among all linear unbiased estimates. If also true that if they are independent, then the estimate is consistent. If it is satisfied, that it is independent identically distributed random variables which are normally distributed with mean 0 and variance the same end, i.e. the parameter estimation method is OLS best among all unbiased estimates that are not linear, respectively, achieves Cramer-Rao lower bound variance.

The result is a model with the following elements:

- explained variable
- dependent variable estimation
- explanatory variable
- an estimate of the intercept, absolute member
- estimate the inclination coefficient
- residuals

The estimated model represents the best possible alternative, although it is also possible that the information value is not high. In other words, the regressor explains little or nothing of the variability. This is measured by the coefficient of determination, which reaches values from 0 to 1, where 0 means 0% of the explanation of variability and explanation 1 indicates 100% of the variability.

Further, p-value parameter estimates are important too. These determine their significance, or the probability that the value of the estimated parameter is in fact equal to zero. If this probability is high, then the parameter is considered insignificant and should be eliminated from the model. (see e.g. Wooldridge, 2003, Kennedy, 2008; or Greene 2003).
Table 2: “Burgo” model results for monthly income of 3 million CZK.

<table>
<thead>
<tr>
<th>Sales=3 000 000,00 Kč</th>
<th>Intercept</th>
<th>Slope Coeff.</th>
<th>Model values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>21942,30519</td>
<td>0.284280261</td>
<td>874 783,09</td>
</tr>
<tr>
<td>Employee Meals-food</td>
<td>1729,86514</td>
<td>0.009034734</td>
<td>28 834,07</td>
</tr>
<tr>
<td>Waste</td>
<td>1811,347078</td>
<td>0.015137451</td>
<td>47 223,70</td>
</tr>
<tr>
<td>Paper Expenses</td>
<td>5998,916822</td>
<td>0.0355218661</td>
<td>111 654,90</td>
</tr>
<tr>
<td>Labor-Crew</td>
<td>37169,7838</td>
<td>0.140904942</td>
<td>459 884,61</td>
</tr>
<tr>
<td>Labor-Management</td>
<td>22267,87009</td>
<td>0.032783733</td>
<td>120 619,07</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>21369,23645</td>
<td>0.055299837</td>
<td>187 268,75</td>
</tr>
<tr>
<td>Travel Expenses</td>
<td>5634,022891</td>
<td>0.001877226</td>
<td>11 265,70</td>
</tr>
<tr>
<td>Advertising-National</td>
<td>-2318,507338</td>
<td>0.049883018</td>
<td>165 000,00</td>
</tr>
<tr>
<td>Promo-Other</td>
<td>21310,55161</td>
<td>0.010003442</td>
<td>51 320,88</td>
</tr>
<tr>
<td>Linen</td>
<td>328,5098696</td>
<td>0.001670731</td>
<td>5 340,70</td>
</tr>
<tr>
<td>Outside Service</td>
<td>23146,75183</td>
<td>0.013126714</td>
<td>62526,89</td>
</tr>
<tr>
<td>Maintenance&amp;Repair</td>
<td>14943,1444</td>
<td>0.012944356</td>
<td>53 776,21</td>
</tr>
<tr>
<td>Utilities</td>
<td>16904,67528</td>
<td>0.029709407</td>
<td>106 032,90</td>
</tr>
<tr>
<td>Office Expenses</td>
<td>723,7138319</td>
<td>0.001036563</td>
<td>3 833,40</td>
</tr>
<tr>
<td>Cash +/-</td>
<td>4992,284308</td>
<td>-0.005993159</td>
<td>-12 987,19</td>
</tr>
<tr>
<td>Other Controllable Expenses</td>
<td>21010,66581</td>
<td>0.001165074</td>
<td>24 505,89</td>
</tr>
</tbody>
</table>

Source: McDonald’s, 2009

“Burgo” model represents a system of linear regressions which were estimated using OLS, so that each of them is equal to monthly sales of each restaurant McOpCo and is also equal to the amount of expenditure on one of these cost categories in the respective establishment. Thus overall 17 linear regressions were used with each of them estimating one cost category. The model thus consists of 17 different intercept and 17 different coefficients.

The output from the model for a certain amount of revenue is estimated above 17 cost items. They are then recalculated as a percentage of monthly sales given that they can be better compared. The values of specific parameters for each category, along with an example for monthly sales of $ 3 million CZK, are shown in Table 2 above.

When calculating the linear regression model “Burgo” in compliance with all prerequisites, the author is not known. Likewise, there are p-values and coefficients of determination. In the headquarters of McDonald's this model is commonly used and is highly relied upon its predictive values. The authors therefore conclude that the outcomes resulting from it can be considered as sufficiently high quality and accurate.

Conclusions and discussions

The final practical chapter was prepared by comparative analysis aimed to confirm or refute until empirically unsubstantiated opinion that McDonald’s fast food restaurants operate more efficiently in the hands of franchisees than if they were owned by McDonald’s company. The core of this analysis compared the costs of McDonald's restaurants operated by franchise holders with the cost of fast-food restaurants owned by McDonald's headquarters.

It turned out that franchised restaurants are actually operated more efficiently than those owned centrally through the McOpCo scheme. Our results are confirmed by the experience of one of the authors of this study who used to work for several years in both
franchisee-owned restaurants, as well as the franchisor, are therefore not considered to be surprising. However, the average difference PAC (profit after deducting all controllable costs) between the license and McOpCo restaurants and ranging between 10 and 15 per cent is considerable. This dramatic difference in the effectiveness of the operation is attached particularly negative consequences principal-agent relationship, whose presence in McOpCo restaurants necessarily gives rise to moral hazard management.

In connection with the operation effectiveness, and thus pressure to reduce costs, the question of whether it might impaire quality services, also appears to be significant. Independent assessment by an external company showed that it is not so and that the services reach the same level independently of the form of ownership of the premises.

A common reason for granting the franchise license is the franchise holder’s lack of capital necessary for expansion or unwillingness to address the everyday routine matters. Licensor is then willing to accept a lower income from the facility in exchange for reducing business risk, and making less effort. On McDonald's example it can be shown that licensed premises may bring the potential franchisor higher revenue than in the case the restaurant would have been owned by the mother company. This is despite the fact that the franchisee usually claims against the classic head incomparably higher financial reward. This result is again closely associated with higher efficiency and thus profitability licensed restaurants.

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European System of Central Banks:

How does it work?

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Abstract

This paper summarizes the description of European Banking System. European economic integration finished on the EMU stage with three institutions connecting EU national banks. The work is focused on the closer look on them and it also compares Eurosystem with FED and Bank of Japan. Relevant conclusions are driven and the advice is given for further researches which could examine quality of the Eurosystem.

Keywords: ECB, Eurozone, central bank, banking system, Eurosystem

JEL classification: D02, D30

Introduction

Banking in the European Union (EU) represents a difficult and complicated system including many various organizations with specific capabilities and duties. First of all, a basic differentiation based on the fact, that there are three main banking institutional organizations: European Central Bank (ECB), Eurosystem, and System of EU central banks, could act as confusing. If we take a closer look, there are some remarkable principles in each one which need to be focused on. In addition to this, from media, we are able to notice that this system is not working properly as it was planned. In this manner, it is necessary to summarize those principles into more understandable publication and to concentrate some discussion on the address of mistakes in European banking. The main target of this paper is to specify these issues and conclude them into tasks which could be topics of some future academic papers.

Firstly, general description of European Banking and its history is being proposed. We will concentrate on functioning of ECB as the supranational institution leading the main banking operation within the Eurozone. Along with the ECB, there are two other banking systems functioning in the EU which are subordinate to the ECB: The Eurosystem (EUS) that coordinates central banks in the Eurozone and System of EU central banks (ESCB) which includes all other banks outside of the Eurozone (EZ).

Second part includes comparison of some common banking system in the world. This description is focused mainly on the United States of America (USA) and its Federal Reserve System (FED), and Japanese (JAP) national bank - The Bank of Japan (BoJ). Here we are concentrating on differences or more likely similarities of those systems.
Third part discusses some of the widely known issues available in the media. As it was mentioned above, there are some problematic parts of policy making in the EU and some potential historical threats that should be though from. All the statements are underlined in the last, conclusion part. Ending of this paper is dedicated to the motivation topics for more detailed research.

Road to European EMU

Before we can proceed to the banking system itself, it is necessary to obtain complete overview of the topic by describing the every integration step from the very beginnings into the complete Economic and Monetary union (EMU) as it is right now. Establishment of such a system with common currency, eliminated barriers of labour, trade, capital and common external tariffs, and other external policies demands quite a long journey of administrative steps. In theory, there are 5 stages of economic integration to reach the terminal EMU.

<table>
<thead>
<tr>
<th>Table 1: Stages of Economic Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Trade Agreement (FTA)</td>
</tr>
<tr>
<td>Zero tariffs between member countries and reduced non-tariff barriers.</td>
</tr>
<tr>
<td>Customs Union (CU)</td>
</tr>
<tr>
<td>FTA + common external tariff</td>
</tr>
<tr>
<td>Common Market (CM)</td>
</tr>
<tr>
<td>CU + free movement of capital and labour, some policy harmonization</td>
</tr>
<tr>
<td>Economic Union (EcU)</td>
</tr>
<tr>
<td>CM + common economic policies and institutions</td>
</tr>
<tr>
<td>Economic and Monetary Union (EMU)</td>
</tr>
<tr>
<td>EcU + common currency or linking of national currencies though the fixed exchange rates</td>
</tr>
</tbody>
</table>

Source: Advanced European Economic Integration, lecture handouts (2012)

Europe in its historical milestones followed these steps. According to the cooperation within the funding states FTA stage was mostly solved in automatically with the next stage. Custom union and FTA represent second base which deserves a closer look. It was established by the ratification of the Treaty of Rome in 1957 which was signed by the “big 6” – France, Germany, Italy, Netherlands, Belgium, and Luxembourg. These two stages were closed by the 1968 when reductions in inside tariffs were completed, and when the common external tariff was established.

Creation of a CM in EU corresponds to the years of 1985 until 1992 when the Single Markets Programme (Single European Act) was in the use. It stated the aim of removing most of the non-trade barriers. Thanks to collapse of the Bretton Woods system in the early 70s and world oil recession crisis in 1973 these stages were crushed in the fear of uncertain future. Example of this unsuccessful plan was the Werner Report from 1970, which envisaged three stages to be completed by 1980. To fight with this instability, now the member states of EEC set the bases of the European Monetary System (EMS) in 1979. Main feature of this system was the Exchange Rate Mechanism (ERM) which based the barrier of the floating exchange rates between the member states. ERM was quite brilliant idea until the next volatile period in 1992. It was due to the inequality of inflation development in several EU countries and declination of Maastricht Treaty by the Denmark which caused abnormal instability of the whole system and ERM barriers were not enough to cope with the current situation.
When the economic system in EU got calmer, Maastricht Treaty was valid to take into the force. It stated the progress towards the EMU into the three stages. 1990 – 1993 – discriminating all internal barriers within Europe. 1994 – 1998 – creation of European Monetary Institute which was dedicated for preparations for single currency and 1999 – 2002 – last stage integrated the new currency (Euro – EUR) into the legal tender. In 1998 the European Monetary Institute ended its functioning and the ECB was created to cover all financial operations within 11 member states of EU.

Finally, as an important fact, it should be mentioned that there are 5 convergence criteria to apply for a participation in European EMU. Inflation - no more than 1.5 percent above the 3 lowest averages, long-term interest rate - no more than 2% above the 3 best average, budget deficits - no more than 3% of GDP, public debt: no more than 60% of GDP, and ERM – floating exchange rate of accessing state should be fluctuating in its barriers within several years. Benefits from the EMU participations are clear. Firstly, there is a secure purchasing power, the transaction costs are eliminated, bigger transparency of price levels occur, and finally the exchange rate risks are reduced to minimum.

Actually, there are 17 of 27 states in European EMU (EZ) with controlling ECB and their own central banks. Rest of them kept their own floating currencies but supranationality of ECB is obvious. Future issues of EU EMU belong to the widening free market accessions, coordinating Value Added Taxes of member states and extension of CU for remaining EU FTA members.

**European Central Bank**

ECB is one of the seven most important European institutions, its position underlines also as a key banking institution in the world for example among the Chinese national bank, BoJ or FED. However status of official EU institution ECB was not gained until the December 2009.

It was established in Frankfurt am Main, Germany, on 1st June 1998 by the Treaty of Amsterdam as an upcoming institution replacing European Monetary Institute. In its beginnings ECB administered monetary policy of 11 member states, after widening of EZ, right now it is 17 states – Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. ECB’s primary objective is to keep price stability within EZ and other tasks are subordinated to this one. It is unlike the for example FED which has several key tasks.

The main objective of ECB could be numerically specified. Based on the Government Council’s agreement from 1998 the price stability is defined as inflation not exceeding 2 percent, y-o-y Harmonized index of Consumer prices under 2 percent. In addition to that ECB made commitment to support general economic policies within the EU to keep the EZ stable. To obtain this objective, ECB uses several instruments, or more specifically tasks. ECB controls and implements monetary policy for EZ (for example setting the interest rates), coordinate foreign exchange operations, and take care of foreign exchange reserves. In addition to that, ECB has right to issue new EUR banknotes and promote smooth financial operations within the member states. These are settled with TARGET 2 system of payments. All the supervision is being underlined with the privilege of collecting, publishing statistical information of European economics, and advisory services.
There are four decision-making bodies in ECB. It is the President, the Executive Board (EB), the Governing Council (GoC), and the General Council (GeC). First president of ECB was Wim Duisenberg and actually Mario Draghi occupies this position. President’s task is to be in the chair of the Governing Council, the Executive Board, the General Council and also he is being invited to the meetings of Eurogroup, the informal group of euro area economics and finance ministers and in even to the European Council’s (EC) meetings.

EB comprises the President, the Vice-President and four other members. They usually discuss the matters of Euro area with other European institutions and representatives and prepare materials to focus on for the GoC. They are obliged to meet once a week, usually on Tuesday. GoC is comprised by the members of EB and the governors of national banks of EZ countries, for the Czech Republic, Miroslav Singer. Meetings of GoC are proceeding 10 times a year or even more times. Among their responsibilities belong to formulate the monetary policy of EZ, adopt the guidelines for EUS. Voting is based on equal voting weights except the situations of financial matters, for example subscription of ECB’s capital, transfer of foreign exchange reserves, monetary income distribution and so on. In case of a tie, president of ECB has the last resolute vote. On the other side, GeC members are except the ECB president and Vice-President all governors of the national banks of all EU member states. GeC usually meets several times per year and in its pipeline is to coordinate plans for accessing states into to euro area and to collect statistical information.

These four groups of decision-making bodies are completed with the ECB shareholders. These are exclusively EU member state’s national banks. Logically, they do not have directly decision power (only though the governors in GeC or GoC) over the ECB institution but they create its capital which is exceeding five billion euros. The biggest deposit has Deutsche Bank with almost 19 percent of key capital. National Bank of the Czech Republic has 1.4 percent and the smallest part belongs to Bank Čentrali ta' Malta (0.06 percent). It is obvious that ECB has real connection with the system of national central banks of member states. However they create their own institutional groups. Next chapters provide a closer look on them.

**Eurosystem**

The EUS represents the monetary authority of EZ. It is consist of the ECB and national banks of euro area member states. According to the Article 282 of the Treaty on the Functioning of the EU, their target is to maintain the price stability within the EZ. In addition to that their secondary objectives are financial stability with economic integration.
Graph 1: The Eurosystem

Source: ECB - European System of Central Banks (2012)

Further financial instruments which have a EUS available are listed in ECB (2011).

System of EU Central Banks

Graph 2: The ESCB

Source: ECB - European System of Central Banks (2012)
The European System of Central Banks was established in accordance with the Maastricht Treaty and the Statute of the European System of Central Banks and of the European Central Bank. It comprises the European Central Bank (ECB) and the national central banks (NCBs) of all EU Member States. In addition to above mentioned EZ states we add Bulgaria, Czech Republic, Denmark, Hungary, Latvia, Lithuania, Poland, Romania, Sweden, and United Kingdom.

Tasks of ESCB cannot include the financial supervision because of the fact that member states do not create the monetary authority of the EZ. For these reasons, the EUS was established. However ESCB is privileged to contribute to these statements and conduct individual monetary policies. Within the tasks of individual national banks belongs the execution of monetary policies, management of foreign reserves, take care of synchronization of the payment systems, printing (in case of separated currency from EZ) and supervision of cash operations, banking supervision, and assistance to ECB.

In the system cooperation of central banks in Europe, there are enormous sums of money transferred to keep its maintenance. In next chapter, we are going to shortly describe the dependency and money correlations that keep the banking system functioning.

**Independence of NBs**

Most of the EU national banks are financially independent, including ECB. This means that they have their own budget. For example ECB capital is created by the shares of every member state national bank. As it was mentioned above, it comprises over 5 billion EUR (1st January 2011 – EUR 5,318,108,668.61). Among this capital, ECB is operating with other financial assets such as open market operations, bond holding, bond selling, and many others. In addition to this, ECB has privilege to print additional banknotes into the circulation.

Czech National Bank and others independent from the euro currency have similar functioning. Banks within the EZ are also operationally independent but subordinated to the ECB with the currency and additional financial injections. “The ECB and the NCBs have at their disposal all instruments and competencies necessary for the conduct of an efficient monetary policy and are authorized to decide autonomously how and when to use them. Moreover, the Eurosystem is prohibited from granting loans to Community bodies or national public sector entities, which further enhances its independence by shielding it from any influence exercised by public authorities.”

**Comparison with Other Banking Systems**

To be able to compare European banking system with some of the others, we need them to have similar characterization. This expresses Gerdesmeier, Mongelli, Roffia (2007) who compared The Eurosystem with the FED and BoJ.

They discovered that these banking systems over the last 15 – 20 years converge and that they do not show any striking differences in terms of monetary policy implementations.

From the point of view in the structure of those institutions, especially Eurosystem and FED resemble. Japan has a quite different organizational structure. “With regard to the BoJ, the highest decision-making body is the Policy Board.” Graph 3 shows the organizational frameworks of each system for closer comparison.
Graph 3a: Organizational Framework of the Eurosystem

Graph 3b: Organizational Framework of the FED

Graph 3c: Organizational Framework of the BoJ

Source: Gerdesmeier, Mongelli, Roffia (2007)
Monetary policies of those systems differ. Eurosystem has a primary objective of price stability; FED has a multiple objective mandate. Into this belong the long-run growth, maximum employment, stable prices, and moderate long-term interest rates. BoJ’s primary objective is to maintain the price stability. Secondary, it is smooth and stable operations of the payment and settlement system through measures, such as acting as a lender of last resort. To conclude these policies, they seem to terminate in the similar outline, but on the other side, we can notice that the different interpretations would characterize different preferences.

As from the point of view of independency and transparency, and public communication, all three systems are almost the same. However the EUS is stated as the most independent bank in the world, but has a criticism on the informational part. Corsetti, Pesenti (1999).

“As for the economic and financial environment, over the past two decades all three central banks have faced a series of diverse challenges, some of them country specific (as in the case of Japan), and others more global in nature. Early in the sample period, conditions differed considerably in the three currency areas, with a much higher dispersion among euro area member states than within the United States and Japan. However, these differences have abated in recent years.” To underline this fact, we can refer to the development of Long-term interest rates, Real Growth, Inflation differentials, or GDP growth differentials which are likely to converge into the same levels. Therefore, we are able to state that all three banking systems do not differ so much, these days.

Issues with This Distribution

Concerning the problematic issues of the banking system in EU, we are able refer to the paper published by Corsetti, Pesenti (1999) and other news available in the media.

The crucial point of criticism points on the EU for a false advertising of statistical results, or unreachable targets, than unequal distribution of financial sources within the fast- and slow- growing states. Also, in media we can read about the excessive bailouts, disadvantageous bond selling and speculation about problematic yield targeting.

It is obvious, that ECB could get into attention of media thanks to the financial crisis solving. Telegraph (2011) published a strongly negative article on this account. “The system at the moment hasn’t got funding of a duration that allows it to function, so it’s failing … Others think the Eurozone banks are heading for a catastrophe and the worry is growing that a major bank could collapse within weeks.” It poses questions like where the ECB and NBs would get the financial assets to funds its expenses on bailouts of crashing states.

Another point of view is presented by Also Sprach Analyst (2012) which speculates about the Yield targeting for Bond Purchases which could be a future problem. “The biggest problem with such yield targeting is the establishment of moral hazard by reducing the impact of market discipline. Knowing that the central bank will support their nation’s bonds in an unlimited fashion, periphery politicians will no longer be under pressure to implement austerity measures in a timely manner. The fiscal consolidation work will be put on a southern European timeline and the can will be kicked further down the road.”
Conclusions

Aim of this paper was to summarize and describe European economic integration and connect it with its banking description. Based on facts mentioned in it, the main propose is to suggest more specific topics for forthcoming research papers focusing on the individual topics. They are listed below.

Firstly, the historical development of European economic integration was presented. Starting with the Treaty of Rome (1957) as a creation of CU, European Crisis and crush of the Werner’s report in 70’s as a milestones of the EcU. Establishment of the EMS in 1979 and evolvement of the CM and EcU by the Single European Act in 80’s were the next steps in the economic integration. After the unstable situation at the beginning of 90’s, after the Maastricht Treaty ratification with its three stages of EMU integration the whole process was almost finished up to now with the common currency, euro, and common banking supervisory, the ECB and free movements of many economic barriers.

Next chapters were devoted to one of the most important banks in the world and one of the seven European institutions with the highest priority, the ECB. It was established in 1998 by the Treaty of Amsterdam as an upcoming institution replacing European Monetary Institute. In contrary to for example the FED, ECB has one primary objective and it is to maintain the price stability. To do that, it interfere with several tasks such as implementing the monetary policy for EZ, coordinating foreign exchange operations, take care of foreign exchange reserves, issuance of new EUR banknotes and promoting smooth financial operations within the member states. All the tasks are underlined with the privilege of collecting, publishing statistical information of European economics, and other advisory services. ECB has four decision-making bodies – the President, EB, GoC, and GeC. In each of them, the President has the right of attention and in case of a tie, his vote is determinative. GoC and GeC are bodies which are consisted mainly of the governors of the member states, depending if they are in EZ or they obliged the common currency. For ECB, it is crucial to be independent from the political and operational influences. The same policy operates for the individual NBs of member states.

Eurosystem is composed of the EZ - 17 member states and coordinates mainly the monetary policy to maintain the objectives of ECB. With a cooperation of ESCB, the rest of the EU member states, these institutions collect data for statistical purposes. ESCB also coordinates NBs of the member states.

By comparing the main characteristics of the Eurosystem with BoJ and FED, it is obvious that these institutions do not much differ. All the statements refer to the Gerdesmeier, Mongelli, Roffia (2007). Organizational and transparency issues are except some unimportant details very similar and monetary policies are in time converging to the same levels.

Last chapter was dedicated to the brief overview of the problematic issues in the European banking system. Statements were collected from the media news articles. We pointed mainly on the lack of up-to-date statistics data for the European economy, unequal distribution of the financial sources for the fast- and slowly- developing countries. In addition to that, we pointed out also some of the hazardous policies implemented by the ECB such as the actual financial debt fight in the problematic states.

From this point of view, several topics of research arise. There is not much information about the cooperation of individual NBs within the EZ and their cooperation with the
non-EZ NBs. More precisely, for example what would be the correlation between the GoC and GeC minutes and the NBs policy decisions? Research of the Stability, Asymmetry, and Discontinuity of the current ESCB would be interesting as a continuation of Corsetti, Pesenti, and Blinder’s (1999) working paper. Finally, closer study on the expenses and their development in the bail outing the states in need would be appreciated as well.

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WHY EUROPEAN COUNTRIES DO NOT COMPLY WITH EU DIRECTIVES?

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Milano Bicocca - University of Milan

Abstract

The late or missing compliance with EU law has a serious negative impact on the integration process and the development of common policies. Determining which factors play the most important role in favoring non-compliance isn’t therefore a simply trivial issue.

This paper briefly reviews the research literature and proposes a model to explain the variation of non-compliance at national level. We find evidence that political power in the EU increases the number of infringements committed, while the quality of institutions mitigate the phenomena. However what is more evident is that a shift from a general analysis on total compliance to a sector and policy level analysis is necessary to achieve more significant results.

Keywords: European Union, EU Member States, compliance, role of the states, infringements

JEL classification: C33, K33, K41, P48, Y10

Introduction

The institutions of European Union have developed five main instruments to influence the judicial systems of EU Member States. Leaving aside the influence exert by the European Court of Justice, we can distinguish among the following acts: Regulations, Directives, Decisions, Reasoned opinions and Recommendations.

The last two do not have any binding power on the national authorities, while the decision is effective only toward the countries the act is addressed to. A more important role is played by Regulations and Directives.

The main difference between them is that the first have direct effect on all the judicial systems, whilst the latter need to be implemented by the national legislator of each member state.

The great heterogeneity of national legislations, as well as the need to find a compromise between very different positions, leads to a more intensive use of directives rather than regulations. However the late implementation of those acts by one or more countries may cause damage to some EU citizens.

The European Court of Justice, with the sentence Francovich v. Italy (1990), established that member states can be accounted for the late or incorrect implementation of a directive and be liable to reimburse the damages caused to individuals or firms.
Yet this requires a costly appeal to the ECJ. Also for personal experience I can say that this solution is often dropped, in particular for questions that imply small reimbursements. Moreover the cited sentence of the Court can be applied only to the parts of a Directive that are already specified in detail by the EU legislator and not to those parts whose determination is left to the national institution. Even more important can be the effect on common policies. For example the directive 2008/56/EC, also called Marine Strategy Framework directive, establishes a series of strategies and interventions to protect the coastal and sub-marine environment. Actually only Poland has an infringement procedure related to that directive. In case that some countries don’t comply with it, they can seriously impair the efforts made by other EU members and lead to the failure of the common policy. For these reasons I think it is useful to understand which factors influence the level of compliance in the EU and which interventions may lead to its increase.

This paper is organized the following way: in the first following section I provide some general definitions related to the studied phenomenon while the second reviews the literature. Successively I present some analytical description about compliance. Then I introduce the explanatory variables of my model and thereafter I show the regression and its findings. Finally some brief conclusions are stated.

**Infringement and non-compliance**

As stated before, the direct intervention of each Member State’s national institutions is required in order to implement a Directive. In general any Directive establishes the period of time the EU members have to comply with the arrangements contained in it (see e.g. Lampinen and Petri, 1998). After that period, if a State has not complied, the European Commission can send a formal letter. Successively, if necessary, the Commission send a reasoned opinion, through which the infringement procedure starts. In the Reasoned Opinion the Commission can decide either to refer directly the matter to the ECJ or to grant a supplementary period to the investigated Country. After the referral to the ECJ, the sentence of the court usually obliges the country to pay a fine and to implement the directive. The fine is usually proportional to the gravity of the infringement, in a scale from 1 to 20, and is generally calculated on daily basis. Furthermore a new proceeding can be opened in the case that the State disregards also the sentence of the ECJ (Diagram 1).

**Diagram 1: Intertemporal interactions between species over time**

<table>
<thead>
<tr>
<th>Suspected Infringements</th>
<th>Established Infringements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Art. 226 Formal Letter</td>
<td>Art. 226 Reasoned Opinion</td>
</tr>
<tr>
<td>Art. 226 Referral</td>
<td>Art. 228 Proceedings</td>
</tr>
<tr>
<td>Art. 226 ECJ Ruling</td>
<td>Financial Penalties</td>
</tr>
</tbody>
</table>

**Source:** UEI working paper of the Robert Schuman Centre for advanced studies (2012).
As the left side of the Diagram below shows, the suspect of infringement can be raised by any citizen, group or corporation, by the Commission itself or by the European Parliament. The infringement procedure can be also initiated automatically when a member State does not fulfill the obligation to communicate the transposition of the Directive into the national legislation.

The Treaty of European Union distinguishes between five types of infringements in relation to the different reason that motivates the intervention of the Commission. The first kind of infringement is the violation of Treaty provisions, Regulations or Decisions. In this case the State has incorrectly applied or enforced European obligations, or eventually it hasn't abolished violating national measures. The second case is the non-transposition of Directives in due time. The infringement procedures related to this situation represent two thirds of all the procedures initiated by the Commission.

Much more difficult to identify is the incorrect legal implementation of Directives. In this case the procedure takes place because a member State has incompletely or incorrectly incorporated a Directive into national law.

The fourth kind of infringement is the improper application of Directives that involves the active violation of taking conflicting national measures or the passive failure to invoke the obligations of the Directive. For example in 2002 a formal letter has been sent to Spain for improper application of the Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora.

The motivation was that the instruments and the programs established by the Spanish Government were found to be insufficient and inappropriate to achieve the goals set by the Directive. Evidence about the last two cases of non-compliance is more frequently provided by individuals or NGO rather than by the Commission.

Finally non-compliance with ECJ judgments represents the last reason for which the Commission may open an infringement procedure. In fact all the infringements related to the competition regulation can be included in the first case, since these rules are stated in the EU Treaty or specific regulations.

Given the difficulties to identify many cases of non-compliance, aside from the complete non-transposition of Directives, it's clear that the number of infringement procedures is only a proxy for the level of non-compliance of each Member State.

In order to perform a meaningful analysis of the phenomenon it is necessary to make the following assumptions: Firstly the Commission should have the same capacity to detect the cases of non-compliance towards any member State. This assumption is quite restrictive if we consider that the Commission may be more attentive to the Countries that are known to be more non-compliant. However this effect should be less significant in a large period of time.

Another issue related to this assumption is the different dimension of Countries population. A large State has more probability to receive Formal letters because of complaints reported by its citizens.

I address this specific issue controlling for the relative population of each Member State. Secondly, as Toshkov (2010) suggested, a key assumption in studies on compliance is that the stochastic process related to the “random event” of Infringement should maintain the same characteristics over time. This assumption is arguable in a long time period, nevertheless, if the changes over time affect the Countries in the same way, and aren’t correlated with the dependent variables used in the regression, the
analyses on the effect of Country level characteristics will be consistent. More attention to these problems will be given ahead.

**Literature review**

Many authors tried to identify which factors influence the level of compliance of European Countries. In the literature two different approaches can be distinguished. The first one focuses the attention on few Directives, usually all from the same sector of EU legislation, to determine specific causes of non-compliance that may lie in the nature of the Directive.

Sometimes the analysis is specifically qualitative, such as in the recent work of Falkner (2010) which analyzes the compliance of ten countries with the Directive 2003/30/EC on bio-fuels. In this specific issue they conclude that: “implementation is more likely when three favorable conditions are present, when policy frames and content between EU and national levels match, when a consensual policy style is used and the most important actors are included”.

In the other approach such extensive analysis is impossible. The authors examine much longer periods of time and a larger group of Directives. Obviously there is an implicit trade-off: the wider is the analysis, the more generic are the variables that can be controlled for. At the same time we expect an increasing unexplained variance. Also the cost of collecting data should be taken into account.

Whilst in general for wide analysis the main dependent variable is the yearly number of new infringement procedures, the works that focus the attention on few countries and few Directives are more likely to use the transposition delay. Introducing such variable requires a careful investigation on the causes of the delay, as different Directives require a different corresponding process of implementation. Even more problematic is the determination of the point in time at which the transposition is completed. As Berglund (2010) highlighted in her work on utilities Directives Implementation, the definition of the transposition deadline varies from an Act to another.

In some cases the Directive requires the national measures to be already in force before the deadline, in other cases it is sufficient the communication of the measures that a State is going to implement. For those reasons a simple analysis of Celex or other legislative database might be insufficient.

As it concerns my work, to avoid such problems, I analyse the annual number of infringements and I don’t consider Directive-specificities. To be more precise I partly follow the analysis conducted in by Börzel et al. (2005; 2006; 2006; or 2010) or Börzel (2001; or 2010). They observe, during the period between 1987 and 1999, the number of Reasoned opinions sent to each member State in a given year in relation to the total European legal acts in force. The the different level of compliance is explained through a three dimension model that is composed of Power, Capacity, and Legitimacy. Since in the literature all of the three have been discussed in long and large I will only summarize the main intuitions that lie behind them.

A powerful country is expected to be less compliant, as it can put more pressure on the EU institutions and can easily bear the cost of the sanctions. According to this intuition a stronger enforcement of EU law can reduce the non-compliance of member States. However the literature suggested that in many cases the non-compliance is not due to the unwillingness to adopt the measures.
Rather the State lacks the capacity to comply. For example it's unable to organize the agenda, to legislate in due time or to implement the issued legislation. Finally the theory of legitimacy suggest that the level of compliance is influenced by how much a society perceives as a moral obligation to respect, in general, the laws and, more specifically, the legislative power of EU institutions. Börzel et al. (2006) and Börzel (2010) control for legitimacy through the “EU support” and the “Rule of Law” variables. They also suggest that along with those three factors, a good model shouldn't omit the role their interactions. For example, it is general opinion that a powerful, or rich, country has lower benefits from non-compliance if its administrative and legislative bodies are efficient, therefore is expected to comply more with EU legislation. Conversely if a country has poor implementing abilities, the strong support to the Eu institutions might not favor a higher level of compliance (Table 1).

Table 1: Direct and Interacting effects on Infringements

<table>
<thead>
<tr>
<th></th>
<th>Power</th>
<th>Legitimacy</th>
<th>Legacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>Positive</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Legitimacy</td>
<td>Negative</td>
<td>Negative</td>
<td>-</td>
</tr>
<tr>
<td>Legacy</td>
<td>Negative</td>
<td>Negative</td>
<td>Negative</td>
</tr>
</tbody>
</table>

Source: Tanja A. Börzel (2010)

Infringement Analysis

The European Commission publishes annually a report, called Annual Report on Monitoring the Application of EU Law. The reports classify the infringements in different ways, by nation, by the stage of the procedure, etc. Even if in absolute term the non-compliance has increased over time, many authors, among which Phedon Nicolaides and Suren Anne-Marie, suggest that the performance of State may even be improved in consideration of the increase of legislative acts and of member States.

In graph 1, below, it is possible to see that just by considering the increase of member States the growing trend of non-compliance almost disappears.

Graph 1: EU reasoned opinions in total and in average (1978 as base year)

Source: Own calculations based on European Commission’s data (2013).
In order to count the infringements, it is particular important at which stage of the procedure consider it a non-compliance case. In fact, only few cases of non-compliance reach the last stages of the procedure. The analysis of the number of ECJ sentences would be biased by the low variance of the observations among the countries, most of which frequently solve the matter before reaching this stage. For that reason I focus my analysis on the number of reasoned opinions. They also represent an intermediate stage, so that the less relevant cases of non-compliance are ruled out. Nevertheless in the second graph I compare the number of reasoned opinions and the Referrals to the ECJ. In the aggregate the two data have a quite similar trend. In the 90's the gap between the two stages widened, however is hard to find the reasons that lie behind. It is also possible to notice that after 2008 a dramatic drop of Referrals occurred. During the same year the EU Pilot project has came into action. This project is meant to increase the cooperation between Commission and member States, as well as to facilitate the submission of inquiries and complaints by individuals.

**Graph 2: EU reasoned opinions v. Referrals to ECJ**

![Graph 2: EU reasoned opinions v. Referrals to ECJ](image)

**Source:** Own calculations based on European Commission’s data (2013).

In December 2011 the Commission has published the second report on the evaluation of the Pilot project with positive remarks. However it is still early to conclude that the EU pilot has effectively improved the compliance rate. Moreover, since the project intervenes in the first stages of the non-compliance procedure, the widening of the gap is not likely to be related to it, but rather to a more patient policy of European Commission. This is the general trend of the infringements, what can be said about national level observations? The matter can be view from two points of view. From one side there is a persistence of some States to be more compliant than others. On the other hand the compliance may evolve with time. To analyze the first issue, in Figure 1, I calculated the average number of reasoned opinions for each country. Italy is the most non-compliant country, receiving in average 47 Reasoned Opinion per year. Among the old members, it may be surprising that after Greece (40) and Portugal (34) there are France and Belgium. The best performing are Denmark and Sweden with very few infringements per year. Among the new member States, Poland and Czech Republic reach a level of non-compliance very similar to that of Italy and Greece. On the other side Latvia proved to be performing quite well.
The low averages displayed by Romania and Bulgaria are not reliable, since they joined the EU only in 2007 and the Commission has been always “comprehensive” with States in the first three or four years of their membership.

**Figure 1:** Averages of Annual Reason Opinion at Country Level during the period 1987-2010

![Bar chart showing annual Reason Opinion by country from 1987 to 2010.](chart)

**Source:** Own calculations based on European Commission’s data (2013).

Coming to the issue of time, Graph 3 shows the annual number of Reasoned Opinion for each State member from its admission to 2010. At first sight it seems that the Reasoned Opinions don’t follow any growing or falling trend in almost all countries. For that specific issue I regressed each series on the time variable and the lagged observations. In about 20 out of 26 cases, both the null hypothesis of absence of time trend and of autocorrelation cannot be rejected at significative levels.
Graph 3: Annual Reasoned Opinions by Member State during the period 1987-2010

Source: Own calculations based on European Commission’s data (2013).

Therefore I suggest that the States non-compliance is not a transitory phenomenon but a persistent feature connected to their institutions.

Data

In order to understand the underlying features that cause a country's non-compliance I selected a group of variables. I start from the variables already identified in the literature. Bozel et al. (2010) in their work used GDP as proxy of a country's power. However they don't find any significance because they include in the model also the GDP per capita, to control for the efficiency of government. Since I am skeptical about this last variable being a proxy of a government quality I decided to maintain only the GDP. Moreover, given the almost perfect correlation of the two variables, including both is very likely to prevent the estimation of consistent coefficients. In the distribution of decision power among EU members the countries population is an important factor, mainly in consideration to the proportional representation criteria. That is each person should have equal representation in the institutions, therefore more populated countries should have more decision power. Therefore, later on I will consider the convenience of including the population as a distinct variable. Since for most of the countries both GDP and population are positively trending over time but their relative level is almost unchanged, I decided to express them as a share.
on the total EU GDP or population on a given year. This might violate the assumption of independence between the observations. However, in my opinion, it still holds, since the variables have low variability over time, the relative position of countries is then quite stable and it's much more related to their own performance rather than that of other countries. Observing the data only the shares of few countries, e.g. Great Britain, have a greater variance during time. The main changes are in conjunction with the access of new countries.

The task of the variable Relative N° Countries, which is the reciprocal of the number of EU members, is exactly to control for those spurious correlations. Similarly the dummy New admission is used to distinguish the first three year after the admission in the EU from the other observations.

As I said before, it is possible to use the population to represent the political power of each State in the EU, nevertheless the Shapley-Shubik Index can be a much reliable proxy. For that reason in the model I prefer this last variable to the population.

Since some literature criticized the standard S.S. index because any coalition has equal probabilities to occur, I alternatively use the Spatial Power Index calculated by Barry and Passarelli (2010). The index represents a measure of the distribution of powers in respect to the political affinities between countries. For example the spatial power of Germany is lower than with traditional measures, in consideration that its political positions often are not supported by other countries. The last source of variables is the Worldwide Governance Indicators (WGI) that measure six dimensions of governance since 1996.

The indexes provide data that, according to Kaufmann et al. (2010), “permits meaningful cross-country and over-time comparisons”. In particular I take into consideration the following variables: Government Effectiveness, Corruption Control, Political Stability, Regulatory Quality and Rule of Law.

All of them are indexes based on surveys that observe the perceptions of individuals, firms and other organizations. They range “approximately” from -2.5 to 2.5. The higher is the indicator, the more effective is the Government or the control of corruption of a given country. To be more precise, Government Effectiveness measures the quality of public services, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

The definition of Regulatory Quality is the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Finally, the Rule of Law reflects the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. From a descriptive analysis of these indexes the European Union is a heterogeneous group of countries. I expect these variables to be able to explain largely the difference in the level of compliance. However, the correlation between these indicators is high and it may require some variables to be dropped from the model. For example, in the case of Rule of Law and Corruption Control, the correlation coefficient control is 0.947, that is almost perfect co-linearity.
Empirical Evidence

In this chapter I propose two different regressions. The first one estimates the coefficient according to the generalized least squares with random effects, which relies, in particular, on the assumption that the main variables have a normal distribution. The latter follows the negative binomial model. This model is the most indicated when the dependent variable is too dispersed to fit the normal distribution, and for that reason has already been used in the literature (Toshkov, 2010) to analyze the non-compliance. Both regressions have 303 observations out of 499 because I must restrict the time period to 1996-2010 as the governance quality indicators are not calculated before that year. The results are showed in Table 3 and Table 4.

Table 3: GLS with random effects

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Std. errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Admission</td>
<td>-7.66*** 2.193</td>
</tr>
<tr>
<td>Relative N° Countries</td>
<td>321.69*** 93.37</td>
</tr>
<tr>
<td>Shapley Shubik</td>
<td>484.32*** 123.49</td>
</tr>
<tr>
<td>GDP Share</td>
<td>86.81* 47.71</td>
</tr>
<tr>
<td>Corruption Control</td>
<td>-6.87** 3.392</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>11.13 10.41</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>28.80*** 8.417</td>
</tr>
<tr>
<td>S.S.*Reg.Qty</td>
<td>-150.27 106.32</td>
</tr>
<tr>
<td>S.S.*Gov.Eff.</td>
<td>-185.27** 86.82</td>
</tr>
<tr>
<td>Gov.Eff.*Reg.Qty</td>
<td>-10.29** 4.740</td>
</tr>
<tr>
<td>Constant</td>
<td>-20.76** 10.86</td>
</tr>
<tr>
<td>R-squared within</td>
<td>0.1445</td>
</tr>
<tr>
<td>R-squared between</td>
<td>0.7566</td>
</tr>
<tr>
<td>R-squared overall</td>
<td>0.4912</td>
</tr>
<tr>
<td>No. of observations</td>
<td>303</td>
</tr>
</tbody>
</table>

Note: * significant at 10%; ** significant at 5%; *** significant at 1%
Source: Own results

From the first model is interesting to note that the variables explain 75% of variability of the number of Reasoned Opinions among countries, whilst only 15% of the variability within countries. Also it is important to remark that even if it seems that the power index has the greatest effect we must consider that the observations have a completely different scale and the variance from all the other variables.

Table 4: Negative Binomial model with random effects

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Std. errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Admission</td>
<td>-.71*** .128</td>
</tr>
<tr>
<td>Relative N° Countries</td>
<td>2.94 4.057</td>
</tr>
<tr>
<td>Shapley Shubik</td>
<td>13.07*** 5.18</td>
</tr>
<tr>
<td>GDP Share</td>
<td>3.21 2.244</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>-.21 .232</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>-.46** .200</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>.83*** .275</td>
</tr>
<tr>
<td>S.S.*Gov.Eff.</td>
<td>-6.26** 2.984</td>
</tr>
<tr>
<td>Constant</td>
<td>1.14*** .324</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-1125.64</td>
</tr>
<tr>
<td>No. of observations</td>
<td>303</td>
</tr>
</tbody>
</table>

Note: * significant at 10%; ** significant at 5%; *** significant at 1%
Source: Own results
Finally the positive sign of the effect of both Regulatory Quality and Government Effectiveness contrasts with the hypotheses. However, the sign would be negative for Regulatory Quality and the size would be much smaller for Government Effectiveness if I would not have included the interaction between the two variables.

In substance, according to the data, the most non-compliant country is the one that has a diverging performance in the two variables (either a good RQ and bad GE or the contrary). As for the negative binomial model, in table 4, the coefficient of the Shapley Shubik index is again significant and positive. The same goes for the Government Effectiveness coefficient, whilst Regulatory Quality is in this case negative and significant.

Given the negative coefficient of the interaction term between GE and Shapley index, we can conclude that a great power within the union favors committing more infringements, nevertheless being ruled by an efficient government reduces significantly the non-compliance behavior.

Conclusions

The scope of this essay was to find further evidence on the role of institutional factors in explaining the phenomena of non compliance with EU directives. A great number of works actually tried to do the same.

I argue that we can be confident that the Political Power influences negatively the compliance level, whilst Corruption Control and Regulatory Quality are predictors of a relatively good performance.

Considering the difficulties in which also the other works have incurred, I suggest that even further studies that analyze the compliance in the more general way will be unable to provide a more consistent and deeper analysis of the phenomena.

The focus on specific sectors of EU Law, as well as a more detailed analysis of the characteristics of the directives, should be considered as the best way to approach fruitfully this issue.

Finally, from a normative point of view, a direct intervention of the European Union on the field of the quality of national institutions is difficult to realize.

The best approach is, in my opinion, an indirect support to the national legislative and implementation processes, so that the best practices could be diffused throughout the Union. The EU Pilot Project takes a major step in this direction. It is therefore desirable a frequent analysis of the effectiveness of this policy and a progressive strengthening of its tools.

Literature

- Berglund, S. (2009), Putting Politics into Perspective: A Study of the Implementation of EU Public Utilities Directives, Eburon Uitgeverij BV.


Falkner, G. (2010), *Compliance with EU Social Policies in Old and New Member States: Different Worlds, Different Remedies*, Institute for European Integration Research.


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**Acknowledgements**

I am very grateful to the Charles University in Prague and its Professors, for their interesting courses I had the opportunity to follow during the my Erasmus stay in Prague.
GUIDELINES FOR AUTHORS

PAPER TITLE: TIMES NEW ROMAN 13 pt, CENTERED IN THE MIDDLE, MAXIMUM 40 WORDS IN LENGTH (NO REFERENCES IN THE TITLE)

Wadim Strielkowski
Charles University in Prague

Inna Čábelková
Charles University in Prague

Evgeny Lisin
Moscow Power Engineering Institute

Abstract

The abstract should not exceed 300 words and it should explain the goals and objectives of your paper (you might start with the words „This paper focuses on…“, „This paper aims at explaining…“, „Our paper is concerned with…“, etc.). It should very briefly outline what your paper is about, what concepts and methodology it applies and what main results it contains. The abstract should be kept to the minimum – you should keep the discussion of your results for the conclusions of your paper.

Keywords: attitudes to poverty, political orientation, responsibility, role of state, belief in God

JEL classification: A13, D31, J10, Q17 (Journal of Economic Literature Classification system available at: http://www.aeaweb.org/jel/jel_class_system.php)

Introduction (please do not number sections of your paper)
In the introduction you should present the main idea of your paper, outline the scope of your research and tell the readers what the rest of the paper is going to be about. Please feel free to use the following template:

“This paper is organized as follows: First, the overview of the research literature on the subject of our research will be presented. Second, the data and the theoretical model will be described. Third, the model will be run and the results duly presented and commented on. Forth, policy implications will be outlined and discussed in detail. Finally, in the conclusions the main outcomes of our research will be clearly stated”.

Please use only Times New Roman, 12 points, single spaced. Please do not use footnotes and hyperlinks in the text – all the references should be presented in the References. Please refrain from using complicated graphics and diagrams (Word Visio, Corel, Adobe Photoshop, etc.) – all graphs and diagrams should be provided as JPEG or PNG images in resolution not lower than 200dpi as separate files together with your paper.

**Overview of the research literature**

**Should you use sub-chapters, please do so in the following way**

Sub-chapters should be clearly identified by using Time New Roman, 12 points, bold font + italics.

A source for each table should be presented (in case it is a result of your own research or calculations state „Own research“, „Own results“ or „Own calculation“), Times New Roman, 12 pt.

**Table 1:** Each table should be named as the following (Times New Roman, 12 points)

<table>
<thead>
<tr>
<th>Times New Roman, 10 points, bold</th>
<th>Times New Roman, 10 points, bold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Times New Roman, 10 pt, single spaced</td>
<td>Times New Roman, 10 pt, single spaced</td>
</tr>
<tr>
<td>Times New Roman, 10 pt, single spaced</td>
<td>Times New Roman, 10 pt, single spaced</td>
</tr>
<tr>
<td>Times New Roman, 10 pt, single spaced</td>
<td>Times New Roman, 10 pt, single spaced</td>
</tr>
<tr>
<td>Times New Roman, 10 pt, single spaced</td>
<td>Times New Roman, 10 pt, single spaced</td>
</tr>
</tbody>
</table>

**Source:** Čábelková and Orkhan (2012)

The results of statistical analysis (regressions, correlations) should be summarized as the following:

**Table 2:** Results of the regression analysis

<table>
<thead>
<tr>
<th></th>
<th>Inflows</th>
<th>Std. errors</th>
<th>Outflows</th>
<th>Std. errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable 1</td>
<td>-.277***</td>
<td>.177</td>
<td>.784***</td>
<td>.155</td>
</tr>
<tr>
<td>Variable 2</td>
<td>7.763***</td>
<td>2.180</td>
<td>-2.543**</td>
<td>1.472</td>
</tr>
<tr>
<td>Constant</td>
<td>-.7739**</td>
<td>64.399</td>
<td>-4.145*</td>
<td>2.964</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.378</td>
<td></td>
<td>0.305</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.370</td>
<td></td>
<td>0.296</td>
<td></td>
</tr>
<tr>
<td>No. of observations</td>
<td></td>
<td></td>
<td>150</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** * significant at 10%; ** significant at 5%; *** significant at 1%

**Source:** Own results

The results of estimating more complicated models can be presented in the following way:
Table 3: Results of the multinominal logistic regression

<table>
<thead>
<tr>
<th>Category</th>
<th>Group 1 vs. Group 4</th>
<th>Group 2 vs. Group 4</th>
<th>Group 3 vs. Group 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RR and standard errors in parentheses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Category 1</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable 1</td>
<td>1.125 (.318)</td>
<td>.982 (.035)</td>
<td>.906** (.043)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Category 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable 2</td>
<td>8.059 (18.119)</td>
<td>1.9138 (1.2674)</td>
<td>1.9239 (1.6957)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Category 3</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable 4</td>
<td>1.026 (3.811)</td>
<td>1.9055 (2.9398)</td>
<td>1.557 (2.972)</td>
</tr>
<tr>
<td>Variable 5</td>
<td>1.151 (8.881)</td>
<td>41.024*** (37.304)</td>
<td>19.597** (26.475)</td>
</tr>
<tr>
<td>Variable 6</td>
<td>2.354 (7.576)</td>
<td>12.7514*** (12.291)</td>
<td>40.340*** (47.621)</td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>0.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pseudo LL</td>
<td>-74.033</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wald</td>
<td>141.06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of observations</td>
<td>1141</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** * Significant on the 10% level; ** Significant on the 5% level; *** Significant on the 1% level; RRR and standard errors in parentheses

**Source:** Sanderson and Strielkowski (2012)

All graphics must be inserted into the text (using Insert à Picture à Picture from file) and provided together with the paper as separate JPEG files with minimum resolution of 200dpi (in case of diagrams and drawings), or Excel files (in case of graphs and pie charts).

**Graph 1:** Remittances and development aid for aggregate groups of countries in 1970-2010
Source: Own calculations based on World Bank (2012).

Diagram 1: Intertemporal interactions between species over time

Source: Strielkowski, Lisin and Welkins (2012).

Literature

The reference list should only include works that are cited in the text and that have been published or accepted for publication. The referencing is done in the following manner: In their paper Davenport and Prusak (1998) say… or: Results follow (see Davenport and Prusak, 1998).

A reference list should be provided at the end of the manuscript, following these formats:

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- Author, (year), Title of the paper, in: Title of the journal, Publisher, pp.
- Author, (year), Title of the paper, Title of the proceedings, Publisher, Location, pp.

Example:


Books and journal articles in foreign languages should be cited in their original languages (transliterated, when in Russian) and a translation provided. Journal titles should be cited only in the original language. Follow these formats:

- Rosstat (Federal’naya Sluzhba Gosudarstvennoy Statistiki) (2010), Statisticheskoye obozreniye (Statistical Survey), Moscow, Russia: Rosstat, 215 p.

Authors should make their proof corrections themselves and check that the text is complete and that all figures and tables are included.
**Information about the authors:**

At the end of each paper, information about the authors is attached in the following format:

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