

ROMANIA'S TRANSITION IN THE CENTRAL EUROPEAN CONTEXT

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The Eastern bloc countries have been under communist leadership for almost fifty years. After the 1989 collapse of communist leadership, new regimes have been installed. The roads from socialism to capitalism, from totalitarianism to democracy have been extremely difficult and tested both the people and the leaders. The present paper takes a look at the first years of Romania's democracy and its economic reforms. Although democratic elections have been organized and some reforms have been undertaken, compared to other states Romania might not have done enough.

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Introduction

1989 was a year of revolt in Eastern Europe. Poland, Hungary, Czechoslovakia and Romania won back their freedom by eliminating their leaders peacefully, in the case of the first three or violently in the case of Romania, as “Nicolae Ceausescu, was the one Communist despot who was determined to shed blood rather than relinquish power”²¹¹. The most representative moment of the year was the dismantling of the Berlin Wall which started in November.

All the above mentioned countries had to go through massive and painful reforms to change their economies, political and social life from socialism to capitalism and democracy. But the process was different from country to country. White²¹² considers two main types of change: transition from below (the case of Poland, Romania and Czechoslovakia) and transition from above (Hungary, Bulgaria and USSR)

In the case of Poland, the Solidarity was considered the most powerful symbol of liberty in the communist world²¹³. Its leader, Lech Walesa had a major role in 1989 and became the first elected president in 1990. The change of power was peaceful and based mainly on round-table negotiations between the leaders of the Communist Party and the leaders of Solidarity.

In Hungary, the democratic breakthrough between March and June 1989 consisted in a considerable shift from a dichotomy between officialdom and the opposition towards a growing self-inclusion of party hardliners into the opposition. It continued in October, when the Communist Party Congress decided to form a European-style Hungarian Socialist Party, committed to democratic socialism and mixed economy. The elections in the spring of 1990 were won by the Democratic Forum, and together with their allies they formed the new government, thus eliminating the old communist leadership of the country.

The change of regimes in Czechoslovakia was known as the “Velvet Revolution”, which stands for the peaceful mass gatherings that toppled the Czechoslovak government in November 1989. While the notions “velvet revolution” or “soft revolution” referred only to the mass protests in November, they soon came to signify the whole process of the demise of communism²¹⁴. The process of change ended in June 1990, when Vaclav Havel was elected president.

²¹¹ Muravchik, J. (2002) *Heaven on Earth: the rise and fall of socialism*, Encounter Books, San Francisco p.306.

²¹² White, S. (2001) *Communism and its Collapse*, Routledge, London, P.52.

²¹³ Wydra, H. (2006) *Communism and the emergence of democracy*, Cambridge University Press, UK, P.205.

²¹⁴ Wydra, H. (2006) *Communism and the emergence of democracy*, Cambridge University Press, UK, p.206.

The political perspective

Romania became a republic again after the communists won the 1946 elections and forced King Mihai I to flee the country the next year. In the case of all the Eastern Europe the original transition to socialism did not arise by organic development: “the socialist system does not originate spontaneously from the intrinsic, internal forces of the economy. Instead, the socialist system is imposed on society by the communist party with brutal force, when it gains power. It liquidates its political opponents and breaks up any opposition. The communist party that comes to power has a vision of what society, economy and culture it wishes to create: a system that eliminates private property and the market, replacing them with state ownership and planning”²¹⁵. All the above mentioned characteristics could be observed in Romania’s evolution during 1946 and 1989.

More than forty years later, in December 1989, Romanians fought and won back their freedom. The repression of demonstrations for democracy in Timisoara, when the security forces, the hated Securitate²¹⁶, shot dead 71 on the weekend of 16–17 December²¹⁷, sparked off mass protests in Bucharest. Ceausescu, and his wife Elena, refused to budge and ordered the mobilization of the Securitate, and the army, to put down the demonstrators by whatever means necessary.

The army hesitated, as did a section of the Securitate. In face of continuing intransigence, and growing popular opposition (Ceausescu was heckled by the protesters in Bucharest when he appealed to them to go home on 21 December), long hidden opponents within the Party, headed by Ion Iliescu, army officers and even some Securitate leaders, organized to overthrow him. Arrested as they tried to flee the country, Ceausescu and his wife were executed on Christmas Day, an execution seen on television by a global audience

The exact nature of the events of December 1989 in Romania has long been the subject of intense speculation, it is still unclear whether the events constituted a revolution or some other form of irregular political challenge such as a coup d’état or popular uprising. The overall conclusion is that although a revolutionary situation arose in the country in 1989, a revolutionary outcome is not yet assured²¹⁸. There are critics that argue that Ion Iliescu and NSF took advantage of the chaos in order to stage a coup. It is still not clear if it was thought in advance or whether it was a pragmatic action of an elite group who took advantage of the situation. What is without doubt is that because of his ruthless politics, Ceausescu was abandoned by numerous officials of the Government, the Party, the Army and his secret police²¹⁹.

After the events on December 1989, Romania became a democracy again and it organized its first free elections in May 1990. The big winners of the elections were, as expected the National Salvation Front and its leader Ion Iliescu. The National Salvation Front was a coalition of former communists which took over the functions of the government after the overthrow of Ceausescu in December. It later split into the Social Democrat Party, led by Iliescu and the Democratic Party, led by Petre Roman, and later by Traian Basescu.

Ion Iliescu was a former member of the Politburo – considered by many the future leader of Romania, after the death of Ceausescu. Iliescu did not have the “revolutionary’s aura” of Havel or Walesa, but he still won the 1990, 1992 and 2000 elections.

Unfortunately, 1990 was a year marked by violence as coal miners “visited” Bucharest to stop anti-communist demonstrations organized by the political and social opposition of NSF. One of

²¹⁵ Kornai, J. (2000) *What the Change of System from Socialism to Capitalism Does and Does Not Mean*, The Journal of Economic Perspectives, Vol. 14, No. 1, p.31.

²¹⁶ Secret police, similar to STASI in East Germany, Gestapo in Nazi Germany and GPU in Russia.

²¹⁷ Kowalski, R. (2006) *European Communism 1848 – 1991*, Palgrave Macmillan, New York, p.222.

²¹⁸ Siani-Davies, P. (1996) *Romanian Revolution or Coup d’etat?*, Communist and Post-Communist Studies Vol. 29, No. 4, p.453.

²¹⁹ Tilly, C. (1993) *European Revolutions: 1492-1992*, Blackwell publishing, Oxford p.248.

the greatest discontents of the demonstrators was the implication of the second level activists of the Communist Party in the new structures of Power²²⁰.

The new Government, led by Petre Roman wanted fast reforms and established new relations with the EU and USA. Roman's failure to explain adequately both the purposes and the consequences of genuine liberalization and stabilization fueled the resentment of precisely those constituencies to whom the NSF owed its May 1990 electoral victory. So, in 1991 Petre Roman was replaced with Stolojan, the finance minister.

The 1992 elections were won again by Iliescu who made an alliance with the nationalist parties and the party of the former communists. Although the composition of the Parliament and government changed, the domination of Iliescu and the presidency continued²²¹. Vacaroiu was named prime-minister and the goal of the new Government was to "slow down market reforms that might favor foreign business interests"²²². The 1992-1996 period was marked by privatization scandals and frauds made by the people in power, determining the halting of progress and reforms needed at that time.

Economic perspective

There is a debate regarding Romania's economic situation. Some argue that as Romania entered the 90s, the country was in many ways in a better position to pursue economic restructuring than other East European countries. In December 1989, Romania had almost no foreign debt and maintained a current account surplus of \$2.8 billion and foreign exchange reserves of \$ 1.7 billion. Other economic indicators (current account balance, debt-to-GDP ratio and hard currency holdings) were better than any other East European country²²³. Others consider that Romania started its transition to a market economy at a serious disadvantage, with significantly worse initial conditions than those prevailing in the leading reform countries. Romanian policy makers have had less room to maneuver in taking the painful political steps necessary to liberalize Romania's formerly Stalinist economic system. Apart from the reduced level of investment, growth possibilities were also impaired by a sharp reduction in imports of machinery and equipment from the West. The heavy overtaxation of domestic consumption, which took place during this period in order to meet external debt obligations, resulted in lower growth rates of production, reduced welfare (consumption), and bigger domestic imbalances, both visible and hidden²²⁴.

Privatization moved slowly in the first years although the legal framework was set up to sell of 55% of state equity. The state maintained its control in strategic areas as energy, transport and telecommunications. In selling equity 30% was to be allocated to Romanian citizens, leaving the rest for foreign and domestic investors. The allocation to the citizens was done through vouchers, but the system proved its limitations because of inflation, speculation and public apathy.

In 1992, industry was still 90% controlled by the state and registered a continuous fall to score a cumulative decline of 54% over 1989²²⁵.

The macroeconomic data for 1993 and 1994 would seem to suggest an unanticipated level of success for Vacaroiu's policies. The decline in GDP was reversed (with 1.5 and 3.9 percent gains, respectively), and industrial production increased (with increases of 1.3 and 3.3 percent, and with overall industrial productivity jumping to 9 and 14.7 percent, respectively)²²⁶. However,

²²⁰ Cesereanu, R. (2003) Fenomenul Piata Universitatii 1990, Revista 22, 12 mai 2003.

²²¹ Roper, S. (2005) *Romania, the unfinished revolution*, Harwood Academic Publishers, Amsterdam, p.75.

²²² Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.228.

²²³ Roper, S. (2005) *Romania, the unfinished revolution*, Harwood Academic Publishers, Amsterdam, p.88.

²²⁴ Daianu, D. (2004) *Fiscal and Monetary Policies*, published in "Romania since 1989" (ed. Henry Carey), Lexington Books, Oxford, p.394.

²²⁵ Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.227.

²²⁶ <http://www.insse.ro/cms/files/pdf/ro/cap16.pdf>

due to high inflation and further price liberalizations, real wages fell by 16.7 percent in 1993 (with a marginal 0.4 percent recovery in 1994).

Table 1.

Selected economic indicators of Romania's economy (1990 - 1997)

Indicator	90	91	92	93	94	95	96	97	98
Unemployment (%)	1	3	8.2	10,4	10,9	9,5	6,6	8,9	10,4
Inflation (%)	5,1	170	210	256	136	32	38	154	59
GDP (%)	-5,6	-12,9	-13,6	1,3	3,9	7,1	4	-6,6	-7,3
Foreign debt (billion. \$)	1,14	2,13	3,24	4,24	5,51	6,64	8,3	9,5	9,8

Source: http://www.indexmundi.com/romania/gdp_real_growth_rate.html, <https://statistici.insse.ro/ipc/>, <http://www.insse.ro/cms/files/pdf/ro/cap3.pdf>

Moreover, the Vacaroiu government's decision to continue subsidies to state enterprises increased the budget deficit to 4.4 percent of GDP in 1994; and despite the National Bank's reluctance, the money supply was increased by 500 percent during these two years, resulting in inflation of 256 and 136 percent respectively, for 1993 and 1994 (Table 1.).

Critics asserted that while temporary improvement in some areas had been reported, it was largely at the expense of, rather than due to, genuine economic reforms. The World Bank's comparative analyses of transitional economies (1995) found Romanian liberalization and private sector development near the bottom of Group 2 (which, in addition to Romania, included Bulgaria, Albania, the Baltic countries, and Mongolia).

Bacon is trying to find out why did the macroeconomic data reflect so dramatic a recovery? His considers the data on the state budget's deficit as a proportion of GDP are enlightening. While the deficit was 2.6 percent of GDP in 1993, the transitional year, it had risen to 4.2 percent in 1994. Despite the attempts by the National Bank to institute a tight monetary policy, the government, out of the political need of their voters, continued to pursue a policy of "soft credit"—heavily subsidizing indebted and inefficient state economic units, directing the state's fledgling commercial banks to provide negative (1993) and low-interest (1994) loans to loss-making enterprises and state farms²²⁷.

In 1994, the private sector accounted for only 35 per cent of the economy, a low figure when compared with 55 per cent in Hungary and Poland and 65 per cent in the Czech Republic.

1995 was an even more favorable year. GDP grew 7.1 percent, and industrial output grew by 9.4 percent, while inflation fell to 27.8 percent²²⁸. Real income, "electorally the most fungible indicator, rose 12.5 percent"²²⁹. However, the budget deficit remained at an unacceptably high 4.1 percent of GDP. The expansion of the GDP, which should have enabled the economy to "grow" out of indebtedness, had been realized. However, genuine reform within the framework of the "Washington consensus" remained inconsistent²³⁰.

An unexpected energy crisis began in 1996, a year of discontent for Romania. After some delays, the government was obliged in May 1996 to raise prices for basic consumer goods, including energy, after a sharp devaluation of the forced its hand. The annual inflation rate, projected by the government to be 20 percent for the year 1996, soared to nearly 60 percent by year's end (Table 1.). To add to the uncertainty, two Romanian banks, Credit Bank and Dacia Felix, became illiquid due to massively nonperforming loan portfolios, incompetent management, endemic cronyism, and corruption. The National Bank, already overextended by a looming increase in

²²⁷ Bacon, W. (2004) Economic Reform, "Romania since 1989" (ed. Henry Carey), Lexington Books, Oxford, p.377.

²²⁸ http://www.indexmundi.com/romania/gdp_real_growth_rate.html

²²⁹ Bacon, W. (2004) Economic Reform, "Romania since 1989" (ed. Henry Carey), Lexington Books, Oxford, p.378

²³⁰ Cojanu, V. (2007) *From Washington Consensus to Lisbon Agenda: What Lessons for Economic Models in Romania?*, Romanian Journal of European Affairs, Vol. 7, No. 4.

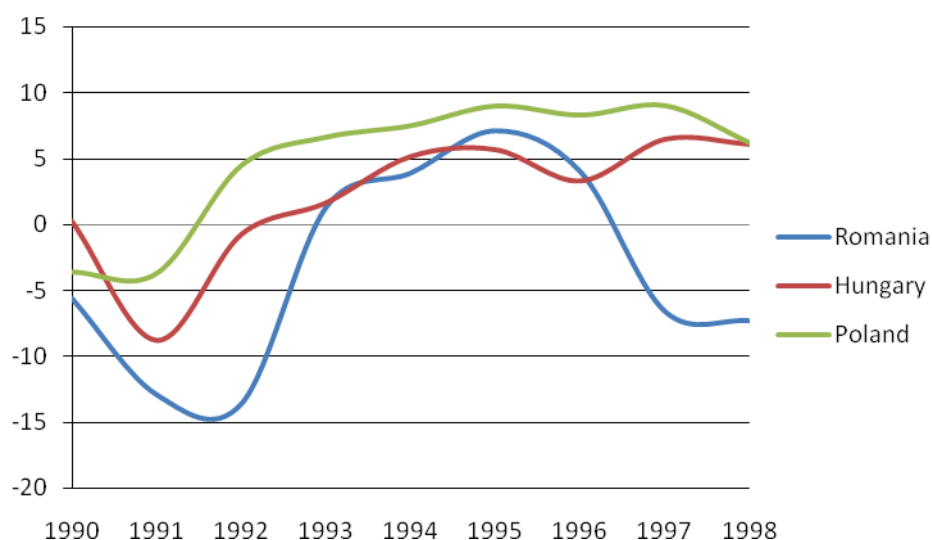
foreign and domestic debt, had to bail out the banks, all the while trying to counter the government's spendthrift ways.

Conclusions

Romania's transition has been a long and strenuous road. According to Crowther, there have been two significant turning points in Romania's transition: 1) the events in December 1989 which displaced the Ceausescu dictatorship and 2) the 1996 transfer of power to the liberal opposition parties which initiated a second phase of reform.²³¹ Although the 1989 events brought change and democracy, the elites of the old Romanian Communist Party, or at least a sizable number of them, were actually the beneficiaries of the revolution. In fact, one could easily argue that they have taken full advantage of the transition to the "free market," using their inside knowledge, political power, and control of state resources to *privatize* their power over the Romanian economy, transforming, quite legally, the political domination of the old nomenklatura into the economic domination of a new oligarchy²³².

Figure 1.

Economic growth of Romania, Hungary and Poland 1990-1998 (%)



Source: http://www.indexmundi.com/romania/gdp_real_growth_rate.html, http://www.indexmundi.com/poland/gdp_real_growth_rate.html, http://www.indexmundi.com/hungary/gdp_real_growth_rate.html

Compared to the progress of Poland, Hungary and Czechoslovakia, Romania has and is still lagging behind. A proof of this lag is the date of joining the EU, which the first three countries have achieved three years faster than Romania.

Turnock considers that in Hungary privatization moved also slowly, but the Government was able to privatize faster than Romania its main industries and services and also established numerous joint ventures with Austrian, German and Swiss companies²³³.

In Poland's case, we have to take into consideration the unions. After 1989, the reform program adopted by the new government sought to stabilize the macroeconomic environment and to begin moving the country toward a market economy. Although initially the economy went into a deep

²³¹ Crowther, W. (2010) *Contemporary Romanian politics*, Communist and Post-Communist Studies No.43, p.1 .

²³² Gabanyi p.353

²³³ Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.194

recession, by 1992 growth resumed. “By the end of the decade the Polish economy was one of the fastest growing in Europe, with an average rate of growth of 6.5 percent between 1995 and 1997 and 4.5 percent between 1998 and 1999, and Poland was seen as the most successful of Central European countries that had embarked on similar political and economic transitions in 1989”²³⁴.

From a political perspective, one notable difference when compared to other former communist states is the background of the post-revolutionary leaders. In Poland, Czechoslovakia and Hungary the number of former communist leaders in the new governmental apparatus was rather low. Two decades after the December Revolution, it is still unclear if it had been a transition to democracy: communist party figures are still influential²³⁵, property has been privatized but allowed to accumulate in the hands of a small group of oligarchs, and although there were free elections, there had been “only a partial move to a form of limited and accountable government that was based on the rule of law”²³⁶.

We can conclude that the political will for real reforms did not exist. Most of the decisions were populist, and in spite of this regimes changed every four years. One excuse could be the avoidance of popular unrest which could have led to civil war.

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