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**THE POLITICAL ECONOMY OF TRANSFORMATION
IN ROMANIA: 1989-2001**

BY

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Philosophy in Politics and International Studies

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ABBREVIATIONS

AGA	<i>Adunarea Generală a Acționarilor</i> (General Meeting of Shareholders)
ANP	<i>Agenția Națională de Privatizare</i> (National Agency for Privatisation)
ARD	<i>Agenția Română de Dezvoltare</i> (Romanian Development Agency)
BNR	<i>Banca Națională a României</i> (National Bank of Romania)
CDR	<i>Convenția Democratică din România</i> (Democratic Convention of Romania)
CEE	Central and Eastern Europe
CMEA	Council for Mutual Economic Assistance
CNFSN	<i>Consiliul Național al Frontului Salvării Naționale</i> (National Council of the National Salvation Front)
CNVM	<i>Comisia Națională a Valorilor Mobiliare</i> (National Commission for Securities)
CPUN	<i>Consiliul Provizoriu al Unității Naționale</i> (Provisional Council of National Unity)
CURS	<i>Centrul pentru Sociologie Urbană și Regională</i> (Centre for Urban and Regional Sociology)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EC-GDE	European Commission – General Directorate for Enlargement
EECR	East European Constitutional Review
EU	European Union
FDSN	<i>Frontul Democrat al Salvării Naționale</i> (Democratic National Salvation Front)
FPP	<i>Fondul Proprietății Private</i> (Private Property Fund)
FPS	<i>Fondul Proprietății de Stat</i> (State Ownership Fund)
FSN	<i>Frontul Salvării Naționale</i> (National Salvation Front)
GR	<i>Guvernul României</i> (Government of Romania)
IFI	International Financial Institution
IMF	International Monetary Fund
IPE	International Political Economy
ISPA	Pre-accession Structural Instrument
KRWE	Keesing's Record of World Events
MEBO	Management-Employee Buy-Out
MOR	<i>Monitorul Oficial al României</i> (The Official Bulletin of Romania)
NATO	North-Atlantic Treaty Organisation
NPAA	National Programme for the Adoption of the <i>Acquis</i>
OECD	Organisation for Economic Co-operation and Development
PD	<i>Partidul Democrat</i> (Democratic Party)
PDA	<i>Partidul Democrat-Agrar din România</i> (Democratic Agrarian Party of Romania).
PDSR	<i>Partidul Democrației Sociale din România</i> (Party of Social Democracy of Romania)
PER	<i>Partidul Ecologist Român</i> (Romanian Ecologist Party)
PNL	<i>Partidul Național Liberal</i> (National Liberal Party)
PNL-AT	<i>Partidul Național Liberal – Aripa Tînără</i> (National Liberal Party - Young Wing)
PNȚCD	<i>Partidul Național Țărănesc, Creștin și Democrat</i> (National Peasant Party-Christian Democratic)
PRM	<i>Partidul România Mare</i> (Greater Romania Party)
PSDR	<i>Partidul Social-Democrat al României</i> (Social-Democratic Party of Romania)
PSM	<i>Partidul Socialist al Muncii</i> (Socialist Party of Labour)
PUN	<i>Partidul Unității Naționale</i> (National Unity Party, changed name of PUNR)
PUNR	<i>Partidul Unității Naționale din România</i> (Party of Romanian National Unity)

RFE/RL	Radio Free Europe/Radio Liberty
SAL	Structural Adjustment Loan
SAPARD	Structural Adjustment Programme for Agriculture and Rural Development
SIF	<i>Societate de Investiții Financiare</i> (Financial Investment Fund)
SOE	State-Owned Enterprise
UDMR	<i>Uniunea Democratică a Ungurilor din România</i> (Democratic Union of Hungarians in Romania)
USD	<i>Uniunea Social Democrată</i> (Social Democratic Union)

Currencies

ECU	European Currency Unit
Lei	Romanian Dollar
\$	United States of America Dollar

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DECLARATION

This dissertation is my own work, and it has not been submitted for a degree at another university.

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ABSTRACT

The end of communism in Central and Eastern Europe and the choice for a market economy and democracy by these societies was the beginning of a vast process of change that affected all aspects of social life. In spite of the simultaneity of these changes, and the general realisation that integrative approaches are needed to do justice to this complexity, most scholarly analyses remain confined within existing disciplinary boundaries such as Economics and Politics. In this thesis, reflexive theories in Economics, Politics and International Political Economy are used to derive a set of working hypotheses about the relationships between the economic and political spheres, domestic and international.

These hypotheses are then used to illuminate the empirical case of marketisation in Romania. The dominant neo-liberal explanations about the meaning and direction of post-communist changes created a hierarchy of performance (i.e. conformity with the neo-liberal ideals) between the countries of CEE. In this reading, Romania was a laggard in 'transition' and this was attributed to the incomplete democratisation of the political system and the neo-communist and nationalistic ideology of the 1990-6 governments.

The analysis proposed in this thesis challenges this simplistic explanation and the content and pace of economic reforms in Romania are linked to four factors. These are the fragile political consensus around reform; the structural power of industrial interests and their ability to co-opt factions of the political elite; the weak institutional basis; and the cultural gap between the expectations of the public and the requirements of a market economy.

INTRODUCTION

It would be difficult to overestimate the consequences of the defeat of communism in Central and Eastern Europe (CEE). More than a decade later, the reverberations of 1989 are still unfolding. Even slower has been the process of research and codification of their meaning. At a minimum, it can be said that the end of the bi-polar structure opened up new questions for the stability of the international system. It coincided with a new wave of capitalist expansion and integration in the form of globalisation. For the countries of the former Soviet bloc, the crucial issue was twofold: (i) How to leave behind the relative economic and ideological isolation of the last decades; (ii) On what terms to rejoin an international community whose dominant norms were liberal democracy and market economy.

Initially, the answers to these questions seemed self-evident. The abandonment of communist ideals appeared so complete, the prestige of Western norms looked so unquestionable that the CEE nations hardly paused to consider their choices. It was thought that crossing the Cold-War battle lines and joining the erstwhile enemy was the only game in town. It was also believed that the procedure could not be easier. Confidence in Western models and the desire to bridge the developmental gap quickly combined to create great momentum for democratisation and marketisation throughout the region. This thesis explores the impact of this triumphalist reading of events and its unravelling during the 1990s. In Romania, as elsewhere in the region, the dominant neo-liberal ideology and its supporters, both inside and outside the country, played a crucial role in shaping the course of the economic and political reforms. How this happened and why is the topic of this thesis.

The Empirical Argument

The dominant view on the economic and political transformations in Romania is derived from the neo-liberal precepts on reform. It claims that the governments of 1990-1996 were neo-communist, and this was the reason for the delays in democratisation (Linz and Stepan 1996; Crăiuțu 1996) and marketisation and the lacklustre economic performance (IMF 2000; 2001; EBRD 1999; 2000). The democratic coalition that came to power at the end of 1996 was credited with impeccable reformist intentions and was backed publicly by the International Financial Institutions (IFIs). When, in spite of significant advances, *Convenția Democratică din România* (Democratic Convention of Romania – CDR) was deemed to have failed to meet these expectations, the evaluations for the prospects of economic reform in Romania again darkened. This was illustrated by the fact that Romania was ranked last in the group of 12 countries negotiating accession to European Union at the end of 2000 (European Commission 2000a; 2000b).

This thesis offers an empirical challenge to this orthodoxy. On closer inspection, the reformist record of the 1990-1996 governments appears to be more substantial than initially thought. Where they faltered the causes are linked to institutional and structural constraints. Equally, the efforts of the Democratic Convention, while misplaced in certain areas, such as the severity of the 1997 stabilisation programme, which induced a steep three-year recession, represented significant breakthroughs. Without denying CDR's commitment to reform, their success was often building on institutional learning that has so far been overlooked by analysts and politicians alike.

The neo-liberal ideological lens contributed to obscure the assessment of reform in Romania, which became excessively politicised. The scarcity of resources for political party identity building and the uncertainty induced by the sudden breakdown of the communist regime led to an exaggeration of the lines of division among parties. In fact, the neo-liberal victory in CEE imposed new norms of political credibility, and all

parties sought to gain credibility by embracing democracy and promoting neo-liberal policies, including the so-called 'neo-communists'. At the same time, all parties sought a synthesis or an accommodation between this pressure and the social-democratic orientation of the Romanian electorate. Consequently, all political parties had significant social programmes, including the right of centre parties of the CDR.

In this analysis, the content and pace of economic reforms in Romania are linked to four factors. These are (i) the fragile political consensus around reform; (ii) the structural power of industrial interests and their ability to co-opt factions of the political elite; (iii) the weak institutional basis; and (iv) the cultural gap between the expectations of the public and the requirements of a market economy. Firstly, the strong polarisation of politics after 1990 has already been mentioned. The main political party was *Frontul Salvării Naționale* (The National Salvation Front – FSN),¹ which took power in December 1989 and then won the elections of May 1990 and September 1992. Some of its leaders, such as President Ion Iliescu, were associated with the former regime. The FSN was spurned as 'neo-communist', anti-democratic and conservative. Its legitimacy was challenged because it was seen to lack the credentials to guide reform (Călinescu and Tismăneanu 1992; Tănase 1993; 1996; Andreescu 1998).

The opposition was constituted around the 'Historical Parties'. These were *Partidul Național Țărănesc, Creștin și Democrat* (National Peasant Party - christian and democrat PNȚCD), *Partidul Național Liberal* (National Liberal Party - PNL), and *Partidul Social Democrat din România* (Social Democratic Party of Romania - PSDR). From 1991 they co-operated under the umbrella of the *Convenția Democrată din România* (Democratic Convention of Romania – CDR). Their legitimacy derived from

¹ Brief presentations of the political personalities and parties mentioned in this thesis are given in the Glossary.

their non-communist roots, as they had been the main political parties of the inter-war period and had been dissolved by the communist state. Thus they had a strong claim to democratic credentials. Quite a number of their leaders - such as Corneliu Coposu, Radu Câmpeanu, and Sergiu Cunescu - had been political prisoners under the communist regime and strongly rejected anything 'communist' (Almond 1990; Tismăneanu and Pavel 1994).

This polarisation of politics made compromise and a process of consensus building very difficult in post-1989 Romania. The political class was thus weakened in its confrontation with conservative industrial interests. Under stringent attack from the opposition, and in recognition of the social-democratic inclination of the electorate, the FSN looked for allies elsewhere. Its conservative wing together with the dominant industrial interest groups took Romania through the first stages of reform. After 1996, Democratic Convention pursued reform more aggressively, but faltered in the face of opposition from the same interests, and ultimately lacked the confidence to capitalise politically on the advances they did push through (Aligică 2001).

Secondly, structural conditions in the economy strengthened the hand of industrial interests. The bias towards heavy industry was stronger in Romania than elsewhere in the region, and the hope that the market would by itself restructure the relationships between enterprises and between sectors was more muted (Dăianu 1996b; 1999). Rather, it was thought that gradual exposure to the conditions of competition, through liberalisation of prices and the exchange rate, would allow enterprises in metallurgy, petrochemicals, and machine building to restructure (Ionete 1993). These expectations looked realistic in 1993 and 1994, when external demand stimulated growth, but the economic situation turned sour in 1995 and 1996 when, instead of restructuring, the heavy industries tried to keep the momentum of increased production by relying on

subsidised domestic demand (BNR 1997a; 1997b). The public utilities, whose prices remained controlled until 1997, the banks and the agriculture were the main avenues used by the state to subsidise the heavy industries. Other economic policies, such as the control of inflation, exchange and interest rates and taxation, also protected the interests of the rust-belt sectors (OECD 1998). In privatisation, this led to the selective targeting of the enterprises to be sold. The small and medium enterprises were the main targets of privatisation, while the public utilities and the banks were excluded, under the argument of 'national interest' (OECD 1993).

After 1996, increased institutional capacity, the uneven but significant restructuring that was taking place in industry, and increased commitment to reform on the part of the Democratic Convention converged to make possible a number of significant changes. Liberalisation policies freed the banks, the public utilities and agriculture from their role in channelling subsidies to the heavy industries and stimulated their restructuring. At the same time, many big state-owned enterprises (SOEs) in the heavy industries continued to hold the government to ransom through strikes and other forms of public protest (OECD 1998).

Thirdly, the pace and uneven success of reform in Romania are explained by the weakness of the Romanian state. Reform of the public administration did not become an explicit objective until the last few years of the 1990s (Nunberg 1999). Examples of misplaced effort such as the revision of legislation in order to remedy inadequacies of implementation and the politicisation of the bureaucracy were common during this period (World Bank 1998b). This weak institutional basis in the public sector was mirrored by the weakness of market institutions in Romania. Stock and commodities exchanges were slow to develop. After they were set up in mid-1990s it took several years before they began to play a significant role in economic transactions (CNVM 2001). Romanian banks shared with their counterparts in Eastern Europe the

disadvantages of starting from scratch. They had to build institutional capacity at a time when the demand on their services increased exponentially and the policy environment was unstable (BNR 2000).

Fourthly, the economic and political processes of transformation analysed here have a cultural counterpart, which is much harder to pin down and describe in detail. The culture of resistance under a corrupt and oppressive regime contained norms of social solidarity, notions about what is acceptable behaviour, and what counts for success that cannot be expected to disappear overnight (Verdery 1996; Kligman 1998). On the contrary, in a social context where most reference points, organisations, institutions, and social roles disappeared or changed dramatically, these norms became even more resilient as a sort of last resort. Domestic readings of the reform process were shaped to an extent by expectations of political and economic achievement derived from the heroic model of communism, while at the same time mistrust of the ruling circles and the suspicion of corruption prevailed.

In sum, this thesis argues that the neo-liberal ideological reading of political and economic reforms in Romania shared, for reasons that will be explored later, by both domestic and international actors obscures the role of the different governments, pressure groups and interests in shaping the reform process. The course of the reforms, their relative success, are better explained as the result of political, economic, institutional and cultural factors. This thesis claims there are four main factors that explain the course of marketisation in Romania. They are (i) the fragile political consensus around reform at the national level, (ii) the political effects of the economic structure, (iii) the weakness of state and market institutions, and (iv) the slow pace of cultural change. Each of these factors evolved significantly in the period 1989-2001. The theoretical framework of this research, developed in chapter 1, defines these factors further and accounts for their dynamic character.

Theoretical and methodological contributions

Chapter 1 develops a political economy theoretical framework that explains why and how it is legitimate to explain the post-communist economic transformations in Romania through reference to political consensus, economic structure, institutions, and culture. This chapter reviews neo-liberal, neo-institutionalist and reflexive theories in Economics, Politics, and International Political Economy (IPE) in order to establish whether these theories could contribute to a political economy approach. Reflexive theories offer a few working hypotheses about both the specific traits of and the relationship between the economic and political spheres.

Thus, this thesis draws upon and contributes to a number of debates in International Political Economy (IPE). The fall of the communist regimes at the end of the 1980s coincided with a phase in the international political economy dominated by the neo-liberal consensus, the retreat of the state from the economy and globalisation (Verdery 1996; Cerny 2000; Higgott 2000). Against this background, it is interesting to examine how the domestic political elites of Romania and the Romanian state were able to negotiate their position as intermediaries between global and domestic priorities. On the one hand they integrated Romania into global structures, by democratising the political system and pushing through marketisation, privatisation, and liberalisation policies (Scholte 1998). On the other hand, they responded to domestic pressures by making choices that favoured some interests over others. Thus, the thesis engages explicitly with debates about the domestic/international divide (Garrett and Lange 1996; Scholte 1997; Cox 1999).

This analysis also integrates cultural factors into an explanation of economic and political phenomena. It has been argued that the end of the Cold War was a serious challenge to the social sciences, which had in most cases failed to predict it (Janos 1991). The study of post-communist transformations, it was felt, called for integrative

approaches able to capture their manifold character. These transformations encompass not only the economy and the politics, but also the 'infrastructural' level of society, as these nations struggle to find new meaning and purpose for their endeavours (Verdery 1996; Jowitt 1998b; Kligman 1998; Prizel 1998; Tismăneanu 1998).

The relationship between agency and structure, between objective and subjective phenomena is at the core of this thesis. In a general way, structures are stable configurations of relations between the elements of a system. Agents are elements of such structures and are defined by agency, i.e. by their ability to act, to perpetuate or transform certain structural features of their reality. The relationship between agents and the structures of which they are a part is neither complete determination, nor complete freedom. Actors are constrained by the conditions in which they find themselves, while structures are dependent for their perpetuation on the choices and activities of the actors (Giddens 1984).

The objective/subjective dyad has both an epistemic and an ontological meaning. In the epistemic sense, statements about reality are objective if they are arrived at through some accepted procedure and can be verified by others using this procedure. In contrast, subjective statements are seen to reflect preferences or some other attributes of the person who makes the statement. In an ontological sense, objective and subjective denote different types of entities and modes of existence. Subjective entities, such as feelings and thoughts, are those who depend for their existence on being felt by subjects. Objective entities on the other hand are independent of any perceiver or mental state (Searle 1995, 8).

Both senses are relevant for the relationship between agents and structures. Ontologically, agents are inserted in the structures in which they operate through their actions but also their thoughts and feelings. These feelings are in this sense, of being felt by subjects, subjective. These feelings are also objective in the sense that they arise

out of a relationship over which the agents have only a limited degree of control and they reflect the degree of determinism of the structure. Similarly, the epistemic sense of the objective/subjective dyad bears on the relationship between agents and structures. Statements tend to be recognised as objective when a consensus already exists among the participants to that communication about the truth of certain facts and meanings and the validity of procedures for establishing such truths. Such a consensus is the result of a structure already at work and reflects the fit that develops between material and mental structures. Knowledge statements on the other hand tend to be described as subjective when they fall outside this recognised area of objectivity (Bourdieu and Wacquant 1992, 168).

Theoretical choices have methodological implications. Thus, the agency/structure debate is fundamental for the interpretation of data. The starting assumption is that actors such as governments, unions, pressure groups, business networks, IFIs, occupy certain positions in a field of relations. By virtue of who they are and the attributes of the positions they occupy, actors exhibit a tendency to employ certain strategies in the pursuit of their goals, specific to that field and to their position in the field. Actors are structurally determined to the extent that they take for granted their own position in the field and assimilate as their own characteristics that are in fact given by the structure and their particular position in it.

Through this identification, their mental structures, schemes of perception and meaning attribution, become mirror versions of the objective structures. Conversely, the limited degree of freedom that actors have is given by their ability to undo their own, unconscious, participation in the determinism of structures. This depends in turn on their ability to stand outside their own position in the structure and conceive of strategies that would be otherwise impossible to conceive, given their allegiance to the 'the rules of the game' (Bourdieu 1990, 21).

For an outsider, a researcher, to understand the set of relations at work it is necessary to reconstruct both the subjective and the objective dimensions of that field and the varying accounts afforded by the multiplicity of perspectives. Subjective accounts will be read not only for what they explicitly say but also for what they silently take for granted. This type of data will be supplemented by statistic measurements of aggregate attributes of actors, their positions and the field as such.

Research design

Post-communist transformations in Romania lack the scholarly attention that other countries of CEE have received. Significant theoretical advances, such as Stark and Bruszt (1998), Elster, Offe and Preuss (1998), and Eyal, Szelenyi and Townsley (1998) were based on comparative studies that excluded Romania. This thesis engages with their propositions and evaluates them for the case of Romania. Additionally, on a continuum of progress in transition, Romania is usually positioned between the more advanced countries of Central Europe and the Baltic States and the other countries of the former Soviet bloc. As such, there is the potential that the factors found to promote or resist reform in Romania might be relevant for the study of any of these two groups of countries and for the explanation of their differences.

Constraints of time and other resources made it necessary to refine the empirical focus of the research. This thesis offers an explanation of the course of economic and political reforms as a whole and to this end it reviews the evidence on all the major developments. However, not all of their elements are covered in equal detail. Seeking to strike a balance between countrywide generalisations and the need to collect and evaluate thoroughly the rich empirical evidence available, the choice was made to use privatisation as the main testing ground for the explanations offered here. This thesis is not simply a study of privatisation in Romania, however. Observations about

privatisation were tested for their significance for the course of the economic and political reforms as a whole.

Privatisation is a suitable topic for this broader investigation of reform in Romania for three reasons. First, all the major political actors – domestic and international – recognised privatisation as fundamental to their interests and fought over its content, methods and pace. Successive Romanian governments used privatisation as a showcase for reform and an illustration of their commitment to market economy as well as a means to satisfy the interests of their supporters through redistribution. In the case of large and structurally powerful enterprises the interests of governments, domestic labour and capital converged occasionally, but also led to sharp conflict.

Second, the consensus between actors that privatisation lies at the core of marketisation is a convenient backdrop against which to test theoretical propositions about the relationship between ideational claims, identity, and structural power at the intersection between the domestic and international spheres. Neo-liberal advocates of privatisation - especially the IFIs, but also some domestic groups - insisted on the link between privatisation, marketisation and growth (Williamson 1994; Yeaple and Moskowitz 1995). In theory, immediate privatisation of state-owned enterprises would kick-start a market economy by promoting competition, improving corporate governance and stimulating growth. Privatisation would attract foreign investors, know-how and technology, and it would resolve some of the financial problems of the cash-strapped CEE governments (Blanchard et al. 1991; Blanchard et al. 1993; Sachs 1993). For their social-democratic adversaries, privatisation was a means for co-optation into the political and economic system, through re-distribution. Broader political agendas subordinated both marketisation and growth; state intervention, as well as market-based measures, were considered acceptable (Ionete 1993; Pilat 1993b; 1995; Dăianu 1996b).

Third, privatisation – as an economic but also political and cultural process – touches upon crucial questions about the nature of capitalism and the role of private property and property rights in it. It is thus relevant for establishing the meaning of post-communist transformations: how is the communist order left behind; and what kind of order is emerging?

The term ‘privatisation’ can apply to slightly different but related activities. Bennett (1997) has identified three forms of privatisation. *Divestment* is the transfer of property rights from the state to the private sector. *Delegation* refers to the transfer of certain functions and activities to the private sector, while the actual property rights remain with the state. When the private sector replaces the public sector in certain economic activities, *displacement* has taken place (Bennett 1997, 4). The number of sales and their total proceeds as a percentage of GDP measure the scope of divestment. Displacement and divestment are measured by the percentage of the private sector in the GDP, allowing for the fact that not all activities created by privatisation are recorded in the national statistics. For this reason, it is very difficult to quantify displacement other than by comparing the values of these indicators at different points in time (Bennett 1997, 5-6).

In Romania, privatisation has mainly taken the form of divestment. The state-owned assets sold off or given away by the end of 2000 comprised the whole housing stock, 80% of agricultural land, over 8,500 SOEs, 4 banks, and others. The sale of state housing and the restitution of agricultural land proved relatively straightforward politically. Tenants could buy the state-owned apartments in which they had lived at discount prices and in instalments. By 1994, almost all of the estimated 2.3 million flats were sold (Stan 1995a, 430). Similarly, in agriculture the land reform of 1991 returned to the former owners or their successors the plots conscripted into co-operatives during the communist campaign of 1948-1962. Over 8 million hectares were repossessed by

1994, although the actual issuance of property certificates was slow and continued over the next few years (Stan 1995a, 430). Although the process of implementation of this reform was arduous, by the end of the 1990s all claims were resolved, and the number of court cases on this issue dropped (Stan 1995b; Verdery 1999).

This thesis will focus on the divesting policies for the privatisation of SOEs. Although the land reform and the sale of state housing are an important part of the overall process of privatisation, they were less contested politically. The recognition of the injustice done by communists to peasants was very strong; hence there was little political opposition to these measures. In the case of the state housing, the beneficiaries of privatisation included the majority of the population; thus the measures had a wide political base.

By contrast, privatisation of the industrial SOEs proved to be much more complicated. Unlike the land, industries had no clear owners with a claim over them. The size of the properties to be privatised was much greater and, in contrast to state apartments, there were no obvious self-interested buyers. Additionally, the industrial base of the country was the one great achievement of communism and had been produced 'by the people and for the people.' How these collective claims could be dis-aggregated so as to create a transparent and fair process for the privatisation of industrial SOEs proved a question with vast political, economic and social consequences.

Thus, one of the points of contention and political struggle throughout the 1990s was the scope of privatisation: which SOEs to sell. As SOEs embodied the work of the whole population over several decades and a big chunk of the accumulated national wealth, it was important to ensure that privatisation would enhance rather than undermine this wealth. Initially, only about 50 per cent of SOEs were to be privatised. Gradually, this mandate was extended to more politically sensitive sectors such as public utilities, banks and telecommunications.

The main actors involved in these processes were political parties, the government, private investors, industrial interests, labour unions, the IFIs, the Council of Europe, the European Union (EU), and local and international media. Their activities and the roles they played varied across the four areas of investigation identified above: the lack of political consensus, structural constraints to reform, the institutions and culture.

Chapter outline and evidence

This thesis is organised around six chapters. The first chapter offers an overview of the relevant literature and introduces the theoretical framework that shapes the analysis of the empirical material. Chapters 2 to 5 develop specific arguments that account for the impact of the four factors identified above on the course of reform and privatisation. The same template is used to organise each of these chapters. An introductory section gives background information on the communist period, in order to evaluate the question of continuity and change. This is followed by an elaboration of the specific mechanisms at work in the respective political, economic, institutional, and cultural contexts for reform. The third section tests and illustrates the operation of these mechanisms in the case of privatisation. The last section of each of the empirical chapters evaluates specifically the impact of international factors on the developments discussed. The results of this enquiry are brought out in the concluding chapter.

The evidence for the questions discussed here comes from a variety of both primary and secondary sources. In chapter 2, the information on events, the activities and positions of the main political parties comes from secondary scholarly literature, the *Radio Free Europe/Radio Liberty (RFE/RL) Transition Report*, entries on Romania from the *Eastern European Constitutional Review (EECR)*, other local and international media. In addition, this research is the first to use records of the parliamentary debates around the privatisation laws of 1991 to identify the arguments and values that supported the decisions on the design of the process.

Chapter 3 relies on aggregate statistical information on macroeconomic developments that comes from official sources, such as *Comisia Națională a Valorilor Mobiliare* (National Commission for Securities – CNVM), *Banca Națională a României* (National Bank of Romania - BNR) and the IFIs. In addition, the opinions of policy-makers were traced through some of their publications, such as the specialist review *Oeconomica*, whose contributors occupied positions in the cabinet, central administration, and Parliament. In regard to privatisation in particular, public notices in the *Monitorul Oficial al României* (Official Monitor of Romania - MOR) allowed the author to trace the reaction of the different governments to practical problems encountered in privatisation. The abundance of primary and secondary legislation published in the MOR reflected a prominent feature of governance in Romania, where problems tended to be tackled through legislation or executive orders at the highest level.

The analysis in chapter 4 builds on operational documents from the World Bank, *Agenția Națională de Privatizare* (National Agency for Privatisation – ANP) and *Fondul Proprietății de Stat* (State Ownership Fund – FPS) that have restricted circulation in the public domain. The access to these sources was facilitated by interviews with members of the governmental bureaucracies in Bucharest. A list of the interviewees and the dates of the interviews is provided at the end of the text.

Finally, chapter 5, on culture, is based on interviews with opinion makers and academics in Bucharest and an extensive survey of the Romanian press. After the fall of communism, the mass media in CEE countries were slow to evolve a professional role based on specific rules and standards, and a position of impartial scepticism towards the authorities. Instead, it claimed for itself the role of substitute for other democratic institutions in leading democratisation. This and the lack of autonomous sources of information encouraged a politicisation of the press, which became a site for political struggles. Newspapers were explicitly 'pro' or 'against' the government or the opposition

(Gross 1998). Thus, like elsewhere, the press tended to participate in the biases of the culture of which it was a part, which makes it a suitable source of this enquiry into post-communist culture.

Among the sources sampled for this analysis were the major broad sheets *Adevărul* (The Truth), *Romania Liberă* (Free Romania), *Bursa* (The Bourse), *Curentul* (Current News), *Cotidianul* (The Daily), *Ziarul Financiar* (The Financial Newspaper). Specialist periodicals dedicated to political and economic matters, *Capital* (Capital), *Adevărul Economic* (The Economic Truth), *Economistul* (The Economist), *Sfera Politicii* (The Political Sphere), and *Polis*, were also consulted. This survey has focused on the second half of the period under study, from 1997 to date, when the post-communist trends can be supposed to have stabilised to a certain extent. The patterns in question are confirmed through other sources, such as the extensive parliamentary debates on the privatisation laws covered in chapter 3 and indirect accounts in the foreign press, especially the *Financial Times*, *RFE/RL* and *EECR*.

Conclusion

This thesis contributes to the debates on the political economy of transformation in Eastern Europe and challenges the dominant explanation of the transition in Romania as being determined by the 'neo-communist' orientation of the 1990-6 governments. It will be shown that this ideological reading of the events was an important shaping force but that the course of the economic and political reforms is best explained by a number of factors: political, economic, institutional and cultural.

The next chapter explores the existing theoretical explanations of post-communist transformations, defines the positions taken in this study and derives from them the empirical hypotheses to be tested.

CHAPTER 1

Explaining systemic change: The political economy of post-communist transformations

Scholarly analyses of post-communist transformations in Eastern Europe tend to deal with economic and political phenomena separately. With reference to post-communist Romania for instance, the literature on democratisation (Crăiuțu 1996; Linz and Stepan 1996), nationalism and political culture (Verdery 1991; 1996; Gallagher 1995; Tismăneanu 1998) ignores economic factors. Similarly, studies of the economy (OECD 1993; 1998; Șerbănescu 1994; IMF 1996; 1997; 2000; 2001; Dăianu 1996b; EBRD 1999; 2000) lack an understanding of the politics of economic reform. On occasion, indicators of political change are used as independent variables for the explanation of economic success or failure (Hellman 1996; Fish 1998; Hellman, Jones and Kaufmann 2000), but statistical processing of data rather than theoretical explanations seem to provide the connections. In the Romanian case, the domestic opposition (Tănase 1993; 1996; Mungiu and Pippidi 1994) and some researchers (Ishiyama 1995; Vachudová and Snyder 1997) argued that the neo-communist and nationalist ideology of the leading National Salvation Front (FSN) was the cause for the delay, and even failure, of economic reforms. They did not explain, however, how this one factor could have such an overwhelming influence.

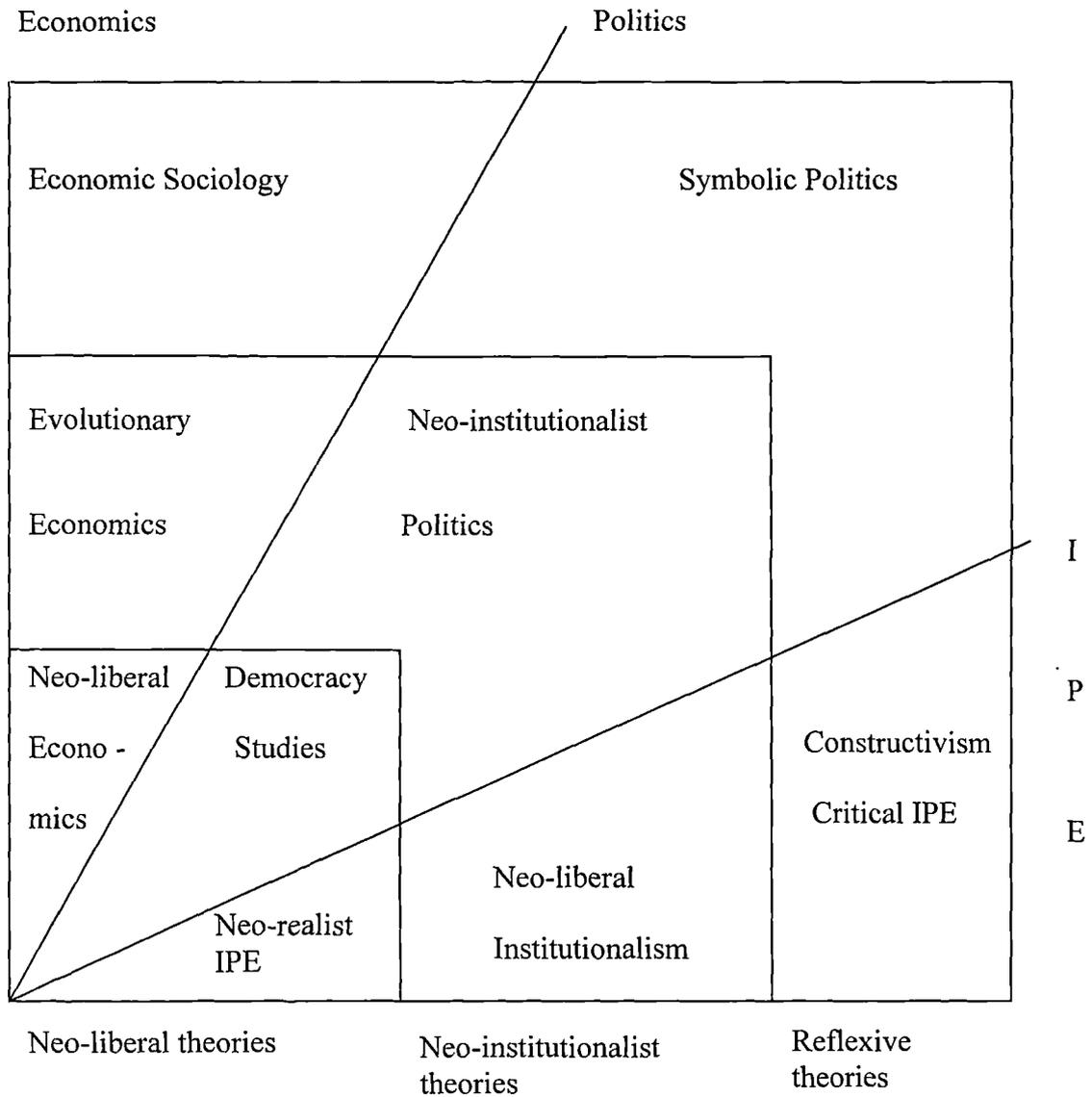
This thesis focuses on the links between the economic and political spheres. By drawing on theories in Economics, Politics and International Political Economy (IPE), it offers some working hypotheses about the relationship between the economy and politics. This conceptualisation underpins the four empirical arguments that together provide an alternative explanation for the course of reform in Romania: the weakness of political consensus; the social and political consequences of the inherited economic structure; the time-scale of institutional change; and the persistence of elements of the formal

communist culture. Chapters 2-5 then present in detail how this theoretical framework illuminates the empirical evidence and supports these four arguments.

The integration of theories of economics and politics is based on the fact that theories from different fields share similar analytical presuppositions. This ensures that their insights could be legitimately and rigorously combined. From the point of view of their analytical complexity, three groups of theories will be considered in this chapter: the neo-liberal, neo-institutionalist and reflexive theories (see Figure 1.1).

The assumptions of the neo-liberal theories are the most parsimonious. The actions of rational, self-seeking individuals are deemed to generate spontaneously a co-ordinating mechanism – such as the market, democratic pluralism or the balance of power – provided that certain rules and rights are in place. Neo-institutionalist theories use this general framework as well, but they go further by looking at how institutions intervene to bridge the individual and macro-social levels and to introduce dynamics of their own. Reflexive approaches recognise the previous theories as valid instruments for understanding some aspects of social action, and as theories that, in having become established, respond to, and are used as legitimate instruments for furthering, particular interests. In addition, reflexive theories deal directly with the traditional dichotomies of science, the dyads of agency and structure, material and ideal, objective and subjective. Reflexive theories seek not to privilege one term over the other, but to explain how they are at work concomitantly. The embeddedness of individual and institutional phenomena in social, cultural and historical contexts is a core concern. Competing accounts of social reality, including scholarly texts, are seen as instruments for political action.

Figure 1.1. An overview of theories



The economic, political and IPE theories share the complexity criterion of their group with some variation. For instance, democracy studies are predominantly neo-liberal, but they also include some concerns with institutions. However, this author considers that democracy studies share the neo-liberal assumption that a certain ‘automatic’ mechanism – democratic pluralism – alone ensures desirable results. This justifies the discussion of democracy studies under the heading of neo-liberal theories. Similarly, at the other end of the spectrum, economic sociology tends to be embraced by social scientists that may or may not have a straight economics background. To an extent, economic sociology strays outside the domain of contemporary economics.

1.1. Neo-liberal theories

The end of communism in Central and Eastern Europe (CEE) was seen in the early 1990s as a victory for liberalism (Fukuyama 1992); and liberal theories played a crucial role in shaping the understanding of developments in these countries as transitions to democracy and market economy. This section reviews neo-classical economics, democracy studies and neo-realism as variants of neo-liberalism, and it evaluates their potential for integration in a political economy approach that spans the domestic and international spheres. Neo-liberal theories have in common a conception of actors as autonomous, rational and self-interested. The aggregate effect of actions by such actors, in conditions of nearly perfect information and competition, is efficient markets and democracies, presumably those approximated by Western Europe.

Neo-classical economics

Neo-classical economics inspired the ‘shock therapy’ strategy of reform, tried in a number of CEE countries, especially Poland, Russia, Estonia and, from 1997, Romania. Believing that actors adapt rationally to the incentives of their economic environment, neo-classical

economists advocated the swift change of these environmental conditions, through the introduction of macro-stabilisation, liberalisation of trade and prices, convertibility of the currency, and privatisation (Blanchard et al. 1991; Blanchard et al. 1993). The expectation was that enterprises would adjust to competition, spontaneous entrepreneurial initiatives would spring up to take advantage of new opportunities, and markets would form. The hold of the bureaucracy on the economy would be removed at one stroke, and, it was hoped, these measures would become irreversible before those fearful of their consequences could organise an effective opposition (Sachs 1993, 44-66). Temporary side effects such as unemployment, deterioration of real incomes, and economic recession - although undesirable – would be the lesser evil compared to the shortages of the previous era and the threat of inflation (Sachs 1993, 67-72).

In principle, freeing up the planned economy should eliminate its distortions and lead to increased production. Early projections of growth in the region were optimistic (Kolodko 1993). However, all countries in transition traversed a prolonged period of recession and even depression, which was counterintuitive from the point of view of this theory. Later studies recognised that the economic decline was due to the lack of effective markets, which did not materialise as expected. Also, high unemployment did not attenuate when growth resumed (Blanchard 1997, 25-54). These and other puzzling effects led Blanchard (1997, 26) to admit that 'we are some way from understanding the effects of macroeconomic policies in the context of transition economies'.

Such admissions can be found occasionally in academic texts, but doubts disappear when the theory is taken as the basis for action, when it becomes an ideology. Because they require swift and comprehensive changes, shock therapy programmes can be associated with illiberal and anti-democratic strategies of implementation (Przeworski 1993). Some went as far as to advocate that the answer to economic problems is to give free reign to

committed reformers, technocrats who combine political skill with insight in economic matters and creativity in designing the appropriate institutions for the situations at hand (Sachs 1993; Williamson 1994).

Democracy studies

In the political field, liberal theories dominated the debates over democratisation in Eastern Europe at the beginning of the 1990s (Di Palma 1990; 1991; Linz and Stepan 1996).¹ Democracy studies share with neo-classical economics core assumptions about individuals as rational, self-seeking agents, endowed with certain freedoms, including the freedom to associate and mobilise politically for the promotion of their interests. It is also implied that just as the market arbitrates economic competition, the state is a neutral arbiter of political interests (Dahl 1996). Under conditions of democratic pluralism, then, democracy is 'a competitive political market' whose minimal framework consists of 'rules to keep the market competitive' (Di Palma 1990, 41-2).

Liberals also define democracy as a matter of behaviour and attitude for politicians and the public. A political regime is democratic when all political actors engage according to certain rules - free electoral competition between a diversity of political parties - without looking to change these rules, and when the majority of the public believes that democracy is the desirable political regime. The agreement between the main political parties on the rules of the game is expressed in an explicit or implicit pact (Stepan 1986, 79). Democracy becomes established when all actors accept that conflict is resolved through legal procedures and institutions (Linz and Stepan 1996, 6). Consolidated democracies are characterised by a relatively high level of development of the civil,

¹ This was a continuation of studies of transitions from authoritarian rule in Latin America and Southeast Europe (O'Donnell, Schmitter and Whitehead 1986). There was some discussion about the appropriateness of comparing democratisation in these two regions with post-communist CEE. See Bunce (1995) for a review of the debate.

political and economic society, the rule of law, and the state apparatus (Linz and Stepan 1996, 7-15).²

Given that democracy studies focus on assessing whether a country has achieved democracy, their utility, after countries reach this point, is in question. More than a decade since the fall of communism, most CEE countries meet the criteria for liberal democratisation and democratic consolidation. This is attested, for instance, by the evaluations of the European Commission in regards to the 10 CEE countries, including Romania, which are negotiating accession to the European Union (EC 2000a). Concerns remain about the depth of the process, as well as the ability of the civil society to hold the government to account and withstand nationalistic pressures. However, the insights offered by democracy studies remain useful for the understanding of the transition to democratic regimes in CEE and the difficulties of the first few years.

Neo-realist International Political Economy

It is difficult to find within the IPE literature a school that mirrors exactly the neo-liberal assumptions about behaviour and motivation. However, a partial overlap can be identified in the neo-realist tradition. Waltz (1979; 1995) took neo-liberal economics as an example of how theory can be built by judicious choice of parsimonious assumptions. Waltz also made explicit parallels between microeconomic theory and his *Theory of International Politics*. Thus, 'international political systems, like economic markets, are formed by the co-action of the self-regarding units,' i.e. states, and they are 'individualist in origin, spontaneously generated, and unintended' (Waltz 1979, 91). Anarchy, the lack of an overarching system-wide authority, predisposes states to seek power and security by engaging in competitive and conflictual behaviour. This environment sanctions any

² The assumption that the democratic model can ever be achieved fully was evaluated by O'Donnell (1996a, 1996b), and Gunther, Dimandouros and Puhle (1996).

maladjustment between purpose and abilities. Consequently, international institutions play only a marginal role in facilitating co-operation (Grieco 1995, 153).

In order to demonstrate that international politics is a distinct field of enquiry, Waltz (1979, 39-40) argued that knowing the characteristics, purposes or interactions of the units that comprise this system is not sufficient for explaining outcomes and events at the system-level. And because the units of the international system are considered functionally identical, the nexus between the domestic and the international is largely outside the focus of this theory, although a broad gesture towards the recognition of a need to explore this link has been made (Baldwin 1993, 23-4).³

Significantly, the most important realist contribution to IPE could not follow this framework rigidly. It is, instead, rather eclectic (Gilpin 1987). Gilpin's *International Political Economy* (1987, 19-30) accepts the market as the means for resource allocation and the motor of growth, but it also recognises the limitations of liberal economics, its asocial character. Moreover, historically the expansion of markets was underwritten by states. In the post-war era, it was the assumption by USA of the role of hegemonic power that led both to political stability and economic growth. The structural tensions of the international political economy are generated by the uneven development of different countries and sectors across time, and they could be amplified by the decline of the hegemon (Gilpin 1987, 65-117).

The neo-liberal political economy: An assessment

A synthesis between neo-liberal Economics, Politics and IPE would begin by recognising their homology. In Economics and Politics the homology is nearly perfect: individual

³ This is not to deny that traditional realists, such as Carr (1940), Morgenthau (1985) and List (1991), were more interested in domestic politics than their neo-realist successors.

economic and political freedoms are affirmed and the same rules of the game - competition, property rights, equality of opportunity – prevail. In IPE, the basic units, the states, are functionally identical, a spontaneous structure emerges, but there is more acknowledgement of the hierarchical nature of this structure, power and inequality.

However, beyond this observation about the homologous structure of their assumptions and arguments, it would be difficult to use neo-liberal theories to derive statements about the relationships between the economic and political spheres. Some liberals have argued that individual economic and political freedoms enhance each other and that there is a necessary relationship between capitalism and democracy (Hayek 1944; Friedman 1962). Although the affinity between capitalism and democracy cannot be denied, many examples exist of authoritarian regimes that have successful capitalist economies; Franco's Spain and contemporary Singapore are only the most obvious. This fact points to the inability of liberal theories to base the connection between capitalism and democracy in a conception of the relationship between the political and economy spheres.

This difficulty in explaining the link between the economy and politics is connected to the contradictory position on power at the core of liberalism. Liberal capitalism in Western Europe was promoted on ethical grounds. The claim that liberalism reflected needs and rights fundamental to human nature was crucial to this project; Smith's (1997, 117) phrase, that there is a 'certain propensity in human nature' 'to truck, barter and exchange one thing for another' is a famous example. This strategy obscured the fact that liberal capitalism was aided and abetted by state political intervention and that it satisfied certain interest groups at the expense of others (Polanyi 1957).

More generally, the strong normative emphasis in liberal thought leads to the possibility of confusing the desirability of a society characterised by equality of opportunity and

universal rights with the analysis of existing societies. The liberal model of the ideal economy and polity can thus serve to reinforce the privileges of the few for whom liberal rights are already a reality and to maintain the exclusion of the dispossessed (Mouffe 1993; Bauman 1995).

The separation between the economic and the political spheres is consistent with this thrust within liberal theories towards the normative and the apolitical. The reality of this separation is revealed by the fact that proponents of economic liberal programmes turn to voluntarism – an anti-democratic and supposedly illiberal procedure. Their liberalism does not constrain them and at the same time it seems not to give them any other acceptable alternative for meeting their objectives.

For the purposes of this thesis, neo-liberal political economy is not a sufficient analytical tool. It emphasises the desired end result of post-communist transformations but it lacks an understanding of their historical starting point and the ways of bridging the two. At the same time, understanding the liberal arguments is important in order to appreciate the point of view of some of the actors involved in the post-communist transformations in CEE: the IFIs, the IMF and the World Bank in particular. The integration in the analysis of actors and their respective world-views and structural positions will be discussed at greater length in section 1.3.

1.2. Neo-institutionalist theories

The main difference between neo-institutionalist and neo-liberal theories is the modification of the initial assumptions about human behaviour and individual or state motivation. Aggregate social outcomes do not arise spontaneously from interaction between rational and perfectly informed individuals in pursuit of self-interest. Neo-

institutionalists believe that actors operate in an environment already structured by institutions. These facilitate collective action, reduce the costs of enforcing rules, create order, mediate exchanges and manage conflicts.

Evolutionary economics

As evolutionary economists pointed out, in spite of its relative dominance as a guide to policy in the 1980s and 1990s, neo-classical economics has a limited role in explaining economic outcomes. It is restricted to the analysis of a few markets where conditions are close to those used by the model (North 1990; Coase 1993). Neo-liberal economics cannot explain, for instance, the performance of the planned and post-communist economies (Murrell 1991; Olson 1992).

To overcome this limitation, North (1990) argued that the basic assumptions of neo-classical economics have to be modified. Participants in economic and political transactions do not have full information, and the costs of assessing for themselves the value of all the dimensions of what is exchanged would be beyond their means. Thus, rules of the game, institutions, such as secure property rights, legislation, the independence of the judiciary, are needed to structure, enforce and reduce the uncertainty of agreements (North 1990, 17-35). Institutions are the main variables that explain why certain countries are rich while others remain poor (Olson 1996).

Institutions create stability within firms and economies, but economic success also depends on innovation. This dynamism is given by organisations that negotiate their interests within the accepted rules of the game (North 1990). The population of organisations as a whole is also continuously tested within capitalism by what are still seen as automatic mechanisms (Murrell 1992). These are the market allocation of resources from inefficient to efficient organisations, the removal of inefficient

organisations through bankruptcy, take-overs and mergers, and the entry into the market of new organisations (Murrell 1992, 39).

Evolutionary economics produced an alternative strategy for reform in post-communist CEE: gradualism. In gradualism, the creation of institutional conditions for market activity takes precedence over liberalisation and privatisation (Olson 1992, 65). The new private sector, rather than privatisation, is seen as the motor for growth (Clague 1992). Direct control over certain enterprises should be maintained in order to enforce hard budget constraints and to restructure (Carlin and Mayer 1994); the swift change in the economic environment proposed by neo-liberals might not determine enterprises to change their attitudes and behaviour (Murrell 1992, 46-7). Institutional change takes time, and it involves a great deal of experimentation and uncertainty. Additionally, the functioning of formal institutions is underpinned by informal institutions embedded in broader social norms (North 1990, 37-46). Without informal pro-market institutions, the legal framework for reform, however well designed, would be too costly to operate (Rapaczynski 1996, 88; Berg 1994, 167). Against a background of unsettling and uncertain change, old institutions might still perform a useful temporary function in maintaining a semblance of macroeconomic stability (Murrell 1992, 49-51).

Neo-institutionalist politics

Evolutionary economics has a counterpart in the neo-institutionalist study of politics. Within this research agenda, the definition of democracy is broadly that of democracy studies, but the focus of research is on how democratic values become institutions, i.e. rules of the game with a certain organisational embodiment and power to structure political actions and events.

According to neo-institutionalists, the main characteristic of post-communist political transformations in Eastern Europe is the simultaneity of changes in stateness, in the new constitutional order and political regime, and the fluctuations of day-to-day politics (Offe 1991; 1996; Elster, Offe and Preuss 1998). Neo-institutionalist studies of politics also sought to discern the causal connections between institutional design, a certain distribution of power or assets between relevant actors and the success or failure of democratisation and economic reform (Elster 1996; Hellman 1996).

The fall of the communist regimes was attributed to contingent factors. It was not the result of military domestic or foreign intervention or the actions of a revolutionary group. Lacking these sources of legitimation, the emerging political actors in the post-communist countries were structurally weak (Elster, Offe and Preuss 1998). This weakness on the agency side interacted with a complex agenda for change to create a situation of diffuse power and little central authority (Elster, Offe and Preuss 1998, 17-21).

In spite of unpromising odds, the study of political events in post-communist countries in the 1990s revealed that a degree of leadership was provided, political parties and party systems emerged, constitutions were adopted, and radical economic reform took place. This incongruity between what could be expected according to theory and the reality on the ground was an argument for a stronger inductive element in the neo-institutionalist research strategy (Elster, Offe and Preuss 1998), while neo-institutionalist theory proposed the development of institutions as the benchmark for assessing post-communist transformations.

Similar to the position of democracy studies, the new political regimes are considered consolidated when the rules of the game are no longer renegotiated, and rules begin to be taken for granted. In addition, neo-institutionalists explain that consolidation is achieved

when agents are able to abide by rules created at higher levels of authority and have internalised the rules by practising self-supervision.

Consolidation of the democratic regime is also reflected in the differentiation between the institutional spheres. In the broadest terms, this could mean the separation between economy and politics. In any case, when institutions have become differentiated, there is limited convertibility of resources and status from one to the other (Elster, Offe and Preuss 1998, 29-31). In this approach, the expectation was that weak political actors would tend to employ strategies of direct control, rather than delegation, sharing, and self-binding. This inability to empower institutions and create autonomous spheres for their activities would have as an associated symptom a 'pathology' of 'decree-ism' and constant tinkering with regulations (Elster, Offe and Preuss 1998, 31-4).

Neo-institutionalism in IPE

Neo-institutionalism in IPE recognises some of the descriptions of international relations proposed by neo-realists, and it shares their rational choice methodology (Botcheva and Martin 2001). In addition, it takes the view that institutions, values and ideas should be taken seriously as counterbalance to the realist power politics of domination and inequality (Keohane 1986). As such, neo-institutionalist IPE subsumes realism (Keohane 1989, 15-6).

Keohane's definition of institutions is similar to that of North. Thus, institutions are "persistent and connected sets of rules (formal and informal) that prescribe behavioural roles, constrain activity, and shape expectations" (Keohane 1989, 3). Keohane does not make however a clear distinction between institutions and organisations. Carriers and enforcers of rules, such as formal intergovernmental or cross-national non-governmental organisations, are listed as institutions, together with more diffuse forms of

institutionalisation (international regimes and conventions, i.e. spontaneous orders that operate mainly informally) (Keohane 1989, 3-4).⁴ Ideas are also important factors in explaining policy outcomes. They 'influence policy when the principled or causal beliefs they embody provide road maps that increase actors' clarity about goals and ends-means relationships, when they affect outcomes of strategic situations in which there is no unique equilibrium and when they become embedded in political institutions' (Goldstein and Keohane 1993, 3).

Analytically, the study of institutions and ideas does not require a separation between the domestic and international spheres: policy can be seen as 'the result of calculated choices made by political and economic actors' (Goldstein and Martin 2000, 603) irrespective of this divide. Consequently, neo-institutionalist IPE developed a number of ways of thinking about the relationship between domestic and international spheres. For instance, Moravcsik (1998) saw states as rational actors who seek to use the opportunities of international co-operation for the economic benefit of their domestic constituencies.

Frieden and Rogowski (1996) suggested that changes in relative world prices impact on the value of the assets of domestic groups. This leads domestic groups to reassess their policy preferences and to mobilise politically for changes in policy. In addition, Garrett and Lange (1996, 49) argued that domestic political institutions mediate the relationship between changes in preferences and domestic policy outcomes. Assuming that governments aim to retain power, to maintain the distributional advantages of their supporters and to expand the wealth of the nation, there are two types of intervening, institutional, variables that mediate the causal link between changes in world prices and

⁴ The analysis of one of these types of institutions, regimes, has a literature of its own that includes both advocates (Krasner 1982a; 1982b; Young 1992; 1999) and critics (Strange 1982; 1987; Grunberg 1990; Underhill 2000). More recently, neo-institutionalist IPE has specified criteria for assessing legalisation, i.e. the 'hardness' or 'softness' of institutions (Abbott et al. 2000; Goldstein

domestic policy outcomes (Garrett and Lange 1996, 50-56). These are the organisation of socio-economic interests, i.e. labour market institutions, and formal political institutions, including regime type and players' veto power.

Governments have to do a complex balancing act. Continuing to support the distributional interests of their core constituencies might lead to worsening macroeconomic performance. In this case, in order to improve macroeconomic results, institutional change would be necessary. But such change is likely to occur only if the costs, i.e. loss of support, are accepted, if the conjuncture is right, and if the government have a reasonable amount of time before they face the voters again (Garrett and Lange 1996, 54). Strong institutionalisation of certain industrial interests and the depth of reform required in the post-communist countries are expected to accentuate these difficulties (Evangelista 1996).

Neo-institutionalist political economy: An assessment

It has become apparent that the relationship between the neo-institutionalist theories in Economics, Politics and IPE is one of homology. Their units of analysis and the main causal mechanisms are the same. It is also possible to discern the potential for a substantial integration of statements about the economy and politics, the domestic and international spheres. Economic, market institutions depend on political arrangements, such as a strong judiciary. Also, self-confident exercise of political authority is necessary for the delegation of power and autonomy to economic institutions, while the state remains a sort of authority of last resort and guarantor of these institutions. The division between the domestic and the international spheres is more muted: institutions from both realms interact and shape outcomes.

and Martin 2000). Halpern (1993) studied the role of ideas and institutions in the adoption of a certain political economy model by the countries of the former Soviet block.

However, neo-institutionalist theories stop short of explaining how the relationship between the economic and political spheres might be conceived. Their main strength is that they provide a useful way of understanding economic and political phenomena in their autonomy from each other: the institutions specific to the economic and political spheres are resilient and self-contained. In other words, the institutions that comprise one sphere cannot be easily overturned by intervention from the other: politicians do not control the economy directly, and economic interests have to use existing political institutions to promote their agendas.

CEE countries at the end of the communist regime were still characterised by a high degree of fusion between the political and economic spheres (Comisso 1986), and their differentiation has been a major element in post-communist transformations (Batt 1994). In this context, neo-institutionalist theories explain that differentiation means ensuring the autonomy of the institutions specific to the two spheres and offer tools for assessing this differentiation. In this thesis, this neo-institutionalist insight will be put in the larger context provided by reflexive theories and the working hypotheses derived from them about the relationship between the economic and political forms of power.

1.3. Reflexive theories

The reflexive theories presented in this section recognise the role of institutions in explaining economic and political phenomena. In addition, they attempt to elucidate the processes and mechanisms through which institutions are embedded in social life. This broader perspective can also be used for deriving some hypotheses about the relationship between the economic and political spheres.

Economic sociology

Contributors to this literature engage with the views on economic life and capitalism espoused by neo-liberals and neo-institutionalists. Many of the themes are the same: the nature of economic exchanges and comparative economic systems. However, economic sociologists criticise the reification of the market by neo-liberals and the inadequate neo-institutionalist explanations of how economic institutions become embedded and change.

Polanyi (1992) made two important observations that put in perspective the role and importance of the market as the prime economic institution. First, he noted that market exchange is only one historical form of economic integration. Other examples are reciprocity, mutuality, and, it could be argued, the plan. Second, each of these mechanisms for economic integration is underpinned by specific social structures. Thus, reciprocity is the exchange of goods and favours between symmetrically arranged actors; redistribution takes place when a centre can command contributions from subordinated groups to be used for common projects.

In the case of the market, its relationship with the society in which it operates is tense and contradictory (Polanyi 1957). For Polanyi (1957), capitalism was characterised by a tension, a double movement between reducing nature, people and money to mere factors of production and the reassertion of broader societal values. Capitalism could not exist if markets did not transform people in labour, nature in land, and money and wealth in capital. But the continued existence of capitalism also depends on the resistance of society to the shaping force of the market. Without this resistance, the market could destroy its own sustenance.⁵

⁵ Schumpeter (1943) also believed that capitalism relies on the bedrock of social relations inherited from a previous era and that it has a tendency to erode these relations.

From this perspective, it can be argued that the plan was a mode of economic integration that went beyond redistribution: it was based on a pattern of social relations in which the autonomy of the economic sphere was severely reduced through its subordination to political ideology (Kornai 1992). The plan also intensified the tension between the economic and political priorities it served and society. It required that people became not only labour subordinated to the state planned economy, but also believers in the communist ideology, irrespective of their own inclinations.

Although societies tend to have a dominant economic mechanism of co-ordination, other mechanisms are also present. For instance, modern market economies sustain a sizeable redistributive mechanism as illustrated by the Western European welfare states. Mutuality also survives within kinship and friendship networks (Barber 1995, 396-400). Similarly, in planned economies limited markets existed at the margin of the planned economy (Olson 1996).

More recently, Granovetter (1985; 1992) put the concept of embeddedness at the core of economic sociology. According to him, embeddedness occupies the middle ground between the under-socialised conceptions of human action of the economists and the over-socialised conceptions of the sociologists. Neo-liberal economists assume that markets are automatic mechanisms that integrate dispersed economic agents and activities, while evolutionary economics takes for granted the effectiveness of institutions. Sociologists on the other hand tend to close prematurely the space for autonomous action by presuming nearly complete conditioning of actors (Granovetter 1985, 483-487). In contrast, the notion of embeddedness suggests that economic decisions and behaviour occur within concrete networks of relations. Economic decisions are rarely based only on price considerations or generalised assumptions about the honesty and morality of others.

Information accrued within existing relationships is considered the most reliable guide to action (Granovetter 1985, 487-493).⁶

The works of Stark (1990; 1992), and Stark and Bruszt (1998) on post-communist transformations in CEE are consistent with the economic sociology approach. Stark and Bruszt (1998) provided evidence for the capacity of the economic actors in CEE to recombine institutional elements from the past in order to survive and adapt to the uncertainties of post-communist transformations. They showed that networks of firms, rather than individual firms, are the suitable units of analysis for assessing economic policy. The pre-existing relationships and dependencies between firms contain crucial resources – in terms of information, trust, and patterns of economic advantage – that could be put to use in designing restructuring strategies (Stark and Bruszt 1998, 109-36). In their view, when the CEE governments designed policies that allowed economic actors to use these resources, the economy performed relatively well. When the strategies were aggressively neo-liberal and hostile to these networks, economic crisis was usually the consequence (Stark and Bruszt 1998, 166-187).

Clearly, post-communist economies have embarked on a process of change in which the mechanism of economic integration itself is changing. Also, economic sociologists warn that given the embeddedness of economic activities and actors in specific networks, it should be expected that this change is going to be complicated and protracted. Although economic sociologists do not theorise the issue in this way explicitly, the tension they explore can be rendered in the terminology of agency and structure. The economy-wide, persistent mechanism of economic integration can be seen as a structure: it is the compelling relationship between the elements of the economic system. By casting the issue in this way, it is possible to appreciate the homology between the different reflexive

⁶ See also the volume edited by Granovetter and Swedberg (1992).

theories and to establish the methodological unity of this study, where the relationship between structure and agency will be taken seriously, irrespective of the sphere in which this relationship is located.

Symbols and interests in politics

As seen above, democracy was defined as a political system based on pluralism, competition between parties and regular and fair elections. In addition, institutionalist approaches look at the arrangements in which these principles become expressed. However, neo-institutionalist approaches lack a conceptual apparatus for dealing with some aspects of political power and its links with other forms of power. Especially symbolic power and the power derived from strong identification with certain ideals are of crucial importance for the study of polities in transformation; they will be addressed here by using the work of Weber (1994) and Edelman (1964).

Writing in 1919, Max Weber (1994, 21) thought that an effective claim to govern must be backed by economic power as well as political maturity:

Throughout history it has been the *attainment of economic power* which has led any given class to believe it is *a candidate for political leadership*. It is dangerous, and in the long-term incompatible with the interests of the nation, for an economically declining class to exercise political rule (Herrschaft). But it is more dangerous still when classes which are moving towards economic power, and therefore expect to take over political rule, do not yet have the political maturity to assume the direction of the state.

According to Weber, the economy and politics are in a relationship of relative autonomy. Their inter-dependence is expressed in the fact that groups and classes can use power accrued in one sphere to gain power in the other. Economic power is considered the prerequisite for a bid to obtain political power. Declining economic classes might resist relinquishing their dominant political position. Weber also implies here that a state of equilibrium exists when the dominant economic class also steers state policy, which

assumes that there should be an agreement between the values and principles of the economic sphere and those of political rule. The co-existence between liberal capitalism and liberal democracy could be an example of harmonious alignment between the political and economy spheres.

But while the economic and political spheres are interdependent, they also have a degree of independence from each other. The skill of wielding power is an autonomous political factor. This skill is trained through participation in political institutions that encourage and reward leadership and assumption of responsibility (Weber 1994, 145-271). Equally, the rise of an economic class can happen alongside the influence over the economy of the incumbent political class.

In the remainder of this section, this analysis will be specified further and applied to post-communist transformations. There the relationship between the economy and politics is changing while each of these spheres is shifting towards different values and principles. From the fusion of the economy and politics based on the plan and the leading role of the communist party, the change is towards an autonomous political sphere based on democratic pluralism and an autonomous economic sphere based on the market. This ideal thus envisions a certain match between the principles of the two spheres.

Weber's strong hypothesis about economic power being a prerequisite for political power was not confirmed in the case of post-communist transformations. In a more muted formulation, it is possible to claim, however, that the well documented economic decline of the communist countries in the 1980s (Kornai 1992, 168-196) created an opportunity for political change. But this change was not the result of efforts by an alternative economic or even political class. Thom (1996), and Elster, Preuss and Offe (1998) found that the causes for the fall of communism were non-systemic and contingent. Other

explanations also emphasise changes in general conditions – such as the generalised perception that the Western economic and political models were superior to communism (Verdery 1996, 19-38) or the corruption of the integrity of the Communist party from within (Jowitt 1998b, 87-91) - rather than strong agency as the determining factor for change. Thus, it remains puzzling why in agreeing to the changes in the economic and political system, groups that evidently had something to lose, such as the non-skilled labour, actually supported it, while others, who were not capitalists took it upon themselves to implement market reform (Bauman 1994).

To understand how agents socialised in the communist order could beget a new one, it is useful to note a Weberian insight as to why and how classes or some other form of group solidarity are necessary for exercising authority in the name of a society or state. Thus, groups provide not only a definition of material (economic) interests, but also, a whole worldview, solidarity and a sense of common purpose (Weber 1976; Eyal and Townsley 1995, 727-8). This is necessary because consequential (political) decisions cannot be resolved by simple ratiocination, they are backed by the ‘institutional thinking’ already in place (Douglas 1987, 4).

The case of post-communist transformations seems to indicate that agents have some choice about how they use these ideational elements; and alternative loyalties and solidarity can be built around such uses. Eyal, Szélenyi and Townsley (1998) observed that certain groups extracted elements of the communist ideology from their political context at the time and recast them as a new source of identity and motivation.⁷ Some technocrats, managers, and dissident intelligentsia adopted in their spirit the values of rationality, bureaucratic co-ordination, democracy and electoral participation present in

⁷ Their work built on earlier elite surveys (Szélenyi and Szélenyi 1995; Borocz and Rona-Tas 1995; Fodor, Wnuk-Lipinski, and Yershova 1995).

the language of the communist regime and opposed their distorted practical application. This attitude prepared such groups for the role of promoting a capitalist project based on the neo-liberal economic ideology and the ideal of civil society (Eyal, Szélenyi, Townsley 1998, 86-112). And indeed, the fact that the agents of change do not own the vast bulk of the national wealth is not inconsistent with the current advanced stage of capitalism, where economic power is divided between owners and managers (Chandler 1992).

Thus, in CEE, political and managerial classes created conditions for capitalist development for largely normative reasons. This analysis confirms Weber's ideas about the relative autonomy of the political sphere, where ideas and identities respond but are not reduced to the promotion of material interests. However, the lack of economic power of the new political elites in CEE is plain for all to see and it exposes the tension at the core of politics. All politicians live 'off' politics, as well as living 'for' politics. Substantive commitment to certain values is the primary motivation for participating in politics, but the rewards for political activity also take material economic form (Weber 1994, 320-1). The implications for the post-communist politicians of CEE are complex. On the one hand, as Bourdieu observed (1991, 183), the autonomy of the political field means that politicians can live off politics only because they live for it. For this reason, post-communist politicians cannot afford to compromise the integrity and credibility of their position by appearing to serve exclusively for material benefit.

At the same time, the fact that relatively poor pro-capitalists are in a position to oversee the vast redistribution of state property lends some credence to the hypothesis of 'political capitalism' (Hankiss 1990; Staniszkis 1991; Brucan 1996; 1998a). In these circumstances, it is possible that at least some members of the political elites use their positions to enrich themselves. At a minimum, the relative dependency on political office for economic survival might be expected to create a reluctance to take risks that would endanger that

office and favour corruption. But, whether this is the case or not, and it has to be remembered that politicians everywhere are reluctant to take actions that endanger their office and prospects for re-election, the visible economic insecurity of the new political elites can add to their problems in establishing credibility.

The power of economic interest groups was expressed in the political system, in the democratic era, in the form of party support along class lines. In contemporary Western democracies, this link is considered virtually extinct. Some claim, however, that it might be at work in the post-communist CEE (Szélenyi, Fodor and Hanley 1997; Słomczyński and Shabad 1997). As it is well known, partial electoral competition in Poland in 1989 revealed the lack of popularity of the communist regime there and ushered in a new era. The return to power of former communist parties in the second round of free elections, especially in Poland in 1993 and Hungary in 1994 was also interpreted as a reassertion of the interests of working classes (Szélenyi, Fodor and Hanley 1997). This link was another source for the perception that the neo-communist government of the FSN in Romania was 'naturally' adverse to market reform. While in office, however, the reconstructed communists in Poland and Hungary tended to temper rather than halt or reverse the neo-liberal policies of their predecessors. At the same time, the FSN initiated a gradualist programme of market reform. This would seem to indicate the presence of a degree of non-partisan consensus around the values of market and democracy, albeit with social-democratic connotations for those on the left. Again, this supports the idea of the relative autonomy of politics from the influence of material interests.

As alluded above, one area in which the autonomy of politics can be seen at work is the commitment of politicians to certain ideas and values. Weber distinguished between the use of ideas as ethical ends in themselves and their use as subsumed to an 'ethic of responsibility' (Weber 1994, 359). Politics can never be morally pure. According to

Weber, national politics is about using the monopoly of the state on the legitimate use of violence. Indeed, violence, in the form of symbolic violence, the privileging of some interests over others, and also the potential for open violence, is an intrinsic part of politics.

But, in seeking to deal with the ethical ambiguity of their actions, politicians can be guided by an ethic of principled conviction (or absolute principles) or by an ethic of responsibility (Weber 1994, 359-63). According to the former, principles are more important than the consequences of action derived from them, and the ends justify the means. An ethics of responsibility on the other hand is informed by an acceptance of the moral limitations of politics and the relativity of its achievements. It limits the use of violence by accepting the responsibility for the consequences of political action (Weber 1994, 359-69).

Any ideas and values can be used in this way, including the liberal ones, and underprivileged groups often opt for this source of strength to counterbalance the lack of other resources (Bauman 1995). This choice of ethics is an independent political factor in the sense that it cannot be reduced to, although it might have some relation to, economic interests. Politics as an independent sphere also means that the polity is not bound exclusively by a relative match between the representation of political interests as reflected in economic policies and the structure of material or economic interests. The integration of the polity is also realised through emotions and symbols.

Edelman argued (1964) that at a practical level, politics is negotiation among groups who own resources and participate directly in the decision-making. But for citizens who have little direct bearing on policy-making, and who could not access inside information about it, other, more emotional and ritualistic means of integration are at work (Edelman 1964).

The proceedings of politics – elections, administration, leadership, language, stories and symbols – draw in the public by providing ‘objects upon which to displace private emotions, especially anxieties and hopes’ (Edelman 1964, 5).

The founding belief of the democratic system, that power is entrusted in the people, who chose for its exercise representatives that remain accountable to them, is also socialised through symbolic participation. Because this belief is not widely questioned, elections as rituals can co-opt the citizenry (Edelman 1964, 3). Thus, even in democracies there is a tension between the core, foundational claims on which the polity is founded and the empirical truth of relative lack of access to power of the majority of individuals and groups. This tension is sustained, but never fully resolved, through the vicarious, ritualistic participation in the symbolic universe of the political spectacle.

The end of communism and the dawn of democracy in CEE changed radically the symbolic repertoire of politics. The shift from collectivist values to individualism and democracy, although prepared and desired by at least some sections of the public, also raised troubling questions about the communist past. In the political battles around lustration, the former nomenklatura and the restitution of assets nationalised by the communists, economic considerations were often secondary. Moreover, after their experience with communism, the publics of CEE were also aware of the dangers and potential mendacity of vicarious participation in a symbolic political universe. This legacy of distrust in the public authorities compounded the tasks of political parties and government in gaining the trust of their constituencies.

Group identity claims mediate the participation in the symbolic universe of politics (Fearon and Laitin 2000). Individuals and groups generate the meaning of the situations and transactions they are involved in, i.e. explain the purpose of their actions, through

reference to internalised cultural referents that define who they are (Castells 1997, 6-7). Identities give predictability to the continuous negotiation of different social contexts, but the adaptive solutions that emerge in this interaction with the environment cannot be fully derived from the initial identity claims. To an extent, like meaning itself, identities can be retroactive. Their contours are revealed, at least partially, by events.

Liberal political scientists introduced a distinction between (liberal) politics based on the representation of (economic) interests and identity politics, where solidarity around certain cultural norms is predominant (Ost 1993; Offe 1997). The lack of differentiation in the inherited socio-economic structure was said to deprive groups of distinct economic interests and ethnic distinctions became the foremost source of political identity building in post-communist CEE, leading to a rise in nationalism (Gallagher 1995; Verdery 1996; Tismăneanu 1998). It is argued here that this is a distinction of degree rather than kind. In any society, groups use ideas and cultural values for self-definition. In fact, interests are often closely linked to the promotion of a certain view of the (economic) world. At the same time, even for groups that describe themselves primarily according to non-economic criteria, economic interests are never entirely absent, if only because the economic survival of any group is a prerequisite to the pursuit of any other agenda.

Thus, the economic and political spheres are relatively autonomous. Economic activities, as shown by evolutionary economists, are embedded in networks and have a degree of resilience. The post-communist systemic transformation in the economy is the change in the structuring principle from plan to market (Kornai 2000). At the same time, politics also has a degree of autonomy in so far as the source of policies and the strength to carry them out are found not only in the backing of economic interests but also in institutional thinking, ideas and symbols. Actors tend to operate more in one sphere or another, but they also tend to combine elements of both in their identity.

Constructivism and critical IPE

In IPE, constructivist explanations of the international or global economic and political relations go beyond the propositions of the neo-liberal and neo-realist theories to explain the interplay between the economic and political spheres, domestic and international. Both power relations and institutions influence the actions of state and non-state actors. Processes of construction of issues, identities and struggles mediate this interplay (Adler 1997).⁸

For Wendt (1995, 135), the structures that organise social actions are created by collective meanings. Identities are ‘relatively stable, role-specific understandings and expectations about self’, created in relation, i.e. identification or opposition with such collective meanings (Wendt 1995, 135). Actors are constantly confronted with new situations for which they have to generate meaning. Through this activity, an accommodation or a match is sought between an existing notion of one’s identity, the definition of the situation, and the formulation of interests appropriate for the reinforcement or the change of existing identities through action (Wendt 1995, 136). Identities and interests can become entrenched in stable configurations or structures. While structures do not exist outside of the specific socialisation and activity of concrete actors, actors tend to experience structures as external, relatively coercive social facts (Wendt 1995, 136-7).

National identities belong to this category of phenomena. They provide individuals with a path for identification with their (national) society (Anderson 1991) and result out of a process of interpretation of history and creation of ‘collective memory’ (Prizel 1998, 14). In spite of the vast potential for inconsistency and selectivity in this activity of interpretation, there is a tendency for one section of the polity to become the ‘custodian’

⁸ Constructivist readings of security issues can be found in Campbell (1992), Der Derian (1992) Herman (1996) and Katzenstein (1996). Political economy examples are Burch (1997), Ruggie (1982; 1992; 1993; 1998), True (1997; 1999) and Weber (1990).

of the collective memory of the nation and temporarily close the uncertainty (Prizel 1998, 14).

In this process of national identity building, interaction with the outside world, the discovery and valuation of similarities with and differences from other nations and the enactment of identity through foreign policy play a crucial role. For the countries of CEE, the opposition to and liberation from foreign domination was a core element in their construction of national identity. Cultural and political *ressentiment*, mythologies of common ancestry, the notion of an idealised society that succumbed to pressure from outside are part of the traditional, romantic nationalism of CEE (Tismăneanu 1998). The West was resented and admired at the same time. In the post-communist era, the sense of inferiority towards the West, the sense of 'damaged self' was retained as a major part of the national identity. The West was seen as indifferent and cynical, betraying the sacrifice of the Eastern Europeans who had been deserted to communism for the sake of securing world peace at the end of world-war II (Prizel 1998, 23-9).

Thus, identity building is an example of a social process that can take place in both the domestic and international spheres. In both, it is part of the interplay between interests and ideas. And indeed, both ideas and interest were used by critical IPE to explain the predominance of the neo-liberal economic and political agenda in the last two decades, within states and globally (Biersteker 1992). High levels of inflation and unemployment at the end of the 1970s eroded the wealth of the propertied classes in Western Europe and undermined the Keynesian faith in demand-led economic growth (Pierson 1995). The ideas of neo-liberal economics that had been elaborated over the previous decades became attractive at this juncture because they managed to appropriate ideologically experiments with privatisation and liberalisation that had emerged as practical solutions to municipal budget cuts in the USA (Henig 1990). They also offered a simple recipe for growth, were

presented in a compelling fashion and resonated well with popular values such as liberty and freedom (Campbell 1998).

Subsequently, liberalisation measures first introduced in the USA became adopted throughout the world, through mechanisms such as competitive deregulation, political difficulties in implementing protectionist measures, and the growing domestic influence of neo-liberal advocates and internationally oriented corporate interests (Helleiner 1995). These changes in state priorities were concomitant to globalisation (Higgott and Reich 1998; Held et al. 1999; Cerny 2000; Higgott 2000). The emphasis on flexible response to competitive conditions in specialised markets, as well as the preference for control of inflation supplanted an extensive developmental priority (Cerny 2000, 302). The high mobility of technology and capital and the changed conditions for competition eroded the political advantages of developing and subsidising a large public sector.

A number of developing countries in Latin America, for example, had used the public sector to industrialise more quickly and to achieve social policy goals. After the oil shocks of the 1970s and the increase in the cost of international borrowing, state-owned enterprises, which were unable to generate sufficient profits to fund their own replacement costs, became a liability. Privatisation was introduced in this context to try to attract foreign direct investment, deal with balance of payments crises, and stimulate efficiency and competition (Adam, Cavendish and Mistry 1992; Baer and Villela 1994).

Taking into account new features of global production, business organisation, money and finance, the changing role of the state and its relative loss of sovereignty, Scholte (1997) defined globalisation as the "spread of 'supraterritorial' or 'transborder' relations." In other words, social relations have become less dependent on territorial proximity. This is a mutation in the material conditions of existence that raises political questions about

accountability and democratisation (Scholte 1997). The diminished power of states over transnational flows changed to a certain extent the focus around which people can become mobilised from national identities to identities based on gender, race, religion, and organisational affiliation (Cox 1999; 2000).

The fall of communism in CEE took place against this background of global consensus around the neo-liberal norms of economic management. At the same time, the shifts in global production, trade and finance were keenly felt in the CEE countries as they left behind the protective trading agreements of the CMEA and sought to compete in global markets. In this thesis, it is accepted that the impacts of global pressures on domestic economies are mediated by domestic institutions and identity needs of the dominant groups. The co-operation between Romania and the IFIs and EU is the most important area in which this interplay between domestic and international factors can be seen at work.

Reflexive political economy: An assessment

Reflexive theories, like the neo-liberal and neo-institutionalist theories, meet the initial analytical requirement for their synthesis in a political economy approach. In other words, they are homologous from the point of view of their units of analysis and explanatory strategies. They recognise the dynamic between agency and structure and the processes of social construction that mediate their relationship as crucial to understanding economic and political phenomena, domestic and international.

A few working hypotheses about the relationships between the economic and political spheres can also be derived from these reflexive theories. The economic and political spheres are in a relationship of relative autonomy. They each have a relatively autonomous structuring principle, the market and the state power, which is outside the

direct influence of any one actor. These structuring principles are material and objective in this sense. However, the fact that they are subjectively experienced by actors as being objective is a condition of their effectiveness.

The links between the two spheres derive from the fact that power accrued within each can be used, to a certain extent, for acquiring power in the other. Weber posited that there could be tension and misalignment between the dominant groups in economy and politics, but there is also a tendency for alignment. It has been argued here that identity is a useful concept in bridging the understanding of conversion, tension, alignment and misalignment between the economic and political spheres at the macro-level of analysis with an understanding of actors and agency. Actors, their assets and their images of themselves are influenced by objective structures but are not entirely determined by them. Claims about identity bring together economic interests, ideas and symbols.

Thus, at one level, basic economic interests can be expected to impact on the political field through voting behaviour or direct participation in policy-making. Additionally, the polity rests on principles that hold because there is a level of material co-optation, a *prima facie* coincidence between principles and their institutional embodiment. At the same time politics creates a level of inclusion through participation in a particular symbolic universe. This multi-layered and complex reality allows economic and political elites as well as the dispossessed to act in ways that might be in contradiction with their economic interests.

These hypotheses are central to the arguments developed in this thesis. The links between these hypotheses and the empirical arguments of the thesis will be explicated after a short investigation of culture, a concept that has direct bearing on the understanding of the role of ideas and symbols.

1.4 Bringing culture in

Identities and institutions have an ideational component that is part of culture. In the broadest sense, culture ‘refers to the social construction, articulation and reception of meaning,’ it can be the creative experience of individuals as well as the collection of art productions (Held et al. 1999, 328-9). Similarly, in politics, culture is the ‘set of values, beliefs, and attitudes within which a political system operates’ (Rosamond 1997, 77).⁹

In most analyses of economic and political phenomena culture is a diffuse background. It is a useful assumption supposed to contain the ideational dimension of social phenomena, but it is rarely discussed as a factor in its own right. Admittedly, culture is difficult to operationalise. It can contain conflicting beliefs, beliefs can be held with different degrees of commitment and their influence on events is diffuse and uneven. However, the unprecedented degree to which the communist states attempted and succeeded to model their societies is generally suspected to have led to lasting influence in the form of modes of thinking and norms about action, responsibility, civic engagement, and others. While the material hold of the communist regime can be traced and seen to be dissipating after 1989, this cultural dimension is deemed more resilient and a potential threat to democratisation and marketisation (Verdery 1990, 1996; Gallagher 1995; Kligman 1998; Tismăneanu 1998).

As shown above, all social theories make assumptions about how individuals operate, what determines behaviour, etc. Neo-liberals are interested only in the rational component of decision making and behaviour. Neo-institutionalists think that some problems cannot

be resolved by ratiocination alone but are satisfied by rules of the game or institutions. Reflexive theories also need a conception of the person that includes emotions as well as reason and participation in accepted social norms.

Hall (1959) explains how persons operate at different levels of awareness and communicate through their acts as well as their words. Thus, according to Hall (1959), culture is 'more than mere custom that can be shed or changed like a suit of clothes'. It is a whole 'way of organising life, of thinking, and of conceiving the underlying assumptions about the family and the state, the economic system and even of mankind' (1959, 23). As such, 'culture controls behaviour in deep and persisting ways, many of which are outside of awareness and therefore beyond conscious control of the individuals' (Hall 1959, 25).

Humans experience things on three different levels: the formal, informal, and technical. Adults 'communicate to their children in three ways while in the process of rearing them,' 'they alternate between three different types of awareness and consciousness and imbue each experience with three different types of emotional overtones' (Hall 1959, 28).

The formal contains the collectively held norms, which are embedded in the awareness in association with a strong sense that this is what is required. These norms shape the expectations about what is right and what is wrong in a situation, and have the power of shared custom or tradition, rather than explicit rational argument. They are learned through emotionally charged corrections that follow breaches of such norms. Due to this process of emotional reinforcement, they tend to be deeply held and quite rigid. Their value is in providing predictability and stability to social interaction and to the life of

⁹ The literature on social capital also discusses cultural phenomena. A good review of their contributions is Woolcock (1998).

social groups. Because of this they tend to be the most tenacious and most difficult to change (Hall 1959, 67-8, 71, 73-4, 76-80).

The second level or register of culture is the informal. This notion refers to automatic behaviours, learned through imitation, through direct observation and adoption of other people as models. These usually function outside of the awareness of the actor, although the public or the audience can perceive these traits or behaviours. Participants who approach a situation in this mode are not fully able to state what is going on, but have a sense that under a certain set of undefined rules they can act in a certain way and depend on other people to react appropriately. Because the rules are not acknowledged, anxiety and uncertainty as to the leeway for response accompany their breach (Hall 1959, 68-6, 71-2, 74-5, 81-3).

Finally, the technical level of culture comprises knowledge, information, and norms that are transmitted explicitly and are backed by analysis and coherent argument. This is the area of the professional, based on the suppression of feeling. It is the fully conscious, the highest level of awareness. This is the level where change is easiest, because the contents can be evaluated rationally and changed upon inspection and discovery of more adequate ways of doing. These contents are or could be taught formally in school. It is the realm of persuasion and debate (Hall 1959, 69-71, 72-3, 75-6, 83-8).

Humans have the ability to operate on all of these levels, which means that the frames around situations could shift from one level to another, although in particular societies, certain norms would tend to be held primarily at one of these levels. Spontaneous change usually occurs through piecemeal adaptation at the informal level, which can accumulate to provide the basis of a new technical understanding, which could then lead to a 'breakthrough', a change in the formal order (Hall 1959, 93). The strategy for fostering

change is to bring into awareness the adaptations that are going on in the informal culture, and thus stimulate a process that is already in progress (Hall 1959, 93).

Thus, by establishing how certain norms are held, whether in a formal, informal or technical manner might be a good starting point for understanding the prospects for cultural change and the ambiguities of inter-cultural communication. The difficulty of discerning the messages that circulate at the different levels of communication should not be underestimated however, and any analysis of culture should remain tentative.

Conclusion: The arguments of the thesis and the theoretical framework

The theoretical framework outlined in this chapter provides the foundation for the four empirical arguments that explain the political economy of post-communist Romania.

Chapter 2 focuses on the political sphere in its autonomy by looking at factors intrinsic to the identity choices of the political parties, the resulting pact between them and the institutional embodiment of this pact. The conditions to which parties reacted were wide scale grass-roots mobilisation, a void of power at the centre and heightened uncertainty for the incumbent political elites after the fall of the communist regime. The result was the polarisation of the political spectrum. The issue of culpability for the communist regime dominated the political agenda. The choice of economic policies and the management of the economy was relegated to a secondary, albeit still important, role. This explains why parties were inconsistent in regards to the economic policies they promoted. The democratic opposition was not necessarily promoting the market while their left-wing adversaries did not necessarily enhance the control of the state over the economy.

Chapter 3 shows to what extent the economic sphere enjoyed a degree of autonomy from political intervention. Both gradualist and shock therapy programmes of reform were tried out in Romania during the 1990s. They had mixed results due to the resistance of the economic structure and the vested interests associated with it. The combined effects of weak political agency and strong economic structure go a long way towards explaining why the economic reforms in Romania were somewhat slower than in other CEE countries.

Chapter 4 shifts the focus to economic institutions. By looking at how the state set the tone for a change in economic institutions, it is possible to explore further the impact of political factors on the economy. In Romania, for most of the 1990s, political parties did not recognise that it was in their common interest, as political actors, to strengthen the administrative capacity of the state. The record is one of patchy delegation of authority and decree-ism, as expected by Elster, Preuss, and Offe (1998). As a consequence, the implementation of economic policies by the administration, which could have been an opportunity for setting an example and defining and enforcing the new rules of the economic game, presents a mixed picture. This analysis will lead to an assessment of the extent to which new economic institutions have become accepted and enjoy some autonomy from the political sphere.

Finally, chapter 5 advances the point that broad norms and expectations about action and what could be achieved – in the economy and politics – also played a role in the political economy of transformation in Romania. This chapter shows that strong identification with ideals and absolute standards and intolerance towards relative achievements played a role in exacerbating the factors identified in the previous three chapters. The opposition between political players, the relative weight of certain industrial interests, and the slowness of institutional change were associated with absolute expectations of political

morality, state provision for certain industrial groups and the public at large. At the same time, an autonomous cultural factor, the weak inheritance of technical knowledge in the social sciences, also hampered the development of policy and the change in the tone of public debates.

Thus, the four factors identified here are explored both in their autonomy from each other and through their links. They are facets of the political economy of transformation in post-communist Romania.

The common methodological thread in the exploration of these factors is the understanding of the relationship between agency and structure outlined in the introduction and throughout the presentation of reflexive theories in this chapter. For instance, in chapter 2, the analysis reconstructs the perceptions political parties had of themselves, of each other, and of the conditions in the economy and society. The analysis also links these perceptions to the position of the actors in the political field, their strengths and weaknesses, and the conditions in the economy as structural elements beyond their immediate control.

In chapter 3, the dominance of heavy industries in the economic structure is seen as a material factor that hampered the attempts to reform. Its action was manifested both through resistance to reform and through the perceptions that politicians had of the economy and what was possible or desirable to achieve. In chapter 4, the ability of the political system to subordinate the administration and to use it as an effective tool for changing the rules of the economic game is in question. This is a study of the attempts of the Romanian governments to turn certain ideas into institutions; it gives some insight into the process by which ideas succeed or not in acquiring a capacity to structure events.

Finally, the chapter on culture is the most difficult to link to a specific issue in the agency and structure debate. Certainly, the existence of certain ideal (mental) structures – set ways of perceiving and framing issues around notions about action, what can be achieved and what should be expected – is an important element of post-communist reality. At the same time, it is not possible to trace, at this stage of the research, the exact influence of these structures on discrete events. The reasons why they persist and change are explained in relation to the dynamic and logic of cultural phenomena although some connections between these ideal structures and structures of material interest might be possible to establish in the future.

Chapter 2 takes up the empirical analysis of the political system in post-communist Romania, the conditions of its inception, its main characteristics, its impact on economic policies, especially privatisation, and its work of mediation between the domestic and international spheres.

CHAPTER 2

Democratisation and the fragile political consensus

2.1 Introduction

This chapter begins the exposition of the empirical case made in this thesis: that the relative success of economic reform in post-communist Romania is best explained by four factors. These are the fragile democratic consensus, the resistance of the economic structure, the slowness of institutional change, and the survival of elements of communist culture. It has been argued in chapter 1 that these factors represent facets of the political economy of transformation in Central and Eastern Europe (CEE), including Romania. In this chapter, this argument will be developed for the first of the four explanatory factors, the fragile democratic consensus.

The theoretical insights most relevant to this argument, presented at some length in chapter 1, centre on the autonomous character of the political sphere. The development of the post-communist political system in Romania is analysed from within, as the result of autonomous political factors. These factors include the value choices and identities of the main parties, the relationships between the parties, their response to the political problems of the time (section 2), and their evolution during the 1990s (section 3). It is argued that the antagonism between parties led to the subordination of their positions on economic and foreign policy to political in-fighting (sections 4 and 5 respectively).

Romania was seen as a problematic candidate for democratic consolidation (Gilberg 1992; Linz and Stepan 1996). Its political parties and electoral process were declared a sham (Voicu 1996) with little actual power (Pasti 1995) or interest in providing leadership in the resolution of collective problems (Crăiuțu 1996). This chapter makes the argument that this

evaluation reflects too rigid an application of neo-liberal norms of democracy. While it highlights the failings of the parties, it cannot account for their relative successes in mobilising the electorate and building a sense of their own identity.

The symbolic dimension of politics (Edelman 1964) is crucial to understanding how, in spite of the unpromising odds reviewed by Elster, Preuss and Offe (1998), political agency emerged in Romania in response to the needs of the public for leadership and reassurance. At the same time, as expected by Elster, Preuss and Offe (1998), the weakness of political agency was reflected in 'decree-ism' and hesitant delegation of authority to the subordinate levels. Weber's (1994) analysis of the relationship between politics and ethics is also relevant for the empirical case of democratisation in post-communist Romania. The choice to hold ideas as ethical ends of political activity or to subsume ideals to an ethic of responsibility is crucial of the ability or willingness to negotiate differences with other groups. In Romania, the choice of the democratic opposition for an ethic of principled conviction led them to deny the right of their opponents to political existence.

Previous studies of post-communist Romanian politics, such as Gilberg (1992), Gallagher (1995), and Tismăneanu (1998), emphasised the negative side of symbolic politics by looking at the rise of nationalism and decrying the threat it posed to democracy. Indeed, liberal political theory contrasts the desirability of interest politics with the dangers of identity politics (Ost 1993; Offe 1997). This study admits that, following Weber, the issue at stake is the degree of identification actors espouse in relation to ideas or interests, including ideas that are core to their identity claims, i.e. to their view of who they are. But in contrast to previous studies of democratisation in Romania, this analysis uses the Weberian insight to explain the structuring of the political system as a whole. The antagonistic relationship between the main political parties is considered the most important factor in the explanation of policies that others might see as nationalistic, neo-communist or anti-democratic.

The symbolic dimension of politics did not undermine democracy in Romania. Although this might have been impossible to anticipate at the beginning of the 1990s, at the end of this decade it can be argued that the democratic framework of rule has proved very robust. Successive elections and the experience of ruling tested the claims of the political parties and improved their political skills. Indeed, the elections of November 2000 marked an important shift in the relationships between parties.

2.2. Governing the weak state: Hatred of the past and fear of the future

Romania's communist regime remained totalitarian to its end on December 22, 1989 (Shafir 1986; Fischer 1989; Tismăneanu 1989; 1996a; Linz and Stepan 1996, 349-56). Legitimate opposition to the regime was not possible, and there was no forum for a peaceful negotiation of its end. Instead, the transition took the form of breakdown (Batt 1991), a revolution whose organisation, events, actors, and general character have been disputed ever since (Ratesh 1991). This created uncertainty as to who could or would lead the country. The change of regime pronounced in the streets by grass roots mobilisation was yet to be recognised by a centre and new political institutions were to emerge.

Throughout CEE, the new political parties were relatively weak. They did not have significant resources in terms of experience, organisation, programmes or clear representation of economic interests (Elster, Preuss and Offe 1996). In the absence of such strong claims on power, what were the sources from which different political actors managed to engineer a political identity? What sort of credible claims could they make about who they are, what they want, and how they are going to achieve it, to mobilise the support of the electorate? How much purchase has the explanation provided by Eyal, Szélenyi and Townsley (1998) in the Romanian case? Did groups that had taken some of the ideas present

in communist ideology in their spirit offer leadership for the post-communist transformations?

In Romania in early January 1990, parties emerged and began to operate with the expectation that a democratic electoral system would soon be in place. Thus, participation in making history was one opportunity for staking a political claim, and participation was open. The ideals of democracy were widely shared. Ideas such as universal suffrage, the rule through political parties, elections as the basis for representation were adopted spontaneously and recognised as the rules of the game as soon as the communist leader Nicolae Ceauşescu fled the Communist Party headquarters in December 1989. The communist principles of one-party rule, planned economy, and collective property were abandoned overnight. This indicates that the argument of Eyal, Szélenyi and Townsley (1998) that values that have been part of the communist rhetoric became embraced in their spirit by leading groups could be extended to the Romanian public as a whole.

At the same time, the grass roots mobilisation of a great number of social interests pressing for immediate satisfaction was overwhelming. The breakdown of the communist rule was largely taken as permission for the realisation of pent-up demands. Professionals wanted jobs in cities that had been closed; farmers wanted their land back and in many place co-operatives were disbanded; many wanted to travel abroad, the borders were opened; workers wanted shorter hours and better pay and the examples can be easily multiplied.¹ Restitution of the private properties confiscated by the communist regime was also a core issue in the political struggles throughout the post-communist period in Romania (Miroiu 2000b).

¹ See for instance *Financial Times*, 2 January 1990, "Romania prepares for sweeping moves towards democracy", and *Financial Times*, 3 January 1990, "Generations come together to revive political life: Freedom's chaotic rebirth in Romania."

Other powerful and conflicting emotional needs also emerged. For some the need to assign responsibility for the communist regime and the need for reassurance that the break with communism was irreversible were paramount. For others, these demands presented an element of danger (Băieșu 1990). The members of the military, the security forces, and the Communist Party feared for their safety as they faced the real possibility of becoming scapegoats for the outgoing regime. The need for some sort of framework for what was going to happen next, for stability was also important. These competing demands found expression in the newly liberated media and almost daily street demonstrations in Bucharest, the capital, and other major cities (Tănase 1993; Gheorghe and Huminic 1999).

It is difficult to exaggerate the urgency of these issues in Romania in the first few months after the revolution (Verdery and Kligman 1992; Tismăneanu 1993). The communist regime was utterly compromised. It was seen as a complete failure, a mistake of historical proportions that had brought Romania to a dead end from which it would be very difficult to retreat (MOR 177/1991, 22). It had put its citizens through huge deprivations. It had done violence to individual and collective aspirations of freedom and human dignity (Antonesei 1995; Jela 1997; Breban 1997). The lack of active opposition to the regime caused a loss of collective self-esteem (Neculau and Curelaru 2000). The painful awareness of the lack of ideas and self-confidence about how the society could be taken forward was betrayed by the insistent return to the solution of finding leaders who were 'morally clean' (Pleșu 1990, 1). -

The removal of the regime was accompanied by great elation, but uncertainty and self-doubt soon replaced it. The importance of this sudden breakdown of the regime without any kind of prior preparation can be appreciated by contrast with evolutions in other Soviet bloc countries. In Hungary (1956), Czechoslovakia (1968) and Poland (1980-1) open opposition to the regime had allowed important social processes to take place. There was the articulation of a stance for society in relation to the state and the options available to

political action (Michnik 1993). From an emotional point of view this was a recuperation of trust and self-esteem in the face of an all-intrusive and all-powerful regime (Ash 1983). In spite of the limited results of the opposition in denting the power of the communist regimes, which kept their controls on the major levers of power, such gestures of courage and self-affirmation had an important symbolic value for the society as a whole (Brandys 1984). They redeemed some of the humiliation and deprivation inflicted on these societies by their arbitrary regimes (Ost 1990). This is perhaps one of the reasons why in spite of political fragmentation and the difficulties in managing the tasks of the transition, these countries had a comparatively better basis for successful collective action.

The first political group to offer leadership in the post-communist Romania was *Consiliul Național al Frontului Salvării Naționale* (National Council of the National Salvation Front - CNFSN). In its month-long existence, the CNFSN presented itself as a broad, non-partisan group that was taking over the exercise of power as a transitional government, until elections could be organised (Iliescu 1990). It tried to resolve some of the pressing governance issues, such as the co-optation of the military and the security forces, and to run the day-to-day business of the country.² It passed legislation that gave the appearance of due process to economic, social and political demands that were already imposed by grass roots direct action.

CNFSN, and its successor, *Frontul Salvării Naționale* (National Salvation Front – FSN), satisfied the second group of needs outlined above, the needs for stability (Kideckel 1992, 75; Mihut 1994, 414). Unfortunately, however, they were not able to reassure those who wanted (needed) the certainty that the break with the past regime was irreversible. The support of these was gained by the Historical Parties (revived by former political prisoners) and the humanist intelligentsia. These groups took on the role of moral prosecutors and

appropriated the mood of general rejection of the communist regime to call for the punishment of those responsible for it (Morgan 1994). They saw a process of moral healing as the basis for a democratic society and put the issue of culpability for the communist regime at the top of the political agenda for the rest of the decade. This was the origin of requests that the former communist activists should be banned from public office for at least eight years (Călinescu and Tismăneanu 1992).

The Historical Parties and the humanistic intelligentsia thus linked their claim of being the true democrats, the guardians of democracy, with proposing criteria of participation in the political life that would have excluded some of the leaders of the CNFSN and later FSN. They also questioned the good faith of the Front. When the Front passed constructive measures, such as the law that allowed private enterprise and the establishment of political parties, it was claimed that the Front was unduly trying to obtain political capital from doing what anyone in their position would have done. When the Front hesitated in legislating radical economic and political reform, it was accused of harbouring the intention of returning to a communist regime (Mary Ellen Fischer 1992; Carey 1996).

The Front seemed intimidated by this criticism. In any case, some facts could not be denied. For instance, its leader, Ion Iliescu, had been a member of the Central Committee of the *Partidul Communist Român* (Romanian Communist Party – PCR) before 1971 and had kept lower positions in the party until 1989, although he was known as a dissident to the personal rule of Nicolae Ceaușescu. Unfortunately, the FSN failed to deal with this issue directly by encouraging a public debate about the character and consequences of the communist regime. Instead, the Front exploited the fact that the claims of the opposition were politically sensitive and maintained silence over the question of its relationship with the past regime. After all, in name at least, over three million Romanians had been members of the PCR.

² These, like all the political events at the beginning of 1990, were widely publicised in the media.

But while the Front won the votes of the electors in May 1990 and September 1992, it lost the long-term moral argument. Their neo-communist and anti-democratic orientation also seemed justified by the events of June 1990. Shortly after their victory at the polling booth, the Front was associated politically with the vigilante activities of the Valea Jiului miners who came to Bucharest to resolve a public order incident. The ending by the police of the prolonged demonstration in *Piața Universității* (University Square) by opponents to the Front was resisted by angry protestors, and thousands of miners descended on Bucharest to settle the matter in favour of the Front. The miners destroyed property and attacked members of the opposition. Having confirmed the worst fears of their opponents by giving political cover to this vigilante action, none of subsequent efforts by the Front to build the institutions of democracy received much credit from their opponents (Marga 1993).

The FSN also fuelled speculation about its role in the revolution. Some of its members claimed the Front existed prior to the revolution and played a role in bringing it about. In other declarations, the Front was presented as the ‘emanation of the revolution’, an ad-hoc organisation (Brucan 1998b, 228-294). There was also a lack of consistency about its political role. Initially a caretaker umbrella organisation, in January 1990 it became a party and decided to participate in the elections of May 1990, which generated fears of foul play (Bârlădeanu, quoted in Betea 1997, 236-7). FSN tried unsuccessfully to atone for this by agreeing to replace the CNFSN as the ruling body in the country with *Consiliul Provizoriu al Unității Naționale* (Provisory Council of National Unity - CPUN) on February 1. Twenty-seven new parties that had emerged in January 1990 held half of the number of seats, the rest and the presidency went to the FSN (Câmpeanu 1990).

For instance, the debates of the CPUN were broadcast live on the national television.

The Front also made compromises in order to insure the allegiance of the army and the former Securitate. This meant that the role these organisation played in the events of the revolution was never fully accounted for, which further intensified the distrust of the opposition in the Front's commitment to transparency and a break with the practices of the former regime (Ionescu 1992d; 1994d; 1994e). A more confident party might have claimed that the co-optation of the former Securitate into a legitimate regime of law and order was a success. Instead, the ambiguity of the Front over this issue gave credence to the claims of their opponents which conflated the Front with extremist nationalist groupings whose search for political models included a revisiting of the pro-fascist cultural movement of the inter-war period (Shafir 1992d; Tismăneanu and Pavel 1994). This compromised further the attempts of the Front to portray itself as a democratic force as it became unable to distance itself from nationalists and to reform the justice system (Schwarz 1997).

Given the political uncertainty and volatility created by the sudden breakdown of the communist regime, the actions of the Front could, in principle, be explained without branding them as 'neo-communists'. At the same time, the intransigence of the historical parties and their allies, the humanist intelligentsia, is understandable. After all, these groups had been, in different ways, at the receiving end of oppressive activities of the political police. Thus, they were most keenly aware of the dangers of unchecked power. Their perception at the beginning of the transition was that the Front had a monopoly on the means of real power (access to state budget resources, the national media), while their own position was one of extreme weakness and vulnerability. Additionally, they might have felt more keenly than the FSN, who were already in the limelight, the danger of having their message drowned out by the multitude of parties that emerged after December 1990. The number of registered political parties was more than a hundred in mid-1990. In the circumstances, the historical parties did not have the confidence to appreciate that their symbolic political capital was very significant in a situation where political capital of any sort was very scarce.

Their role of as 'true democrats' and opinion makers was recognised by the international media and international organisations. Their assessment of the progress of reform in Romania influenced crucial decisions such as the postponement in 1991 of the admission of Romania in the Council of Europe (Andreescu 1998, 12-14).³ The role of 'true democrats' positioned these groups as gate-keepers for a number of Western aid programmes, at a time when the ideological import of the changes in CEE was paramount and commitment to democratic values was rewarded by significant opportunities (Mungiu 1996; Wedel 1998).

Thus, the historical parties chose to operate according to an ethic of principled conviction (Weber 1994) in their political activities. This was a means for counterbalancing what they perceived as their weak position as new parties without immediate access to the resources of the state. The FSN, on the other hand, coming into power on the wake of the revolution, used an ethic of responsibility. Although this orientation had the merit of being pragmatic, it was also useful in evading some embarrassing questions about past affiliations. None of these parties could reach out to appeal to other than their 'natural constituencies'. The Front failed to make the necessary gestures towards those who feared a return to the past, while the Historical Parties did not take account of the security needs of the former 'communists'.⁴ Thus, the weakness of agency in post-transformations (Elster, Offe, Preuss 1998) was compounded in Romania by the polarisation of the political system. The compromise between those who hated the past and those who feared the future was very tenuous indeed.

The democratic pact (Stepan 1986, 79) between the political parties included a commitment to democracy as the only game in town. But the distrust between the parties was reflected in

³ Andreescu was one of a handful of members of the opposition invited by the Council to make representations on this issue. Romania was invited to become a member of the Council in 1993.

⁴ In Michels' terms (1915, 18-20), parties failed to cast their particular interests in ethical universal terms and convince their opponents that all interests are taken into account and served as well.

overcautious institutional design. Proportional representation led to minority governments dependent on shifting coalitions of voting in the parliaments. In addition, in parliament, the two chambers replicated each other's functions and delayed the passing of legislation (IIDEA 1997). Lack of trust between parties led, as it will be documented more fully in section three and in the next two chapters, to duplication of reform measures, which was to be a major factor delaying the implementation of economic reform. It also created the perception that the different parties were unwilling to commit to economic reforms. Perhaps their ability to do so was undermined by their fragility and their fear of the assumed conservatism of the population and the attacks from their rivals (Dijmărescu 1993b, 77). Similarly affected was their willingness to take responsibility for the inevitable costs of the reforms (Dijmărescu 1993a).

2.3 Party politics in the 1990s: learning through participation in the democratic process

The initial structuring of Romanian politics presented above continued to shape the events during the 1990s. The grass roots mobilisation that accompanied the Romanian revolution remained an important pressure and materialised in frequent strikes and dramatic confrontations between state and labour.⁵ The ideological antagonism between parties became entrenched. Over time, however, as parties moved in and out of power, their claims were tested and this led to important adjustments in their alliances and their appeal to the electorate. The main features of these two trends are reviewed in this section.

Conflict and change within parties

The prevalence of conflict over consensus can be traced in almost any area of political life in Romania in the 1990s (Stolojan 1999; Şerbănescu 1999). There was acute rivalry within parties, which led to frequent splits. For instance, the FSN split at the beginning of 1992,

⁵ This aspect of Romanian politics will be explored further in chapter 3.

following the ousting of the Roman cabinet in September 1991. The parliamentary party sided with President Iliescu and was perceived as the conservative wing (Shafir 1992b; Ionescu 1992c; 1992e). Under the name of *Partidul Democrației Sociale din România* (Party of Social Democracy of Romania - PDSR) it won the elections of 1992 and formed a minority government. The FSN -Roman attracted some of the MPs and local organisations, but remained at the fringe of Romanian politics (Shafir 1993c). Under the name of *Partidul Democratic* (Democratic Party – PD), as part of the alliance *Uniunea Social Democrată* (Social Democratic Union – USD), it won about 13% of the votes for both chambers in 1996 and entered a coalition government with the Democratic Convention during 1996-2000 (Popescu 1997, 181). In 2000, the PD obtained just over 7% of the vote and decided to play the role of ‘loyal opposition’ to the PDSR minority government.⁶

The opposition to the FSN/PDSR became organised in December 1991 in a broad coalition of 18 parties and civic organisation, under the name of *Convenția Democrată din România* (Democratic Convention of Romania – CDR). Among their major internal debates were the nomination of a single candidate for the presidential elections in 1992 and 1996, electoral strategy, and the allocation of patronage (Shafir 1992e; 1992f). Its leading members were *Partidul Național Liberal* (National Liberal Party - PNL), *Partidul Național Țărănesc, Creștin și Democrat* (National Peasant Party Christian and Democratic - PNȚCD), and *Partidul Social Democrat din România* (Social Democratic Party of Romania - PSDR).

The Liberal Party experienced different splinters and factions, in and out of the Democratic Convention (Shafir 1992c). Differences arose around policy and electoral strategy between and within generations of politicians. The old guard (Radu Câmpeanu, Radu-Renée Policrat, Alexandru Paleologu, Mircea Ionescu Quintus) had been part of the Liberal Party prior to 1947. Younger liberals, mostly associated with business interests developed after 1990,

⁶ For the results of the 1990, 1992, 1996, and 2000 elections see appendix 2.

found themselves in uneasy alliance with the old. After the 2000 elections, they consolidated their position, as some of the old leaders were blamed for the poor results. Prior to the elections, a recently established Commission for the Study of Securitate Archives revealed that some of the old leaders had been on the Securitate's payroll before 1989.

Similarly, the results in the elections of 2000 brought major changes to the PNȚCD and PSDR. After playing the leading role in the governing coalition in 1996-2000, the PNȚCD chose to participate in the elections of 2000 as part of an umbrella organisation, which failed to obtain the required percentage of votes for entry in the parliament. The PNȚCD is now in danger of disappearing from the political scene. After this defeat, a younger generation of politicians replaced the old guard of former political prisoners but an acrimonious leadership struggle developed between the main contenders: Victor Ciorbea, a former Prime Minister, and Andrei Marga, a former secretary for education (Ștefan-Scalat 2001).

PSDR participated in the 2000 elections on common lists with PDSR and the two parties merged in June 2001 to form the Social Democratic Party (PSD). PDSR was apparently seeking to shrug off its 'neo-communist' image and bolster its social-democratic claims. The merger was seen as a way of reviving their 1993 application to the Socialist International, an organisation in which their junior partner was a member. The younger leaders of former PSDR supported the move, but old-guard leader Sergiu Cunescu saw it as a victory for 'communism' (Luca 2001)

Even *Uniunea Democrată a Magharilor din România* (Democratic Union of the Hungarians in Romania, UDMR), which could count on a stable electoral base in the Hungarian minority, had their fair share of internal conflict between moderate and extremist nationalist and anti-communist factions (Shafir 1993a). This did not lead to a split, however. Their need to safeguard their culture, especially through education in Hungarian and rights to local

autonomy for the Hungarian regions gained some recognition in the later part of the decade, when they co-operated in government with the Democratic Convention (Crăiuțu 1995). In the present parliament UDMR co-operates with the PSD government.

Romanian nationalist parties were *Partidul Unității Naționale Române* (Party of Romanian National Unity - PUNR) and *Partidul România Mare* (Greater Romania Party). The main success of the PUNR was the election of its leader, Gheorghe Funar, as mayor of Cluj-Napoca, one of the major cities of Transylvania (Gallagher 1992a; 1992b; 1993; 1994). PUNR and PRM participated in government with the PDSR between 1992-1996, after the Democratic Convention had refused the offer. In the November 2000 elections, PUNR did not earn any seats. PRM, however, was able to concentrate the nationalist vote and won an unexpected 20% of the seats in both chambers. They capitalised on the dissatisfaction with the infighting within the ruling coalition and the poor economic performance in 1997-9, but are relatively isolated in the current parliament.

Thus, at the end of the decade, the party system appears consolidated. PSD occupies the left-centre ground, while PNL and PD take up the centre-right positions. There are also two nationalistic parties, of which the moderate Hungarian party has an economic agenda close to PNL and PD. Given the affinities between the PD and PNL, a fusion should be possible, if personal ambitions could be reconciled (Miroiu 2000c).

Conflict and change in the relationship between successive government

Conflict was also a feature of the relationship between successive governments. Each government attempted to deny previous achievements and to present itself as the first to engage in serious reforms. Dissension within the FSN, as mentioned above, came to the surface in September 1991, when President Iliescu fired Prime-Minister Petre Roman and this led to a split in early 1992 (Shafir 1992a). After the victory of the conservative wing in

the FSN, the PDSR, in the 1992 elections, the Văcăroiu Government seemed distrustful of the legislation and the international agreements passed earlier and proceeded to re-evaluate issues from scratch (Ionescu 1993a; World Bank 1996, 14-5).

The Democratic Convention on the other hand, refused to enter into an alliance with the Văcăroiu government. The choice of the CDR to bet on the failure of Văcăroiu and early elections was motivated less by differences in their reform agenda and more by their commitment to the ethic of principled conviction described above and the oppositionist stance it involved (Șerbănescu 1993). This left Văcăroiu with the sorry option of relying on a coalition with the Romanian nationalist parties (Shafir 1992h; Fischer 1996, 204). The consequence was a great deal of delay and horse trading in ministerial positions (Shafir 1993d; Shafir and Ionescu 1993; 1994; Ionescu and Shafir 1994). Participation in government also gave nationalist parties a platform for the inflammation of nationalist sentiment and disputes (Shafir 1994b; 1994c)

Similarly, after years of passionate opposition to what they saw as 'neo-communist' non-reformers, the CDR government vowed to finally give a strong start to reform. Their critique of the PDSR had been that the reform was slow and that it had serious social costs. The Convention's electoral promise was both swift reform and social protection. But without a vision of how these two could be reconciled (Tismăneanu 1996b, 18-9; Mungiu 1996), the alliance between CDR and PD came under pressure. During 1996-2000, changes in the top positions of government, Prime-Ministers, secretaries of state and ministers, were the major outlets for these conflicts between reformers and those more mindful of public opinion, as the economic situation deteriorated sharply between 1997-9.

The present PSD government avoided some of these problems by taking sole responsibility for forming the cabinet and seeking an agreement with the Democratic, Liberal and

Hungarian Parties. One of their major proposals was a change in the constitution that would remove the duplication between chambers and differentiate their roles. Difficulties surfaced again, in May 2001, when the Liberal Party withdrew from the agreement, accusing PSD of disrespect for private property and for slowing down the reform in Justice and privatisation (Gheorghiu 2001). Another issue that generated strain between the Romanian political parties was the initiative in July 2001 of the Hungarian government to give Hungarians who lived in the neighbouring countries selective access to the labour market, education and health services in Hungary. While the Hungarian Party in Romania was favourable to the law, the other parties saw it as a cheap way to attract the loyalty of the Romanian Hungarians, without incurring the full responsibilities of giving them Hungarian citizenship.

Delays in parliamentary activity

These difficulties within the executive branch of the government in Romania during the 1990s were also reflected in the slow pace of parliamentary activity. This effect was compounded by the duplication of responsibilities between chambers. Governments tried to get around the parliament by issuing executive orders. According to the Constitution, the Cabinet could adopt a law without discussion in parliament, if it was prepared to take a confidence vote. Another procedure was to issue legislation that would be discussed by the parliament at a later date. In spite of initial advantages, in the long term, this added to the legislative confusion; laws issued by the executive were modified by parliament a few months after coming into effect. According to official data from the Legislative Council, reported in Drăgotescu (1999), between December 1989 and May 1999 the cabinet and the parliament passed about 5700 pieces of legislation, of which 1900 were rescinded and 900 were seriously amended. Of the legislation issued in 1998 alone, 61 laws and ordinances were modified in the same year, while in the first part of 1999, 19 acts had the same fate.

Politicisation of state administration

The excessive politicisation of the state administration was also an issue of concern. Distrust in the predecessors and the need for party patronage led to the practice of replacing civil servants, and bringing in 'their own people' with every change of government. For instance, between 1992-1994, the government-appointed prefects dismissed 133 mayors and another 264 resigned of their own accord (EECR 1995a, 22). This was remedied in 1996 when CDR imposed an amendment to the law on local public administration that forbade prefects to dismiss elected mayors (EECR 1996b, 20). After coming to power later in the year, CDR argued that selective dismissals were inevitable, due to the 'years of cronyism, patronage and partisan appointments, by means of which PDSR staffed all government agencies with loyal supporters' (EECR 1997a, 23). Similarly, in 1998, when Radu Vasile replaced Victor Ciorbea in the post of Prime Minister, partisan appointments followed for the top management of the *Fondul Proprietății de Stat* (State Ownership Fund – FPS) (EECR 1998c, 29).

It has become apparent that both conflict and a degree of reconciliation characterised the Romanian politics in the 1990s. The clash between the uncompromising ideological position of the democratic opposition in relation to the culpability for the communist regime and the complexity of the practical problems left behind by this regime was acute. This choice can be explained through the preferences of the leading members of the Historical Parties, former political prisoners and archenemies of communism, but also through their need to differentiate their message in a very crowded political field. Their opponents, on the other hand, were susceptible to this radical criticism and failed to make the kind of conciliatory gestures that might have attenuated the opposition.

These interlocking identity choices by the main political parties were expressed in the design of central institutions: the electoral system, the parliament, the relationship between

the executive branch and the state administration. These findings reflect on the theoretical debates presented in chapter 1. Thus, the sources of institutional design are found in the power relations between the leading political parties. This complements the neo-institutionalist analysis that stops short of explaining how institutions come into being. At the same time, the institutional element of politics is given here due consideration. The analysis presented so far recognises that once established, institutions have a structuring power of their own. Only a shift in the focus of politics, from conflict to co-operation and 'ordinary politics' (Jowitt 1998a) – as seems to have been the case after the 2000 elections – might modify the underlying political relations between parties and create the alliances necessary for a change in constitution and institutional design.

In the next section, these themes will be illustrated with reference to a crucial area of economic policy: privatisation. In addition, while so far politics has been discussed in separation from the economy, this section explores one of the links between the two spheres, the quality of the leadership on economic matters provided by the political system.

2.4 The politics of privatisation

This section shows how the choices made by parties in regards to privatisation legislation reflects less their distinctive outlook on the economy and more their relationship of antagonism and opposition.

The parameters of the privatisation process were drawn in 1990-1, during the Roman government. Subsequent governments, especially Văcăroiu in 1995 and CDR in 1997-9 made some changes to it, but the fundamentals remained the same. For this reason the bulk of this presentation will be dedicated to a detailed analysis of the arguments marshalled by

parties during the parliamentary debates around the 1991 law. Later developments will be reviewed more briefly to show to what extent parties departed from their initial positions.

a) Setting the scene: the first privatisation law, 1991.

The commitment to privatisation was a central element in the political programmes of all parties in Romania, after 1990. Privatisation was deemed crucial for the development of a market economy and for achieving prosperity. The first FSN government, soon after their coming to power in June 1990, announced it as a core part of its mandate and a first step in this direction was taken in the same year. Law 15 regarding the re-organisation of state enterprises in commercial corporations and *regies autonomes*, i.e. fully state-owned public utilities, stipulated that only the former were to be privatised. Thirty per cent of their social capital was to be distributed for free to all Romanian citizens above the age of 18 (MOR 98/1990).

A year later, the privatisation law 58/1991 set out the framework for privatisation still in use today. This framework incorporated the decisions taken by the 15/1990 law and constructed the mechanisms through which the divestment of state-property was achieved (MOR 169/1991). The practical and political questions were numerous. What was going to be privatised and how? Who were going to be the beneficiaries? How was privatisation going to contribute to the creation of a market economy? How to obtain the funds for the start-up of the process?

The design of the privatisation process

The draft law, created by the government with the help of the consultancy firm Coopers and Lybrand, included in the privatisation mandate only industrial enterprises reorganised as commercial corporations, which at that time represented just over 50% of the value of all

state property. All of these companies had been requested by the 15/1990 law to express their equity as social capital and to issue shares against its value. Law 58/1991 defined the ownership rights over these enterprises as shareholder rights and transferred them to two kinds of institutions, to be created in the near future (articles 6 and 24). The FPS, representing the nominal owner, the state, would own 70% of the shares in all of these enterprises (article 24); the remaining 30% would be distributed equally among five *Fondurile Proprietății Private* (Private Ownership Funds - FPPs) (article 6). The FPPs were to represent the actual owners, all Romanians citizens above the age of 18, who were issued with property certificates (article 15). The certificates had no nominal value initially. Their value was expressed simply as the ratio between the total value of the capital to be transferred (unknown at the time) and the number of people entitled to receive the certificates (article 15). Property certificates could be traded, could be exchanged for shares in commercial companies, or could be converted in shares in FPPs (article 3). De facto, in the initial stages of the process, the certificates were shares in the FPPs, although the FPPs did not have to pay any dividends for the first five years of their existence.

Some of the features of the FPPs were intended to create a market ethos among enterprises and citizens. The FPPs were to be run on a commercial basis, and had to show that they were making profit (articles 10, 11, 25, and 26). Also, each of the citizens benefiting from this law was to own one certificate in each of the five FPPs, to facilitate comparison between their results, and to create information for further investment decisions. The FPS had to privatise around 10% of its portfolio each year, in order to ensure a speedy divestment of state property and stimulate the development of the private sector (article 28). It was also hoped that the free transfer of 30% of the capital to the population would stimulate further privatisation. To link ownership to incentives for increased economic performance, managers and workers were offered discounts for the purchase of shares in their own

enterprises (articles 48, 49), and this privilege also applied for workers buying physical assets (articles 59 and 60).

Finally, a pilot programme of privatisation, scheduled to take place before the Funds became functional, and organised by *Agenția Națională de Privatizare* (National Agency for Privatisation – ANP) was to provide the finances for the setting up of the Funds (articles 42-45). This exercise would also allow the privatisers to obtain some concrete experience with the process: the selection and evaluation of enterprises to be privatised; the evaluation of the reaction of potential buyers; and that of the labour force and management.

Debate over the privatisation law

The subsequent debates over the law, in both the Lower House of the parliament and the Senate, in the last two weeks of July 1991, revealed the controversial nature of these choices and scrutinised the economic, political, and moral arguments behind them. Deputies speaking for the opposition parties had four core concerns: (i) the scope of privatisation; (ii) the role of the FPPs; (iii) the role of the FPS; and (iv) the pilot programme. As it will be shown, all of these issues have a bearing on the understanding of the role of the state in the economy, the mechanisms of market economy, and the interplay between the state and the market.

(i) the scope of privatisation

The privatisation programme was considered too restricted by the opposition in two ways. Firstly, of all the state property, only about 53% were to be privatised, the rest of 47% was incorporated in *regies autonome*. This was problematic from an ethical perspective. The promised 30% for free distribution would amount to only 16-17% of all state property. This represented too little compensation for the citizens who, under communist mobilisation, created them (MOR 180/1991, 5, 15). At the same time, from the point of view of

encouraging the emergence of markets, it was too little to counterbalance the effects of the delays that could be expected due to the intricate institutional structures required for the implementation of the law (MOR 178/1991, 11). This restricted free transfer of state property would create few resources for the development of the private sector and further privatisation (MOR 177/1991, 21, 23).

To answer this, the government gave a different twist to the same concern for social justice. While the question of the great share of *regies autonomes* in the economy was sidelined by invoking concerns of national interest, the 30% was defended because it was an approximation of the percentage of profitable enterprises in the economy. As the rest would represent more or less valueless properties, their transfer to the public would have been unfair (MOR 180/1991, 3, 11).⁷ Also, the sale of 70% of the value of commercial companies was necessary to raise funds for investment (MOR 179/1991, 8).

Secondly, the opposition parties - PNL, PNTCD, and UDMR – wanted this law to clarify the question of reprivatisation, i.e. the return of the properties confiscated during the 1947-8 nationalisations to their original owners (MOR 178/1991, 20). This would be a gesture of redress for former injustice (MOR 179/1991, 23) and, given that most of the properties included in such a reprivatisation would be small, reprivatisation would stimulate the development of small and medium enterprises in the private sector (MOR 179/1991, 24). Privatisation programmes in Czechoslovakia, Hungary, and Poland, which started off by legislating reprivatisation, were invoked in support of this view (MOR 181/1991, 7).

Although the FSN recognised the validity of the ethical concerns behind this position, a variety of practical issues were adduced as arguments for leaving the issue for subsequent

⁷ There is a gap in the argument here, between saying that only 30% of the enterprises are profitable and claiming that a transfer of their value would be approximated by giving away 30% of the social capital of all commercial enterprises. This gap was not noted in the debates.

legislation. The increase in complexity and lack of records for the properties nationalised would make the present law unwieldy (MOR 179/1991, 23-5, 27-8). From an ethical perspective, since reprivatization was not included in the Law for the redistribution of farm land its inclusion in this law would create inequalities between the pre-communist owners (MOR 179/1991, 23-4).

Interestingly, there was consensus around the fact that such a measure would not cover, in any case, the big properties, and that there would be a threshold of value for the properties considered for return or compensation (MOR 179/1991, 23). This can be interpreted as reluctance on both sides to encourage inequality of wealth in society. While this is consistent with the social-democratic credentials of the NSF, for the historical parties it seems to reflect some unease around the question of their association with the interests of the pre-war capitalist class. Such an association was attributed to them by the FSN, in the hope of discrediting them in the eyes of a public long influenced by the communist propaganda of equality and opposition to 'capitalist exploitation'.

(ii) the role of the FPPs

The idea of organising the FPPs was also hotly debated. The government argued for practicality and the need for financial intermediation, as well as protection of the interests of the population. Privatisation of whole companies in favour of the 16 million estimated beneficiaries could not be done through a physical transfer of assets. Instead, the value of the companies had to be translated into shares, and some mechanism of conversion had to be designed to enable the citizen-owners to use certificates to obtain shares (MOR 184/1991, 3-6). As the issuance of shares by all commercial companies and the distribution of certificates would take time, as a start, the 30% dedicated to free transfer had to be entrusted to these five financial companies (MOR 181/1991, 12-3; MOR 186/1991, 4).

The government also argued that this was a way of protecting the certificate owners against the danger of losing their property (MOR 179/1991, 11; MOR 181/1991, 11). For the opposition, privatisation through FPPs was a way of impeding the individual owners in the exercise of their rights, and it anticipated that this method would create little capital for further privatisation (MOR 186/1991, 4-6). The members of the first councils of administration, the governing bodies of the Funds, were nominated by the government and approved by parliament (article 8). The only connection between owners of property certificates and the actual governance of the funds was that a motion could be introduced by the former, if they could find 10 000 supporters (article 21).

The opposition feared the monopolistic dangers created by FPPs (in MOR 181/1991, 9) and wanted a stronger link between owners and the management of the enterprises (MOR 181/1991, 8). Clear value should be given to property certificates and they should be used directly to acquire shares in commercial companies (MOR 184/1991, 2-3). This would make the FPPs redundant and would allow more scope for the free play of market forces (MOR 181/1991, 8).

(iii) the role of the FPS

The organisation of the FPS was for the FSN government a way of giving institutional form to the different roles of the state. The functions of the state as the owner of property were entrusted to the FPS, while the government acted as an independent and fair actor in the economy, representing all economic interests (MOR 181/1991, 5; MOR 190/1991, 16). Leftist FSN MPs argued for a mixed economy. In this scenario, the FPS would allow the state to continue to support the public sector, which was crucial for a state-led developmental strategy focusing on education and investment in advanced, information-based industries (MOR 190/1991, 13-4). Even members of the liberal wing of the FSN conceded that the FPS would have a role in the management of the commercial companies.

FPS was to be responsible for the restructuring and technological overhaul of some of its companies before attempting to sell them (MOR 177/1991, 8; MOR 190/1991, 15).

For the opposition, the creation of the FPS was not a guarantee that a change would occur in the way in which the state exercised its role in the governance of enterprises (MOR 180/1991, 4-6, 7-8). The FPS would only reproduce the current pattern of centralisation and would undermine the autonomy of the commercial enterprises (MOR 180/1991, 11-12, 15, 17). Instead, the initiative for privatisation should be left to enterprises (MOR 177/1991, 16; MOR 179/1991, 13-4).

Secondly, FSN argued, the FPS was necessary because the state administration, the economic ministries in particular, was likely to hijack the privatisation process and apply the laws in accordance with their entrenched (i.e. bureaucratic cum communist) practices (MOR 180/1991, 24; MOR 181/1991, 4-5). Rarely defined clearly - but presumably to do with the lack of transparency, shady dealings, and incompetence - such ways were nonetheless unanimously vilified by both government and opposition. In spite of this suspicion of the motivation and the ability of the ministries, the opposition was more willing to contemplate the use of existing state bodies, such as the ANP, for the co-ordination of privatisation (MOR 182/1991, 2; MOR 179/1991, 13-4).

To alleviate fears about the potential for government corruption and over-centralisation, the FPS was put under parliamentary control. Its annual report and plan for privatisation was to be approved by the parliament, but there was no on-going executive control over its activities (article 28). The members of the FPS council of administration were nominated in equal numbers by the government, the parliament and the president (articles 30 and 31). The statute of the Fund and its internal regulations had to be approved by the government (article 33).

The Fund was exempt from paying tax on its profits and it was forbidden to make any payments to the state or local government budgets (article 38). This diffuse control over the FPS satisfied the need of the parties for equal control over privatisation, but it also weakened the FPS. Dan Marțian, the President of the Lower House of Parliament, remarked upon the connection between the parties' distrust of each other and this type of institutional design. He noted that the decisions on the control of the FPS reflected the fact that 'the suspicions, the controversies, the passions, the accusations, and the acrimony around this law were so great' (MOR 190/1991, 22). This confirms the point made above that institutional choices reflect power relations among the relevant players.

(iv) the pilot privatisation programme

Finally, the discussion over the pilot programme brought into focus again the concerns over the fact that it was left to the state bureaucracy, through ANP, to organise it. This was perceived as a case of 'total lack of control' (MOR 178/1991, 9). This time it was the opposition that argued for some form of control of outcomes, to stop the most likely potential buyers, former nomenklatura, barons of the black economy, or foreign capital, from taking advantage of this opportunity (MOR 180/1991, 8; MOR 178/1991, 15). Another fear was that this programme would lead to the sale of the most attractive enterprises and this would deprive the rightful beneficiaries, the citizens-owners, of their entitlements (MOR 178/1991, 19, 22). As a consequence, this programme was reduced to 0.5% of the total number of commercial companies (article 42).

Analysis of the debates

Strikingly, although both contenders, the government and the opposition, claimed to promote privatisation as a means for systemic change and the development of a market economy, neither of them sided consistently with the market. The positions they supported were not inspired by a consistent view of what the role of the state and the market should be. When it

argued for a restriction of the free transfer or the establishment of FPPs, FSN promoted a view of the responsibility of the state that came close to controlling the outcomes of privatisation. The opposition was similarly inspired when it argued for scrapping the pilot programme.

Thus, the state was asked to provide excessive safeguards for the market-players. At the same time, its administration could not be trusted to implement the privatisation law. FSN seemed guided by a paternalistic sense of its duties towards its citizens, while the opposition reacted to the ideology of the new economic winners. Both feared that foreign capital might acquire undue dominance over domestic interests. In this, the opposition contradicted its willingness to entrust the current state institutions with the management of the privatisation shown in the discussion over the FPS. The FSN's criticism of the state bureaucracy might have been an attempt to distance itself from accusations that it wanted to protect the incumbent, supposedly neo-communist, bureaucracy. The urgency of privatisation could have been an opportunity to push through the reform of public administration, but the two issues were de-linked by entrusting an alternative bureaucratic apparatus with the management of privatisation. This decision and the lack of progress with public administration reform had a significant impact on the implementation of the privatisation law, an issue that will be explored further in chapters 3 and 4.

In relation to the market, the positions were equally ambivalent. Both FSN and the opposition agreed that the market was desirable as a mechanism for generating efficiency and wealth and both had some misgivings. They wanted to see the state intervene not only to provide safeguards in the form of rules, but also, at different junctures, to guarantee certain outcomes. None of the parties came out in defence of the survival of the fittest or the profit motive. However, the opposition was more consistently on the side of the market. This was the case when it argued for a broader scope for privatisation and less managed

intermediation. At the same time, by rejecting the role of the intermediaries, it did not see the need for market forms that could accommodate sophisticated agent and principal relations inevitable in a complex economic system.

Does all this mean that the FSN was indeed anti-reformist, as the opposition claimed? And that, in spite of their formal commitment to change, the FSN acted to undermine it? The evidence is mixed. Government ministers certainly used the rhetoric of the market to argue for different points in the law and the mechanisms contained in the law, could, in principle, attain their declared objective. A number of practical conditions had to be met, however. Commercial enterprises had to be registered as corporations and a whole institutional framework, such as a stock exchange, was needed to facilitate the creation of markets for property certificates and shares. Even the counterproposals of the opposition, who wanted a stronger role for the ANP, the removal of the funds, and more free play for citizen-owners, depended on these conditions.

None of these conditions was in place at the time. The corporatisation of commercial enterprises was mandated by law 15/1990 and it should have been completed by middle of 1991. However, this was not achieved due to practical difficulties. The 58/1991 law had to rescind the deadline set a year earlier. There was yet no law for the establishment of a stock exchange. This law was enacted two years later and the Bucharest Stock Exchange opened in 1995.

To wait until the fulfilment of these conditions and postpone the legislation on privatisation would have created significant political risks for the FSN. By the middle of 1991 the pressure to deliver on their promise to reform the economy was very great indeed. Other CEE countries had achieved significant successes on this path. The comparison between Romania and these countries made by the international financial institutions (IFIs), the

European Community and the Council of Europe was crucial for the recognition of Romania as a bona-fide member of the international community (MOR 188/1991, 4). The MPs clearly showed that they had internalised the norms promoted by these organisations – such as democracy, as well as principles of economic management, including privatisation. This shows again, as argued in chapter 1, that structures operate through the subjective experiences of actors, even though a certain amount of leeway in their choices exists. In fact, the perceived need to pass the law was intensified by past failings to conform. Up to that point the record for democracy and economic reform had been mixed, especially due to the gradual liberalisation of prices and foreign exchange and the perception that FSN was responsible for the vigilante actions of the miners in June 1990.

Thus, there was a clear sense in the speeches delivered by the members of both sides, that passing this law was crucial for establishing the legitimacy of the government as bona-fide democrats and reformers (MOR 177/1991, 9; 178/1991, 11; MOR 179/1991, 12-3). The end of the parliamentary session was approaching and the time allowed by the law 15/1990 for creating a framework for privatisation was running out.

Confrontation between parties and parliamentary credibility

This pressure to pass the law was resisted by the opposition. In the preliminary negotiations about the agenda for the last days of the parliamentary session, the opposition asked that the debate over the privatisation law be postponed (MOR 160/1991). When the law finally got on the agenda, the opposition parties, after presenting their criticism of the law, asked that the law be returned to the special commission for improvement, under the threat of not participating in the debates at all (MOR 177/1991, 1-4). After a few days of negotiations in the plenum of the parliament and behind the scenes, with mediation from the President of the Republic, members of some of the parties (PNȚCD and PNL in particular) refused the compromise of allowing the commission a few more days for discussion. They did not

participate in the debates (MOR 186/1991, 1-7) but returned for their conclusion to make scathing declarations over the law and the process (MOR 195/1991, 4-5). There were different degrees of non-participation and discontent. Some deputies did not participate in the debates at all. Others participated in the debates but declined to vote. These two groups numbered 130 deputies, out of 396. Others (10) voted against the law, or abstained (9) (MOR 195/1991, 6).

Dissenting deputies and senators who did not participate in the discussion or the vote on the law did so, they claimed, because of substantive disagreements with the law. They also objected to what they saw as the heavy-handed approach of the government, whose majority guaranteed that it could pass any law they wanted. It can only be surmised that, just as passing the law was seen as a political necessity by the ruling party, the opposition used this occasion for their own political ends. In this case, shock tactics, such as leaving the chambers when the law was debated and non-participation in the vote were attempts to portray the majority enjoyed by FSN as the privilege of a bully and to undermine the effort of the FSN to establish their democratic credentials. Leaders of the two chambers, the government advocates and President Iliescu appreciated the importance of this point and would have liked to obtain a compromise. But such a middle way was simply not good enough politically for the historical parties, who were prepared to undermine the credibility of parliamentary activities in order to affirm their uncompromising attitude towards their opponents.

At the end of two weeks of debate, the UDMR and the ecological group which were part of the more moderate sections of the opposition secured the approval of a few amendments to the law. Politically, this was an indication of the willingness of the government to compromise and to induce the opposition to express a view on the law and vote, even against it. Concretely, pensioners became entitled to discounts for buying physical assets and the

right of first choice, if their offer was equal to the best offer (MOR 192/1991, 3-4). Members of the management were excluded from buying assets in order to avoid conflicts of interests (MOR 192/1991, 14-16) and public officials involved in privatisation had to declare their wealth at the beginning and the end of their mandate (article 69). Requests that any buyer in the pilot programme putting up a great sum of money should have to justify its source were defeated (MOR 192/1991, 19).

Thus, the tensions inherent in the law reflected the economic, institutional and political constraints – or structural conditions - present in Romania at the time. Privatisation involved a number of Funds because of the concentration of property in big enterprises and the lack of institutional prerequisites for markets: the corporatisation of enterprises and the stock exchange. Choices by actors also played a role. A parallel bureaucracy was the preferred solution due to lack of trust in the state bureaucracy. Most importantly, the law had to be passed as soon as possible, in spite of practical difficulties and the stern rejection by the opposition, to buttress the democratic claims of the FSN government and the international standing of the country. According to the political wisdom imparted by John Redwood and quoted by the FSN, this was a case where ‘any law was better than no law.’⁸

b) Appropriating privatisation: subsequent attempts to shape the process, 1995-9.

The Văcăroiu government: 1992-1996

Two months after the privatisation law was passed, the Roman cabinet was dismissed. The dismissal was caused by demonstrations by miners from Valea Jiului who came to Bucharest, in September 1991 to protest against price increases and request better pay and working conditions. For a year, the caretaker government of Theodor Stolojan prepared the

⁸ John Redwood, the UK Minister for Corporations in the Department of Trade and Industry at the time, visited Romania in July 1991 while the privatisation law was debated. He confirmed in a communication to the author that his view on the law and the debates around it was that the ‘the best was the enemy of the good’.

pilot privatisation programme. Given the weak institutional basis – further explored in chapter 4 – and the political instability, this programme was not completed until late 1992. These conditions continued to prevail until the second year of Văcăroiu's mandate. In 1995, the legislative process resumed through the discussion of law 55/1995, which spelled out the mass privatisation component of the 1991 law and added some incentives for buyers outside this scheme (MOR 122/1995).

The influence of the Văcăroiu government on the privatisation process during this period was mixed. Increased dynamism went hand in hand with some reversals. After the issuance and the distribution of property certificates, in 1991-1992, a market on these certificates developed very slowly, in spite of assistance from banks. Part of the reason was the lack of clarity about how certificates could be used to buy shares and what sort of profit they would provide. The only obvious outlet for them were the management-employees buyouts (MEBOs), the main method of privatisation at the time. The associations of workers and management could use certificates as part payment for the 30% of shares owned by the FPPs.

A relative set back to these market-based beginnings was the decision of the government to re-value enterprises, in accordance with inflation, in 1994. This increased the book value of enterprises and made their sale more difficult. Another reversal was the decision to invalidate the spontaneous activity of concentration of certificates through buying and selling (Dochia 1994; Munteanu 1994b). The law for the acceleration of privatisation, law 55/1995, valued the certificates at 25 000 Romanian lei, a few times below their market value at the time (in the MEBO sales certificates had been valued at about 130 000 lei). In order to cancel what the government saw as the undeserved losses of those who sold their certificates, all citizens who had not participated in MEBO transactions received new coupons worth 975 000 lei (articles 1, and 3).

Also, five more cohorts of Romanians, those who became 18 between December 1990 and December 1995, were also entitled to receive coupons (article 2). A person could use his or her coupon for buying shares in only one company from the government's list. S/He could remain a shareholder in one FPP (soon to become *Societăți de Investiții Financiare*, Societies for Financial Investment - SIF) (articles 2, 4, 6), or buy shares in the companies included in the programme (article 5). Shares in companies that were under-subscribed could be valued below the nominal price (article 2); up to 60% of shares in a company could be exchanged against coupons (article 3).

The new law gave impetus to the programme, and by the end of the 1996 the free component of the privatisation programme was almost complete. The law also created incentives for buyers of shares offered in the privatisation process outside the mass privatisation scheme. The FPS was mandated to sell its shares as soon as possible, and in order to facilitate this, up to 60% of the proceeds of a sale could be returned to the buyer to extinguish any outstanding debts or to make investments in new technology (article 8). The scope of privatisation was extended to service providers for agriculture. Agricultural producers who had long-term commercial relations with these companies had the right of first-buy for up to 35% of shares. A similar right, for first-buy for up to 20% of shares in food processing plants, was accorded to agricultural producers who had long-term relationships with them (article 22).

The political circumstances in which the law was passed reflected the political predicament created for the PDSR by the fact that, having been shunned by the Democratic Convention, it ruled in coalition with the nationalist PUNR and PRM and the minor left-wing *Partidul Socialist al Muncii* (Socialist Labour Party – PSM). The competing pressures of realising privatisation and attaining wider social and ethical objectives were even more difficult to reconcile. For instance, a member of the PUNR led the Senate's Commission on

privatisation and economic reform. When the Commission received the draft privatisation law, the chair of the commission ignored it and instead focused the debate on a draft law proposed by the PUNR, which was later defeated in the plenum of the Senate (Ștefciuc-Sava 1995, 80). To buy off the opposition within its own coalition and pass the privatisation law, Văcăroiu reshuffled his cabinet for the fourth time. He gave the Socialist Labour Party two posts in the cabinet (culture and trade), PUNR members received posts of prefects and managers in the FPPs, and the PRM gained some ministerial posts (culture and tourism departments) (EECR 1995b, 21).

The CDR Governments 1997-2000

Like Văcăroiu, the CDR governments attempted to put their own stamp on the process, and to this end made some changes that did not affect substantially its overall shape. The Ciorbea government aimed to increase the number of privatised companies. The first two pieces of legislation in the area of privatisation were passed under the ‘governmental responsibility’ clause in May 1997 (EECR 1997b, 28-9).⁹ The first, Ordinance 15/1997 (MOR 88/1997), put FPS under direct governmental control and spelt out again the methods of privatisation, conditions for sale, the responsibility of the different institutions involved and the destination of proceeds from privatisation. The local authorities could for the first time act as agents for privatisation, 20% of sale receipts were to go to the budget (article 1) and the use of privatisation funds for restructuring was forbidden (article 9). The FPS was to complete its activities by 31 December 1998. The second major privatisation law passed in May 1997 was dedicated to the privatisation of banks (MOR 98/1997). In this case, the agents for privatisation were specially appointed commissions, who could use the services of the FPS and other agencies as technical consultants.

⁹ Under Articles 113 of the constitution it was possible for the government to pass legislation by risking a no confidence motion. The parliament had three days to lodge a no confidence motion. If the motion was not introduced or it did not carry, the legislation was considered passed.

In December 1997, another urgent ordinance restated much of the same content. The main difference was that all proceeds from sales were to go to the state budget; the 60% remittance to the buyer, to pay off debts and invest in new technology, was cancelled (article 9) (MOR 381/1997). The FPS was subordinated to a new Ministry for Privatisation (article 4), which lasted only one year, until December 1998, when its functions were again demoted to the rank of governmental agency (MOR 515/1998). As well as lending more authority to FPS, the responsibilities of its employees as persons were distinguished from those of FPS and judicial action against FPS was put under the authority of the regular courts (article 10). The FPS regional offices were put in charge of the privatisation of small and medium enterprises (article 8). In addition, the FPS could contract out some of its operations and could sell its shares without having to keep to a minimum price. The market price could be the sale price (article 13).

The emergency ordinance 88 was passed by the parliament under the articles 113 of the constitution in December 1997. The debates within the coalition around this decision brought to the fore tensions that had accumulated during the year. Firstly, it was becoming clear that the liberalisation measures introduced in early 1997 led to a deterioration of the economic situation, with inflation reaching 151% and GDP falling by almost 7%. Secondly, Ciorbea had backed down in the summer of 1997 when the announced closure of over 20 loss-making enterprises brought their workers into the streets. This setback undermined the image of the government as a determined reformer. The Democratic Party was trying to lay to blame for these events on Ciorbea's lack of decisiveness and his union connections. When faced with the decision to present the ordinance 88 on governmental responsibility, the Democratic Party had to choose between opposing the government and maintaining their pro-reform image. Although they went with the government on that occasion, resentment towards the manner in which the law was enacted fuelled a cabinet crisis (EECR 1998a, 29) that was resolved in April 1998 when Radu Vasile was appointed Prime Minister. In a

moment of weakness, in March 1998, before accepting that he had to resign, Ciorbea had tried to summon parliamentary support from the erstwhile enemy, the PDSR by offering concessions in regards to privatisation (EECR 1998b, 23-4).

Finally, the last major piece of legislation on privatisation, law 99/1999, was adopted in May that year under the same procedure of 'governmental responsibility'. The opposition filed a motion of no confidence – its nineteenth in just two and a half years – but it was defeated by 286 votes to 147 (EECR 1999b, 2). The content of this law simplified earlier legislation but did not introduce new elements, confirming the inclination of the Romanian governments to resort to legislation as a remedy for implementation difficulties, and the symptom of decreesism identified by Elster, Offe and Preuss (1998). The Vasile government passed 220 emergency decrees in 1998 and 300 in the first eight months of 1999 (EECR 1999c, 1).

This review of the politics of privatisation in Romania in the 1990s shows that in spite of their claims to the contrary, all political parties had mixed views about the role of the state and the market in the new economy. The use by CDR of democracy and the market as ultimate ends obscured the similarities between parties and led to unnecessary confrontation between them. This supposed ideological commitment of the CDR was reflected in their blanket opposition to FSN/PDSR rather than in practical decisions about policy, both in opposition and in government. The rivalry between the PDSR and the CDR, and the alliance of the former with the nationalistic parties created difficulties for the reform programme of the Văcăroiu government between 1992-1996. In the second part of the decade, the failure of the allies within the Democratic Convention to reconcile the social-democratic and neo-liberal elements of their agenda put a serious strain on their ability to govern. In spite of this predominance of conflict over co-operation, all of these governments made significant progress towards the privatisation of state assets, as it will be shown in the next chapter (section 3).

These findings support the point that an autonomous political factor, the antagonistic relationship between the political parties, explains why the leadership provided to economic reform was uneven. In the next section, the same pattern is attested in the domain of foreign policy.

2.5 Romanian political elites and the west

Throughout this analysis of the political developments in Romania during the 1990s, one factor has been occasionally mentioned, but not presented in adequate detail: the relationship between domestic politics and international influence. To establish a distinct identity, all political parties used representations about what they saw as their international partners. These were international organisations or foreign states or values and institutions. Consistent with the line of argument followed so far, it will be shown that all the political parties in Romania strove to find affinities between themselves and their vision of prestigious European traditions. Their domestic rivalries extended to the issue of 'ownership' of these values, especially democracy and market economy.

"The West" was a constant reference point for the Romanian political elites and for the state during the 1990s, as was the case with other CEE states (Prizel 1998). Whether it takes the shape of the European Union, the IMF, the World Bank, NATO, or individual states, 'the west' was invoked as witness, arbiter, supporter, or rescuer. It was the bearer of great wealth and the source of a superior civilisation (Pleșu 1997). The comparison between this imagined West and Romania is a frequent exercise, permeating all domestic issues. Feelings range from awe and admiration, through to despair at the impossibility of bridging the gap between the two situations (Mungiu and Pippidi 1994). By its very unattainable superiority, the west also represents a screen on which fears of inadequacy and helplessness are easily

projected. In this scenario, the west becomes the potential cultural invader and destroyer of national identity (PRM 2000).

Each of the political parties sought to define the west and its particular relationship with it. The reference to the west is in a relationship with the claims to identity exercised on the domestic scene and the motivation to promote certain economic policies. There are four political stances in the attitude towards the west and which occur with greater frequency across the Romanian political spectrum: ambivalence, aggressive imitation, constructive engagement, and parasitism.

Ambivalence towards the western institutions characterised the PDSR. The international recognition afforded the Romanian state was very important for them, perhaps out of nostalgia for the times when, under Ceauşescu, Romania had played a greater international role than its size or importance warranted. In this sense, of asserting national sovereignty and making a contribution to international affairs, the PDSR fought for recognition of its democratic credentials and the progress with economic reform of the country. The democratic image of Romania, and that of the FSN in particular suffered a major set-back in June 1990 when the ruling party was seen to make recourse to the vigilante activities of the miners from Valea Jiului in order to silence the opposition. After enduring the ostracism of the international community for almost three years, in 1993, the PDSR obtained Romania's inclusion in the Council of Europe, associate status to the EU, and membership in the Partnership for Peace with NATO (Ionescu 1993b; 1993f; 1994b). It also concluded important treaties with Russia in 1991 and Hungary towards the end of its term in office in 1996.

For PDSR, the reading of international relations as relations between states was more important than conformity with the ideology represented by the so-called Washington

Consensus (Williamson 1994). This inclination was recognised by the IMF. Before the 1994 stand-by agreement was considered by the IMF Board of Directors, the PDSR government was asked to provide further proof of its commitment to the stabilisation programme agreed with IMF by having the Romanian parliament endorse the memorandum. Interestingly, the PDSR and their nationalist allies prioritised according to national interest and voted for the memorandum. The democratic opposition did not want to partake in the responsibility for a measure initiated by their opponents and voted against it, although the memorandum was in agreement with their own programme (Ionescu 1994c, 22-23). This decision was consistent with the pattern indicated by democratic opposition's attitude towards the privatisation law of 1991 and the decision not to participate in government with PDSR in 1992.

This shows that domestic actors have some leeway in relation to international pressure and that domestic actors can turn this pressure on its head in order to pursue power and influence domestically. The dynamics of the international/domestic divide cut across domestic structures with unexpected consequences. At the same time, it is clear that the identities of parties, the images of what they stand for, can sustain, at least temporarily, a degree of incoherence and even contradiction. However, the cost for this is a dent in their credibility that, depending on other decisions by the parties, could accumulate and lead to dramatic results, such as the defeat in the elections of the PNTCD, the leading member of the CDR.

Thus, the co-operation of the PDSR with the IFIs was subordinated to considerations of national interest, rather than coincidence of value commitments. Their domestic policies tended to reflect the interests of the domestic industry and the notion that the state had a role to play in encouraging it. Although unable to fully articulate or carry out a consistent industrial policy, they do favour such an approach. This is evidenced by their record and by recent pronouncements in the governing strategy of the Năstase Cabinet (GOR 2001), as it will be shown more fully in chapter 3.

Aggressive imitation is the attitude based on a willingness to adopt political values, policy recommendations, and advice generated in the west unquestioningly and with little local input. Although it is local agents who proceed to translate such measures into local parlance and implement them, the internal point of view as an alternative focus of power is generally absent or subdued. In a sense, the wholesale abandonment of the communist system, without an analysis of what had been achieved and what exactly needed to change is an example of this and justifies the interpretation that the fall of communism came about because of the perceived superiority of the West (Verdery 1996). Similarly, the swift adoption of generic values such as democracy and market economy without prior consideration and consensus building as to what these might entail also carried and still carries such connotations (Pasti 1995, 9-26).

Among the political parties, the Democratic Party, the Democratic Convention and the UDMR displayed an inclination towards aggressive imitation. The PD, and its earlier incarnation as NSF-Roman, seemed to base its identity almost solely on this political position. In the first year of democratic government, the Roman government was responsible for re-establishing links with the IMF and the World Bank, and it hired the foreign consultancy Coopers and Lybrand to advise on privatisation (Shafir 1992a). As shown above, the determination of the government to push through this plan alienated some in the party and antagonised the opposition. The argument that foreign experts and politicians, such as John Redwood, the British Minister for Corporations in the DTI, found the plan adequate was marshalled by the FSN in support of the law (MOR 177/1991, 9). For others in the party, the argument was seen as another example of Romania subordinating its policies to foreign influence (MOR 178/1991, 9). The experience of the 1950s when Russian advisers staffed every Romanian ministry was used as a comparative, uncomplimentary, reference

point and some resentment was expressed for the fact that issues were decided before they could be properly considered by the parliamentarians (MOR 181/1991, 5-6).

The Democratic Convention and the historical parties have consistently sought to portray themselves as the true democrats and to this end professed unquestionable commitment to western values, including principles of economic management according to the 'Washington consensus', such as liberalisation, privatisation, and stabilisation (Williamson 1994). However, as shown above, they prioritised not around the promotion of policies consistent with such values but around acting against the proposals of their 'neo-communist' opponents, even when the policies were consistent with their political programme. The Ciorbea government in particular was accused of replacing domestic economic policy with IMF recommendations and of failing to generate complementary domestic policies, especially in the first part of 1997 (Pasti 1998e, 3-4). Having linked his hopes of political success to international recognition, Ciorbea's government had to go when the stabilisation programme plunged the economy into a severe recession (Pasti 1998a). The CDR governments were left to fend for themselves after failing to implement all the components of the stand-by agreement of the 1997. The payments of the IMF loan were suspended at the beginning of 1998. A new agreement was signed in the second part of 1999, after the Romanian government passed the privatisation law, and restructured Bancorex, the bank that concentrated most of the bad loans in the sector (GOR 1999a, annex A, 1).

Interestingly, the hesitation of the Ciorbea government in the summer of 1997 to carry out the closure of over 20 enterprises among the greatest loss-makers in the economy, while it disappointed the IMF, was actually designed to achieve another foreign policy objective of equal importance. By giving in to protesters, and thus ensuring social peace, the Ciorbea government was hoping to strengthen Romania's case as a factor of political stability in the region and bolster its chances for entry in the North-Atlantic Treaty Organisation (NATO)

(Secăreş 1998). Although this objective was not achieved, the CDR governments continued their support of the alliance, especially during the bombing of Kosovo, when NATO used some airports and the national air space to reach their targets. It was not lost on observers in Romania that this show of solidarity and the priorities of NATO in the Balkans in 1999 might have been a stronger argument for IMF extending a new stand-by agreement to Romania that year than the country's compliance with their economic criteria (David 1999b).

In general, the Democratic Convention enjoyed greater trust and recognition on the part of their foreign counterparts and this reflects the lack of ambiguity in their pro-Western rhetoric, if not in their actions, especially during their years in government. Gestures such as the visit of the then President of the USA, Bill Clinton, to Bucharest in the summer of 1997, after Romania's application to join NATO was put off, and the invitation to start negotiations for accession to the European Union, in December 1999, reflect this. At the same time, their performance in government also revealed the discrepancy between rhetorical and substantive commitment, as demonstrated by their inability to push through the required policies. By the end of 2000, the World Bank's evaluation on Romania seemed to have overcome the polarisation of the 1990s, and moved towards appreciating the limitations of the CDR and some of the merits of the PDSR (World Bank 2001a).

The UDMR, which represents the interests of the Hungarian minority in Romania, received a sympathetic ear from the Council of Europe and other organisations that promote human rights and democracy (Andreescu 1998). This created the perception of a natural affinity between the UDMR and European values, which has withstood internal divisions within the Union and the temporary ascendancy at one point or another of their more conservative or nationalistic factions (Mungiu-Pippidi 1999, 173-186). This orientation facilitated the coalition between UDMR and the CDR after 1996. As shown by their persistence in the

negotiation of the privatisation law, UDMR was also pragmatic on economic matters, and this, together with a positive change in the credibility of the PSD facilitated their cooperation in the current government.

The third major stance towards the west, constructive engagement, stems from a genuine commitment to social-liberal values, and it is the attitude of some of the prominent technocrats. Amongst the economists and social scientists employed in research institutes or in government under the communist regime, there emerged a group of people interested in and conversant with western social science and who had a clearer notion about the global economy and tasks involved in running a modern open economy. They display the characteristics found by Eyal, Szélenyi and Townsley (1998) in their study of post-communist elites in other CEE countries. Under the previous regime they accumulated expertise in their field and also switched to a substantive attachment to democratic values and rational administration. At the same time, members of this group, unlike the exponents of aggressive imitation, were more interested in balancing the received wisdom of the west with the priorities created by the situation in Romania. They were attentive to the embeddedness of the economy and the importance of institutions in the working of the economy.

The local technocrats were present in the government with varying levels of responsibility during the 1990s. Some of them were close to the FSN/PDSR: Mișu Negritoiu (1996a, 1996b), Mircea Coșea (1993), Eugen Dijmărescu (1993a, 1993b, 1994); others, to the CDR: Daniel Dăianu (1996b, 1999), Adrian Miroiu (2000a; 2000b; 2000c), Mihaela Miroiu (1999), Ilie Șerbănescu (1993, 1994, 1999), Lazăr Vlăsceanu (2000). Still others work for the National Bank – Eugen Rădulescu (1993, Rădulescu and Drăgulin 1995) and Mugur Isărescu (2001) or animate non-governmental organisations such as the Foundation ‘A Future for Romania’ - Vladimir Pasti (1995, 1998d), Vasile Secăreș (1998) - which provided

advice for President Iliescu. Although this position is one of the most promising and productive intellectually, it has not yet found a unified and effective political vehicle. Often, their contributions to policy formulation and implementation were overshadowed by inconsistencies in the programmes of the political parties that they supported. Entering in alliance with political parties from an independent platform, they were usually sacrificed in the interest of keeping party alliances together, as in the case of Ministers Şerbănescu and Dăianu. In 1998 Dăianu, who was the Minister of Finance, refused to sign the contract with Bell Helicopters, an American company who tied their purchase of a Romanian factory for about \$150 million to the purchase by the Romanian government of army helicopters worth more than \$1 billion. The IMF objected to this great outlay, in spite of arguments that the purchase would have increased Romania's chances to join NATO, and supported Dăianu's resistance.

Nationalism of different shades was a feature of all political parties in Romania. Although it embraced the neo-liberal principles to a greater extent than other parties, the democratic opposition also partook of nationalist concerns, in spite of its attempts to equate nationalism with the former Securitate and their neo-communist opponents (Verdery 1996, 104-129). They argued against a treaty with Ukraine and Russia by accusing the PDSR of 'abandoning' Moldova and the nationalist ideal of recreating the Romanian state as it existed before WWII (Andreescu 1996). On a different plane of theory and sophistication, the relationship between the national and European identities of the Romanian culture has always contained an element of reticence towards what was perceived as the excessively technical and instrumental culture of Western capitalism (Pleşu 1997, Laignel-Lavastine 1998).

But certain political groups, such as the PUNR and the PRM linked their name to a form of extreme nationalism. The rhetoric of their publications is often rabidly anti-semitic and anti-Western. However, their political actions were opportunistic. In spite of the nuisance value

of their nationalistic antics, they agreed to subordinate their rhetoric to national interest in several key moments. They signed the Snagov declaration of 1995 which was the basis for Romania's application for membership to the EU and the strategies for medium term development which underpinned the invitation by the EU to open accession negotiations with Romania in December 1999. In this sense, their stance can be described as parasitic. Members of parliament representing these parties struggled to represent Romania in international fora and were proud of being allowed to participate (PRM 2000, chapter 4). The political programme of the Greater Romania Party considers that national interest is paramount and it can only be realised through political action within the wider world. Their view of the world community is romantic and cultural, and their model is one of heroic transcendence of current limitations (PRM 2000, chapter 1).

It has been shown in this section that the identity claims of the major Romanian political parties were played out in their attitude towards the west and their foreign policy activities. A degree of consistency as well as contradiction characterised these political identities, a reflection of the complexity of the pressures to which they had to respond. The presence of contradictions was seen as a failure of the political parties to create coherent platforms and to lead the reform effectively (Pasti, Miroiu and Codiță 1997, 129-164). At the same time, it is perhaps remarkable that in spite of the recognised gap between the tasks of reform and the initial weakness of agency (Elster, Offe and Preuss 1998), some degree of coherence was achieved at all.

2.6 Conclusion

This review of political events in Romania in the 1990s substantiates the empirical arguments about the structuring of the post-communist political system and its impact on economic reform. The sudden breakdown of the communist regime, grass roots mobilisation,

the rejection of communism, and the void of power at the centre created a political agenda characterised by contradictory needs, for stability and for a radical break with the past. The political parties that emerged after the revolution politicised these needs in the form of an apparently irreconcilable conflict. Those who wanted a process of moral purification and the exclusion from political life of the former communists (the Historical Parties) could not reconcile their differences with those who were willing to compromise with the former establishment to buy social peace and pursue marketisation more slowly (the FSN). This antagonism between parties was reflected in the institutional design of the electoral and parliamentary systems (and privatisation), and coloured the alliances between parties and the debates around economic and foreign policy.

However, the democratic system proved robust during this decade. Parties went in and out of power and this tested their claims and led to a restructuring of the party system. The most dramatic events were the failure of PNȚCD to gain seats in the current parliament, the consolidation of the nationalistic left in the PRM, and the fusion between the PDSR and PSDR to form a stronger and possibly more legitimate social-democratic party, PSD. PNL and PD are now the main centre-right parties.

The review of privatisation policies illustrated the conceptions over the role of state and market of the parties. For both sides, it was found that inconsistencies existed in the way different aspects of the role of the state and market were evaluated. The democratic opposition was pleading more consistently for individual freedoms, but wanted to eliminate the possibility that a free market system might favour the former communist nomenklatura. The FSN was more concerned with ensuring equality of outcomes for citizens entitled to free shares. At the same time, they did not want to increase the overall share of state property that was to be distributed freely. Beyond this confrontation of ideas, the antagonism between

parties surfaced in the shock tactics of stalling the passing of the law and de-legitimatising the parliamentary procedures.

In foreign policy, although the Democratic Opposition claimed the role of committed westernisers, they did not hesitate to vote against the marketisation efforts of their opponents or blacken the democratisation process in the first part of the decade. In the second, their decisions reflected conflicting pressures. The IMF-inspired stabilisation and liberalisation programme of 1997 was implemented, but associated restructuring decisions were postponed in order to ensure social peace and to increase the chances of Romania for joining NATO.

Theoretically, the concept of identity has been core to the explanation of these developments. From this point of view, a peculiar picture emerged. On the one hand, the antagonism between parties was reflected in their rhetoric and their inability to create consensus around certain policies. It might have been expected that this antagonism would be justified by very different ideological positions, but this was not the case. Similarly, their record in office showed that both sides did their best to negotiate conflicting pressures. Domestically, there was the resistance of organised labour to reform (this will be explored further in chapter 3) and the hostility of the political opponents. Internationally, the need to abide by the norms of democracy and market economy and to negotiate entry to NATO and EU was recognised by both.

The reason why these similarities led to conflict rather than co-operation is that the democratic opposition could not move out of its position of principled conviction. Their need to be the morally pure survivors of communism and the moral prosecutors of their adversaries who were deemed tainted by their association with that regime could not be satisfied through compromise. Ultimately, this position proved self-destructive. Absolute commitment to this view of who they were led them to take decisions contradictory to the values they espoused, simply because those decisions reaffirmed their fundamental

opposition to the FSN/PDSR. This tension at the core of their identity could not survive the next test. When in office, the inability to govern effectively undermined their claim that moral purity is the most important qualification for good political leadership.

Paradoxically, it was the robustness of the democratic system itself that allowed this evaluation to take place and offered a correction to the politics of absolute identity. In this sense, the liberal cautionary tale that identity politics is intrinsically dangerous does not hold. More generally, identities can be understood as definitions of self, whose meaning is continuously tested and renegotiated as new events pose new challenges, opportunities or threats (Wendt 1995; Castells 1997). Under these circumstances, resilient actors would be characterised by self-definitions that do not depend on a radical exclusion of others but are able to negotiate difference without losing one's voice or distinctiveness.

Thus, after reviewing the role of factors autonomous to the political sphere in shaping the course of marketisation in Romania, the next chapter introduces factors autonomous to the economic sphere. Several links between economic interests and the political system will also be explored. The theoretical approach adopted in this thesis, which links (perceptions of) material constraints with subjective responses and specific reforms, will be tested further.

CHAPTER 3

From plan to market: Reforming the socialist economy

3.1 Introduction

This chapter takes up the argument about the political economy of transformation in Romania by looking at another feature of the political economy framework proposed in chapter 1: the autonomy of the economic sphere and its influence on politics. To understand economic phenomena and the evaluation of economic policy, three economic theories were reviewed in chapter 1. The dominant theory, neo-liberal economics, suggested that changes in the economic environment would induce firms to adapt or disappear, and would create markets. Restructuring would occur both as a consequence of firms adjusting to competition and because the markets would re-allocate resources from the declining to the competitive sectors. The overall effect would be enhanced economic performance. The policies proposed were the liberalisation of all prices (including the price of money – credit and foreign exchange), stabilisation and the control of inflation, low budget deficits for governments, and balance of payments equilibrium (Blanchard et al. 1991; 1993; Sachs 1993; Williamson 1994). Their prescription for change was ‘shock therapy’ – the introduction of all these measures at once to force the desired adaptive reaction on the part of enterprises and the economy.

Evolutionary economists also believed that markets were desirable mechanisms for allocating resources and encouraging innovation, but appreciated that firms rely on entrenched routines to co-ordinate their members and activities. These routines change slowly and change is costly: it takes time and it disrupts the production flow (Murrell 1992; Clague 1992). A system change, as in the case of the economies in Central and Eastern Europe (CEE) after 1990, creates a great deal of uncertainty and this complicates the firms’ task to adapt. For this reason, the maintenance of state control over some enterprises and some mechanisms of direct control over the economy could offer a

semblance of macroeconomic stability (Carlin and Mayer 1994). Definition of the new rules of the game, property rights and the rule of law, as well as the swift development of the new private sector were put forward as the focus for reform (Olson 1993; Rausser and Simon 1992).

Economic sociologists take the insights of evolutionary economics further. The embeddedness of economic activity means that decisions are taken within relationships and networks (Granovetter 1985). In the post-communist context, Stark (1990; 1992), and Stark and Bruszt (1998) argued that enterprises will adapt to their new circumstances by using the relational assets they had in their networks. Good economic policy should encourage the use of these resources to enhance production and restructuring. At the level of the economy as a whole, Polanyi (1992) observed that the mechanism of economic integration is associated with a certain social structure and distribution of power in society. The implication of this is that systemic change, the change of the integration mechanism, in this case from plan to market, takes place together with a re-alignment in social structure.

In this chapter, it is argued that while the assessment of the neo-liberal economists about the slow marketisation of the Romanian economy is valid, this theory does not explain why this is so. They simply blame politicians for not implementing their programme to the letter (IMF 1996; 1997; 2000; 2001). In contrast, by using insights from evolutionary economics and economic sociology it can be established that structural imbalances in the Romanian economy at the end of 1989 were a major factor in explaining the pace of marketisation after the fall of communism.

Although the commitment to reform and to market principles of the political leaders was a factor, their room for manoeuvre, both in the political field, as shown in chapter 2, and given the inherited economic conditions, was limited. This was the case even after 1996,

when the Democratic convention governments adopted a neo-liberal reform agenda. By giving due weight to the factors specific to the economic sphere in the explanation of the pace of marketisation, it is also possible to appreciate that, given the size of the transformations tasks, the record of the Romanian post-communist governments is at least defensible.

The next section presents the economic situation at the end of 1989. Section 3 introduces the succession of economic policies during the 1990s in two policy areas, stabilisation and liberalisation, that provided the context for structural reform and privatisation. This is followed in section 4 by a detailed account of the privatisation process. Finally, the last section of this chapter brings into focus the role of the international financial institutions in pushing through some of the economic policies in Romania.

3.2 Structural imbalances in the Romanian economy at the end of 1989

Romania was a late developer. The serfdom of the peasantry was not eliminated completely until the agrarian reform of 1864 (Durandin 1998, 121). The modern Romanian state, created in 1859, won its independence from the protectorate of the 'Great European powers' in 1881. State-assisted industrialisation began at the end of the nineteenth century.¹

Until the Second World War, the state encouraged the development of industry through investments in infrastructure, direct purchases for the military and intermittent protectionism (Hitchins 1994, 183-195, 359-376). National markets for industrial products and capital began to emerge, but the development of agriculture was hampered by restrictions in the markets for land and labour. This conservatism in agriculture was a form

¹ Gerschenkron (1992: 113), for instance, considers political unification a pre-requisite for the industrialisation of backward countries.

of social protection of the peasantry, whose potential for political turmoil was feared by the small political class of the time (Ioniță 1996, 157). The long-term consequences of this unbalance was a deepening of the “abyss between urban and rural Romania” (Dobrogeanu-Gherea 1910, 5). This was seen by some as a failure of the liberal political class to integrate the institutions imported from the west in the Romanian context in such a way as to stimulate the development of the country (Weber 1965, 514; Roberts 1951, 337).

The Romanian economy at the beginning of the communist regime was still rural: 74,3% of the working population were employed in agriculture in 1950 (Earle and Săpătoru 1994, 89). This was to change significantly through the policies introduced by the communist regime. The year-plans for 1949 and 1950 established the developmental priority of the new regime: the building up of a diversified industrial structure, based on technologically advanced heavy industries. Investment in industry amounted to 48.3% (of which consumer goods received 41.9%) of total investment in 1950 and 57.5% (consumer goods 50.2%) in 1951-1955 (Montias 1967, 25).

Investment growth continued in the 1960s and 1970s. In the first half of the 1970s, the average annual increase in investment was 11% and it reached 15% growth in 1975. Industry took 57.2% of net investment, with most of the funds going into the energy-intensive heavy industries – steel, chemicals, and refining (Linden 1986, 352, 354). As a consequence, the gross industrial output increased annually on average by 10.6% in 1950-55, by 9.5% in 1955-8, 15.4% in 1958-60, and 12.2% in 1960-63, some of the highest rates of growth in the region (Montias 1967, 56, 68; Shafir 1985, 107).

This was an ‘extensive’ pattern of development: planners increased steadily the range of new and technologically advanced industrial products. Capital investments stimulated the growth of industrial production in the heavy industries, and in the consumer goods industries the large-scale absorption of manpower compensated for the relative scarcity of

capital. As a consequence, until 1963, the industrial output was still relatively balanced between the consumer goods and heavy industries (Montias 1967, 15). The structure of international trade also reflected this relative equilibrium between industrial sectors. Compared to 1948, in 1965 the share of raw materials, fuels, and semifabricates in imports increased, while their share in exports decreased. Advanced industrial products represented about 50% of all exports, an increase from 1948 (Montias 1967, 156-160). For the long term this meant that Romanian industry was dependent on imported raw materials. This put a premium on the capacity of the industry to compete on the world markets and increase exports to avoid balance of payments difficulties (Montias 1967, 82-3).

Thus, during the first three decades of communist rule, the development of the Romanian economy was largely self-sufficient. The agricultural labour force was mobilised for industry, and the investment on heavy industries was done at the expense of restricted domestic consumption. The balance of payments was in relative equilibrium and there was little need for foreign borrowing (Linden 1986, 352-3).

Towards the end of the 1970s, this self-sufficiency was lost as the trade-offs that had sustained the development of the heavy industries came under increasing pressure. Internally, the reserves of labour and raw materials, especially petroleum, were becoming exhausted. Externally, the quadrupling of oil prices in 1973 and 1974 increased production costs while the recession of Western economies shrunk markets (Cojanu 1994). As a consequence, Romania began to develop trade deficits in both hard currency and roubles and had to borrow from abroad. Total debt grew rapidly, and by 1982 the servicing demand of \$2.6 billion proved more than the country could manage. The government asked for a rescheduling of the payments and, in a fateful political overreaction, the communist leader Nicolae Ceaușescu made a commitment to pay the whole foreign debt

of about \$10 billion before it was due. This target was achieved in 1989 (Ben-Ner and Montias 1991, 164-5).

While other countries of the former Soviet bloc decentralised the management of the economy and provided economic incentives to their labour force in order to respond to these external shocks, in Romania the opposite was the case. The push for further investment in heavy industry was not checked by popular pressure for increased consumption. Nicolae Ceauşescu had eliminated the collegial style of leadership that provided some internal checks and balances in other communist parties in the region (Comisso 1986). The controls over the economy were tightened to insure a 'dramatic compression of imports' and a 'brutal compression of living standards' (OECD 1993, 11-13), which led to an increase in rationing of basic foodstuffs, queuing, and power cuts to households. The scarce resources available for investment in Romania in the 1980s were largely used in grandiose projects of the dictator. The return to invested capital decreased from 1,51 lei of value added for each leu invested between 1976-1980, to only 0,69 lei of value added in 1981-6 and 0,21 lei in 1986-1990 (Dijmărescu 1993a, 59).

In addition to becoming undercapitalised as a consequence of reduced technological imports in the 1980s, the Romanian industry had a number of other features that complicated the reform process in the 1990s. It was dominated by large enterprises, with 49% of production taking place in firms of 3000 employees or more (OECD 1993, 11). Many of these, especially in the heavy industries, were the sole producers for at least some of the products in their portfolio and sometimes had only one or two local customers. In other words, for many products, the industry was monopolistic and monopsonistic. The trade links between firms were organised along relatively closed, vertically integrated chains of production (Ben-Ner and Montias 1994; Pilat 1996).

The Romanian industry was also energy intensive. In 1989, for every \$1 million of GNP about \$317 250 represented the energy costs. Metallurgy produced only 9,8% of industrial output and 5.4% of GDP, but consumed 23.4% of the total energy used in the economy. Similarly, the chemical and petrochemical industries consumed 41,5% of all energy inputs but generated only 21,3% of industrial output (Dijmărescu 1993a, 59). The gross primary energy intensity of the Romanian economy was in 1990 approximately 1.9 tons of oil equivalent for \$1 000 of GDP. This was about three times the average in OECD Europe and one of the highest in Central and Eastern Europe (CEE) (World Bank 1994a, 1).

The heavy industries became even more difficult to sustain following the trade shocks at the end of communism: the disappearance of the Council for Mutual Economic Assistance (CMEA), the Gulf War and the war in Yugoslavia. CMEA trade had provided both relatively cheap energy imports and export markets for the heavy industries. It was the destination of 45,3% of industrial exports in 1989. The discontinuation of the payment systems within the CMEA raised the costs of imports of gas and oil; for instance, for twelve months in 1990/1991 the increase was by 61,8% for oil and 32,5% for gas (Dijmărescu 1993a, 60). The Gulf War and the embargo on Iraq deprived Romania of oil shipments already paid for in value of \$1.5 billion.

Thus, the communist regime of Romania left behind 'an unmitigated disaster on all fronts' (Ronnas 1991, 61). The economy was dominated by a run-down industrial sector, and within this sector the large energy-intensive enterprises played a major role. The sheer size of this sector meant that the amount of restructuring required was very high, while the capacity of the economy to absorb the costs was modest (Dăianu 1996b; 1999).

3. 3 The context for structural reform: stop-and-go stabilisation and liberalisation²

The loss of power by the Romanian communist party in December 1989 was associated with wide-scale grass roots mobilisation in enterprises and an explosion of pent-up consumption demand (Pasti 1995, 102-4; Dăianu 1996a, 232). In the first few months of the 1990s, the provisional government scrambled to ensure some continuity of economic activity against this eruption of popular mobilisation (Iliescu 1990). Reliable knowledge about the particulars of different sectors and enterprises was scarce; the direct mechanisms for economic management then in place came under severe pressure (Ionete 1993).

In this period of break with the old regime, of uncertainty at the top as to the new framework for governance and mobilisation from below, the direct controls of the ministries over enterprises were temporarily suspended. But the transformation of state owned enterprises (SOEs) from links in a pre-planned chain of production into self-assertive and self-promoting enterprises guided by the market ethos of their managers and workers proved very difficult. The SOEs blamed the government for creating chaos in the economy and fell back upon the links with the ministries to secure inputs and markets, a development consistent with the expectations of evolutionary economics, presented in chapter 1.

Within firms the breakdown of the PCR was followed by the organisation of independent unions. These re-elected managers and asked for the reimbursement of the 'social contributions' extracted by Ceausescu's regime in the 1980s, wage increases and the reduction of the working week to five days, although both the production and productivity levels were in decline. Little prepared to resist such pressures, the FSN provisional government granted these changes (Teodorescu 1991, 78-9). Labour mobilisation was a

² Appendix 1 presents the main indicators of macroeconomic performance in Romania 1989-2000.

constant feature of the 1990s, especially in the heavy industries and the public utilities.³ The antagonism between parties, documented in chapter 2, made impossible a bi-partisan agreement on how to deal with this issue. On the contrary, political parties tried to use labour unrest to their advantage (Ronnas 1992; Shafir 1992a; Ionescu 1992b; 1993e; EECR 1999a).

Thus, in the struggle over property rights, the state failed to assert its role as the sole custodian of what had been the property of 'the entire people'. The unions pressed the legitimacy of their concerns in a climate favourable to their demands. The rejection of the communist regime was determined by its failure to live up to its own ideals; these ideals were re-affirmed when the grass roots mobilisation of the Romanian revolution imposed some elements of direct democracy.⁴ In any case, all subsequent governments were tentative in standing by their policies in the face of protests and strikes. The economic consequence was that a vicious cycle between inflation and wage increases became established (Blaga 1994a, 70; Drăgulin and Rădulescu 1999).

Lack of preparation for reforms prior to 1989 and the frequent strikes and political challenges to the central authority in the aftermath of the revolution led the FSN governments to choose a gradualist programme of market reform (Ronnas 1992). The Roman government launched this programme in November 1990 with a partial liberalisation of prices.⁵ This was the first in a series of steps to reduce the number of

³ See also reports in *Financial Times*: 'Romania slides towards anarchy amid coup claim' (27 September 1991); 'Romania's steel workers join strike' (19 May 1993); 'Romania acts on pit strike' (7 August 1993); 'Romania gives rail strikers ultimatum' (18 August 1993); 'Romania faces general strike' (15 February 1994); 'Survey of Romania 4: Slow reforms threatened – The unions' (3 May 1994); 'A fascinating but unfulfilled outpost: Tourism potential is being squandered and heavy industry refuses to accept its fate' (25 June 1997); and 'Police attack Romanian miners' march' (19 January 1999).

⁴ For instance, some saw the worker organisations as the only authentic political force that had emerged out of the revolution and that could have given the reform a clear direction (Pasti 1995, 102-4). Pasti decried the Roman government's decision to distance itself from them.

⁵ The price liberalisation programme was introduced by a Government Decision, rather than a law, thus avoiding debate in the parliament and raising protests about its non-democratic and ill-prepared character (Vosgian 1994a, 36-7).

administrated prices (the next took place in April and June 1991, May and September 1992, May and June 1993 and March 1994). Certain food prices, such as sugar, bread, and meat, were not liberalised until 1994 for reasons of social protection. Intermediary steps included a 30% cap on the margins for wholesalers and retailers, the obligation for enterprises that did not have at least two domestic competitors to notify the ministries and seek approval for their prices, etc. (Munteanu 1995, 23). Prices for energy, petrol and gas remained controlled and in agreements with the World Bank and the IMF the Romanian governments undertook to raise them in line with world prices (World Bank 1994a, 6; 1995b, 3, 12).

Related measures included a tight control of money and credit supply, a small budget deficit, and the partial indexation of wages. Due to the low level of foreign currency reserves, and the lack of a stabilisation fund similar to that put together by foreign donors for Poland in January 1990, worth \$1 billion, the exchange rate was not used as a nominal anchor for inflation. The leu was devalued in November 1990, however, and kept constant for much of the next year (OECD 1993, 53). Interest rates remained negative and, according to Rădulescu and Drăgulin (1995, 75), Romania was the only country where IMF agreed to this.

The gradual liberalisation of prices reflected the concern to protect the interests of consumers (the prices of basic foodstuffs were liberalised last) and the heavy industries, who also benefited most from low energy prices. The management of the exchange rate between 1990-6 had similar objectives.⁶ The exchange rate fluctuated to respond to competing pressures: the need to control inflation and balance of payments problems. Having decided in November 1990 that the convertibility of the leu was not possible, the

⁶ In 1998 Romania signed up to the Article VIII of the IMF Articles of Agreement and introduced the current account convertibility of the leu.

exchange rate was used initially as a suppresser for inflation. By allowing the leu to appreciate, the costs of imports were lower and they would not feed the inflation.

Given the high proportion of energy products in imports, this measure was also a form of subsidy for the energy-intensive industries. But the effect on the economy was that the opportunity costs of imports were low and imports grew faster than exports, putting pressure on the balance of payments (Dăianu 1996a). Alternative resources, such as FDI and external borrowing, were also difficult to mobilise, which led to periodic depreciation of the currency. This happened for instance at the end of 1992 when a delay in the transfer of \$800 million promised by the Group of 24 countries (G24) led to a shortage of foreign currency reserves.

Another pressure on the exchange rate was the slow introduction of real positive interest rates, which did not become effective until 1993. With levels of annual inflation in the hundreds in 1991-3 and interest rates of about 70-80%, the effects of money illusion initially protected the run from lei in 1991 and 1992. The lack of historical experience with inflation explains why the initial increase in nominal incomes obscured the erosion of real incomes. However, from late 1992 the demand for foreign currency and goods, as more reliable stores of value, expanded. This in turn intensified the pressure on the exchange rate and led to an increase in the velocity of money and inflation. Thus, in seemingly seeking to control inflation by controlling the exchange rate, the government created a pattern of currency appreciation and sudden depreciation that ended up fuelling inflation (Rădulescu 1993; Rădulescu and Drăgulin 1995).

These measures can be easily criticised by neo-liberals for not respecting some basic economic mechanisms: the signalling role of prices was distorted by the gradual liberalisation of prices. Such analyses play up the failure to create hard budget constraints and the tendency of the enterprises to perpetuate non-competitive behaviour, such as

reliance on arrears and soft loans. Indeed, arrears were a persistent phenomenon in the post-communist Romanian economy (Dăianu 1993a; Croitoru 1994a; 1994b).

One interpretation of this phenomenon was that ‘losses made at the enterprise level in that particular set-up inherited from socialism’ constituted the link between macroeconomic instability and the structure of the economy (Ruhl 1999, 7-9). These losses were absorbed in the economy through four channels: (i) arrears (inter-enterprise, to the budget, to the utilities); (ii) the banking system (bad loans, loans at subsidised interest rates); (iii) domestic debt; and (iv) foreign debt (Ruhl 1999, 7-9).

While this might be an accurate observation at the macro-economic level, the evidence on the behaviour of firms is mixed. Recourse to non-monetary transactions, such as barter, delayed payments and arrears, did not necessarily mean that firms were doing poorly and did not restructure. For instance, a survey of firms from 20 countries at different stages in their transition, including Romania, showed that barter and other non-monetary transactions between firms were not significantly related to their performance or restructuring, except for Russia (Carlin et al. 2000). In other words, networks of enterprises can be resources for adaptation and growth, as argued by Start and Bruszt (1998).

Empirically, it is not possible to establish whether shock therapy would have determined the restructuring of the economy, as the neo-liberal economists argued. The neo-liberal prediction of successful restructuring was based on the belief that structural interests could be displaced through governmental fiat. The experience of the first seven years of reform in Romania showed that the government could not avoid being swayed by the pressure of economic interests. This was reflected in hesitations and reversals in liberalisation, which led to some unwanted consequences such as the entrenchment of inflation expectations and counterproductive adaptive behaviours. Moreover, actors often used to their advantage

the new economic environment created by government policy. For instance, exporters used the instability of monetary policy to obtain the right to full retention of their foreign currency earnings, thus restricting the access of BNR to hard currency and acquiring another economic asset: the ability to take advantage of currency fluctuations on the domestic markets (OECD 1998, 80). Equally, the control of prices and direct credits to favoured industries shifted some of the economic pressure from heavy industries to agriculture and the banking sector.

Direct attempts by the government to tackle the cycle of price increases, inflation and arrears (by the end of 1991 they had reached 80% of GDP) also met with mixed results. In December 1991, the BNR was instructed to facilitate credits worth 1.8 trillion lei to enable enterprises to compensate their arrears. After compensation, the net amount of new credit extended by the BNR was 400 billion lei. This led initially to a reduction of arrears, but by the end of 1992 they reached again 30% of GDP (OECD 1993, 45).

The perpetuation of certain institutional arrangements was perhaps necessary for providing a semblance of macroeconomic stability, as evolutionary economists (Murrell 1992) warned. Before the introduction in 1994 of a new accounting system, the calculation of profits and taxes contributed to the relative equilibrium of the state budget. For instance, costs were included in calculation only for products sold and cashed, and not for the stocks. Similarly, the depreciation costs were calculated historically, ignoring the 1000% plus inflation since their valuation in April 1990. Both procedures made firms look better financially and increased their taxes (OECD 1993, 67; Antohi 1995). This was recognised in 1994 when SOE re-valued their assets to take account of inflation and recovered some of the de-capitalisation of the previous years.

It seems that the liberalisation of prices exposed but did not resolve the structural difficulties in the economy. A pro-market measure – the liberalisation of prices –

interacted with the economic structure and led to a number of perverse results: inflation, the accumulation of arrears, de-capitalisation of enterprises. These effects show that, as Polanyi (1992, 50) observed, prices systems reflect 'an institutional history of their own in terms of the types of equivalencies that entered into their making' and that economic actors will modulate their reaction to changes introduced by the government by using this status-quo.

The impact of gradual liberalisation policies on economic growth and restructuring was also mixed. The output declined between 1990-1992 by nearly 25%, inflation reached 200% in 1992, while real wages kept much of their value. After this initial period of recession, in 1993 growth resumed, exports grew faster than imports, and in 1994 the inflation became stable.⁷ The policy of the government to cushion the impact of term of trade shocks to the heavy industries allowed them to recover. Unfortunately, this opportunity to restructure during a period of economic growth was lost in 1995 and 1996. Having reached their potential for growth based on export demand in 1993-4, the growth of industrial production relied on subsidised domestic demand in 1995-6. To maintain the momentum for growth, the Văcăroiu government reversed some of the liberalisation measures, especially in the foreign exchange market (BNR 1997b, 83-86; Hunya 1998, 244-247).

The response of the enterprise sector to the new economic circumstances was certainly less drastic than in other CEE countries in transition. In Poland for instance a reduction in industrial production of 24.2% in 1990 and almost 12% in 1991 led to a decrease by 11% and 8% of the industrial labour force in the two years. In Romania, a much greater decrease in industrial production, of 23.7% in 1990 and 22.8% in 1991 led to a shrinking of the labour force of only 5.3%. In 1993-5, as the industrial production recovered, the

shedding of labour continued but without reaching the levels of unemployment of 16-18% known in Poland. Unemployment in Romania hovered at around 10% during the 1990s (BNR 1997a, 232). The greater decline in industrial production in Romania reflects the disorganisation of production after the revolution and the severity of the trade shocks. At the same time, the recalcitrance of labour in Romania – unlike in Poland, where the Solidarity Union was backing the reform – explains why the costs of the recession could not be easily shifted towards the industrial workers. Other sectors, such as education and health, took the brunt of the budget cuts.

Direct attempts by the government to restructure loss-making enterprises also reflect the ability of the SOEs to use pressure from above to their advantage. The isolation programme run between 1992-1997 included 147 enterprises (of which about half were state farms). They were put under special supervision and asked to design financial recovery plans, with the help of a restructuring agency. Foreign technical assistance and funds for severance payments to workers were made available from the FPS. Intense lobbying on the part of some of the SOEs ensured that only 4 of the 10 largest loss-makers, 46 of the largest 100, and 82 of the largest 300 were actually included. Once in the programme, contrary to expectation, these enterprises were actually able to receive more subsidies and greater write-offs of their debts, as the restructuring agency pressured their creditors to show leniency.

The performance of these SOEs deteriorated in comparison with similar enterprises that faced the pressure to adjust on their own. In the event, only four firms graduated from the programme (two were privatised and two were liquidated), and only 7 top managers were fired (Djankov 1999, 7-9). Another author claims that by the middle of 1997, the number of enterprises from this programme, either privatised, liquidated or turned profitable was

⁷ The fact that inflation was stabilised after growth resumed was unique to Romania and Bulgaria. In other CEE economies analysed by Fischer, Sahay and Vegh (1996) stabilisation

much higher – 31, 33 and 10 respectively, with the agricultural farms representing the worst failures (Negulescu 1999, 11).

A degree of adjustment did take place but to a lesser extent than in other CEE countries (Comander, Dutz and Stern 1999). Thus, 6023 SOEs, out of a total of about 7500 SOEs and regies autonomes analysed by Negulescu (1999, 4), shed 22.3% of their labour force between 1994 and 1997. Among these, some of the worst offenders in terms of operational losses, about 1/3 of the total sample, reduced their employment figures by as much as 60%. Many of these enterprises remained in a tenuous financial position. Only about 2/3 of the enterprises surveyed had a positive net cash flow from operations (Negulescu 1999, 4-5).

In the new private sector, a survey conducted in the second part of 1997 found that Romanian new firms compared well from the point of view of job growth, security of property and market development with firms in Poland (Johnson, MacMillan and Woodruff 1998). For the whole of the economy, however, although there were promising beginnings for the new private sector, the loss of employment in industry was not absorbed completely by trade and services. In 1989, industry (mining and manufacturing) represented 35,6% of employment and it shrunk to 25% of the labour force in 1997. Trade employment grew from 5.9% to 10.3% between 1989-1997, and there were some positive developments in finance services (a growth in employment from 0.3% to 0.8%), but other services, such as community services (education, health, administration, social services) declined from 15.3% to 13.7%.

The most significant transfer of labour was to agriculture. Romania was the only country in the region where the proportion of agriculture in total employment increased during this period from an already high 27.9% to 37.5% (Păuna and Păuna 1999, 12-14). The land

preceded growth.

reform of 1991 gave land to more than 50% of the population (CURS 1997, 52) and the exemption from taxes still in force at the end of 2000 made agriculture an 'employer of last resort'.

The attempt of the FSN/PDSR governments to pursue economic growth through expansionary policies favourable to the heavy industries did encourage a degree of restructuring, but by the end of their term in office, macroeconomic imbalances resurfaced. Inflation was on the rise, balance of payments problems were becoming acute and the budget deficit reached 4.9% of the GDP. The sovereign foreign debt of the country increased to almost \$10 billion in 1997 (nearly 30% of the GDP) (EBRD 2000, 200-201). Peaks in government spending had coincided with peaks in the evolution of money supply, such as the end of 1991, end of 1992 and 1996, which suggested that social peace was bought by 'printing money' (Dăianu 1996c).⁸ The Ciorbea government attempted to tackle this situation, and the delay in the marketisation of the economy by pushing through a programme of complete liberalisation of prices, control of money supply, real positive interest rates and subsidies cuts.

The result was a jump in inflation to 154.8% in 1997, and three years of negative growth of the GDP (-6.9% in 1997, -5.4% in 1998 and -3.2% in 1999). This macro-stabilisation programme did curb inflation (it was down to 45% in 1999 and 2000) and restored a degree of health in the public finances (the budget deficits were less than 3% of GDP in 1998 and 1999) (BNR 1999a, 28-9). It also increased the transparency of the financial situation of the state; not only budget deficits, first reported in 1994, but also subsidies were made public.

⁸ These were, of course, times of intense political struggle. Protests by miners brought down the Roman government in 1991, and the end of 1992 and 1996 were dominated by parliamentary and presidential elections. In a break from this pattern, monetary policy did not slacken during the 2000 election year.

However, the attempts after 1997 to impose hard budget constraints for firms did not induce them to abandon the recourse to arrears. The economic recession shrank the taxing base of the state, which then attempted to raise taxes. The CDR governments, like their predecessors, proved unable to keep a tight rein on the wage bills of the state sector, especially the *regies autonome*. The result was a shift of some firms from the formal to the informal economy (Croitoru and Tărhoacă 1999). For the private sector that remained in the formal economy the recourse to arrears became an important phenomenon. In 1999, the arrears of the private sector represented 19.52% of GDP, while the state sector was owing slightly less, 18.24% of GDP (the total for the national economy was 42.22% of GDP) (IMF 2001, 183).

The liberalisation of energy prices allowed the public utilities to use their monopolistic position to transfer their inefficiencies unto the rest of the economy and deteriorate the competitiveness of other sectors, such as the small and medium private enterprises that had sprung up after 1990. This situation did not ameliorate until 2000, when the effects of organisational changes in the utilities began to make themselves felt. In any case, the state could not avoid taking responsibility for some of the costs of liberalisation and recession. It paid for the re-capitalisation of the state-owned banks in 1997 and 1999 and accepted lower BNR profit transfers to the budget (IMF 2001, 43). This pressure on the budget was compensated through higher-than-targeted inflation (IMF 2001, 44).

The fact that the stabilisation programmes attempted during the 1990s could not eliminate inflation completely, it stabilised at around 40% a year, was linked to the lack of progress with privatisation and restructuring (Dăianu 1996c; 1999). But the expectation that privatisation, as the main means for restructuring proposed by neo-liberals (Sachs 1993), could resolve the question of discipline in the state sector was probably unrealistic (Brada 1996). Enterprises had to cope with a fluid economic environment, where the form of property may not have been the determining factor in their performance in any case. This

is an interpretation that, again, shifts the focus from faith in the efficacy of neo-liberal prescriptions, to an appreciation of practical difficulties highlighted by evolutionary economics.

The instability of the economic conditions had a few deleterious effects on privatisation. The decline in GDP reduced the resources that might have been available for the purchase of SOEs (Wojtyna 1994). Private domestic borrowing was unattractive due to inflation and persistent high interest rates (Borc 1999). Similarly, foreign investors, although tempted by some of the privatisation offers in 1997-2000, came in smaller numbers than elsewhere in the region, although more than in previous years. Romania attracted only \$4.9 billion between 1995-1999, while Poland, the Czech Republic and Hungary received investments worth \$18.2 billion, \$12.6 billion, and \$11.6 billion respectively during the same period (BNR 1999a, 29). Indeed, this influx of funds, a more competitive industrial structure, and the proximity with the Western markets might account for the economic success of these countries more than the virtues of their economic reforms (Kochanowicz 1998, 143-4).

At the firm level, complete and definitive data on the performance of privatised firms are difficult to find. In Romania, the FPS began in 1996 a vast exercise of assessing the economic performance of the privatised firms. Unfortunately published results include only a list of successful cases, which, tend to score higher than the average for the whole population of privatised firms. Only 11 such cases are listed in a report from October 2000 (FPS 2000a, 2). In the 'White book of privatisation' produced by FPS at the end of 2000, a couple of examples are given for each county, about 90 in total, which represent, of course, a very small percentage of the whole (FPS 2000b, 33-44). Perhaps an indication of the overall success of these contracts is that at the end of August 2000, of the 12.327 contracts signed by FPS for the sale of shares in 6489 enterprises, only 1 155 had been cancelled, representing about 9.37% (FPS 2000b, 22).

A survey of privatised firms conducted in 1994 in Hungary, Poland, and the Czech Republic showed that although all firms were affected by the contraction of the GDP, the privatised firms were able to withstand better this downward pressure. This was more evident in those cases where privatisation led to a relatively concentrated structure of ownership. But this survey excluded large SOEs, whose privatisation posed serious problems everywhere in the region. However, the positive results found in the performance and investment behaviour of privatised firms could be an indication that in these countries the negative impact of the large SOEs on the emerging private sector was more effectively contained than in Romania (Frydman et al. 1997).

In another survey conducted in June-September 1998, the privatised Romanian firms were found not to have any excess labour, which suggested that they had completed the first phase of their adjustment to market competition. At the same time, unlike the Polish privatised firms, they were still reluctant to engage in new investment and research and development activities (Carlin, Estrin and Schaffer 1999, 8).

To conclude, this section has shown that in the absence of prior experimentation with reform, lacking mechanisms for indirect economic control, and faced with widespread labour mobilisation the governments of 1990-6 chose a gradualist approach to reform. This obtained some initial positive results in terms of growth and restructuring but it also led to increased budget deficits and balance of payments problems. On the other hand, the liberalisation and stabilisation programmes introduced by Ciorbea government induced a three year recession, which was not reversed until 2000, and only after increased competition, the restructuring programmes of the public utilities and the re-capitalisation of banks took effect.

The fact that both types of approaches to post-communist marketisation were tried in Romania and both had mixed results testifies that the constraints created by the structure

of the economy and the social interests it reflected could not be changed overnight. The implication for the political economy model used in this thesis is to confirm that the economy had a degree of autonomy in relation to the political sphere. Also, the links between the economic structure and politics were stronger than mere voting patterns along class lines. Direct labour action occurred with intensity at major junctures of the political process, in September 1991 and the elections years of 1992 and 1996. That fact that it could be avoided in 2000 reflects, perhaps, both resolution on the part of the government and some success with the restructuring of the economy.

The antagonism between the political parties weakened the autonomy of the political sphere and the ability of the political system to impose unpopular economic policies. The ideological investment in neo-liberal norms, so central to the identity claims of the democratic opposition, also put the focus of debate on liberalisation and stabilisation at the expense of encouraging the new private sector. The positive results obtained through the gradualist strategy in this direction before 1996 were reversed after 1997.

The next section looks at the record of the Romanian post-communist governments in the area of privatisation.

3.4 Realising privatisation: 1990-2001

The results of the privatisation process are impressive in terms of enterprises sold. The initial portfolio of 5 937 commercial companies (worth 45.212 billion lei in social capital) transferred to the *Fondul Proprietății de Stat* (State ownership fund – FPS) increased over the years to 9 137 (worth 53.455 billion lei social capital). Of these, 720 were later given to the Ministry of Agriculture and the Ministry of Finance. At the end of September 2000, only 1600 companies (31.261 billion lei social capital) remained in the FPS portfolio, of which 1286 were to be sold and 314 liquidated. But while nearly 85% of the commercial

companies were privatised, this represented only 45% in terms of social capital. The remaining enterprises in the SOF portfolio represent only 15% in number but over half of the total social capital (FPS 2000b, 9-10).

But from the start, privatisation was going to affect only about 50% of state industrial property; the rest belonged to the *regies autonome* and remained under state control. Thus, of the total state industrial property, at the end of September 2000, only 27.51% had been privatised (including the mass privatisation programme). About 16% were owned by the FPS, but four other agencies also exercised ownership rights on behalf of the state. The Ministry of Finance and the Ministry of Agriculture controlled 4.14% of state property; the state electricity industry represented 9.5%; the National Society of the Romanian Railways 3%, while the remaining *regies autonome* accounted for a staggering 39.40% of the state property (FPS 2000b, 9). However, the significance of this fact has to be assessed against another measure of privatisation: in 1999, the share of the private sector in the GDP was 62% (IMF 2000, 41). This means that although the state still owns a great deal of industrial property, its importance in the GDP has declined. The new private sector has displaced the state from certain economic sectors.

This section shows how this outcome came about, both in its successes and limitations. The constraints encountered in the privatisation process are linked to the political and economic conditions presented so far.

Privatisation before the organisation of the FPS and *Fondurile Proprietății de Stat* (Private Property Funds – FPPs): 1990-1993

Similar to developments in other CEE countries, some managers used the loopholes between old and new regulations for personal benefit in the form of ‘spontaneous privatisation’ (Hankiss 1990; Staniszki 1991). Anecdotal evidence suggests that sometimes, associates of the manager of a state firm established private firms in order to

serve as the main sub-contractors. This arrangement was used to siphon out through discretionary prices the profits or other assets of the state firm (Brucan 1996, 103-4; Dochia 1999, 13-16).

Another formula was the setting-up of joint ventures between new companies and state firms, in which the assets of the later were undervalued. Between 1990 and 1993, 721 such joint ventures were registered, but their number decreased in subsequent years due to FPS's reluctance to approve them (only 76 were created in 1995, 86 in 1996, 17 in 1997 and 16 in 1998) (Negrescu 1999, 26). This was the dominant method of privatisation for the import-export companies that had cheap physical assets and former employees could take the lucrative contracts and clients with them (Brucan 1996, 108-13).⁹

Another form of privatisation was the sale of assets and the concession of activities, organised by the *Agenția Națională de Privatizare* (National Agency for Privatisation – ANP). From March 1990, as part of the implementation of the Decree 54 which regulated the start-up of new private firms, SOEs were allowed to identify and sell self-sufficient units of production (MOR 33/34 1990). As well as the pilot privatisation programme, which is discussed below, the sale of assets became part of the conditions for the structural adjustment loan (SAL), approved by the World Bank in June 1992. About 3000 small assets of this kind were privatised by the end of the end of 1993, although the offer was twice as much (World Bank 1995a, 16; ANP 1994, 9). The book value of these assets was just over 33 billion lei; the auction started at about 53.5 billion lei and the final price was over 62 billion. Most of these assets were in trade (1741) and tourism and restaurants (782) (ANP 1994, 9).

⁹ The ensuing disorganisation and the temporary lack of capacity for handling complex contracts were blamed for the decline in exports and imports in the early 1990s. The Romanian Ministry of Finance justified the delay in disbursing the Structural Adjustment Loan from the World Bank in this way (World Bank 1995a: 6 appendix B).

As mentioned in chapter 2, the privatisation law 58/1991 stipulated the sale of up to 0.5% of the total number of commercial companies under a 'pilot privatisation' scheme organised by the ANP. The aim of the exercise was to provide the funds for the setting up of the FPS and FPPs, to explore the strategies feasible for privatisation, and to formulate methodologies and regulations for future privatisation. This activity started in 1992 and by the end of the year most of the contracts for the 22 firms privatised under this scheme were signed.

ANP started with an initial list of 60 enterprises for this programme. The main criteria for participation were good financial situation, stable markets and attractiveness for investors, either Romanian or foreign (MOR 200/1991). All of these enterprises were relatively small. Gradually, enterprises were dropped off the list due to lack of clarity about the ownership rights over land, disappointing show of interest from investors and last minute opposition from managers and employees (ANP 1993b, 1-11).

Of the 22 enterprises, 15 were sold through management-employee buy-outs (MEBO) and four were sold to foreign investors. The enterprises were evaluated through a combination of methods, by Romanian or foreign consultancy firms, at the expense of the companies or, in the latter case, through Phare assistance.¹⁰ The sales were negotiated. It was concluded that in the two cases of public offering of shares the procedure was costly and comparatively ineffective. The conditions of sale also included investments and keeping on the current number of employees for at least two years (ANP 1993a, 3-13; 1993b, 1-2).

¹⁰ The European Community launched in 1989 the Phare (Polish-Hungarian Aid for Economic Restructuring) Programme to support the economic reform in Poland and Hungary. Subsequently, the programme was extended to the other CEE countries.

In a survey of firms privatised in the 'pilot programme' conducted a few months after the completion of the sale, ANP found that the most difficult problem they encountered was discrimination in relation to both private start-ups and public companies. Compared to the former, the privatised firms did not benefit from tax breaks, and in relation to the latter, their access to credit and raw materials was restricted. Banks and other public companies preferred to deal with customers backed by the state ministries. Also, privatised companies were subjected to repeated controls from state agencies and to biased public scrutiny by the press (ANP 1993c, 6-11). In spite of these circumstances, however, most of the privatised companies kept to their investment program and regular payments of their debts to ANP (1993d, 1-5). As expected, particularly successful were sales to a foreign investor, especially where this built on existing trade relations (Bauer 1994).

FPS and FPPs in the first years 1993-1996: case-by-case and mass privatisation

As well as organising the pilot privatisation, ANP began implementing other requirements of the privatisation law 58/1991. By 31 December 1992, it issued and distributed the property certificates (MOR 318/1992). During 1992, ANP prepared the secondary legislation for the starting up of the Funds (MOR 121/1992; MOR 208/1992a; MOR 208/1992b; MOR 262/1992). The most important was the 'Shareholders agreement' (MOR 208/1992a). As it will be recalled from the discussion in chapter 2, the privatisation law 58/1991 had transformed the conditions for governance in the commercial companies owned by the state. The shares of each of these companies were split between the FPS (70%) and a FPP (30%). Each of the 17.5 million Romanian citizens entitled to property certificates had a stake in each of the FPPs.

The fraction of shares owned by FPPs was in principle already private, but co-operation between FPS and FPPs was necessary. The FPS and one FPP, at any one time, were sharing responsibility for the governance of each firm. An individual who participated in a MEBO sale could use her five certificates from the five FPPs to buy shares owned only by

one FPP. Thus, the rules for exchanging shares and certificates from the different FPPs and FPS were worked out. Additionally, according to the Shareholders' agreement, the FPPs were required to promote the privatisation of enterprises in which they were shareholders (MOR 208/1992a, articles 2e and 8.1g).

The FPS and the FPPs agreed that small enterprises should be privatised according to a standard procedure to be elaborated by ANP. For enterprises in this category the right to exchange certificates for shares was abolished, except for the case when all the shares were bought through MEBO: there, certificates from all the FPPs could be used (MOR 208/1992a article 1.1 annex 2, article 1.2c annex 3).

The FPS was responsible for the privatisation of big SOEs and for the co-ordination with the industrial policies of the government. When an offer was made for the purchase of 100% of shares, however, the FPP implicated became the agent for privatisation and the sale had to be approved by ANP (MOR 208/1992a, article 1.2 annex 2). Finally, for medium-sized SOEs, the FPP was the agent for privatisation (MOR 208/1992a, article 1.3 annex 2). Perhaps to respect the fact that FPPs remained private entities, all the costs of restructuring and the preparation for privatisation of all SOEs were the responsibility of the FPS (MOR 208/1992a, articles 1.7 and 1.8 annex 2).

ANP duly prepared the 'standard strategy' for the privatisation of small enterprises, which was approved by the government at the end of December 1992 (MOR 12/1993). This strategy was to become in the next few years the main focus of the privatisation activities. It favoured two methods of privatisation, MEBO, and, as a fall back option, the sale through auction (offers were to be presented in a closed envelope and opened at the same time in the presence of the bidders). The main criteria for awarding the sale, in descending order of importance, were the amount of money offered, the size of the up-front payment

(payments could be scheduled over maximum 6 years), investment committed, and the commitment to retain the workforce (MOR 12/1993).

A commission would be set up for the privatisation of each small enterprise, made up of three members, one each from ANP, FPS, and FPP. The preoccupation for finding buyers was evident in the fact that this regulation even contained as 'suggestions' forms for the setting up and the statute of the Association *Programul Acțiunilor Salariaților* (Employees Shares Programme – PAS). This was the organisation the privatisation commission would recognise as a partner for a MEBO sale (MOR 12/1993 annex 3). This type of transaction increased in importance during the 1993-4 and received a firm backing in August 1994 when a special law was passed about these associations (MOR 209/1994).

It was under this 'standard methodology' drawn up by ANP that most of the privatisation activities took place in 1993 and 1994. Within the FPS portfolio of 5934 SOEs at that time, 2600 were small, their social capital of about 400 billion lei representing barely 3.4% of the total social capital (MOR 81/1994a chapter 4.2). In addition to their relative importance in numbers, a few factors tipped the balance on focusing the privatisation strategy on small enterprises, a strategy common to other privatisation programmes in the region (Fischer S, 1992).

One learning from the experimental pilot programme was that the most likely buyers would be the associations of workers and managers. The economic recession between 1989-1992, the steep inflation in 1991-3, and the relative lack of interest from foreign investors also suggested that available funds for buying shares would be quite small (MOR 81/1994a, chapter 3.2; Blaga 1994b, 61). Apart from speed, this form of privatisation was likely to contribute to the creation of a constituency for privatisation, an important objective for privatisation (Winiecki 1992; Przeworski 1993). As a downside, MEBO sales also led to a diffuse ownership structure and the new owners were unlikely to be able

to bring large scale new investment and know-how (Commander, Dutz, and Stern 1999, 15).

Focus on the small and medium enterprises also postponed tackling big enterprises. FPS felt that the privatisation of big enterprises had to be co-ordinated with the industrial policy of the government and the sectoral policies of the line ministries. All of these were in the process of being elaborated. Also, the FPS was severely understaffed (it had 148 personnel in March 1994) and essential steps in establishing its governance role in the enterprises were still to be completed. For instance, not all of the SOEs were even formally transferred to the FPS by the end of 1993, and there was a lack of clarity about what the exact numbers were. The nomination of the FPS representatives in the new general assembly of the shareholders was also in flux, as it will be shown in more detail in chapter 4 (MOR 81/1994a, chapters 1.2, 1.3, and 1.4).

In 1993, of the 669 SOEs prepared for privatisation by the FPS, 561 were small and only 134 of them were sold by the end of September that year. The book value of the SOEs sold was 13 billion lei, and the price obtained for them was 23,3 billion lei (MOR 81/1994a, chapter 4.2). Of the 109 medium size enterprises offered, 5 were sold and another 8 were under negotiation (MOR 81/1994a, chapter 4.3). By end of December 1993, the figures were a bit higher with 265 enterprises sold (238 small, 24 medium and only 2 big enterprises) (World Bank 1999a; FPS 2000b, 20).

Although the sale price looks quite competitive, other conditions of sale can modify this perception. Thus, only about 15-30% of the price was paid up-front, 30% was bought against certificates and the rest was transformed into a 6 - 10 year credit to FPS with an annual interest of 24,5-26%, well below the market rate (MOR 81/1994a, chapter 4.2). These conditions of sale became even more flexible after November 1994, when the annual

interest rate charged on the FPS credit was between 5-10% and certain SOEs providing agricultural services could obtain credit for up to 12 years (MOR 21/1995, articles 11 and 13). A pressure in the opposite direction – of higher sale prices – was the sharp increase in the book value of all enterprises following new regulations on their evaluation in 1994. These new rules led to a slowing down of privatisation in the second part of 1994 (Negrescu 1999, 32). The softening of the credit regime was perhaps a necessary correction to this effect and the sales picked up again in December.

The offer for 1994 was 1930 small, 403 medium and 35 big enterprises, with a total social capital of 1.165.000 million lei, representing about 10% of the total social capital in the portfolio (MOR 81/1994b, chapter 3.2). By the end of the year less than a third (595) were sold. Most enterprises sold were small (472), and only 110 were medium and 12 big. The performance for 1995 is slightly higher with the number of sales going up to 623, the number of medium sized enterprises was much higher, at 268, coming closer to the 322 figure for small enterprises. Also, 30 big SOEs were privatised in 1995 (World Bank 1999a; FPS 2000b, 20).

During 1993-4, the FPPs began to play a role in the privatisation process. The property certificates issued as shares in FPPs were used in many privatisation transactions and FPPs had the responsibility to provide the institutional infrastructure for the transactions. The activities of the FPPs were beset by similar difficulties to that of the FPS: slow recruitment and training of personnel, nomination of their boards of administration, and transfer of the SOEs in their portfolio (ANP 1993a, 13-4; ANP 1993b, 9-15; ANP 1993d, 6-8).

The allocation of firms to the FPPs was made in August 1993 and followed a combination of territorial and industrial criteria. Thus, in strategic sectors, such as the chemical industry, finance and banks, insurance, machine building and ferrous metallurgy, each FPP received an equal percentage of shares. In other sectors, all the firms were allocated to one

Fund, presumably to enable the Funds to implement an 'integrated' privatisation strategy (MOR 77/1993). For instance, the firms belonging to the textile industry were allocated to the FPP II Moldova. The paper industry and non-ferrous metallurgy went to FPP I Banat-Crişana, FPP III Transilvania took tourism, food and fish industries, FPP IV Muntenia received the glass, cosmetics, pharmaceuticals and building materials sectors, and FPP V Oltenia acquired the electronics and fur industries (Popescu 1992, 8).

Very little was achieved, however, in facilitating the exchange of property certificates for shares either in FPPs or in SOEs outside of the framework for MEBO sales (ANP 1994, 1, 3-5). To give new impetus to this process, law 55 for the acceleration of privatisation, was passed in June 1995. The political debates around this law and the controversy around its main decisions were presented in chapter 2. Its main innovations were the issuance of 'duplicates' to the property certificates, in the form of coupons for privatisation, and the extension of the pool of individuals entitled to coupons to five more cohorts of young people, those who became 18 between December 1990-December 1995.

Interestingly, the Cabinet assumed a hands-on role in the process and drafted much of the secondary legislation for the implementation of this law. A special Secretariat was created with regional branches at the county level. Representatives of the FPS, FPPs, and ANP were included, but the leading role was assigned to governmental employees, the prefects (MOR 138/1995). To achieve the targets for the issuance and distribution of the coupons by the end of September 1995, schools, local administration, *regies autonome* and other organisations were asked to provide personnel and organise centres for the dissemination of information and the subscription of shares (MOR 158/1995, EECR 1996a, 20). The list of the enterprises included in this offer was drafted by the Cabinet as well (MOR 190/1995).

Until 31 March 1996 owners of coupons and certificates could subscribe for shares in SOEs and had until the end of April to opt for shares in FPPs. Their subscriptions were centralised by a department in the Ministry of Finance (MOR 50/1996 articles 3 and 7.1). All shares were valued at 25 000 lei each, and the coupons at 975 000 lei. The number of shares available in each SOE was the total value of the social capital on offer divided by 25 000. If the number of shares requested by the public was equal or lower than that on offer, the value of each share was 25 000 and a coupon could buy 39 shares. If the demand was higher, all requests were to be satisfied proportional to the value of the certificates and coupons subscribed. The social capital available would be divided by the total number of offers, thus resulting in fewer shares for each subscriber than in the previous two cases (MOR 223/1995, article 26).

The outcome of this flurry of activity was that, on average, 18.7% of all shares in nearly 5,000 SOEs were transferred to the public, creating a dispersed ownership structure. As its critics remarked, this was an unusually complex exercise that included a significant number of small companies, which were incorporated inappropriately (Earle and Teledgy 1998, 313, 329). Mass privatisation programmes in other CEE countries, although similar in design, included much fewer enterprises, and more investment funds (Lieberman 1995). The Czech Republic pioneered this method in 1991 and by 1994, 1 600 firms had been privatised completely. There, citizens could use coupons to buy shares in a national auction in any firm included in the program or could invest their coupons in an investment fund. About 70% of shares were invested in 550 funds. In Poland, 512 firms were put in the care of 15 investment funds, usually under foreign management, each of them having a controlling stake of 33% in some of the firms. Citizens received certificates that gave them ownership rights in all 15 funds (Pohl et al. 1997, 12).

In any case, in 1996 the number of enterprises privatised in Romania doubled compared to the previous year, from 620 in 1995 to 1245 (FPS 2000b, 20), and there was a significant

increase in the contribution of the private sector to GDP from 42.6% in 1995 to 54.1% in 1996. The mass privatisation programme also left behind a great deal of administrative issues to be resolved by the FPPs and the FPS. The offer for FPP shares had attracted about 15% of the participants in the mass privatisation programme, just over 2 million people, compared to the 13 million who acquired shares in SOEs (Earle and Telegdy 1998, 323). FPPs thus owed dividends to people who had not used their property certificates prior to 1995. They also had to settle by negotiations among themselves the values given to dividends and to certificates that had been used by individuals in the mass privatisation.

Some of these issues were regulated at the end of 1996 when the FPPs were transformed into Societăți de Investiții Financiare (Societies for Financial Investment – SIF), just as the Văcăroiu government was preparing to face the November elections (MOR 273/1996). This matter was also among the priorities of the Ciorbea government, which issued swiftly the secondary legislation for the implementation of the law (MOR 21/1997). The process of ‘regularisation’ between the investment funds and the FPS lasted until March 1999. It tied up significant resources and complicated the decisions of the FPS about the shares it could sell (as opposed to those that were the object of negotiations with the SIFs). There were also doubts about the transparency of the dealings of the investment funds (Negrescu 1999, 36). Shares in the Funds traded at Bucharest stock exchange from 1999 (NCS 2001, 24-25).

Case-by-case privatisation by FPS: 1997-2000.

After these difficult beginnings the change in political leadership, in the elections of November 1996, led to the speeding up of the privatisation sales. Although busy tying up the loose ends of the mass privatisation programme, the FPS sold its shares more quickly. Compared to 2 725 SOEs sold between 1992-1996, between 1997 and end of September 2000, the FPS sales almost doubled to 5 364. The total value of the social capital sold in the latter period was 18,053 billion lei (compared to 3570 billion in 1992-6) (FPS 2000b,

19-21), but it is unclear whether these figures had been weighed to take account of inflation.

The privatisation process deepened, as well. The privatisation of banks began with the law 83/1997 for the privatisation of banking commercial companies, which had been waiting for parliamentary time for two years (MOR 98/1997). This law stipulated that each bank was to be privatised by a commission, that domestic banks could not provide credits for the purchase of shares in other banks and that these shares could not be used as collateral for borrowing. Consultancy firms were to be hired to elaborate the privatisation strategy. Any buyer that purchased more than 5% of shares had to be assessed by the BNR as to their credibility and no buyer could acquire more than 20% of the shares offered.

In order to prepare the banks for privatisation, the shares that were initially allocated to FPPs were returned to the FPS, in exchange for shares in other enterprises. Two banks were privatised in 1998. Société Générale Group was the main investor in the sale of the Romanian Bank for Development; Bank Post was sold for \$92 million to, among others, General Electric Capital and Banco Portugues de Investimento (FPS 1999, 4; BNR 1999a, 42). During the same year, the Ministry of Finance, seemingly preparing them for privatisation, was still trying to rescue the two banks that had accumulated most of the bad debts in the sector, the Bank for Agriculture and the Romanian Bank for Foreign Trade (BANCOREX). The cost of this rescue package – an increase in the budget deficit – paid off only partially (BNR 1999a, 41). In the next two years BANCOREX was closed; its liabilities were transferred to a governmental agency and the healthy part of the business to the Romanian Commercial Bank. The Bank for Agriculture was sold to a German investor in 2001 and the Romanian Commercial Bank was to be privatised in 2001 as well.

At the end of 1998 some sectors, for instance the cement industry, were privatised completely, while in other sectors, such as textiles, and plastic and construction materials,

85-95% of capacity was privatised. Between 70-80% of the ceramics industry, glass and porcelain and some of the food industries (cooking oil, pastries, and soft drinks) had been transferred into private hands. At the other end of the spectrum were the usual offenders, the big SOEs in metallurgy, chemicals and heavy machinery, whose privatisation was complicated by their debts to the state budget, banks, and suppliers (BNR 1999a, 42).

However, some progress was made in tackling these big enterprises in 1999. A number of liquidation procedures were started by FPS for companies that accounted for 12% of its losses, while the losses of 6 mining companies decreased by 37% (BNR 2000, 40). Under the Private Sector Adjustment Loan (PSAL) agreed with the World Bank in June 1999, 64 of these firms were offered for privatisation, and the operations involved were delegated to privatisation agents. Well-established consultancy firms such as Barents Group, Raiffensen Investment AG, Société Générale Conseil Pays Emergents Paris (in association of their local office BRD-Group Societe Generale Romania), Paribas, France, and Roland Berger Partner GmbH won the contracts and started the preparation for privatisation (evaluation, advertising, etc).

Much of the momentum was lost in 2000, however, when the privatisation of these enterprises stopped short of public offerings, although the preparation was completed. The new government elected at the end of the year vowed to pursue this matter vigorously. As of end of February 2001, 17 of these enterprises were about to be put on sale. For the rest, the prime-minister Năstase asked his prefects to get involved with their evaluation and make sure that relevant strategic information was included in the process. Of special concern was the fact that some of them produced armament and had a monopolistic position in the economy. The objective to privatise quickly had to be weighted against the danger of simply transferring a monopoly from state to private ownership (Năstase 2001, 1-2).

Assessing privatisation

The acceleration of privatisation after 1997 took place against a background of economic recession. It seemed that the contraction of the economy did not impact negatively on the demand for shares in the SOEs, unless it could be established that the price at which the shares were sold was correspondingly reduced. There are some indications that this might have been the case, as the new administration made the choice to rank the promise for future investment higher than the offer on share prices on the list of criteria for closing deals. A definitive evaluation of this issue is encumbered, however, by its intense politicisation.

A certain cause for the expansion of demand for FPS shares was the increased interest of foreign investors. While between 1992-6 the FPS had closed only 11 contracts with foreign partners, between 1997 and September 2000 their number increased 23.45 times, to 258 (FPS 2000b, 20). Also, investment commitments denominated in American dollars - by far the main hard currency used in these transactions - amounted to only 212 million during 1992-6, but increased 15 times between 1997-2000 to 3231 million (FPS 2000b, 27).

A comparison between the sums committed and the sums actually invested or in the process of being invested reveals a wholly different picture. The results of FPS post-privatisation surveillance published at the end of 2000 showed great disparities between investments committed and realised. As an analyst for the specialist weekly *Adevărul economic* pointed out, for the period 1993-2000, only 6,5% of the investments in lei, 5.1% of the investments in US\$, and 29,7% of the investments in German Marks were actually realised (Ion 2000, 3). If the figures for investment in process are added, these percentages

go up to 18.40% for investments in lei, 9.34% investments in US\$, and 30.25% for those in German Marks.¹¹

Interestingly, although the investment commitments were much lower for the period 1992-1996, they were either fully realised or were in the process of being realised. The huge discrepancies began after 1997. For instance, while for 1997 the situation seems in relative balance (143.10 billion lei committed, 124.32 realised, and \$31.53 million of which \$9.85 was realised), in 1998 of 567.69 billion lei and \$125.7 million committed, only 177.87 billion lei and \$31.1 million were actually spent. For 1999, the gaps are even greater: only 127.58 billion lei and \$54.52 million of investments were realised, against 1300,65 billion lei and \$804.76 million committed (FPS 2000b, 28).

Analysis

It is impossible to determine to what extent these discrepancies are due to inevitable delays as the new owners need to assess, plan and execute the respective investments. Their communication with the FPS and provision of the necessary documentation could be another reason why the recorded data might not necessarily reflect the whole reality of the situation (FPS 2000b, 27-8). It is also conceivable that FPS might arrive at some acceptable rescheduling of payments. Unfortunately, it was such data that made it difficult for the outgoing government to defend their record in privatisation. What might have been a necessary trade-off between speed and depth of the privatisation deals, was instead portrayed by the media as a case of 'selling the state property to those who told the most beautiful lies' (Ion 2000, 3).

After winning victory in the 2000 elections, the PDSR government evaluated negatively the activities of the FPS between 1997-2000. The PDSR policy statement claims that

¹¹ These are author's calculations based on data in FPS (2000b, 28).

during 'the pre-electoral period, illegal and damaging activities to the national interest by the FPS became even more serious; these illegal activities amounted to a true plundering of the economy' (GOR 2001, 10). The document alleged that the FPS asking prices were lower than the market value, and that FPS selected the buyers from the clientele of the governing coalition. The FPS also supposedly avoided or falsified auctions, it did not exercise any serious post-privatisation control, and the specialised institutions of the state were not allowed to control the activities of the FPS (GOR 2001, 9-10).

One could be excused for feeling that there is a bit of a tit-for-tat going on here. The Democratic Convention governments after 1996 promoted the statistics that confirmed their 'true' commitment to privatisation (the much intensified pace of closing the sales, the increased involvement of foreign partners). At the same time they disparaged the former government for their slowness and for the amount of subsidies channelled to enterprises under the name of privatisation (FPS 2000b). At the end of 2000, the Party for Social Democracy tried to gain the upper hand by denigrating their adversaries. This verbal competition can be considered the usual fare of the political game, but the fact that the PSD is repeating the mistake of not giving credit where it is due could perpetuate the antagonism between parties.

The privatisation process is a contested one in any society, all the more so in a society whose economy and politics are undergoing systemic transformation (Rausser and Simon 1992). A more balanced assessment of the course of the privatisation process in Romania in the 1990s amends both sets of claims. Like in other countries in the region, the beginning of the privatisation process was quite slow (Kiss 1994). Some of this was due to economic conditions – the decline in GDP and inflation in particular – some was due to policy (Munteanu 1994a). The choice for an extensive mass privatisation scheme, which determined the design of the institutions put in charge of the process, was in retrospect, mistaken. It was based on the assumption that all companies would be incorporated and

their shares would be traded immediately. The expectation that privatisation could be concluded in seven years was unrealistic, as was the choice of including small companies in the mass privatisation scheme. Even in economies with developed capital markets only a small percentage of all firms are incorporated and have their shares floated on the stock exchange.

At the same time, ANP, FPS and the FPPs deserve credit for their efforts in starting from scratch and creating the procedures for corporate governance and privatisation. This was all more the more commendable given the climate of uncertainty in which they operated. After 1997, the quicker pace of privatisation was due to the change in priorities of the government, from deep to swift privatisation. But this switch was made possible by the fact that an institutional structure – implementing agencies and procedures – was in place.¹²

This review of evidence on privatisation has focused on the decisions that shaped the privatisation process as a rational-bureaucratic process. Some of these choices could be interpreted as attempts by political parties to pick winners, and they reflect certain ideological preferences. During 1990-96, privatisation consisted mostly of MEBO sales at discounted rates. The buyers – managers and employees in small enterprises – can be considered the winners, but the value of their purchase depends on future market conditions. Similarly, the beneficiaries of the mass privatisation programme, the entire population, received shares whose value depends on the evolution of the economy as a whole and the capitalisation of the stock market on which the shares can be traded. Thus, it can be argued that privatisation was an effective exercise in creating at least the appearance of ‘popular capitalism’ by giving everyone a stake in the economy. At the

¹² The role of institutional factors in the privatisation process in Romania will be addressed more fully in chapter 4.

same time, the restructuring of the hard core of the economy – heavy industries and public utilities – was put outside the remit of privatisation.

After 1997, the process of marketisation in Romania received new impetus. Privatisation was extended to banking and some public utilities, following their restructuring. The sales to foreign investors and the use of the stock markets to sell SOF shares increased. Encouragingly, workers associations continued to be the main buyers for shares in the small and medium enterprises still owned by the FPS, a sign of trust in the future of their companies.

This is evidence that the marketisation of the economy did occur, as Polanyi (1992) expected, together with a change in social structure. In this case, the mode of insertion of the citizens in the economy evolved from compulsory labour in the planned economy to ownership of shares in industrial sectors, as well as participation in other markets, such as those for labour and land.

3.5 The role of IFIs and the EU in steering marketisation in Romania

An often-repeated comment about the role of the IFIs and the EU in Romania's post-communist marketisation is that the activities of these organisations were the only element of continuity that bridged the reform efforts of the different governments during the 1990s (OECD 1998, 3; Stolojan 1999, 5-6). The rivalry between the major political parties in Romania led them to underestimate the achievements of their adversaries on the one hand, and to present their own efforts as the 'new' or 'true' beginning of radical change, on the other. It is argued here that the gradual deepening of the relationship between Romania and the IFIs and the EU could not have taken place without progress in the domestic reform and the accumulation of experience and expertise in carrying out these

collaborative activities. At the same time, it is recognised that the staying power of these organisations was a crucial element in this development.

At the beginning of the marketisation process, Romania, uniquely among the former Soviet bloc countries, did not have any foreign debt and had discontinued its relations with the IFIs. Its potential self-reliance was quickly lost in 1990, when the eruption of the pent-up demand led the provisional government to free imports of foodstuffs and energy. From a position of balance of payments surplus and a respectable level of hard currency reserves, by the end of 1990 the current account was in deficit.

To cover for this deficit, given the declining availability of aid funds after the events of June 1990, the Romanian authorities approached the World Bank and the IMF with requests for assistance. The first stand-by agreement with the IMF was signed in April 1991 and the first (Technical Assistance and Critical Imports – TACI) loan from the World Bank was agreed in June 1991, followed by SAL in June 1992. Together, these two loans ‘marked the rebirth of the Bank-Romania partnership in the post cold war era’ (World Bank 1996, 11). More importantly, ‘SAL became the centerpiece of the Bank’s dialogue with Romania on issues of stabilisation and systemic reform for a period of almost three years’ (World Bank 1995a, ii).

During this period of tentative renewal of relations, both the IMF and the World Bank showed an inclination for the small scale and ‘emergency’ intervention. Thus, the first two loans from the World Bank were modest in their purpose and the conditionalities attached. For instance, the aim of the TACI (\$180 million) was to help Romania stop the decline in industrial production by providing funds for technical assistance and for a list of imports. This list and the required standard contracting procedure, in which the borrower did not have suitable experience, delayed the disbursement of the loan (World Bank 1996, 13). It closed on December 31, 1996.

The performance of the SAL (\$400 million) was also patchy. The SAL was not based on a coherent view of reform but brought together disparate conditions from seven policy areas: stabilisation, price liberalisation, elimination of consumer subsidies, trade liberalisation, privatisation, enterprise financial discipline, public sector reforms and social safety net. Macroeconomic stabilisation was achieved in 1994, when inflation was brought under control. Prices were liberalised before SAL became effective, but the loan contributed to the deepening of the process and the elimination of the 30% limit in mark-ups. Export restrictions were removed for up to 90% items thus contributing to trade liberalisation. The sale of 3000 assets, and the 'pilot privatisation programme', as already mentioned, were part of the conditions of the loan and this was achieved by the end of 1993. The level of arrears had similarly decreased by 1993, compared to 1991, although their absolute level was still very high. In the public sector, SAL contributed to the reduction of the number of SOEs accorded *regie autonome* status and initiated a review of public investment projects. The change in the social safety net promoted by SAL was the introduction of universal child allowance, as opposed to child allowance being paid through state enterprises only to state-workers (World Bank 1995a, iii-iv).

Similarly, the first stand-by agreements with the IMF reflected a concern for the stability of the country and rather modest expectations about the depth of the reform. The Fund accepted the argument for gradual reform given the inherited imbalances in the economic structure and conceded the government's request for a narrow agreement. Targets for the control of money and credit supply, a small budget deficit, and a tax-based, partial indexation of wages were the main instruments for achieving stabilisation (OECD 1993, 53-6), but interest rates were excluded from this agreement. These became the bone of contention in 1993, when the next stand-by agreement was interrupted by the IMF because the rates had become negative and the exchange rate was appreciated. Decisive measures

in these areas were required before the IMF agreed to the third stand-by agreement in April 1994, a package that finally led to macroeconomic stabilisation.

Gradually, the relationship between the Romanian governments and these two organisations became more extensive. The requirements on the part of the IMF and the World Bank deepened. Initially, the remit of the IMF's surveillance and intervention was balance of payments problems and conditionalities regarding the budget deficit and its financing. This expanded to reforms in the enterprise and financial sectors. The 1997 stand-by agreement put the focus squarely on accelerating privatisation, the closure of loss-making enterprises and the restructuring of the Agriculture Bank and Bancorex (Done 1997). But the IMF-approved shock therapy of 1997 was based on over-optimistic expectations of growth and (reduced) inflation. The GDP was expected to contract by 2.2% in 1997, the actual decrease was 6.9%. Inflation was supposed to reach 90% in the same year but it overshoot by more than 60%, at 154.8%.¹³

Domestically, this was blamed not on the programme itself, or its appropriateness for the Romanian economy at the time, but on the inability of the Ciorbea government to develop autonomous domestic policies to complement the liberalisation and stabilisation shock therapy (Stolojan 1999; Pasti 1998a). For the IMF the disappointing results of the stabilisation and liberalisation programmes were due to the failure to implement the structural reforms (IMF 1998). Unfortunately, the Ciorbea government did not use the experience with stabilisation developed under the previous regime when much of the programme of 1993-4 was generated by the BNR. They put their trust in IMF expertise instead, in an attempt to validate the claims they had held throughout the 1990s that they were the true – and thus neo-liberal – reformers. The programme proved catastrophic for Romania, who could ill afford another three years of steep recession. This episode doubled

the number of people living below the national poverty line, to reach a total of 41% of the population (World Bank 2001, chapter 6, 2-3). The combination of a Romanian government too willing to comply with neo-liberal precepts and an IMF led only by neo-liberal ideology put back the development of the Romanian economy by a few years.¹⁴

Overall, the adjustment between a partner with strict imperatives, the IMF, and another that had to respond both to institutional and political constraints, the Romanian governments, took the form of a pattern of 'buying time'. All the stand-by agreements with the IMF (six in number) were closed after the first or second review of the loan. Thus, the most effective periods from the point of view of compliance of the Romanian government with IMF prescriptions were those before the actual disbursement of the loan. After the first disbursement, policy usually slackened and the IMF would discontinue the agreement.

But subsequent agreements usually picked up the issues where they had been left off. For instance, in the negotiations for a new agreement in August 1999, the Isărescu government had a strong case because it had passed policies requested in the past. These included a new privatisation law, budget modifications, preparation of Bancorex for closure, audit of Romanian Commercial Bank, participation in the IMF pilot programme for bailing-in private creditors (GOR 1999a, annex A). As with the shock therapy, the consequences of some of these policies were counterproductive. For instance, the privatisation law increased the difficulties of finding buyers by raising the environmental standards and delayed the process by adding the costs of frequent legislative changes (GOR 2000a).

¹³ See for instance the articles in *Financial Times* 'Lex Column: Romania' (18 February 1997), 'Romania to slash state subsidies' (18 April 1997), and 'Romania '97: Economy: Shock therapy is prescribed' (25 June 1997).

¹⁴ See for instance IMF (1996, 1997, 2000 and 2001).

After the Asian Crisis in 1997 the IMF created new contractual forms between sovereign borrowers and their lenders that would oblige the latter to shoulder some of the responsibility in case of default. Romania was asked to participate in this pilot programme in 1999. Romania was to get the holders of two 1996 bond issues to agree to roll over 80% of the debt. These efforts were unsuccessful and in the end the debt crisis was resolved by independent means, i.e. by using the BNR reserves, a raise in domestic public debt and devaluation (Eichengreen and Ruhl 2000, 22-25). The IMF then agreed to sign the stand-by agreement in August 1999, despite of the fact that Romania had not used their prescribed strategy for dealing with this peak in foreign debt servicing.¹⁵

The same trend towards deeper co-operation can be identified in the relationship with the EU. Initially, EU assistance consisted primarily of aid. An association agreement was signed in 1995 and this led to the gradual liberalisation and reorientation of trade towards EU. In 2000, Romania's trade with EU represented more than 60% of both imports and exports. Another turning point was the invitation in December 1999 to open accession negotiations. Since then, all domestic policies were scrutinised for compatibility with EU legislation, in view of meeting the requirements for accession. Between February 2000 and September 2001, Romania closed temporarily 8 of the 32 chapters of the *acquis*, the body of EU legislation that is shared by all its members. The ambitious objective of the Năstase government is to complete negotiations by 2004.

In accordance with these changes in the political relations, after 1997, the disbursement of EU aid through Phare changed from a demand-driven basis to co-ordination with the accession process. Phare funds were directed to areas and projects identified in the annual evaluation process of the progress towards accession and the reports published by the EU Commission on each of the applicant countries. The distribution of funds was also

¹⁵ Issues of institutional capability are presented in chapter 4.

corroborated with the objectives identified in the National Programme for the Adoption of the Acquis (NPAA) agreed between EU and the applicants. In 1998, Romania received support for the privatisation of state-owned banks and the insurance sector (6 millions ECU) and the reconstruction of mining areas (10 million). This was part of the catch-up facility created by EU to enable the five countries that were not yet invited at that time to negotiate accession (Bulgaria, Slovakia, Latvia, Romania, and Lithuania) to speed up the process of reform (Programme code RO9809 in EC-GDE database).¹⁶ Another 10.1 millions ECU were allocated for the support of Romania's integration in the internal market. This included activities leading to the preparation of the public utilities for privatisation and the clarification of their regulatory environment, strengthening the capacity of the National Bank, restructuring one the main savings banks, Casa de economii și consemnațiuni, CEC (Programme code RO9805 in EC-GDE database). Five other projects for institutional building in different areas of public administration and privatisation approved in 1998-2000 received about 200 millions ECU (programme codes RO9804, RO9910, RO9906, RO0005, RO0006 in EC-GDE database).

The 2000 evaluation report on Phare also recommended the transition to multi-annual contracting, to strengthen the sense of long-term commitment of the Commission to certain projects (EC-DGE 2000, 1-10). Beginning in 2000, Phare was supplemented by two other major aid programmes, SAPARD (Structural Adjustment Programme for Agriculture and Rural Development) worth 500 million euro a year, and ISPA (Pre-Accession Structural Instrument) with a budget of 1 billion euro. Together with an increased budget for Phare of 1.5 billion euro a year, this represents a doubling of the pre-accession assistance provided by the EU to Romania, to 3 billion euro a year (EC 2000a, 10).

The IFIs and the EU reacted to the instability of the Romanian political scene by requesting

¹⁶ These countries were invited to begin negotiations for accession in December 1999.

that all parties or the parliament endorse certain agreements. This was illustrated in chapter 2 in the case of the 1994 stand-by agreement with the IMF. In 1999, the EU asked that all Romanian political parties participate in the elaboration and sign up to a medium-term national development strategy. This facilitated the cross-party dialogue and the strategy materialised in March 2000 (GOR 2000a).

This effect was amplified by the fact that the positions of the IFIs and the EU were systematically linked to each other, especially after 1997. For instance, the 1997 World Bank country assistance strategy for Romania included this aim specifically and tied the objectives of the strategy to EU standards (World Bank 1997; 1998a). The IMF, the World Bank and the EU contributed to the elaboration of Romania's medium-term economic strategy and the action plan based on it. The objectives of this strategy were in accordance with commitments in the stand-by agreements with the IMF (IMF 2000, 20). The 2001 World Bank country assistance strategy for Romania contains two lending scenarios, the more generous of which is conditional upon the conclusion of an agreement between Romania and IMF (World Bank 2001a; 2001b).

During the 1990s, the Romanian governments entered in a number of agreements with the international organisations. As the presentation of the succession of these agreements in the context of the policy decisions of the governments has shown, the policies actually taken by the Romanian government converged towards a liberal pole at those points in time when the agreements were negotiated or reviewed. This created a cycle of compliance with the agreements, relapse and renewed commitment in which the World Bank, the IMF, and the EU were willing to give the Romanian authorities another chance and the latter pursued reform in spite of temporary reversals. Due to this attitude on the part of IFIs and EU and the Romanian governments, the process of liberalisation and conversion to market economy in Romania has deepened and problems slowly cleared. Although much remains to be done,

the external partners represented a significant driving force in the development of a market economy in Romania.

3. 6 Conclusion

This chapter has developed the argument about the role of the economic structure as a factor autonomous to the economic sphere in the marketisation of the Romanian economy after 1990. The explanation of the slow pace of marketisation exclusively through reference to the ideological orientation of the different governments does not stand up to closer scrutiny.

Available economic theories, neo-liberal and evolutionary economics and economic sociology contributed to this account of economic reform in Romania in different ways. Neo-liberal theories inform the prevalent judgement on progress in Romania as being slower than in other CEE. While the expectation behind the neo-liberal assessment, that structural changes in the economy could be executed through a change of environmental conditions, is unrealistic, this analysis has accepted the emphasis of neo-liberal economics on the need for restructuring. In the post-communist economies, the shift of resources from the industrial sector to trade and services is necessary, if these economies are to enhance their capacity to compete in world markets.

At the same time, it has been argued that the difficulties of the reform can be better understood by using the framework of evolutionary economics. This theory recognises the real-time dimension of changes, the need to maintain a degree of stability in the economy while changes are taking place and the relationship between the size of enterprises and sectors and their willingness or ability to change. In addition, insights from economic sociology illuminate the mechanisms for the resistance to change exhibited by certain sectors, as they use the relational assets within their networks to respond to state policy.

The review of privatisation in post-communist Romania also showed that the change in the mechanism of economic co-ordination, from plan to market, was accompanied, and perhaps facilitated, by the change in the social structure and the modalities of insertion of the citizens in the economy. These citizens moved from being employees in the command economy to being shareholders and players in other markets, such as labour, land and housing markets.

The change of economic strategy in 1997 from gradualism to shock therapy makes it impossible to establish a simple relationship between developments in the first and second period. Gradualism had achieved a return to growth by 1993, macro-stabilisation by 1994, and the setting up of some indirect mechanisms for the management of the economy. It also encouraged a degree of spontaneous restructuring of enterprises. The shock therapy of 1997 on the other hand led to a steep three-year recession. It is unclear whether the resumption of growth in 2000 and the successes with privatisation in 1997-2000 were the result of shock therapy. It is likely that the active restructuring of public utilities and the financial sector as well the effective institutional structure built in the previous years contributed to these positive developments.

This trend towards deeper reform also facilitated more extensive relations with the IFIs and the EU. All Romanian governments, irrespective of their ideological preferences, had to balance domestic constraints with the expectations of swift and deep market reform coming from these organisations. The accommodation between these two pressures took the form of a pattern of 'buying-time'. While the Romanian authorities remained committed to the overall objectives of marketisation and, later, EU accession, their concessions to domestic pressures took the form of temporary reversals.

In this relationship, as in the processes by which political actors constructed their view of the economy, the interplay between agency and structure, subjective and objective factors

has also been apparent. The consistency over time of the orientation towards market reform – although in doubt at particular moments in time – shows that all parties had to respond to the same structural constraints: the dominance of the neo-liberal ideology internationally and the power of certain domestic groups domestically. But the leeway of actors was also in display in the different ways in which these pressures were played out in policy. In the case of the social-democratic governments of 1990-6, this balancing act consisted of more reform than they might have desired on their own. For the right-of-centre governments of the Democratic Convention, their initial disregard for domestic constraints led to a severe downturn in economic activity and later a change of tack in their policy, from stabilisation and liberalisation to direct restructuring of certain public utilities.

In the next chapter, the role of institutions both in facilitating and slowing down post-communist reforms will be brought to the fore.

CHAPTER 4

Post-communist institutional change in Romania

4.1 Introduction

Two factors that shaped the course of marketisation and privatisation in Romania were reviewed in chapters 2 and 3: the fragile political consensus and the social and political responses to the inherited economic structure. The discussion of these factors was sensitive to their institutional dimension. All actors - parties, governments, and economic interest groups - acted in an environment that was partly fluid but also partly structured by institutions. The institutional dimension was the background for explaining the time constraints to change, the inertia embedded in organisational arrangements, and the accumulation of effects of economic policy over time, in spite of the claims to discontinuity by the different governments.

In the political economy framework proposed in chapter 1, institutions explain why the economic and political spheres remain autonomous. In each of them, their specific institutions have a degree of autonomy because they cannot be swayed completely by interventions from the other sphere. At the same time, in conditions of post-communist transformation, when the boundaries between the economy and politics are still in the process of being drawn, another aspect of the relationship between the economy and politics comes to the fore. As Searle (1995), and Elster, Preuss and Offe (1998) showed, institutions are established through an act of political delegation. Elster, Preuss and Offe (1998) also anticipated that weak political authority would lead to weak delegation, decree-ism and reversals. This hypothesis is confirmed by the study of change in state and market institutions in post-communist Romania.

The distinction between institutions – as ways of doing things, ideas that have already acquired or are acquiring the capacity to structure interactions between actors – and organisations (North 1990) is also relevant here. Organisations act within the rules of the game, to the extent that they have assimilated the rules. They also seek to promote their own interests by negotiating the rules. Piecemeal institutional change is usually the result. In post-communist transformations, the change in institutions was concomitant with changes in the organisations that had a role in creating and enforcing new rules (Frydman, Roman and Rapaczynski 1998), for instance the state administration, *Fondul Proprietății de Stat* (State Ownership Fund – FPS), banks, and other regulatory bodies.

In the analysis presented in this chapter, these organisations were investigated to establish to what extent changes in their behaviour reflect institutional changes. The general trend was towards reform of the public administration, re-definition of the role of the state in the economy and entrenchment of the institutions that support the market. At the same time, during the first decade after the fall of communism, old and new institutions co-existed. Also, attempts by the relevant organisations to change themselves and to impose changes in their environments took effect gradually, and reversals were common.

In accordance to reflexive theories about the embeddedness of economic activities, neo-institutionalist analysts also appreciated that changes in formal institutions, which can be realised by fiat and legislation, become effective when another layer of informal institutions ensure their smooth, taken for granted functioning (Berg 1994; Rapaczynski 1996). From this perspective, the significance of weak political agency (Elster, Preuss and Offe 1998) has to be evaluated against a view of the limits of what political will can achieve in this domain. The change in informal institutions is a broader social phenomenon, for which the dominant political organisations can provide a model, but which retain a high degree of autonomy.¹

¹ This aspect will be investigated at greater length in chapter 5.

This chapter describes the starting points of the institutional change, from plan-related institutions to market institutions (section 2). It then looks at how the main organisations with a role in changing the rules of corporate governance achieved their objectives (section 3). Section 4 discusses the role of the organisations that implemented the privatisation programme in the promotion of new models of corporate governance. Finally, section 5 looks at the role of the IMF, World Bank, and EU in supporting institutional development in Romania.

4.2 From plan to market institutions: the limits of the possible

Some of the institutions required by a market economy did not exist in the socialist economies. The functions of stock markets, bankruptcy, competition, and entry into the economy were realised by the plan and administrative decision. But other major institutions of the market economy existed under the communist regime as well: prices, money, trade, banks, and firms. Embedded in the socialist economy, however, the functioning of these institutions was very different (Iancu 1994, 33). For this reason, the ‘freeing up’ of prices, money, trade, banks and firms from their socialist bedrock required more than a pronouncement of liberation by the government. Careful redefinition and re-insertion into the emerging market-led system were required, and a diversity of organisations played a part in these processes: the governments, state administration, firms, etc.

The first moment of the dis-embedding process was the disappearance of the plan. As it is well known, the plan had been the instrument for centralised, bureaucratic co-ordination of the economic sphere by the political centre. The integration was vertical and complete: economic decisions were interconnected and there was little economic activity outside state control. Horizontal linkages within chains of production were determined by the plan

(Kornai 1992, 110-30). Even though the plan was abandoned, the state owned enterprises (SOEs) remained used to the services of a central agency for the management of their links. The blueprint of their past relationships was also already encoded in what they produced, the available markets, the number of their labour force and the associated labour legislation and organisation. The replacement of the plan by market as the mechanism of co-ordination for economic activity depended on recasting these imprints. Some Western neo-liberal advisers hoped that this could be achieved quickly, by enterprises actively seeking new partners, restructuring their production, facing competition and pursuing profit (Sachs 1993). In practice, the motivation to change varied widely among enterprises in the same country and in different countries, depending on their chances of survival in the new environment.

In socialist economies, even though distorted, differences in prices led to the emergence of limited trade and markets outside the command economy (Olson 1992). To the extent that the plan was in force, however, money was not a means of exchange, trade was administered, and the accounting systems were designed for direct transfers between enterprises and the state budget. Prices reflected the accounting requirements of the plan or priorities of social policy. Thus, the socialised economies were semi-monetised (Kornai 1992, 130-159). One consequence of this was that at the beginning of transition, the only reference point for evaluating economy activity, the inherited system of prices, was in doubt (Şerbănescu 1994, 1-13). Paradoxically, amidst generalised uncertainty, some of the received ideas about economic priorities, such as the importance of energy inputs, the strategic role of mining, and the need to maintain production levels were reaffirmed.²

In any modern economy, the accounting system incorporates and implements the core assumptions about the relationship between state and firms. It is the basis for taxation

² See for instance the many 'appeals' in the national press in January 1990 for workers to return to work (Iliescu 1990).

policies, and for the measurements of macro-economic indicators. In command economies, the co-ordination of economic activity through the plan imposed quantitative targets for production, and the rules for profit formation and depreciation assumed no inflation. After 1990, the 'translation' of the measures of economic activity from one accounting system into another took several years to implement and some aspects of it are yet to be reformed (Coşea and Vlăsceanu 1993; Antohi 1995).

The bureaucratic control over the economy also had consequences for the creation of economic information, its content, ownership, and circulation. Information was intensely politicised. Knowledge of the production capabilities, output, labour force, and raw material requirements was manipulated by enterprises as a means to hoard resources and avoid shortages. The pressure from above to report great successes in the completion of the plan was also a factor. Thus the information produced by the planning system for the centre was reliable only within its own conventions, and even there it was susceptible to distortion. At the level of the enterprise, there was little information on the system as a whole and little basis for independent planning or action (Botez 1997, 56-67).

When the plan was abandoned in 1990, both the government and the economic agents were information-poor. For the government, the data generated by the planning bureaucracy was almost useless; this was a handicap for the elaboration of industrial policy. For the enterprises, the economic signals were confused (Ionete 1993). The sudden elimination of the plan, and the pressure for survival created uncertainty. In the circumstances, the most obvious strategy for coping with this disturbance and for reducing uncertainty was to fall back on the information embedded in established networks of relationships (Pasti 1995, 106-116).

These networks themselves were affected by the change. The plan had been the backdrop to a pattern of social relations. The subordination to the centre contained a number of dynamic elements. The party-state could set targets, control, and punish; the planning decisions had the force of command. Although the subaltern levels of the bureaucracy had to obey, and were assessed on that basis, ultimate responsibility rested with the centre. It was its duty to provide supplies, outlets for production, and money transfers to keep the SOEs working and solvent. Each superior bureaucratic level had a number of instruments to reconcile the reality of production on the ground with the prescriptions of the plan. Any failure to achieve the set targets could be corrected administratively by such manoeuvres as soft subsidies, prices, credit, and taxation (Zinoviev 1985, 256-280; Voslenski 1984, 137-141).

The practical skills for making resources 'fungible', at least on paper, are quite different from the ones required by hard budget constraints. Similarly, bargaining between the different levels of the bureaucracy played a crucial role in the practical implementation of policy. This mixture of formal rigor and practical arbitrariness put a premium on the politics of representation and the development of personalised networks between bureaucrats. But these skills did not prepare the managers for appreciating the importance of actually selling products in a competitive market. SOEs had to change their focus from production to production and sales. This change in managerial priorities also involved new skills: judicious emphasis on quality, the ability to relate to a mass of unknown potential customers, and the willingness to cut costs to increase productivity.³

After the political changes of 1989, there intervened a separation in what had been a unified bureaucratic structure, between managers and civil servants. The bureaucrats at the firm level, the managers, became responsible for the performance of their firms, and the firms

³ The difficulties of the old directors to adapt to market conditions were reported to the author in interviews with the Head of the Human Resources department in a Romanian company bought by a foreign partner, and a recruitment agent in 1998.

were encouraged to act to pursue their own interests, to look for suppliers and markets, and increase performance. The managers had a choice. One possibility was to reorient their behaviour according to the new ethos, engage constructively with the new risks and challenges. On the other hand, they could judge their chances rather more conservatively and attempt to delay restructuring and perpetuate access to soft financing (Iancu 1994, 27).

Individual circumstances no doubt influenced such decisions. Crucially, however, in some sectors, especially the heavy industries, the structural conditions – high concentration of assets in one factory, dependence on one or two suppliers and end-users – exacerbated the tasks of restructuring, and it provided a strong negotiating position for maintaining the status-quo (Coşea 1993). At an extreme, these barons of industry were able to hold the state to ransom (Hellman, Jones and Kaufmann 2000). They were able to persuade governments of their entitlements and slow down liberalisation, as was illustrated in chapter 3. In places such as Russia, corporate interests gained the upper hand in the design of the privatisation process (Mcfaul 1995).

The civil servants, i.e. the bureaucrats in the line ministries, lost after 1990 their traditional role of minders for the SOEs. Just as it was not obvious to the managers of the enterprises how they were to cope in the new economic and political conditions, the employees of the ministries were uncertain about their new roles. A clean and decisive break with the old would have assumed that both of these groups were ready to change their roles very quickly. Under decisive leadership, absent at the time in Romania, this might have been possible. Perhaps such change would have been eased by a complete change in the circumstances for economic activity, in the form of the big-bang reform strategy implemented in Poland, for instance. Consistent signals about the new rules of the game might have provided clearer motivation for change.

The gradual approach to reforms was credited with greater chances of success under a 'strong', even authoritarian, state (Iancu 1995). In China, for instance, the democratic transition was postponed until the institutional infrastructure of a market economy took shape (Zhang 1993; Stiglitz 1999). The gradual reform under a democratic government in Romania led to the co-existence, for a time, of the old and the new institutions. Some economic reforms created conditions, such as the co-existence between liberalised and controlled prices, between a liberalised exchange rate and controlled access to foreign currency, that reinforced the utility of pre-existing connections.

Additionally, the exercise of state property rights was poorly used as an instrument for policy. Generally, the exercise of ownership rights is difficult when it meets with resistance from managers, who exercise de facto controlling rights. This was a problem, as shown above, even in the planned economy. Similarly in market economies the relationship between principal and agent needs careful monitoring. But the design of the reform programme in Romania, and privatisation in particular, muddled even further these functions, leading to a perpetuation of the stand-off between the government and some of the SOEs.

The path to the change of the political system in Romania, through breakdown, was also a factor. The reactions of Romanian SOEs to the new conditions were similar to those of the Polish enterprises in 1987-9. Independence from planning decisions led Polish enterprises to increase wages and to start a spiral of inflation (Sachs 1993). The communists there took the blame for the instability their system had created. In Romania, the first liberalisation policies were introduced by a democratic government, and when reactions from the SOEs similar to those in Poland led to inflation, this undermined the legitimacy of the reform programme.

This section traced some of the most important lagging effects of the plan after the plan itself was abandoned. The structures of the socialist economy remained visible in the orientation of enterprises, of their managers and the central administration, especially the line ministries. Without political and ideological backing these traces ceased to exert the overriding influence that had been the characteristic of the planned economy. Nonetheless, their re-embedding in a market system will take time. The creation of market institutions consists of a multiplicity of interlocking tasks, which are difficult to co-ordinate. This complexity suggests that gradual adjustments, rather than simple policy and institutional transfer, might be required (Stiglitz 1999, 22-3).

4.3 State capability, banks and capital markets: changing the context for corporate governance

The previous section outlined the paths to change of inherited institutions, such as prices, firms, property rights, management, from their meaning and functions in relation to the plan to their re-articulation in a market system. As shown in chapter 2, the leadership provided by political parties in Romania for the transformation of the planned economy into a market economy was limited. The political parties were in a relatively weak position. Their democratic pact was articulated in complex political institutions. Thus, although the political reform was swift, the general climate of uncertainty and lack of legitimacy undermined the leadership potential of the political elites. One manifestation of this weakness was the fact that political parties did not perceive that it was in their collective interest to strengthen the state administrative apparatus.

State central administration

The breakdown of the communist regime in Romania represented an opportunity, in the sense that the Parliament, the presidency and the Cabinet were re-created from scratch. The

role of the Cabinet in generating policies was strengthened. But below this level, the reform of the central administration, with the aim to eliminate obsolete entities, create new mechanisms to carry out new functions and to link the new organisational units in a workable system of co-ordination and communication, was quite slow (Nunberg 1999, 56-9).

The civil service was fragmented. As late as 1998, the pay of the civil servants was linked to the scale of pay within the sectors they administered; it was not unified across the civil service. As a percentage of October 1990 salary levels, in January 1998, the average in the economy was 63.27% and in the public administration it was 42.72%. Within the public administration major discrepancies existed between the salaries in the *regies autonomes* for instance, which were 75.71% of their 1990 levels, and the health sector, where the level was only 46.63, raised to 53.53% in February 1998. In education, the 1998 salary levels were 67% of their value in 1990 (World Bank 1998b, vol. I, 17). Thus, line ministries had stronger ties with the sectoral interests they were meant to supervise than with the political centre.

There was no central authority for the management of the civil service and there was very little co-ordination between ministries in the elaboration of policies (OECD 1998, 23). President Constantinescu (1997, 5) explained in a press interview that the Cabinet meetings were excessively long because ministers spend a lot of time smoothing over differences that should have been ironed out at a previous stage. The effects of this fragmentation were obvious in the elaboration and implementation of the state budget. The Ministry of Finance did not establish a department of economic forecasts, on which to base budget calculations, in 1998.⁴ This was one reason for frequent adjustments in the state budget, at least two or three times every year.

⁴ According to one witness, this unit was not fully functional in October 1999.

A World Bank mission in Romania found in 1998 that budget adjustments during the budget-year were the result of indiscipline on the part of line ministries and of sudden changes of policy, tax cuts and wage increases (1998b, vol. I, 1-4, 13). The budget decisions were not treated as binding, and there was a great deal of ad-hoc decision-making and lack of control. According to OECD (1998, 48), 'the budget appears to be more an act of political signalling than a tool of management and guidance for the steps that follow'. Simple instruments, such as regular meetings between the BNR and the Ministry of Finance to review the cash flow of the treasury, or an integrated computer system, were missing at the time (World Bank 1998b, vol. I, 11, 15).

This situation testifies to the absence of a concerted effort on the part of the government to set new standards for the state bureaucracy. Also, as shown in chapter 2, party loyalties were important for the advancement of civil servants (Wiatr 1995). Thus, the ability of the civil servants to uphold an independent point of view was undermined at both ends. There were few incentives or practical means for the bureaucrats to resist pressure from sectoral interests. The fragmentation of the administration system meant that responsibilities for policy outcomes were unclear. The advantage of interest groups with practical knowledge and ability to apply pressure at crucial points in the decision-making process was enhanced by that fact that such undue influence was difficult to trace.

As the course of reforms described in chapter 3 ascertained, certain groups or sectors, such as the energy-intensive industries, were able for a time to delay restructuring and to shift the costs of their inefficiencies onto the economy as a whole. The perpetuation of this state of affairs seems to have had an important demonstration effect for the private sector, as shown by the numerous tax exemptions accorded to private firms in the last few years (IMF 2001,

45-6; Dochia 1999, 15-21).⁵ The segmented bureaucracy facilitated rather than impeded such a development. Indeed, the inclusion of Romania among the states in danger of being captured by particular interests, in a recent survey (Hellman, Jones and Kaufmann 2000) lends credence to this view of the state administration.

The banking system

Along with the state administration, banks can play a crucial role in promoting the rules of the market and the restructuring of the SOEs (Perotti, 1994; van Wijnbergen 1998). After the fall of communism, like in other economic sectors, the agenda for change was complex. The immediate concerns were to enable banks to turn inherited systemic bad debts into good debts, to introduce new systems of non-cash payments, and reliable mechanisms for avoiding bank failure. Questions about the ownership of banks and their role in the economy as creators of credit and equity owners were also important. In addition, all inter-bank markets in the region tended to be dominated by one or two big savings banks (Rostowski 1995).

In Romania, the reform of the banking system started after the liberalisation of prices, which repeated the experience of Poland, Yugoslavia and Russia, by allowing inflation to rise while the interest rates remained highly negative (Rădulescu 1993). The positive effect was that all bad debts were wiped out by inflation. It did not provide any guarantee, however, that such debts would not accumulate again, as was in fact the case (Croitoru 1994b). After the spinning off of all commercial activities of the monobank of the socialist era, in December 1990, *Banca Națională a României* (National Bank of Romania – BNR) began to play a role in the formation of monetary policy, and acted as a strong promoter of reform (Dăianu 1995).

⁵ Prof. Adrian Miroiu also made this point in an interview in February 2001. The Senate's unwillingness to pass a Cabinet ordinance that was extending tax cuts to certain media companies was met with negative coverage of the parliamentary institutions by those media companies.

For instance in 1993 BNR won the argument with the Government, and in Parliament, about the need for a stabilisation programme (BNR 1997a, 102-5). From 1993, the Bank was also able to formalise its duties in the administration of the consolidated treasury accounts, so as to avoid inflationary financing of deficits. Along with these successes, BNR occasionally gave in to pressure from the Government (Isărescu 1994; Cerna 1996, 51). In 1996, the monetary policy was overburdened with quasi-fiscal functions: covering the budget deficit, preferential refinancing for agriculture and the energy-intensive sectors (Perotti and Cărare 1996). The Government also forced the BNR to take on its balance sheet the debts incurred by Romania to the IMF (BNR 1997b, 73-86, 121-3).

The BNR created the framework for the licensing of banks and their prudential supervision, established norms for liquidity, set the reserve requirements, etc. The first major crisis in the Romanian banking sector emerged in 1995, when in-site inspections by the BNR revealed gross mis-reporting and misconduct on the part of two private banks, Dacia Felix and Credit Bank. Their financial position became unsustainable, and they had to close for new business. BNR continued to finance these banks until the middle of 1996, in order to avoid panic in the financial system and allow them to repay their savers; together they held 14% of household savings. In the absence of a credit insurance scheme, BNR acted as a lender of last resort (BNR 1997a, 291-4). These banks put pressure on the BNR to continue to refinance their losses and tried to shift the blame for their bankruptcy onto the National Bank, who had initiated the bankruptcy proceedings. Significant delays in handling this crisis were due to the courts and the rules on sanctions which allowed only gradual intervention by BNR (BNR 1997b, 104-8).

The refinancing by the BNR of these two banks added to the inflationary pressures in 1995 and 1996, when the control of inflation achieved in the previous years was lost. The incident provided however an opportunity for learning and regulations by the BNR were

subsequently tightened. An insurance scheme for banks was introduced. These measures came in too late to obviate another crisis in 1998-9, when *Banca Agricolă* (Bank for Agriculture) and Bancorex were discovered to hold a concentration of bad loans, many of them extended under political pressure during 1995-6 to the agriculture and energy sectors. These amounted in December 1998 to 253,6% of the own capital in the banking system. After the closure of Bancorex and the restructuring of Agriculture Bank in 1999 the proportion of bad loans fell to 31.2% of own capital at the end of that year, and decreased to 4.5% in November 2000 (Isărescu 2001).

In spite of these bank crises, common in one form or another to all transition countries, the skill base of the sector increased (Oeconomica 1993) and the regulatory framework improved. Entry by private, domestic and foreign banks, as well as privatisation in the second part of the decade changed dramatically the structure of the banking sector in Romania. By the end of 2000, of the 40 banks in existence, the state owned majority shares in 4. Of the 29 private banks, in 21 the majority stake belonged to foreigners and there were 7 additional branches of foreign banks. State-owned banks still represented 43.89% of the social capital in the system and 47.40% of the total balance sheet, while the banks in which foreigners have majority stakes represented 47.47% of the social capital and 49.55% of the balance sheet. The domestic private capital had 8.64% of the social capital and 3.05% of the total balance sheet of the banking system (Isărescu 2001).

The ability of the banking system to allocate capital resources efficiently to the enterprise sector was constrained by systemic conditions and state intervention, especially in 1995-6. The increasing share of the state debt in the domestic credit, the protracted crisis of the Bank for Agriculture and Bancorex were the cause of persistently high interest rates at levels above inflation (Borc 1999). Banks also used big spreads between deposit and credit interest rates. They depended on rents to survive (Boot and Wijnbergen 1995, 45-50). Expensive

credit and the availability of almost interest free alternatives in the form of arrears, explain why the average ratio of credit to the enterprise sector in the GDP was only 11% in Romania, during 1991-7. The same ratio was much higher in the Czech Republic (59%) and Hungary (25%) in the same period, while for Poland and Bulgaria the rates were closer to those in Romania, 14% and 16% respectively. In Russia and Ukraine, the average ratio of credit to the private sector to GDP was somewhat lower, at 9% and 2% respectively (Doltu 1999, 4).

Investment funds and the stock exchange

Alternative institutions able to raise capital, such as investment funds and stock markets began to play a role relatively early in the transition. Mutual funds emerged spontaneously, as neo-liberals expected. To attract deposits, they used projections of their value in the future as a measure of their present success. In 1996, when the newly established *Comisia Națională a Valorilor Mobiliare* (National Commission for Securities – CNVM) published its rules for the calculation of the net assets of the mutual funds, their value was slashed to about half of their previous estimates. This led to a run on the funds. Those who survived adopted a conservative attitude and invested predominantly in treasury bills (BNR 1997b, 92-4).

Bursa de Valori București (Bucharest Stock Exchange – BVB) started to operate in November 1995 and the RASDAQ (the over-the-counter market, modelled on NASDAQ and set up with help from the USAID) opened a year later. At the end of 2000, BVB listed 114 companies, the majority of which were on a second, less restrictive, tier (92). The five *Societăți de Investiții Financiare* (Societies for Financial Investment – SIFs), the former *Fonduri ale Proprietății Private* (Private Property Funds - FPPs), were listed in the first tier. The capitalisation of BVB was over \$365 million in 2000, almost half of its peak value in 1997 (CNVM 2001). The rules for quotation are similar to those in other exchanges in the

world, and require disclosure of information, regular audit by independent auditors, etc. All the companies privatised in the mass privatisation programme are quoted on the RASDAQ; the total number of companies whose shares were tradable on that market was over 5200 in 1996 (BNR 1997b, 94).⁶

As explained in chapter 3, the privatisation programme in Romania envisaged that shares in all companies should be tradable and that public offering should be one of the methods for privatisation. From the start, the activities of the Bucharest Stock Exchange and the RASDAQ were influenced by privatisation. The mass privatisation programme led to a diffuse shareholder structure of the traded companies. A flourishing market for brokerage services developed as a consequence. The main problem yet to be addressed was the weak regulatory regime for the protection of minority shareholders (Pogonaru and Apostol 1999, 4-5). These markets promoted new rules of the game by creating an arena for transparent trading, by imposing disclosure requirements on companies and by exposing distortions in the accounting system (Pogonaru and Apostol 1999, 10).

This section has reviewed changes in three areas of activity decisive to the marketisation of the economy: the reform of the public administration, of the banking sector and capital markets. The broad conclusion here is that in all of these areas, and in spite of setbacks and delays, new institutions, new rules of the game are reflected in new objectives for these organisations and that they are developing appropriate routines and procedures for carrying them out.

4.4 Privatisation and corporate governance

The organisations entrusted to manage the privatisation process had a crucial role in the

⁶ Other Stock Exchanges in CEE were also affected by the flight of investors from emerging markets and considered merging operations (Green 2001).

creation of secure property rights and rules for corporate governance (Dăianu 1994a). The creation of the FPS and the FPPs was core to the conflict between the FSN government and the democratic opposition, as shown in chapter 2. The government argued that since privatisation had to be managed, it was better placed in the hands of a new set of organisations. Adrian Severin, the minister for relations with the parliament, put the argument for FPS and FPPs to his fellow deputies in the speech recommending the privatisation law in July 1991. He argued that the only alternative to these institutions was the state administration, which would not be ‘the best alternative’ because it was, ‘inevitably,’ the ‘most bureaucratic and stagnant of structures’ (MO177/1991, 9). He saw the new institutions as a victory over the old ones:

To give up on these funds is tantamount to abandoning the role of doing the privatisation in Romania to precisely those institutions that are more pre-disposed to bureaucracy, that are more pre-disposed to stagnation, and more vulnerable to corruption. This seems to me completely inadequate (MO 180/1991, 24).

The opposition, on the other hand, warned that these new organisations would repeat the problems of the old, due to their size: FPS had control over all commercial companies and even the five FPPs had portfolios of over 1000 enterprises. They were expected to fall prey to the dangers inherent in bureaucratic organisation: the tendency to expand and to prolong their life unnecessarily.

This section assesses the actual role of the FPS and FPPs in privatisation and the consequences of the decision to entrust the privatisation programme to them. The decision *for* the Funds was a decision *against* the existing state bureaucracy. In spite of problems with their independence from the state in the first few years, the FPPs gradually assumed the role of representing the rights of private owners. The relationship between the FPS and the state, however, in spite of the initial desire to give FPS independent status, remained complicated. Although it owned 70% of the shares of the enterprises in its portfolio, the FPS remained an agent for the state. The transfer of state property rights to FPS was not a complete transfer,

because ultimately, the state was understood to remain the owner. Had the ministries on behalf of the state retained these rights, the consistency of the process would have been preserved since both the FPS and the line ministries were representing the final owner.

As it was, the huge transfer of responsibilities and information from a number of line ministries to the FPS took place before the FPS was sufficiently prepared to exercise its role in corporate governance. The privatisation plan overburdened the FPS and compromised its ability to carry out fully its twin functions: corporate governance and privatisation. By and large, the privatisation process was slow, and the ability of the FPS to introduce effective governance principles, such as hard budget constraints had mixed results. As was shown in chapter 3, lack of discipline at the microeconomic level was reflected in inflation, large amounts of inter-enterprise, bank and budget payment arrears.

Disruptions in the continuity of the regime for corporate governance, and the information costs of transferring the corporate governance responsibilities from the ministries to the FPS were huge. The FPS had to produce records for over 6300 companies, before even contemplating the task of nominating its representatives in the *Adunarea Generală a Acționarilor* (General Meeting of Shareholders - AGA). There were also costs associated with the friction between ministries, which in some cases resisted the move, and the FPS. Finally, the slow build-up of capacity in FPS compounded the overall impression of delay, confusion and ultimately lack of credibility and transparency. In the following, these aspects will be explained in turn (Blaga 1994b).

Discontinuities in the regime for corporate governance

Corporate governance was thrown into disarray initially by the spontaneous revolution in enterprises. In the days immediately after the fall of Ceaușescu, grass roots mobilisation led to the constitution of new trade unions, which affiliated themselves to the National Salvation

Front. The Unions elected new managers and played a role in the decision-making of the enterprises. In February 1990, the NSF required these organisations to close (Pasti 1995, 102-3). Responsibility for corporate governance returned to ministries, whose role was confirmed by the law 15 on the organisation of SOEs as commercial companies and *regies autonomes*, in august 1990 (MOR 98/1990). A small council of delegates nominated by ministries was asked to supervise the performance of managers. At this time, SOEs had to perform in a climate of uncertainty, beset by contradictions. Prices were partially liberalised and SOEs were encouraged to operate according to new rules – to seek new partners and markets, to put relationships with their clients and suppliers on a contractual basis. At the same time, they were also required to abide by the allocations of inputs still drawn up by the Ministry of Resources and Industry, ‘until such time as all prices will be liberalised’ (MOR 98/1990, article 52).

A year later, the privatisation law required that the council of delegates should continue their activities until FPS organised the AGAs as the new governing body in enterprises (MOR 169/1991, article 39). In effect, the ministerial councils operated for almost four years, until 1994, when the FPS became fully operational. Difficulties in the transfer from the ministry to the FPS authority were signalled by official documents issued by the ANP and the FPS. In March 1994, the FPS was stating in its report to the Parliament that it was unsure about the total size of its portfolio. For 5934 SOEs the legal operations for their conversion into commercial companies and *regies autonomes*, and the transfer of their social capital had been completed. But about 2300 SOEs had not been entered into the Registry of commerce, and it was unclear how many more enterprises had yet to be processed. This was because, according to FPS, it was unclear who held responsibility for these operations, and what were the agreed procedures and deadlines (MOR 81/1994a, annex 1, article 1.3).

The democratic coalition that came to power in 1997 initially confirmed the role of the AGA, which nominated the Board of Administration. In 1999, a 'sole administrator of the enterprise' substituted the Board. The decision was introduced by a government ordinance, which was later invalidated by the Parliament. These frequent changes in the management of enterprises did not lead, except in a few isolated instances, to the desired improvement in performance. In FPS's view, this was also due to the fact that managers were not offered the right incentives, and the pool of qualified managers in Romania at the time was very restricted (FPS 2000b, 19-20).

Corporate governance and political capitalism

The nomination of FPS representatives in the AGAs started in September 1993, and by March of the next year, it was completed in 35 out of 42 counties. The FPS had 148 personnel at the time, so it is not surprising that it relied on appointees from ministries and other state organisations to fill all the posts. This was not a position of strength for FPS and if the legislators had hoped it might be able to impose a different 'spirit', its dependency on the resources of the central administration soon put paid to such aspirations (MOR 81/1994a, annex 1, articles 1.2 and 1.3). The relations between managers (appointed by the government under contract from 1993) and the representatives of the FPS in the AGAs became 'subjective' very quickly and the criteria of performance negotiated between the two parties slackened (FPS 2000b, 19).

The great number of new positions, as representatives of the FPS in the AGAs provided opportunities for employees in ministries and parliamentarians. The payment for their services consisted of a flat fee and bonuses linked to the performance of enterprises. The potential for conflicts of interests did not go unnoticed, but efforts to eliminate it had mixed results. President Iliescu pleaded in February and March 1995, when the law on the status of parliamentarians was debated, that restrictions should be introduced against deputies and

senators acting as members of AGAs. The National Council of the ruling party, the PDSR, avoided taking a position on this matter (Brucan 1996, 124-8).

In some of the more lucrative cases, the monthly payments to the FPS representatives in the AGAs were in the millions (that is, thousands of dollars at an average exchange rate of 2000 lei to the American dollar in 1995). Some deputies argued that the services they rendered, obtaining credits and other contracts for the enterprises, entitled them to such reward. In the view of at least one analyst this was an example of the 'symbiosis between power and capital' in Romania at the time (Brucan 1996, 124). The Romanian media was quick to play up accusations of corruption and shady dealings, which undermined further the credibility of PDSR's commitment to privatisation. Ultimately this affected the authority and the ability of the FPS to shape the behaviour of managers in its enterprises.

Another form of co-operation between the FPS and employees in the economic ministries was the establishment of 'firms for strategy'. These were consultancy firms, which identified the restructuring and privatisation needs of a cluster of related commercial companies. A hybrid between the FPS and the ministries, these 'strategy firms' were established to allow for an 'efficient utilisation of the restricted pool of (market-orientated) specialists, combined with the decentralisation and the acceleration of the [privatisation] process' (FPS, in MOR 81/1994a, article 1.4). Strategy firms elaborated the restructuring plans and after approval by the Board of the FPS, became responsible for their implementation. They could also act as the representatives of the FPS in the AGAs (MOR 81/1994a, article 4.5).

The relationship between FPS and line ministries in privatisation

Beyond this co-optation of individuals from ministries and the parliament to exercise the governance role of the FPS, some line ministries raised the cost of their co-operation with the FPS in the privatisation process. Early warning signs emerged during the transfer of roles

in corporate governance, as mentioned above. After the FPS began the privatisation of its portfolio, some ministries obtained the right to participate in the decision over the privatisation of certain enterprises. For instance, the Ministry for Research and Technology convinced the FPS that its research institutes were of 'strategic importance' and that their privatisation had to be approved by the ministry (MOR 102/1996, article 4). Similarly, in the defence sector, the Cabinet elaborated the strategy for privatisation, and the receipts from sales were earmarked for the military (MOR 88/1997, article 51).

The Ministry of Food and Agriculture also preserved its role in privatisation and obtained special status for the SOEs specialising in services for agriculture. These SOEs were included in the mass privatisation programme under a separate set of prescriptions. They were to be evaluated by district commissions comprising representatives of the MFA and FPS and had permission to take account fully of the depreciation of the machinery. Customers of these SOEs had a pre-emptive right to buy up to 35% of shares (MOR 122/1995, article 22). According to the secondary legislation on the implementation of the law, these special commissions were in charge with all the privatisation decisions (MOR 251/1995). Also, the Agriculture Ministry lobbied to receive 80% of the receipts from privatisation in its sector similar to a concession secured by the Ministry for Tourism (Negrescu 1999, 19-20).

Cabinet interference with the FPS

In another example of interference with the FPS mandate, the Cabinet took over the implementation of the mass privatisation programme with massive help from the local administration, the regies autonomes, and the Ministry of Finance. After the subscription of coupons and certificates was completed, the FPS and the FPPs finalised the process by making a record of the changes in the ownership structure. The ANP played a role in the

supervision and publication of the results (MOR 21/1997, MOR 51/1997). Although the mass privatisation programme was realised, delays in the completion of these recording operations, which dragged on until 1999, were due to this awkward shift of responsibilities between agencies (Negrescu 1999, 14).

After the change in government in November 1996, the leadership role of the FPS in the privatisation process was redefined again. The decision on the privatisation of the local commercial companies was entrusted to the local authorities (MOR 88/1997, article 1c). Line ministries and local authorities, as well as the FPS, exercised the ownership rights on behalf of the state over the companies resulting from the reorganisation of the regies autonomies. Equally, all three organisations were responsible for their privatisation (MOR 125/1997).

At the end of 1997, the Emergency Ordinance 88/1997 redrew the boundaries of FPS's authority again to include all of the commercial companies resulted from the re-organisation of the regies autonomes (MOR 381/1997, article 8.1). In May 1999, law 99 reversed the situation yet again. The line ministries were given the task of representing the ownership rights of the state in these commercial companies, both in terms of governance and the preparation for privatisation (MOR 236/1999, article 6.4³).

The role of FPS in restructuring and industrial policy

These examples of interference with the governance and privatisation tasks of the FPS show that the initial hope that FPS would be able to shape the process according to a 'new spirit' did not materialise. Moreover, the duality of its roles exposed the FPS to requests from the Government to get involved in the restructuring of enterprises. Especially before November 1996, FPS was used for channelling subsidies to SOEs. In 1993 alone, FPS committed 17.5 billion lei (it earned 23.8 billion that year) for the restructuring of state animal farms as a

way of preparing them for privatisation (MOR 81/1994a, chapter 4). Overall, during 1992-1996 FPS spent 2000 billion lei, a little more than it earned from privatisation (1.902 billion), on restructuring failing enterprises. The major beneficiaries were the machine building, petrochemicals and metallurgy industries (Ionete 1996, 38). Unfortunately, this effort did not lead to significant improvement for the recipients, many of whom were put on the list for liquidation after 1997. The procedure thus amounted to a financial transfer from the profitable enterprises to the loss-making ones (FPS 2000b, 21).

The Democratic Convention Government forbade in May 1997 payments by the FPS to SOEs, and restructuring took the form of initiating bankruptcy proceedings. In 1997, 26 animal farms were closed, 21 were privatised, and another 34 were slated for privatisation. In addition, more than 61% of the firms for agricultural services were privatised that year, while the distribution network remained in state property (BNR 1998, 53).

Loss making enterprises in other sectors were also closed. In the mining sector, where production subsidies amounted to \$2.8 billion between 1990-6, 160 mines were closed by March 1999. The World Bank (1999c, 4) estimated that of the remaining 118 mines only 35 were economically viable and the sector required further restructuring. In 1999 alone FPS closed or nominated the agents in charge of liquidation of SOEs accounting for 12% of its losses. Many of these were in the energy-intensive sectors such as petrochemicals and metallurgy (BNR 2000, 40). Thus losses by SOEs were reduced from 2.39% of the GDP in 1997 to 1.3% in 2000 (FPS 2000b, 22).

The role of FPS in financing privatisation

Another way in which the FPS served broader governmental policies was by extending credit to its customers. The FPS official publications include aggregate figures on the price for which shares were sold, but they do not give the sums actually received by the FPS. The

difference is significant because only up to 30% of the total sum was paid up-front, the rest of the payments were spread over a number of years (initially 3-5, then 10 years, and after 1997 the period was reduced again to 3-5 years). The interest rates varied, but they were lower than inflation. Of all the buyers, the most lenient terms were extended to associations of workers and managers in the MEBO sales. Other subsidies for buyers were introduced by the decision in law 55/1995, in effect until the end of 1997, that 60% of the price obtained from the sale of shares in an enterprise was to return to that enterprise. The money was to be used for extinguishing debts (towards the state budget, the energy suppliers, the banks and other creditors), and for investment. After 1997, the introduction of debt-equity swaps fulfilled a similar role.

Controversy about the control of FPS

The FPS was the focus of a diversity of pressure groups and interests and this was reflected in the debates about the control over its activities. Initially, it was put in the care of the parliament, to ensure 'democratic control,' and to give the opposition a chance to take part. This was a weak form of control and in order to strengthen the role of the executive in privatisation and reform, in December 1997, the ANP was re-organised as a ministry for privatisation and FPS was subordinated to it. The ministry was an additional bureaucratic layer that gave opportunity for friction between the FPS staff, which by this stage had accumulated considerable expertise in privatisation, and the relatively less experienced ANP.

Also, the rivalry between the minister for privatisation and the executive manager and the president of the FPS board was another source of problems (Negrescu 1999, 15). This arrangement was reversed in May 1999, when the ministry for privatisation was replaced by the *Agenția de Restructurare* (Agency for Restructuring) as the link between the Government, the office of the Prime-Minister in particular, and the FPS (MOR 236/1999). The Năstase government changed this again: FPS was renamed as the *Autoritatea pentru*

Privatizare și Administrarea Participațiilor Statului (Authority for Privatisation and the Administration of State Shares - APAPS) and received ministerial rank. A council of 9-11 members representing line ministries shadowed the board of administration, and it was envisaged that some of the privatisation and post-privatisation responsibilities of the new Authority would be transferred to these ministries.⁷ This was in preparation of winding down the APAPS after the completion of privatisation.

Accountability over the privatisation deals has been another source of concern for the employees of the FPS in particular. Early regulation was vague about the personal responsibility of these employees. In practice, *Curtea de Conturi* (Court of Accounts), which oversaw the formation, management and use of government funds, took an active role, especially through ex post inquiries. As the Court had both audit and judicial functions, its verdicts could not be contested in the regular courts. The standard procedure was to apply to civil servants the personal liability clauses used for private citizens in civil law cases (Nunberg 1999, 62-5). Not surprisingly, the agents for privatisation were sometimes reticent in closing deals, for fear of having their judgement invalidated later.⁸

The Ciorbea Government clarified the boundaries between personal and corporate responsibility for privatisation in the 1997 legislation mentioned above. Unfortunately, this was questioned again in December 2000. Before relieving the former FPS management of their role, the new government had their activities checked by the Court of Accounts. This operation is under way and fears about its politicisation were fuelled by the assessment of the PDSR that the FPS had 'plundered' the economy.

⁷ Emergency Ordinance 296 from 30 December 2000, at <http://www.sof.ro/fps/oug296.htm>

⁸ This was one of the major causes for delays in privatisation identified by employees of FPS and ANP in interviews conducted by the author in Bucharest in April 1998.

To conclude, this section has demonstrated that the FPS had to work within the constraints of limited resources and also tense relations with other state agencies. It could not, by itself, impose a new market ethos through its role in privatisation and corporate governance. In spite of being the formal 'owner' of the SOEs, the FPS never ceased to represent the state.

While the achievements of the FPS in accumulating valuable experience over the years and realising a fair degree of privatisation should not be underestimated, the fiction of its independence from the state was useful politically. The presence of FPS, nominally in charge of privatisation, blurred the lines of accountability over the conduct of this policy. Conflicts of interest and media attention were focused on the FPS and to an extent away from the government and away from the more insidious influences over policy of the vested interests from the heavy industries.

As argued in chapters 2 and 3, the ideological antagonism of the Romanian political parties was reflected in frequent changes of regulations as each new government avoided giving credit to their predecessors and wanted to start things from scratch. Privatisation by FPS was a process of gradual attrition of its portfolio and these discontinuities slowed down the process. In the case of its corporate governance role, the effect of these discontinuities was more damaging. It created unnecessary uncertainty and increased the costs for SOEs of adaptation to change.

4. 5 Learning by doing, the role of the IFIs and the EU in the socialisation of 'good practice'

Some aspects of the lending activities of IFIs and the aid programmes of the EU in Romania in the 1990s were discussed in chapter 3. The purpose here is to evaluate the impact of these activities on the development of the institutional infrastructure of the state and market.

Implementation procedures, as well as policies, were transferred. The IFIs and EU-supported programmes also presented a challenge to the existing organisational culture.

Perhaps the most basic observation about the relationship between the Romanian Government and these international organisations is the deepening level of contact between them. Having started in 1990 from a position of relative isolation, by the end of the decade the visits and missions in both directions had become common place. The IMF opened a local mission in 1991 and produced the first staff country report on Romania in 1996. Since then, the amount of information generated by the Fund increased steadily. In 1994, the World Bank country assistance strategy for Romania was included as mere commentary to one of the loans. In 2001 this framework document was discussed widely within official and civil society circles.⁹ Since 1998, the EU Commission also produced annual reports on the progress of the country on every aspect of the accession process, most crucially the degree of integration in the Romanian legislation of the 30 chapters of the *acquis communautaire*.

The development of agreements also reflected increased co-operation. Some of these agreements started from a need identified by the Romanian government. Sectoral strategies for restructuring the railways and the provision of social services were elaborated prior to approaching the lenders (World Bank 1994c, annexes 4 and 5; 1995c, annex 1). Most of the projects funded under the Phare scheme until 1997 also fall into this category. In the area of privatisation, Phare money was used in 1991-1992 for technical assistance for the evaluation of enterprises and the setting up of the FPS and FPPs: their structure, recruitment and personnel policies, computer networks, staff training, and privatisation procedures (ANP 1993a, 14). Similarly, in 1993-6, 70 million ECU provided the capital for three investment funds to finance

⁹ In 1998, the Romanian government requested that Romania should be included in the comprehensive development framework. This is a World Bank pilot programme in which the deliberation over the country assistance strategy includes extensive consultation with non-governmental organisations and individuals.

privatisation deals, for the restructuring of non-viable enterprises, the reform of the banking system and other technical assistance programmes.¹⁰

Other projects evolved out of joint activities of data gathering and assessments of necessary investment in the capacity of the public administration to implement agreed programmes. The IMF, for instance, sent 40 technical assistance missions to Romania, most of them before 1996, for monetary and fiscal policy, bank supervision and statistics. The Romanian governments accepted some of their suggestions about profit tax, investment tax allowances, the introduction of value-added tax, and a global personal income tax. Similarly, BNR improved its capacity to generate statistics about the money and the real economy sectors. Other Romanian agencies, however, were more sluggish in their response. As mentioned above, the Ministry of Finance did not develop its department for macroeconomic projections until 1999 (IMF 2000, 45-54).

Similarly, most World Bank loans had important technical assistance components designed to enable the local recipients to utilise the loans according to plan. In the area of privatisation, a Private Sector Institution Building Loan (PSIBL) worth \$25 million, approved in 1999, supplemented the main Private Sector Adjustment Loan (PSAL) (\$300 million). PSIBL paid the up-front fees for the agents for privatisation contracted to sell 64 large companies, and several preparation studies for the privatisation of other SOEs. Also, it facilitated the setting up of the Asset Resolution Agency, to which the bad loans of the Agricultural Bank and Bancorex were transferred in 1999. This loan also provided funds for market institutions: the central depository for the secondary market in treasury bills, the auditing industry, bankruptcy courts, training programmes related to corporate restructuring, work-outs, and liquidations, and an assessment of the regulatory environment for public utilities (World Bank 1999b, 20-23).

¹⁰ The internet address for the database of Phare-funded projects is <http://europa.eu.int/phare/cgi/plsgl>.

These details give an idea of the extent and depth of the technical assistance programmes and their objectives. They enhanced the capacity of the public administration and supported the emergent market institutions. This record also showed that the Romanian authorities became able to administrate the loans and the aid to the requirements of their partners. There was significant progress over time. The first loan to Romania agreed by the World Bank in 1990, TACI, was disbursed very slowly due to lack of local expertise in the procedures of procurement (World Bank 1996, 13). By 1999, the project appraisal document for the mine closure and social mitigation project could claim that the prospects for speedy implementation were good. The project management units were established and had adequate personnel and financial systems infrastructure (World Bank 1999c, 11).

Where the difficulties of implementation proved significant, they could be attributed, as the World Bank recognised, not only to the relative lack of experience of the Romanian authorities, and resistance from certain industrial sectors, but also to features of the lending instruments. In cases where the lender attached conditionalities broader than the agreed sectoral strategies, there were delays in the implementation. For instance two projects in the energy sector, for the rehabilitation of the petroleum and the power industries, concluded in 1994 and 1995 respectively, were rated as unsatisfactory from the point of view of their implementation in 1999 (World Bank 1999c, 16). The latter project recovered by the last portfolio review in 2001 (World Bank 2001a, annex 2). Similarly, the Financial and Enterprise Restructuring Loan (FESAL), agreed in 1995, was restructured in 1997 after the adoption of a new country assistance strategy and eventually abandoned. The lesson drawn by the Bank was to avoid in the future the 'Christmas tree' approach and to identify straightforward benchmarks for performance (World Bank 2001a, chapter 4).

The record of the Phare programme confirms these observations. The overall performance of Phare, including all country beneficiaries, was that of the total commitments of 8,890.9 million

EURO, between 1990-1998, 75.3% were contracted (6,697.3 millions). A total of 5,589.1 millions EURO were paid out, representing 62.9% of all committed funds (EC-DGE 1999a, 21). The commitments for Romania during the same period were 971.85 million EURO, of which 675.75 million (69.53%) were contracted and 598.13 millions (61.54% of committed funds) were actually paid out (EC-DGE 1999a, 84). Thus, in Romania, fewer funds were contracted but the figures for disbursed funds compare well with the regional average.

The complexity of the bureaucratic machinery in Brussels caused delays in the utilisation of Phare aid. In 1997 a major overhaul of the programme became necessary in order to address the low rates of contracting across the region. Decision-making was deconcentrated by giving local EU missions increased responsibility for approving projects (EC-DGE 1999b, 4-6). In the near future, some of this responsibility will be transferred to the national governments.

It is quite clear that not only policies but also ideas and procedures, a whole 'technology of government' and 'good practice' were transferred from these international organisations to the Romanian bureaucracy. The transfer of policies is possible when there exists a common way of defining what the problems are and what is the best way to resolve them (Dolowitz 2000). In the process of building institutional capacity, the depth of this assumed commonality of vision, understanding, and commitment to certain values increases. Most details of institutional procedure, informational infrastructure, such as management and financial systems, training of personnel and evaluation of outcomes were part of the collaboration.¹¹

To their credit, the IFIs used their comparatively secure position and far superior resources to absorb some of the risks involved in their relationship with the Romanian governments. Committed from the start to certain policy solutions to economic problems, the IFIs were willing to show flexibility in their negotiations. They appreciated the difficulties faced by the

Romanian authorities, the gravity of the distortions in the economy, and the skill deficiencies in both the economy and the public administration. The recent draft country assistance strategy of the World Bank commented:

Many economic deficiencies in Romania's society are not the result of ill will but of lack of knowledge. To continue the dialogue with the Government, other interested parties, and society at large therefore carries a high pay-off. Whether connected to specific lending operations (e.g., new privatisation methods, bank restructuring) or to the design of reform (CAS, Public Expenditure Review, Country Economic Memorandum), these investments in people have proven to help build a consensus and momentum for reform (World Bank 2001a, chapter 4)

But the relationship between these international organisations and the Romanian state bureaucracy was more complex than these broad observations suggest. The Romanian senior civil servants had to balance contradictory pressures. On the one hand, although formally equal, they were in a junior position in relation to foreign experts. The latter were, of course, better paid and more secure in their institutional position and knowledge. This represented a relative loss of status that had to be carefully managed. While Romanian civil servants had fewer skills, they certainly had more responsibility for the impact of such programmes. The IFIs and the EU do not have to bear directly the consequences of failed policies in Romania, although they might have costs in terms of reputation. For this reason, delays in the implementation of loans or aid agreements can be seen not as simple failures but as necessary cushions within which these pressures could be managed. The strategy of buying time helped the Romanian actors to deal with these discrepancies.

Variations in performance across the central bureaucracy point to another factor that played a role in the relative success or failure of the different programmes: the orientation of the public servants, whether technocratic or traditionalist. In some quarters of the state administration, especially in those that had more technocratic experience, compliance with the new norms

¹¹ This is attested by the operational documents of the World Bank and all the other official documents mentioned in this section.

proved easier. The NBR and certain departments in the Ministry of Finance and the Ministry of Industry are cases in point. In other parts of the public administration, the loyalties to older notions about the importance of preserving certain industries of 'strategic importance', or the ideal of self-sufficiency in coal and food production, for instance, were stronger. This was reflected in the greater resistance to change on the part of certain public utilities, the restructuring of state-owned farms, and the mining sector.

There is also some evidence that certain bureaucrats used international agreements to push for change and to overcome the opposition of their colleagues. According to one witness in a Cabinet meeting where the closure of Bancorex was decided, the representatives of the BNR and the Commercial Bank framed the discussion in a way that eliminated options contrary to the agreement with the IMF. The timing of the meeting was also crucial, as the decision was due by the next day.¹² Similarly, Aurel Ciobanu-Dordea, the Romanian chief-negotiator with the EU in 2000 tried to engage his more conservative colleagues by emphasising their crucial role in carrying through the very complex negotiation process and the implementation of policies resulting from it. He observed that resistance to the accession process was substantial and pointed to the low rate of take-up of training courses in EU law and procedures (Ciobanu-Dordea 2000, 19).

Thus, the participation in international programmes by Romania led to changes in practices and improved institutional capacity across the civil service. At the same time, it created a distinction between those who could take part and those who could not. Work for World Bank programmes was much better paid: 'market rates' were introduced in recognition of superior skills and training (World Bank 1999c). In spite of these tensions, democratic practices, such as consultation with civil society organisations in the elaboration of policy, became more common. One example was the consultation over the World Bank country assistance strategy,

¹² The source of this information was senior official in the Romanian government between 1996-2000.

which involved a few thousand people and organisations (World Bank 2001a; 2001b). Similarly, the Department for European Integration initiated consultations about the consequences for Romania of opening negotiations over new chapters of the acquis.

4.6 Conclusion

This chapter has shown that taking into account institutional factors in post-communist transformation can add a significant dimension to the evaluation of the reform efforts. The recasting of institutions such as money, trade, firm management and bank management from their incarnations under the plan to new definitions consistent to the market is a complex process of learning for individuals and for organisations. This dis-embedding and re-embedding became possible because of the shift in the basis for political power and the decision to change the structuring principle of the economy, described in chapters 2 and 3.

At the level of institutions, the change involved redefinition in theory, in the sense of finding the words and the rationale. But also, the test for institutional development is the ability of ideas to structure to a certain extent the activities of the actors. This efficacy assumes that their assumptions and requirements are already internalised by these actors. Behind this efficacy is the effective deployment of authority – in the examples presented here, the authority of the state administration, the BNR, the FPS, the IFIs and the EU.

It was shown that the ability of the state administration to model and impose changes in the rules of the economic game for enterprises – from reliance on the state to self-reliance and competition in the open markets – was relatively weak. The reform of the state administration and the development of new mechanisms and relationships between the bureaucracy and economic and political actors were not a priority for the political elites. Greater changes were visible in the development of the banking sector, where, over time, the BNR increased its

capacity to act as the regulatory authority in the system. This process also contained phases of retreat on the part of the Bank, under the pressure of the government or the failing banks. This evolution was similar in the stock markets.

The governance role of the FPS was also weakened by the delay in the reform of the public administration. FPS relied on information and personnel from the line ministries, and it could not impose, by itself a new market ethos. On the contrary, the signs are that its attempts to introduce new regulatory procedures for enterprises – contracts and performance indicators for managers, for instance – were undermined by collusion between its representatives and managers.

These findings are also consistent with the analysis presented in chapter 3. Certain economic structures, although in the process of being displaced, put a great deal of pressure on the state to cushion the impact of changed economic conditions of competition in the world markets and to allow them to delay restructuring. The theoretical implication is that institutions can exert their structuring pressure when underlying power relations between actors support them.

Clearly, the history of co-operation between Romania and the IFIs and the EU shows that the trend has been towards deepening relations. This attests that capacity within the Romanian state administration has increased during the 1990s. At the same time this was a complex relationship. Formal equality could not mask the discrepancies in skill and knowledge between the parties and the asymmetry of responsibility. As a consequence, the pattern of buying time provided the necessary leeway for absorbing these tensions. In spite of temporary reversals and delays, the relationships were maintained and deepened.

The next chapter discusses broader cultural notions about action and agency that underpin the activities of economic and political actors. Their direct impact on particular events is

difficult to establish, but they are, in the most general sense, part of the background that contributes to how actions and events are made sense of in the public debates in post-communist Romania.

CHAPTER 5

Cultural factors in the economic and political transformations

5.1 Introduction

The previous three chapters introduced three factors that shaped the course of marketisation in Romania between 1990-2001: the fragile political consensus, the distorted economic structure, and the slow pace of institutional change. This chapter takes the analysis in a domain that impacts on all these, but it is sufficiently distinct to warrant separate treatment. This is the area of culture. Definitions of culture are varied and they diverge in a number of ways. The working definition used in this analysis was introduced in chapter 1. Culture is a collection of collectively held views, conscious or unconscious. These amount to a 'way of organising life, of thinking and of conceiving underlying assumptions about the family and the state, the economic system, and even of mankind' (Hall 1959, 23).¹

For the post-communist period studied here, the main question is to what extent the change of political regime and the marketisation of the economy were accompanied by cultural change as well. This assessment starts from a view of communist culture as the starting point of these transformations. Of course, the reconstruction of the salient features of the communist culture is a vast domain of enquiry and this is not the place to approach it in its entirety. The evidence provided by witness accounts (Brandys 1984; Antonesei 1995; Jela 1997), insiders of the regime (Djilas 1957; Voslenski 1984) and dissidents (Milosz 1962; Havel 1992; Michnik 1993) will be used to describe only one central feature of this culture: the conception about action in the public sphere.

¹ It is not possible to enter here into an extensive discussion of how individuals and groups construct their reality. This analysis is based on the premise that experience, perceptions, as well as communications about one's environment are already framed in a way that 'makes sense' socially (Goffman 1986), 'institutional facts' are created collectively (Searle 1995).

Hall's (1959) theory of culture provides two assumptions useful to this analysis. Firstly, the formal culture is socialised through emotionally charged corrections, and this is the basis for its endurance. This applies to the formal communist culture and provides the link between the communist past and contemporary culture. Secondly, beliefs can change when their content is challenged. More importantly, because beliefs cannot be simply willed into or out of existence, they change depending on the kind of beliefs they are: formal, informal, or technical. The present analysis shares with other studies the interest on issues of cultural continuity, but the emphasis is less on the particular beliefs that are said to constitute a 'totalitarian public consciousness' (Vainshtein 1994), or 'mental stereotypes' (Mihăilescu 1993) and more on the likely dynamics of change.

The first section lays the framework of this analysis of cultural change in post-communist Romania by looking at the assumptions about actors, social action, and models of development socialised by the communist regime. The peculiarity of this regime was that the whole 'cultural economy', the relationships between different registers that usually remain outside the purview of conscious political action, became a target for change and transformation. To understand the prospects for change thus requires an explicit exposition of these processes as well as the 'contents of culture', i.e. particular beliefs. These hypotheses will be evaluated in the subsequent sections in relation to the activities of economic reform in general (section 3), privatisation (section 4) and the relations between Romania and the IFIs and EU (section 5).

5.2 The communist social pact

It is common knowledge that in post-world war II Central and Eastern Europe (CEE) communist parties extended the domain of the political beyond anything known before. They used political power to implement a 'systemic' revolution (Bauman 1992). The communist

regimes attempted to create a new type of society and a 'new man' (Lifton 1963; Zinoviev 1985; Goldfarb 1989). The subservience of individuals was secured by eliminating individual property rights and through comprehensive forms of social integration and mobilisation (Nodia 1996, 24-7). Political legitimation rested on the priority of goals over means or law (Rigby 1982), on Marxist claims about the objective trend of history and the revolutionary character of the Party (Markus 1982; Heller 1982; Brunner 1982; Berki 1982), on paternalism (Feher 1982), and the cult of the leader (Gill 1982).

The communist regimes created a world-view in which the Party was the hero who transcended all the economic, social and political difficulties of the previous era and developed a society based on justice, equality and a superior standard of living for all its citizens. The ascendancy of the party was given by the scientific method, which guaranteed that the Party's objectives and strategies were objectively justified and correct. Limitations in achieving its aims were temporary. Thus,

power undergoes a curious process of self-legitimation. Whether the ruling group expresses the desires and interests of the majority, and whether the majority of the people supports them, are not measured by whether this support is manifested in some tangible form (for instance a ballot). The possessors of power have appointed themselves as the manifest expression of the people's interests and the repository of a permanent public good. According to the elliptical thinking described, one can almost say they have legitimated their power "by definition" (Kornai 1992, 56).

This inclination towards 'elliptical thinking', which buttressed the position of impregnable right of the Party, became an important frame in the public culture as a whole, a way of organising the arguments and rhetoric in support of any objective deemed desirable by the Party.² In the fragment below from a propaganda work on the Romanian economy, typical for the style of communist official pronouncements, the sense of heroism, charisma, exceptionality, envelops the goal of industrialisation:

² Some of the policy priorities of the Romanian Communist Party (PCR) and their institutional consequences were reviewed in chapters 2-4. The working class and the heavy industries were the most common functional substitutes of the Party in this cultural scheme, the most likely to be cast in the heroic role.

The development of the industry, and especially of the heavy industry, is considered as *the only way* of raising Romania to the level of the economically advanced countries through *the harmonious and balanced* development - *on a constantly ascending line and at a rapid rate* - of the whole economy, the *constant increase* of social labour productivity, the *intensive and complex* development of agriculture and the *systematic advance* of people's living standard. Industrialisation ensures in fact national independence and sovereignty (Lupu 1968, 17).³

A variety of positive attributes were presented as guaranteed features of a desired reality, in this case industrialisation. That the 'harmonious' and 'balanced' and 'constantly ascending', 'at a rapid rate', development of all sectors in the economy might not be possible, or what the trade-offs might be between these different objectives are, at best, marginal concerns. The implicit beliefs about action, what is desirable and possible, communicated by the official culture are also evident here. The imperative is indeed absolute: the party (the state, the individual, etc.) has to and can achieve perfection. In this elliptical thinking, what is desirable becomes confused with what is possible. The Party's identity is seen to guarantee the meaning and outcome of its actions.

At the same time, Lupu was careful to invoke many of the possible facets of the issue. Consideration and refutation of opposing arguments is an important device for the construction of rational argument in Western culture (Goodwin 1997, 14-5). In this case, different aspects were acknowledged, but they were closed without explicit consideration. In spite of its elliptic character, this is a gesture towards the rationalism and scientific spirit that the Party also represented. The ability to forge together elements that would normally be incompatible, in this case 'individual heroism' and 'organisational impersonalism' was the main feature of the 'Leninist (communist) Party' (Jowitt 1992, 8-12).

This synthesis was an unstable ensemble, however. Its survival depended on the

³ These are the author's italics.

identification and war against enemies: class enemies, the backwardness of the peasantry and any 'negative attitudes' that stood in the way. The reign of terror in the early phases of the regime realised the political ambitions of the party; it was also crucial for the maintenance of its organisational integrity. In later years, purges inside the party, and the campaigns for various planning objectives served the same objective (Sampson 1982; Lefort 1986; Zilber 1997). The consequence was the socialisation of metaphors of war and struggle as the normal frame for understanding social action. 'Storming', periods of slackness followed by frantic activity, became the pattern in which objectives could be achieved (Verdery 1996, 42, 54; Jowitt 1992, 79).

This model of action was central to the communist formal register of culture. This register, as conceptualised by Hall (1959), was also very broad. The hero/villain dyad could be projected by the regime onto any actor, in relation to any goal. To become accepted as the natural state of things, such formal prescriptions were socialised through the use of approval and punishment. The vast social restructuring operated by the Party gave it huge opportunities to reward materially social groups, particularly the formerly dispossessed, while violence was used against the opponents (Pop 1993; Jela 1997; Tănase 1997). This ensured that strong emotional overtones became attached to these prescriptions and made them effective and enduring (Heller 1982, 59-60; Neculau 1999; Bar-On 1999). The politics of threats and reassurance (Edelman 1964) took on a new intensity.

The extensive role of the Party in society translated in an extensive formal register of culture with important implications for the other registers, the informal and the technical. Hall (1959) explained that any social situation could in principle be framed in the formal, informal or technical register. In different cultures, however, given issues would be more likely to be played out in one of them. Informal culture, it will be recalled, occupies an uncertain space created through behaviours that come 'naturally'. Lodged into the outskirts of

conscious awareness, they are usually denied in oneself but easily recognised in others. According to Hall (1959), the relationship between registers is that of 'innocence'. They are embedded in different modes of consciousness, are socialised differently and seem to facilitate different kinds of work in maintaining social cohesion. Thus, the smooth negotiation of a social situation depends on acting consistently within one register. A sudden switch from one to another stymies the interaction by blocking the response of the other.

The excessive ideological claims of the communist party impacted variably on society, depending on resistance by different groups, and the extent to which they were implemented in different settings and at different moments in time.⁴ Nonetheless they put the autonomy of the informal register in jeopardy. Under the communist regime, informal arrangements were important for meeting the everyday needs of people since the state sometimes failed to deliver basic goods and services. *Blat*, 'favours of access' to resources, granted by people who had official, immediate access to certain scarce goods, to others, under the guise of friendship, or family 'help' were common (Ledeneva 1998, 34-7). In Romania, they were so widespread that the acronyms of the Romanian Communist Party (PCR) were said to stand for three words that were synonyms of *blat*. Thus, *pile* (a 'file', a tool that smoothens metals), *cunoștințe* (acquaintances), and *relații* (connections) represented the main strategies for survival under the rule of the PCR.

The Party often made the existence of this informal realm the explicit focus of its repressive policies. Press campaigns attacked the character and integrity of groups such as sales assistants, doctors, and other service providers, that were at the core of *blat* networks and practices. These groups were blamed for shortages (Jowitt 1992, 62-87). But this additional attempt to control only intensified a sense of 'lack of reality' among the population. The

⁴ For instance, Kubik (1994) and Batt (2001) made the argument for the distinctiveness of the regional cultures of Cieszyn Silesia in Poland, and Banat in Romania respectively.

ideology of the Party was so obviously part of everyday life, from the architecture of the cities and living spaces to the availability of basic foods and services. And yet the 'normalcy' of everyday life and even physical survival rested on informal practices, of whose reality and concomitant lack of legitimacy individuals were rudely made aware.⁵

The difficulty created by this clash between the formal and informal registers of culture was sometimes resolved in the form of black humour.⁶ Self-actualisation was 'situationally determined,' 'people could say one thing in one context and another in another context and not be judged deceitful, or forgetful, or mad' (Verdery 1996, 96). This, in turn, created a 'fundamental reflex toward micro-experiences of solidarity and opposition' (Verdery 1996, 96). Similarly, for Kligman "living in two interrelated 'realities' - a stagnant official public sphere and a dynamic informal one - defined the habitus of socialism in Ceaușescu's Romania" (1998, 40).⁷

In spite of the efforts from above to eliminate them, informal practices corroded and corrupted from below the 'organisational integrity' of the party (Jowitt 1992, 121-158). In time, the Party became unable to sustain the tension at the core of its identity, the tension between heroism and impersonalism. It could not find new objectives on the revolutionary

⁵ The 'cultural work' of reconciling certain formal requirements in the culture with realities that might belie these claims is not, of course, unique to the communist regimes. Edelman (1964) noted this tension in his study of symbolic politics and Scott (1990) analysed the coexistence of official and hidden codes of behaviour and meaning at work in the relations between the dominant and the dominated social groups. In a study of grass roots democratic activity in a community in USA, Eliasoph (1997) showed that the belief in the worthiness of democracy and civic engagement and the sense of impotence of individuals in influencing national policy were reconciled through a stratagem of 'avoiding politics'. This consisted in professing interest in democracy but restricting militant action to local issues over which the activists felt they had some control.

⁶ This was captured well in the black humour of the times. As an example, here is a stanza from *Istoriya SSSR v Anekdotakh: 1971-1991*. Riga: Everest, 1991, p. 188, quoted in Ledeneva (1998, 72): "No unemployment but nobody works./Nobody works but productivity increases./Productivity increases but shops are empty./The shops are empty but fridges are full./ Fridges are full but nobody is satisfied/ Nobody is satisfied but all vote unanimously."

⁷ Kligman adapted Bourdieu's notion of habitus to describe the 'socialist habitus' of Ceaușescu's era. Habitus is the internalised, taken for granted ways of seeing and being, whose acquisition through early socialisation ensures the 'fit' between individual perceptions and strategies for action and their cultural environment (Kligman 1998, 15). See also Bourdieu (1990, 52-79) and Thompson (1991, 12-4).

scale of its first two decades in power and it could not discipline its own officials, who became much more interested in pursuing their own private agendas than in subordination to the party (Voslenski 1986, 188-240; Botez 1997, 87-116). The ideology itself ceased to represent the 'truth' in which citizens had to believe, and became simply something they had to be seen to agree with (Havel 1991; Michnik 1993). Cynics became more numerous than true believers (Poznanski 1993).⁸

But the attempt by the Communist Party to control social reality and the knowledge about it also had an impact on the evolution of the technical register of culture. Because they are fully conscious, scientific and open to explicit debate, technical beliefs about social and political affairs could present a direct danger to the truth claims of the Party. They could also create a sense of control, detachment, and relative autonomy from the regime. Of course, the autonomy of scientific research was never completely extinguished. The variable exertions of the officials to enforce the letter of formal prescriptions and the efforts of intellectuals and scientists to escape official censorship and 'communicate between the lines' allowed pockets of resistance. In Romania, where the regime remained ideological to the end, the closure of some social science departments and the politicisation of others disabled to a greater extent than elsewhere in the region the production of knowledge about social affairs. Professionalization in the already marginal social sciences depended on strategies of evasion of current concerns through a return to classical texts or abstract thought (Verdery 1991).

⁸ It is not possible to explore here the complex emotional and moral predicament of individuals or groups held in captivity. These phenomena belong to a wider category of social and personal traumas, such as domestic violence, holocaust, apartheid and war. See for instance Herman (1994), Tal (1996), and Bar-On (1999). Mihaela Miroiu (1999) also noted in a study of post-communist Romanian culture the similarity between the situation of women in a patriarchal culture and that of people living under totalitarian regimes. Common features are the prevalence of fear, the internalised constraints to self-development and the peculiar complicity between victim and perpetrator that is the price for survival in such extreme circumstances (Miroiu 1999, 135-162). In these situations gestures of self-mutilation by women, such as abortion, could be seen as strategies of political resistance (Băban 1996).

More gravely, a degree of intellectual freedom was sometimes secured by participating in the creation of the official discourse, embracing certain themes, such as nationalism, that were crucial to the claims to legitimacy of the communist regime (Verdery 1991). This inhibition of the technical understanding of social issues fuelled the sentiment of 'lack of reality' already tried by the peculiar relationship between the formal and informal registers of culture. Helplessness was felt as the impossibility to create an opening in the official discourse and even to imagine a practical way of breaking free from the grip of the regime. Many of the writers of the era confessed this in fictional form (Buzura 1986; Sîrbu 1992), in interviews and letters broadcast by the Radio Free Europe, and diaries (Antonesei 1995; Jela 1997).⁹

Thus, the basic characteristic of the communist culture was a problematic positioning between the three registers: formal, informal, and technical. The attempt by the Communist Party to control both discourse and reality, the minds and the sentiments of its citizens, resulted in a loss of innocence between the formal and the informal, and a near blockage of the technical. The autonomy of the formal and the informal was impaired, as the reconciliation, through 'cultural work', of the contradiction between the claims of the party and the everyday experience became more and more difficult.

The transfer of power from the communist regime to transitional democratic governments was a moment when variations between national communist cultures were revealed. The manner in which the communist Party, as the emblematic hero, left the scene recast some of the relationship between cultural registers and provided an ending to the heroic story. Symbolically, the willingness of the party to relinquish publicly its claims to absolute political power and to the definition of what was right and wrong in the round-table negotiations in Poland and Hungary redrew the perimeter of formal cultural claims. This

⁹ Many of these works, although written before 1990, were published after the revolution.

redrawing of boundaries was helped by the prior public scrutiny and refutation of the party claims that had taken place in dissident publications, such as those by Michnik (1993) and reflected the history of relative tolerance of opposition of the communist parties in these countries (Staniszki 1984; Walicki 1991).

The Hungarian communist party had adopted a consensual strategy after the repression of the 1956 revolution, which entailed a piecemeal redefinition of the tenets of formal culture and allowed the informal culture to flourish. There had been tolerance of private enterprise and individual freedom, and some scope for social science and policy research (Rothschild 1993). In both cases, the 'negotiated revolution' was an orderly process, in which both the Party and the civil society played a part. This was a relatively safe environment for the release of some of the emotions associated with the formal prescriptions of the regime. Transformations were peaceful, and consensus around change was easier to create (Bruszt 1990).

In Romania, Ceaușescu's totalitarian cum sultanistic position and his clinging to power till the end excluded the possibility of a peaceful transfer of power. The underlying model of social action incorporated in the story about the Party as a hero received an ignominious ending. Ceaușescu's rule ended not by open confrontation of arguments or negotiation of a compromise. The hypnotic ritual that had substituted for public life in Romania in the 1980s was simply broken during the events of December 1989, as all actors failed to act 'the script' appropriately. At the last public demonstration of support staged by the PCR, on December 21, 1989, the crowds stepped out of the script when heckles replaced the cheers. This unexpected turn of events was followed by equally surprising failures to act by the supposed enforcers of the regime: the police, the army and the *Securitate* did not intervene to protect their leader, and Ceaușescu could not get a grip on himself and the situation (Câmpeanu 1999, 42-6).

The void of power left by the disappearance of the PCR and the absence of a legitimate political force ready to take over influenced the transformation of political culture in the 1990s. Because PCR did not use the position of authority it had to redefine its claims and there lacked a sustained ideological challenge to its authority, the model of action it incorporated and other elements of the communist culture survived. The disappearance of the ideological and material conditions that had brought them into being opened the possibility for cultural change, but this possibility is still in the process of being realised. Additionally, what had been informal, corruptive, and defiant practices of resistance to abusive authority became the unrestricted sources of inspiration for behaviours in the new circumstances. This was a crisis of moral authority that compounded the dilemmas of political and economic transformations.

The 'void of power' engendered strong fears and uncertainty as to the future. The political consequences were explored in chapter 2. In this effervescence, the meaning and significance of current and past events came under intense scrutiny. The events of the revolution, so publicly played out on the television screens, were the first to attract feverish interpretation, and numerous 'scenarios' occupied the attention of the media and the public for years (Ramesh 1991; Verdery and Kligman 1992; Tismăneanu 1996b). Other examples were the events of recent Romanian history. General Antonescu, King Michael, ethnic minorities, Romanian prisoners in Soviet Russia, Romania's participation in the Second World War, the beginnings and meaning of the communist regime, anticommunist dissidence and the lack of it, were at the centre of acrimonious debates in the 1990s. Claims for compensation or punishment were difficult to arbitrate and fuelled the sense of insecurity of the groups involved (Gallagher 1995; Breban 1997, 108-154; Tismăneanu 1998; Paler 1999). These phenomena were common in the whole region, but in Romania their resolution was

particularly protracted. It was reflected in and maintained by the antagonism between the political parties.

This was the cultural legacy of the communist regime in Romania. The communist party had socialised not only claims about itself but, more broadly, beliefs about the possibility of action and its purposes. Its disappearance and failure created another persistent theme in the Romanian culture: the negative traits of all things Romanian.¹⁰ Questions of responsibility and accountability for the communist regime remained unresolved. To this extent, the formal communist culture is still active. But this does not mean that changes are not afoot at other levels. Hall (1959) warns that cultural change tends to appear sudden, because it builds on largely unseen piecemeal adjustments in the informal domain. The adjustments could in time lead to a shift in formal beliefs.

At the same time, the loss of innocence between the formal and informal registers of culture still facilitates a peculiar discrediting game. Informal practices of yore - labelled as corruption or incompetence in the post-communist circumstances - persist. As in the past, they are not simply the means by which necessary cultural work is done and social solidarity is created. They continued to undermine the credibility of the political system and the state because corruption is assumed to motivate nearly all actions in the public space and corruption is used almost indiscriminately as an explanation for economic or political deficiencies.

5.3 Reform, political parties and models of action

Observers of Romanian politics often despair of making sense of its seeming lack of

¹⁰ The TV station PRO-TV broadcast in 1998 a series of programmes whose title, *Există și români fericiți* (Happy Romanians exist as well), challenged this common perception.

consistency and coherence. Romania was in danger of becoming the 'land of perpetual potential', according to David Garner, the head of Citibank's operations in Bucharest (Wagstyl and Marsh 1998, 1). A prominent Romanian political analyst also believed that the first ten years of post-communist transformations told the story of 'how to succeed in blocking reforms' (Șandor, 1999), while another found it necessary to ask: 'can the vicious circle be broken?' (Șerbănescu 1999).

Such statements reflect the sense that 'Romania' failed to achieve swift progress in political and economic reform. As knowledge claims about reality, their truth could be, in principle, evaluated to see whether they match the 'facts'. Here, the interest is to note that through their style - the affirmations are not qualified but rather absolute - they participate in the cultural patterns described above. And indeed, the presence of such patterns can be easily documented. At every stage of the reform process, each of the measures described at length in chapters 3-5, were adopted in a 'storming' style. The main elements in this scenario were a long delay in dealing with an issue, a sudden sense of imminent crisis, heroic mobilisation, new opposition from 'intractable enemies', and finally, a degree of success in implementation.¹¹

But although these crises were resolved as well as it could be expected, this was rarely seen as a success, albeit a relative one. Instead, the overwhelming sense of dissatisfaction fuelled by unreasonable expectations would be temporarily resolved by a sort of retreat from dealing with issues. After a while, as problems became urgent again, the cycle starts anew. In other words, for many of the local public actors - politicians as well as journalists, unions, and

¹¹ The reader will recall examples presented in the previous chapters: the sense of urgency in adopting the privatisation law of 1991, the long period of relative calm and apparent lack of activity in the subsequent years, the new mobilisation in 1995/6. Within the mass privatisation programme, most of the subscriptions of coupons against shares took place in the last month of the programme. The closure of Bancorex was decided in the last day allowed by the agreement with the IMF, etc. When the Democratic Coalition gained power, the whole of the previous period was cast as one of non-reform, non-movement, and this was the justification for their radical programme.

other interest groups, 'revolutionary politics' is 'politics as usual'. The old frame - of absolute imperatives, heroic efforts, and ultimate failure seems to creep in more often than not.

Metaphors of war and destruction, danger and imminent dissolution abound in accounts of political and economic affairs in the local press. 'An aggression without precedent against the small private enterprises' was the headline for an article about a meeting of private entrepreneurs at the Romanian Chamber for Commerce and Industry (Rus 1997). The main points of complaint were recorded in the sub-titles: 'artificial taxes in a legislative disorder impossible to describe'; 'where can we go? Nobody gives us any facilities'; 'an aberration: to borrow in order to pay taxes'; 'let the minister come to our door, it is us who keep the country running'; and 'everybody is right, but nobody takes any action' (Rus 1997).

Other alarmist titles read: 'the policy of destroying the Romanian economy continues: Now it is the turn of the producers of machinery for the oil industry' (Pârvu 1997); private entrepreneurs found that 'the business world [existed] between political demagoguery and entrepreneurial pragmatism" (Dimofte 1997). In a survey of opinions in the private sector, it was concluded that 'the management of small enterprises [was] in turmoil'. It was said that: 'the private entrepreneurs are destined to disappear'; the entrepreneurs and the government are in 'a dialogue of the deaf'; and 'the indifference of the administration kills private initiative' (*Adevărul Economic* June 6-12, 1997).¹²

The National Bank of Romania also attracted a fair amount of heated controversy. A new law on banking supervision supposedly gave the BNR '*puterea să taie și să spânzure*' ('the power to cut and hang' - the power to do anything it pleases). Although these powers were normal for a central bank, the other bankers were said to be afraid that sanctions would be

¹² Instances of this alarmist framing of issues are countless. See for instance Andarache (1996), Rădulescu (1997), Varvara (1998).

applied 'subjectively' (Constantin 1998, 33). Frequent communications by the BNR sought to restore some calm in the face of claims by newspapers that 'the banks are empty', prompted at one point by cash-flow problems at one of the smaller banks, Albina (BNR 1999b).

Not only the general public, but the Banks in difficulty seemed prone to blame the BNR for not rescuing them, as was the case with Albina, Dacia Felix and Credit Bank (BNR 1997b, 105-8; Vasilescu 1999). The whole of the banking system came under 'tough' criticism from the Liberal Party in June 1999. Its vice-president, Dinu Patriciu, thought that the banking system was 'structured wrongly, in the form of a pyramid', with the BNR as its 'apex'. The BNR was the 'mother' that smothered the rest of the banks because it combined two functions: supervision of the banking system and control over monetary policy. In his opinion, the two functions should be separated. Others in the meeting, while not contradicting this view, also explained that banks have to take responsibility for the loans they grant (quoted in Vasiliu and Vasiliu 1999, 12).

Politicians often had to bear the brunt of the direct, aggressive style of the press. One such influential journalist, the editor-in-chief of *Adevărul economic*, Viorel Sălăgean, a Senator and an economics PhD, addressed Prime Minister Ciorbea in a series of 'open letters' throughout 1997 (Sălăgean 1997a, 1997b, 1997c, 1997d). 'With great difficulty, you [the PM] desperately tried to push the cart of the reform again, without achieving very much', said Sălăgean and warned that the 200 day deadline the government had given itself to deliver on its electoral promises was approaching. His evaluations and attributions were not backed by facts or reasoning; they seemed to rely entirely on rhetoric. Thus, talking to the man responsible for delivering on these promises, Sălăgean said that "whoever thinks that a government can realise the wonders of the kind stitched together in the '200 day programme', is either naïve or completely alien to the world in which he lives".

Although I am almost certain that you will not be able to control your pride, honourable Prime-Minister, and you will lay out a report to the country, which you will certainly present in front of the nation, on prime time TV, about the 200 day programme, looking to convince Romanians that if the nature has turned green this spring, this is due, of course, to the reform of the government, you will only succeed in falling into ridicule and embarrassment (Sălăgean 1997b).

This form of direct address did not leave much room for response. The actions of the PM Ciorbea were not assessed on their own merits, but were derived from a view of his identity. The appraisal consisted of unreasoned and unjustified attributions, stemming from an auctorial position with shifting, contradictory and absolute requirements and expectations.

Such practices were not seen as transgressions in the post-communist public culture, a testimony to the fact that they were, at least at the time, accepted norms. This was confirmed by the fact that politicians themselves often displayed lack of care in managing their own image and that of their party. In chapter 2 it was shown that confrontation was the style of engagement throughout the 1990s in Romania. The initial positioning of the main parties and especially the choice of the Democratic Opposition for a strategy of 'ultimate ends' were at the core of this. The political debate before 1996 was shaped by the conviction that the actions of the governments can be explained directly by their assumed, 'neo-communist' identity. The refusal to engage in a more circumscribed debate over what was possible and how, perhaps fears that their own identity would be somehow damaged by association, translated in consequential decisions, such as the refusal to co-operate in the government in 1992. Văcăroiu's subsequent dependence on the support of the nationalist parties delayed its reform agenda and had economic costs. A measure of political stability was bought at the expense of serious economic imbalances in 1995-6.

Once in power, the Democratic Convention and their allies had a chance to implement their ideal of transparency, a test the previous government had presumably failed. In the name of transparency, the interest in projecting an image of coherence and purposefulness to the

public took second place, in a situation where managing a fragmented coalition was going to be a difficult political task in any case. Disagreements between the coalition members were played out in public. To his credit, Prime-minister Ciorbea tried to make it a rule that his ministers should not announce policies without prior debate in the cabinet, and that they should not express views that were in contradiction with the official policy.

Within a year of his term in office he was confronted by four major crises of Cabinet management. Three of his ministers were supposedly conned into signing a declaration in support of constitutional monarchy, thus breaching the Romanian constitution. Two Hungarian ministers threatened to leave the cabinet over changes in the education bill but rescinded after a compromise was found (KRWE December 1997). The foreign affairs minister, Adrian Severin, a member of the Democratic Party, made accusations of espionage against some politicians. The accusations were later found baseless and he had to resign. Another PD minister, Traian Băsescu, was forced to resign by Ciorbea after publicly criticising the cabinet.

Ciorbea's successor, Radu Vasile seemed less preoccupied with the consequences of appearing to lead a divided cabinet. He candidly told the *Financial times* that he would have liked to sack Sorin Dimitriu, the Minister for Privatisation, but that unfortunately he could not do it because Dimitriu had significant political backing (Marsh 1998, 1). The IMF and World Bank criticisms at the time - that more attention should be focused on tax collection and increased revenue from privatisation - were promptly transformed by Vasile in opportunities to attack publicly his privatisation and finance ministers, both of whom subsequently resigned (in September and December 1998 respectively). His own departure from office was the cause of a minor constitutional crisis, since President Emil

Constantinescu pre-empted his resignation by firing him. After some debate, Vasile agreed to submit his resignation.¹³

Of course, all of these actors are entitled to have their concerns taken seriously. At the same time, the cultural style of their public airing is characterised by an intemperate emotional tone, and the sense that problems are great and resources nearly non-existent. The mood seems to be one of exasperation, fear and despair. The abundance of such messages can create the impression that all problems are of the same order, and priorities are impossible to establish.¹⁴

It can be surmised that the meaning and uses of this 'wailing' depends on the sensibilities of those involved. For the savvy operators, this could be simply part of the ritual of establishing trust and getting on with the business of requiring and accepting favours. For some journalists this type of discourse has become a matter of professional reputation. For the unwary (foreign) observer, if inclined to assume that people say what they think and think what they say, the effect can be bewildering indeed.

Along with evidence of the persistence of the heroic model of action and inappropriate informality, accumulation of knowledge and expertise also took place. Side by side with articles in the dramatic style described above, there were others focusing on presenting information about new initiatives, projects, and events, which testified to a gradual process of professionalization of at least parts of the press. In spite of this, the sense of a lack of grip

¹³ An additional example of political behaviour shaped by this formal model of action is given in Appendix 3.

¹⁴ Daniel Nelson (1988), an American scholar and writer on Romanian politics, observed during his visit to Bucharest in February 1998 that the use of the term 'political crisis' to describe the quarrels within the Ciorbea government was disproportionate to the real situation. As the democratic system was not in danger, the term 'crisis' was too strong. He went on to note the tendency of the media to use such notions loosely: the term crisis was applied to any negative occurrence, as though no gradations can be recognised between a catastrophe and more mundane difficulties (quoted in Patrichi 1998).

on the overall picture was quite stubborn. Mihai Coman, a former Dean of the School for Journalism in Bucharest, described this by saying that the information disseminated by the press was not 'explained' (Striblea 2001, 9). Indeed, issues tended to be treated from one point of view at the time. Points of view could be juxtaposed (for instance Păis 1999), but as a rule, examples of articles that explored and integrated a variety of considerations were still rare (one example was Glăvan 1999).

The production of economic, political and cultural analyses increased significantly after 1990. This new social space had a number of features. The field was initially dominated by humanists, who had had some room for development under the communist regime. They were an important political force after 1990s and had a gate-keeping role in creating a representation of the state of affairs in the country, both internally and in relation to foreign agencies and donors. Their position was similar to those of other local groups in the region which channelled foreign aid (Wedel 1998). Their lack of social science training encouraged a propensity towards sweeping, usually negative judgements about the state of the society and the economy, and a preference for metaphor at the expense of analysis.¹⁵ It cultivated an uncompromising style based on essentialist and elitist ideas, of conservative and libertarian inspiration (Miroiu 2000a; Antohi 2001).¹⁶

In sociology, commercial opportunity stimulated the swift expansion of polling services. The development of a framework for the analysis of regional variations within Romania, originally funded by the Phare programme, later underpinned the regional policies of the state and other aid programmes. The few works on reform by Romanian sociologists did not

¹⁵ See for instance early texts by Mungiu and Pippidi (1994). The mood of utter defeat and failure of the post-communist transformations and the country as a whole filtered through some works by sociologists, as well, for instance Pasti, Miroiu and Codiță (1997).

¹⁶ An example of this was Patapievici (1996). One of his arguments was that the Romanian people were not deserving of the right to vote and he advocated a return to an electoral system in which the right to vote was linked to property ownership and education. His arguments are analysed in Miroiu (1999, 126-133).

break, initially, with the inclination in the wider culture to delegitimize the political sphere and the state. For instance, Pasti (1996, 220-233) analysed the parties at the periphery of the political spectrum by linking them to specific social interests. The major parties, however, were treated outside of that social context, as though they had self-willed themselves into existence, only to end up floating freely and ineffectually above the 'the real problems' and the 'power system' of the country. More recently, social science publications have become more research-led and less ideological.¹⁷

The contributions of economists to the setting up of new institutions and the formulation of policy were also significant. Although some of their works still had the character of exercises in taking stock of certain ideas and theories, there was a greater effort to understand the marketisation of the Romanian economy.¹⁸ Romania did not have a powerful neo-liberal community of economists prior to the transition, on the scale of the Balcerowicz or Klaus teams in Poland and the Czech Republic. Even the most liberal economists, whose publication, *Oeconomica*, was endorsed by the Yale economist and student of the Romanian economy John Michael Montias,¹⁹ were of neo-institutional persuasion. For instance, economic restructuring was seen as the main problem and priority for Romania and it was supposed to be state-led (Pilat 1995).

The impact of this group was not felt immediately after December 1989. The BNR, which had concentrated a number of these economists, began to play an active role in shaping both the banking system and the monetary policy after the launch of the reform programme in

¹⁷ Examples are Zamfir, Bădescu and Zamfir (2000), Zamfir and Preda (2000), and Teșliuc, Pop and Teșliuc (2001).

¹⁸ Some of these works were used in chapters 3 and 4.

¹⁹ His letter to SOREC (*Societatea Română de Economie* – Romanian Society for Economics) was published in *Oeconomica*, issue 3/1993, which re-launched the journal after almost two years of interruption.

November 1990.²⁰ As shown in chapter 4, BNR took a few years to gain and consolidate its independent status. According to Pilat (1993a), the idea of organising the commodities exchange was initiated at the end of 1991 by Daniel Dăianu, fresh from a stint of research at Harvard University, and was finalised a year later. Another member of this group, Ionel Blaga, was chairman of the parliamentary committee that promoted the privatisation law of 1991 and went on to head the Private Ownership Fund IV - Muntenia (Stoenescu 1994).

This section has illustrated the persistence of certain schemes of perception used to organise expectations and assessment of actions cemented during the communist rule. Storming, heroism, as well as unlicensed criticism co-existed with gradual consolidation of technical frameworks for the understanding of current social phenomena, such as those produced by the social sciences.

5. 4 Ownership and privatisation: the winter of discontent

The contradictions and inconsistencies produced by the maximalist, heroic mode of thinking of the communist ideology also impacted on the area of ownership. The generic norms related to ownership shaped expectations and behaviour about the possession of and responsibility for material goods as well as feelings and desires. The communist ideology had portrayed ownership as shameful. It was also dangerous and layers of deception and social gamesmanship protected it. The ability to disown one's feelings, intentions, and deeds was crucial to survival in an environment where the acceptable norms of being were the concern of state ideology. Equally, the communist culture gave prominence to the role of moral prosecutor. Initially the monopoly of the Party, this role became a device for social

²⁰ Among them were Mugur Isărescu, the governor of the Bank, and prime-minister in 1999-2000, Daniel Dăianu, chief-economist and minister of finance in 1997-8, Lucian Croitoru, member of the board, Eugen Rădulescu, head of the monetary policy division of the Bank and later Romania's representative to the IMF, etc.

conformity, as individuals learned to police themselves and each other (Kharkhordin 1995). After the communists lost power, the appeal of this role remained and it added to the usual collective action problems, as illustrated for the political scene in the 1990s.

These intractable dilemmas created by maximalist moral expectations were reflected in uneasy juxtapositions of perceptions and facts in opinion surveys.²¹ In the crucial matter of social self-perception, for instance, the great majority (63%) of respondents to a nationally representative survey conducted by the Centre for Urban and Regional Sociology (CURS) in 1997 said that they belonged to the middle class.²² Only 2% believed they were upper class, 28% believed they were lower class and 7% did not know the answer to this question.²³ The most common criterion used in making this choice was monthly family income (46%), followed by own income (17%), profession (13%), home possessions (11%), education (7%) and connections (3%) (CURS 1997, 46-7). Home ownership did not feature as a distinct option, although 89% of those interviewed owned a house and 5% owned two houses. Fifty-three percent of respondents also owned a piece of land, although the majority of these (67%) were small plots up to 1 ha. Thus, social class was not understood in relation to material possessions but the older status symbols.

Given the importance afforded to monthly income, it is perhaps understandable that the respondents to this survey found government performance at its lowest when it came to salaries. Only 13% were satisfied, while an overwhelming 85% were dissatisfied (CURS

²¹ The significance of these results should not be overestimated, however. Surveys are very blunt instruments for exploring these issues because they cannot control for the attributions that respondents make as to the meaning of the questions they are asked. However, they are the only indications we have that the observations about the press presented above might apply to the public as a whole.

²² In March 1995 the Soros Foundation for an Open Society in Romania launched a programme of public opinion research, which consisted of regular surveys using roughly the same set of questions but conducted by different polling agencies. In 1995 four, in 1996 and 1997 three such surveys were conducted. Since 1998 they have become biannual. Results of the newest poll are published together with comparative information from the previous years. Results were consistent across time. Unless otherwise specified, the results reported for 1997 can be assumed to be close to those from previous years.

²³ The June 1997 poll was the last one available where the question on social class was asked.

1997, 32). At the same time the self-perceived social status did not seem directly related to another set of answers, to the question of 'how do you appreciate your family income?' The majority, (40%), of those interviewed, thought that they had just enough for the basic needs. Only 22% had enough for a decent life (a standard one might think describes the middle classes), without being able to buy expensive goods. Even fewer, 5% in June 1997 (with a highest number of 9% in March and September 1997) were able to buy expensive goods, if they saved for it. At the highest end, those who were able to buy anything they needed without any effort, represented 1% of the respondents, while the lowest category, those whose income was not sufficient even for their basic needs represented about 30% of the population (CURS 1997, 17-18).²⁴

There were a number of other inconsistencies in the responses, which testify, perhaps to ambivalence in the attitudes and behaviours of the population. For instance, to the question of what they would do if they came to possess a great sum of money, many chose saving in a bank (35%) (CURS 1997,48). At the same time, the banks were the institutions that received the lowest vote of trust. Only 23% of those interviewed had some trust in banks, while 61% had little or very little trust (CURS 1997, 30). It seems that the public tolerated the contradiction between a certain picture of social and economic circumstances, usually quite negative, and their personal strategies of survival (Bulai 1999). This was confirmed by the reverse situation: the institutions and values they gave lip service to were not necessarily adhered to in practice. For instance, the army was trusted by 83% and the Church by 85% of the respondents, while the national political institutions received scores between 10-20%. But although the Church enjoyed the top position in the confidence vote, only 21% of the respondents went to church often and only 7% went very often. The percentages for those

²⁴ The November 2000 poll showed a slight deterioration of this distribution. The poorest category, who cannot afford the minimum necessary represented 40%, while 39% said that they had enough to cover their minimum needs. Only 16% thought they enjoyed a 'decent' standard of living, 4% could buy some expensive goods occasionally, while 1% could have anything they wanted (CURS 2000, 51).

who went rarely and very rarely, were much higher, 39% and 31% respectively (CURS 1997, 45).

Similarly, in her analysis of a recent survey, Mungiu-Pippidi (2001) found that measures of 'subjective corruption' and measures of direct experience of corruption diverged significantly. Subjective perception of corruption was widespread. Thus 79% of the Romanian respondents thought that most or almost all officials were corrupt (a statement given by 62.9% of Bulgarians and 54.3% of Slovaks) (Mungiu-Pippidi 2001, 2). By comparison, only 13.7% of Romanians always bribed in order to get things done (compared to 1.3% in Bulgaria and 8.2% in Slovakia). Occasional bribes were more common (53.4% in Romania, 28.3% in Bulgaria and 47.7 in Slovakia) (Mungiu-Pippidi 2001, 3). She also found that the most important determinant of the subjective perception of corruption was the lack of trust in the public administration and that most of those questioned did not demand fair treatment from the administration (Mungiu-Pippidi 2001, 3-7).

This conclusion is corroborated by the results of a survey sponsored by the World Bank, reported in Lupşan (2001b, 16). Although the perception of corruption was quite general across public institutions and categories of respondents, the source of this perception was rarely direct contact with the public officials. Only between 11% of the households and 27% of the firms interviewed based their perception of corruption on direct experience with public officials. On the other hand, some other kind of personal experience was quoted by between 40% of households and 56% of firms, while the mass media influenced 100% of the households and 75% of the firms.

Co-participation in the problem but selective attribution of blame can be found in other situations, as well. For instance during the campaign of the National Railway Company in May 2001 to crack down on the practice of travelling without tickets, more than a thousand

passengers were found without tickets in one commuter train to Bucharest. The excuses offered vacillated between special pleading (poverty, inability to pay) and accusations about the poor quality of the service (Popa 2001). Thus, two attitudes, disinclination to assume responsibility and great expectations about the performance of others, were held concomitantly. A similar pattern was observed in the feedback to the World Bank's recent draft country assistance strategy for Romania. Realistic diagnosis of problems, such as distrust as the source of difficulty in creating alliances in politics and business, sat side by side with demands that the government should resolve the problems identified. Thus,

Despite their readily acknowledged distrust of Government, participants [in the consultation over the country assistance strategy] consistently made it clear that they expect the Government to solve their problems. They typically did not recognise the ability that they might already have as private citizens or as private sector firms to mobilise and to act on their own behalf. The participants generally did not feel empowered to improve their situation and instead felt it was up to the Government, i.e. the same Government they distrust (World Bank 2001a, chapter 8, 2).

This could be a part of a cluster of attitudes that reflect lack of self-confidence and reluctance to assume responsibility. In the November 2000 CURS poll, 74% of respondents favoured the combination of job security and low pay over less job security and higher pay. At the same time, 67% thought that only the one who risks wins (CURS 2000, 37). This split between the choice for a certain course of action and the concomitant disavowal of it mirrors the dilemmas created by living under the communist regime. There, informal practices of survival were embraced of necessity, and yet the public and the regime deemed them illegitimate.²⁵ In the post-communist period, it seemed equally difficult to align declared value choices with practical choices of concrete action.

²⁵ The use of the survey information in support of this interpretation is only tentative. More sophisticated statistical procedures are needed to establish that both of these views were held by the same respondents. Based on this data, it is only possible to identify the minimum percentage of people that would have to hold both views, in order for the data to remain consistent with the fact that both series of answers were collected from the same people.

The debates around the privatisation of SOEs bore the stamp of these contradictions. Privatisation was always going to be a difficult operation. As shown in chapter 2, the antagonism between parties complicated the decision-making process. It was not recognised, for instance, that certain trade-offs were inevitable. That privatisation could be rapid, but not deep, or it could be deep but not rapid. That it could favour workers and management, but this would affect the availability of resources for restructuring. That the participation of all Romanian citizens in the privatisation schemes across thousands of enterprises satisfied concerns for social justice and it involved the whole population in the new capitalist economy. At the same time, it imposed costs in terms of time, as the institutions needed to implement the scheme were set up from scratch.

Public opinion surveys also reveal a diversity of reactions towards privatisation. Fears that it would lead to increased unemployment were paramount. More than 56% of the working population was employed in the private sector in 1999 (of which about 2/3 were in agriculture), but the state sector still employed about 41% of the labour force (CURS 1999, 11-13). The general perception (about 96% of respondents in a survey conducted in 1999) was that there were no or very few job vacancies. About 53% of respondents feared that they would lose their job in the near future (CURS 1999, 15). Among those who became unemployed in the six months prior to this survey, 52% looked for a job without finding one, 32% did not do anything, and only 9% followed a training course and 4% started a business in the informal economy (CURS 1999, 19). Of those who had a job at the time of the survey, many more expressed the intention to obtain a new qualification (39%), look for another job (36%), or would start a new business (19%). Also, 22% of respondents said they would accept the redundancy packages.

There was no straightforward solution to the difficult economic situation. There was broad agreement throughout the 1990s that economic reform was the main issue for the country

and that the market economy was desirable (CURS 2001, 3-5). Also, loss-making SOEs were seen as the cause of economic difficulties. However, the support for their swift privatisation decreased from 76% of the population in 1991 to 46% in 1999 (CURS 2001, 5-6), largely due to fears about unemployment (CURS 2001, 18-9). More than 50% of the respondents also thought that the state should continue to support these enterprises through direct payments (CURS 2001, 15). At the same time, the perception that the government was failing to deal with this issue augmented the general distrust in its capacity to provide leadership. The percentage of those who expressed distrust in the government grew from an already high 48% in March 1997 to 60% in March 1999 (CURS 1999, 18).

Also, there was suspicion that the privatisation deals were skewed in favour of politicians and foreigners. In June 1998, 66% of the respondents believed that privatisation of the Romanian economy was most often dishonest, and only 10% said the deals were honest more often than not (CURS 2001, 8). Foreign businessmen were considered to benefit most from privatisation by 26% of the respondents, while 24% thought that it was the local politicians, and 19% the enterprise managers, who were favoured in the process. Only 9% of the respondents expressed the view that privatisation benefited the whole Romanian population and even fewer, 2%, saw the workers as the main beneficiaries (CURS 2001, 9). In spite of this, most people saw privatisation, most of the time as proceeding too slowly, with the exception of the period in 1995-6 when the mass privatisation programme took place. About 67% had this perception in September 1998 and 65% in August 2000 (CURS 2001, 11).

This combination of views shows that privatisation was desired by virtue of its positive impact i.e., increase in economic activity and the general standard of living. At the same time, its immediate negative consequences, such as the exit of certain enterprises,

unemployment, etc. were feared.²⁶ The leadership role of the government was thus all the more important in creating the view and giving material reassurance that there would be a workable trade-off in the short-term between advantages and disadvantages. But this ability to reconcile opposing views was hampered by the oppositionist ethos of the political class and the post-communist culture.

This difficulty was also a feature of the press reports on privatisation. They tended to concentrate on corruption and the conflicting interests of those involved. The FPS and the government, individual civil servants or parliamentarians, came under close scrutiny, an exercise no doubt necessary in a fledgling democracy. However, the press also tended to represent their reports as though guilt was already established. Investigative journalism consisted of publication of confidential documents, usually taken as conclusive proof, or leaked information about police investigations that might or might not lead to prosecution.²⁷ The inclination to assume corruption everywhere reflects the old fear about the all-powerful, pervasive and coercive socialist state (Verdery 1996, 219). Thus, the 'evil eye' remains a more powerful metaphor than the 'hidden hand' (Jowitt 1998b, 100). Journalists did not take sufficiently seriously the difference between accusation and judicial sentence and the role of the courts in establishing the truth.

Accounts of conflicts of interest over the privatisation deals also reflected the difficulty of coming consistently on one or the other side of the argument, or finding a way to take account of all views involved. For instance, worker unrest was generally approved of as expressing genuine grievances to which the government should find solutions. At the same

²⁶ See for instance Bărbulescu (2001).

²⁷ Examples are Mungiu and Pippidi (1994), Manoliu (1997), Teodorescu (1997), Davidică (1998), Halpert, Gălăteanu and Iacob (1998), Prahoveanu (1998), Ștefan (1998), Osman (1999), Paic (1999), Sădeanu (1999), Teleanu (1999), Antohe (2000), Nicolae and Diac (2000). They make frequent reference to 'mafias' and 'financial scheming' (*ingerii financiare*).

time the government was blamed for lack of firmness in dealing with strikes and allowing some interests to prevail in the conduct of economic policy.²⁸

On the other side of this fence, there was little attempt on the part of the government or the FPS to create a communications strategy on privatisation. Even the most basic information was either not assembled or it was not put across in a systematic manner. The FPS produced in 1993 and 1994 the annual reports to the Parliament, as required by law, but the reports were not publicised, and the practice was discontinued as the government took charge of the process in 1995-6 (Blaga 1994b; Earle and Telegdy 1998). The first annual report addressed to the public was produced in 2000 (FPS 2000b). In May 2001, the Authority for Privatisation, which replaced the FPS, started issuing twice-monthly bulletins, posted on their web site.²⁹

These difficulties reflect the enduring influence of the unrealistic model of action inherited from the communist culture, that created both sporadic mobilisations on a grand scale and fear and a predilection for the role of moral prosecutor. One path towards the removal of the sense of illegitimacy, self-doubt and lack of dignity that it generates would be the acceptance that this was not a useful or productive guide to action. Instead, values such as respect for individual choice and the effort of dealing with very difficult circumstances of complex personal, professional, and social change would have to be affirmed.

This would allow a contraction of the domain regulated by the excessive formal rules and expectations inherited from the communist culture, and would lead to a more consistent application of the rules that remain. It would also allow for a clearer definition of the role of

²⁸ Here are a few recent articles in this vein: Antonescu (1997), Cercelescu (1998), Munteanu (1999), Veress (2001), *Capital* (1999c, 1999d, 1999e, 1999f, 1999g). Popescu (2001) is an exception; it applauds the firmness of the Năstase government, who refused get involved in a labour dispute in the private sector.

²⁹ The internet address is www.autoritate-privatizare.ro

the judiciary, and impose restraints on the assumptions of culpability with which the press and the public often operate. Time, a broader pool of experience on which to draw, the self-confidence that comes from success, accumulation of reflective and technical knowledge on the problems of the society will, barring some unpredictable catastrophe, gradually move the society in this direction. Increased contact with other cultures is also an important resource in this process of creating a more balanced cultural model of action.

5.5 Cross-cultural communication: neo-liberalism meets post-communism

The reactions of foreign diplomats, business people and the media are an important mirror to the Romanian reality and they can open new opportunities for learning and co-operation. After the revolution of 1989 and the opening up of the country, a degree of globalisation has occurred. Networks of communication, forms of organisation, production processes, markets, patterns of social consciousness have become increasingly autonomous of the territorial boundaries of the state (Scholte 1998).

The most important cultural referent in this process has been, as already indicated, the west. In Romania, as in other countries in CEE (Prizel 1998), there was a great desire to assimilate the knowledge and experience of governance from the west and to raise the standards of domestic economic, social, and political life accordingly. Inevitably, this situation had its difficulties. In this unequal relationship, admiration for the west stimulated efforts to emulate it and led to some progress. At the same time, the perceived failure of the country to come up to scratch was also a source of resentment. Assignment of blame for this failure was a constant element of the political process in Romania. In this way, western standards were sometimes instruments for a critique of domestic affairs that was undermining rather than constructive.

For instance, IMF pronouncements were often taken as the reference point for the evaluation of economic policy and the quality of government. The Democratic Convention governments used IMF's approval of their policies as a source of legitimation, and they enjoyed the approval of the IFIs at the beginning of their term in office. For the first time in post-communist Romania the IMF chief negotiator for Romania, Paul Thomsen, broke the reserve of official announcements and gave two interviews, in August and December 1997, to *Adevărul* (Thomsen 1997a, 1997b). In both occasions he explained both the position of his organisation and that of the Romanian government, and made predictions about the evolution of unemployment, the development of the private sector, increased FDI, taxation, bank restructuring.

He was clearly under pressure to restate the politically correct view on the advisory role of the IMF and the independence of the Romanian government, but without being able to eschew entirely the ambiguity of his position as a spokesperson for both. As his visit to Bucharest in December 1997 coincided with a cabinet reshuffle, the reporter asked him which ones of the new members of the cabinet the IMF imposed. His unusually frank reply was:

Let's be honest. We, at the IMF, are not stupid. Cabinet reshuffling is not our business. If we started picking people and they failed, who would assume responsibility? We support policies, not people. This is the truth. We will discuss with anybody who represents the Romanian government (Thomsen 1997b).

But this close association between the IFIs and the Ciorbea government became something of a disadvantage later. During 1998-9, when the perception that the structural reform – the privatisation and restructuring of some of the loss-makers in the economy – slowed down, and the IMF reviewed negatively Romania's performance, the press had a field day in criticising the government. Unfortunately, in the pattern described above, this critique tended to vacillate between contradictory value positions and it was more disabling than constructive.

One line of criticism was that the government lacked direction and it was unable to generate a reform programme of its own (Pasti 1998a, 1998e; Mărgărit 1999; Stolojan 1999). Another often noted failure was that of not using the funds borrowed from abroad (Capital 1999b). The IMF itself was portrayed as an authoritarian force, leaving the Romanian governments with little choice. Sometimes, this was seen as a positive situation, as the failing Romanian governments would thus be forced to shape up and resolve their problems. The IMF and the opportunities they represented were 'the last chance', the 'only way for Romania to go out into the world' (Capital, 1999a).

The IMF was also seen to have overwhelming power. It was a 'vice' and a 'god' from whose dominance the country should try to free itself (David 1999a, 1999b). Its position was likened to the feudal bond between the Otoman Empire and the Romanian principalities in the XVII and XVIII centuries (Lupșan 2001a). The dogmatic aspect of the policy prescriptions and the fact that they relied on unrealistic expectations about what could be achieved in a short span of time were criticised. This passionate revolt was also a measure of how great the influence of the IMF was perceived to be. The politically correct definition of the relationship between the IMF and Romania as a sovereign state seemed to offer little succour. At other times, however, the Romanian negotiators used the sovereignty argument to obtain concessions. In the case of the 1999 stand-by agreement, the IMF backed down from their requirement that Romania should meet its debt servicing obligations by getting the creditors to roll on the debt (GOR 1999a, 1999b).

Beyond this battle of metaphors, the representatives of foreign organisations in Romania, businessmen, and journalists also provided important opportunities for interaction and learning that could, in time, lead to the development of a more balanced or cautious view of internal affairs and the relationship with the outside world. For instance, François Etori

(1998), the World Bank resident in Romania, gave a lucid inventory of some of the cultural biases he encountered during his time there. Among them was the reluctance to impose obligations in economic transactions, and to accept that the failure of some enterprises was part of the normal functioning of the market economy. Also, he believed that Romania was ambivalent about allowing foreigners to have economic power in the country, while at the same time foreign direct investment was sometimes regarded as the 'miracle' that would provide the necessary impetus to the economy. Most importantly, Etori's (1998) assessment of reform in Romania was also balanced, focusing on the importance of institutional change, and recognising the fact that this was a long-term project.

Among the many examples of such public statements by foreign visitors were also Michnik (1997) and Serdar Oghan (1999). Adam Michnik (1997), a Polish dissident to the communist regime, avoided simplistic assessments of contested issues such as the lustration of former communists, the closure of the big loss-making enterprises, the role of the IFIs and corruption. Oghan (1999), the president of the Bucharest office of the United Garanti Bank International, a Dutch bank with Turkish capital, offered an alternative viewpoint about the health of the banking system and the business opportunities in Romania to that of the international credit rating agencies. According to Oghan, when foreign banks attempted to penetrate emerging markets, they tended to do so by promoting the idea that local banks lacked professionalism. Similarly, rating assessments by remote agencies that had relied on second hand information could be considered 'extremely subjective'.

Thus, when they enter the cultural environment of post-communist Romania, IFIs and the EU can become drawn in the logic of representation presented throughout this chapter. This logic is based on extreme definitions of good and evil. As tools for making sense of a complex and often contradictory reality, their application led to endless fragmentation of explanations and visions (Pop 1998), dissolution of authority and multiplication of criteria

(Barbu 1997, 15). As actors attempted to fit these contradictions in the certainties of the moral schemes inherited from the past, reality inevitably fell short of such expectations. This background of perpetual failure justified and induced a sort of falling back upon informal networks in which it was acceptable not to conform to rules and to forge ad-hoc alliances and decisions that might undermine the formal institutions (Vlăsceanu 2000, 19-20). This clashed with the ethos of technocratic rationality of the IFIs and their frustration was reflected in their pronouncements about the lack of reform in Romania.

At the same time, the IFIs represented a relatively stable alternative to the cultural patterns still prevalent in Romania. They were both a challenge and an opportunity. As shown in the previous chapter, in those areas of the Romanian institutions where the technocratic ethos was stronger, such as the BNR, this led to swifter progress with reform. Where the incumbents were not or could not be persuaded to embrace this value system, the process of implementation of the agreements was uneven.

Thus, it would be naïve to expect the IFI's prescriptions to take root very quickly. Such a scenario assumes that the cultural and institutional environments already share the assumptions of these prescriptions and there are no obvious conflicts of interests or bureaucratic politics at stake. However, in interaction with the local realities, these organisations have contributed interpretations and rationalisations of events that restored a sense of continuity of the reform efforts during the 1990s. In this sense the claim that these organisations contributed to the continuity of reform efforts in Romania is valid. In the longer term, it can be hoped that these models might be assimilated at a cultural level, if the gap between the respective sets of assumptions could be identified correctly and bridged through specific arguments about agency and action, expectations of success and the basis for political consensus.

5.6 Conclusion

The heroic model of action on which the communist culture was based, backed by the ability of the Party to socialise this model through violence and control over society during more than four decades, had a lasting impact on society. In Romania, the modality of the transition, where the emblematic hero, the Party, failed to take responsibility for its actions and did not relinquish its formal claims, compounded the difficulties of leaving this model of action behind. It can be seen to be at work in the instability and the absolute character of the evaluations on political and economic reform, and in the fragility of many of the political alliances. Also, the inability to offer a vision of reform that can reconcile to a certain extent the conflicting interests of the state, the capital and labour is also a symptom of this.

However, this assessment has to be qualified by the recognition that over the last decade the freedom to experiment and reflect on these cultural norms led to a significant expansion of experience and vision. This has begun to erode the primacy of the heroic cultural model, as actors become more confident in their technical knowledge, as some of the economic and political insecurities that characterised the beginning of the transition become at least partially resolved. While the values of liberal individualism that underpin Western market economies, such as self-confident actualisation but also fairness and co-operation are yet to gain a strong hold on Romanian culture, some significant steps have been taken.

CONCLUSION

This thesis has proposed an explanation of marketisation and democratisation in Romania based on four main factors, economic, political, institutional and cultural. The relationships between these factors are integrated according to a political economy theoretical framework derived from reflexive theories in Economics, Politics and International Political Economy (IPE). Chapter I elaborated this framework through a review of neo-liberal, neo-institutional and reflexive theories. It was argued that neo-liberal theories in all these fields share common assumptions about actors – as self-interested, rational individuals – and base their explanations on the existence of spontaneous mechanisms of co-ordination such as the market, democratic pluralism or the structure of the international system. However, these theories say very little about the connections between the political and economic spheres, domestic and international.

Neo-institutionalist theories improve on the assumptions of the neo-liberal theories by taking into account the role of institutions. Institutions exist prior to the calculations of the actors and provide accepted ways of doing things that shape the decisions of the individual actors. Rational calculation of interests still plays a role, but the elements that enter into calculations are determined by institutions. Some authors, such as Elster, Preuss and Offe (1998) also suggested that institutions become established through an act of political delegation, and they assessed the progress in post-communist transformations of different countries by the extent to which institutions specific to the different social spheres have become autonomous.

However, neo-institutionalist theories cannot explain how certain ideas and values become established as institutions and do not address the question of the relationship between the economic and political spheres. Reflexive theories, economic sociology, the politics of interests and symbols and critical international political economy attempt to understand how

economic and political phenomena are embedded in social life through a discussion of structure and agency and an appreciation of the situated and historical character of social phenomena.

Thus, a few working hypotheses about the relationships between the economic and political spheres can be derived from these reflexive theories. The economic and political spheres are in a relationship of relative autonomy. They each have an autonomous structuring principle that varies historically. In contemporary Western Europe, a model that the countries of the CEE, including Romania, wish to emulate, these are the market and democratic pluralism. The starting point for these transformations was, of course, a close integration of the economy and politics and there was a direct connection between the plan, as the co-ordination mechanism in the economy and the communist political ideology.

The links between the two spheres derive from the fact that power accrued within each can be used, to a certain extent, for acquiring power in the other. Weber posited that there could be tension and misalignment between the dominant groups in economy and politics, but there is also a tendency for alignment. In their identities, actors seek to bring together material (economic) interests, ideas and symbols and for this reason 'identity' is a useful middle-range concept for understanding how the relationship between the two spheres is negotiated at particular junctures in time and space. Actors, their assets and their images of themselves are influenced by objective structures but are not entirely determined by them.

Thus, at one level, economic interests impact on the political field through voting behaviour or direct participation in policy-making. Additionally, the polity rests on principles that hold because there is a level of material co-optation, a *prima facie* coincidence between principles and their institutional embodiment. At the same time politics creates a level of inclusion through participation in a particular symbolic universe. This multi-layered and complex

reality allows economic and political elites as well as the dispossessed to act in ways that might be in contradiction with their economic interests.

This theoretical framework is the foundation for the four empirical arguments that explain the political economy of post-communist Romania.

The fragile political consensus

Chapter 2 used insights from neo-institutional and reflexive theories of politics to explain phenomena characteristic of and autonomous to the political sphere: the ethical and identity choices of the political parties, the resulting pact between them and the institutional embodiment of this pact. It also showed that the relationships between parties influenced the elaboration and enactment of economic and foreign policy.

Neo-institutionalist theorists identified the conditions under which political agency became possible after the fall of communism in Central and Eastern European (CEE) countries. In general, post-communist political elites were civilian, did not have a past of struggle against the communist regime, or a comprehensive plan for the future. The collapse of the system from within did not generate a distinct or powerful social force to lead the society into the new era.

In Romania, this weakness was compounded by the uncertainty that attended the sudden breakdown of the communist regime and by grass roots political mobilisation. Although the rejection of the communist regime was general, the political process for defining the transition to a democratic political system was ad-hoc. The political forces that emerged after December 1989 had to address contradictory needs and pressures. Through direct action countless changes were implemented immediately: a shorter working week, freeing of imports and travel abroad, opening of the cities for residence, freedom of the press, private

initiative, and political organisation. The spontaneous character of these sweeping changes, paradoxically, fuelled contradictory needs and anxieties about the past and the future. The need for reassurance that the break with the communist regime was irreversible co-existed with security concerns for the groups directly responsible for the regime – such as the security forces – but also for other members of the society. The political parties that emerged after the revolution politicised these needs in the form of an apparently irreconcilable conflict. The Historical Parties wanted a process of moral purification, the exclusion from political life of the former communists, and the punishment of the members of the former political police. Others, the National Salvation Front in particular, were willing to compromise with the former establishment to buy social peace and pursue marketisation more slowly.

This antagonism between parties was accentuated by the choice of the democratic opposition to treat its ideals of democracy and decisive break with communism as ends in themselves. This ethics of principled conviction, as explained by Weber, has the effect of subordinating immediate practical concerns to ideals that cannot be met, given the limitations of politics. It does not leave room for the settling of differences according to some agreed norm of evidence or interpretation. The need of the democratic opposition in Romania to be recognised as the morally pure survivors of communism and the moral prosecutors of their adversaries who were deemed tainted by their association with that regime could not be satisfied through compromise.

The institutional design of the political system also reflected this antagonism and lack of trust between parties. The electoral system was based on proportional representation, the legislative had broad powers and the two chambers of the parliament had identical duties. Antagonism was also reflected in economic and foreign policy through a fracture in the consistency of the identity claims, especially in the case of the democratic opposition.

Although their programmatic positions were close in some points to those of their adversaries, they refused to co-operate. When in power, they were forced to adopt measures that were in contradiction to their programmatic stance.

The review of privatisation policies showed that all political parties had contradictory views on the different aspects of the role of the state and market in the economy and transformation. The democratic opposition was pleading more consistently for individual freedoms, but wanted to eliminate the possibility that a free market system might favour the former communist nomenklatura. The FSN was more concerned with ensuring equality of outcomes for citizens entitled to free shares. At the same time, FSN did not want to increase the overall share of state property that was to be distributed freely. Beyond this confrontation of ideas, the antagonism between parties surfaced in the shock tactics of stalling the passing of the law and de-legitimatising the parliamentary procedures.

In foreign policy, although the Democratic Opposition claimed the role of committed Westernisers, they did not hesitate to vote against the marketisation efforts of their opponents or blacken the democratisation process in the first part of the decade, simply to establish their difference. In the late 1990s, their decisions reflected conflicting pressures. The IMF-inspired stabilisation and liberalisation programme of 1997 was implemented, but associated restructuring decisions were postponed in order to ensure social peace and to increase the chances of Romania for joining the NATO.

This tension between assertions and actions, inevitable to a certain extent for all actors, proved more than some of the parties in the democratic coalition could bear. Absolute, uncompromising views of who they were led them to take decisions contradictory to the values they espoused, simply because those decisions were promoted by their adversaries. This tension at the core of their identity did not survive the test of being in office. The

inability to govern effectively undermined their claim that moral purity was the most important qualification for good political leadership.

However, the democratic system proved robust during this decade. As parties went in and out of power, their claims were tested and this led to a restructuring of the party system. The most dramatic events were the failure of PNȚCD to gain seats in the current parliament, the consolidation of the nationalistic left in the PRM, and the fusion between the PDSR and PSDR to form a stronger and possibly more legitimate social-democratic party, PSD. PNL and PD are now the main centre-right parties.

Paradoxically, it was the robustness of the democratic system itself that allowed this evaluation to take place and offered a correction to the politics of absolute identity. In this sense, the liberal cautionary tale that identity politics is intrinsically dangerous does not hold. More generally, the PNȚCD's tale of hubris and tragedy suggests that actors who do not depend on self-definitions based on a radical exclusion of others but are able to negotiate difference without losing their distinctiveness are more resilient.

The enduring economic structure

Chapter 3 developed the argument about the role of the economic structure as a factor autonomous to the economic sphere in the marketisation of the Romanian economy after 1990.

Neo-liberal and evolutionary economics and economic sociology contributed to this account of economic reform in Romania in different ways. Neo-liberal assessments of economic reform usually find that there has been unequal progress across different sectors, especially in the heavy industries. The analysis offered in this thesis agreed with this evaluation but rejected the expectation that structural changes in the economy could be executed through a

change in environmental conditions. The market is itself shaped by the major economic players and these players cannot be displaced without assistance from the state and without compensation to the vested interests.

Thus, while the shift of resources from the industrial sector to trade and services is recognised as necessary, the difficulties of the reform can be better understood by using the framework of evolutionary economics and economic sociology. Evolutionary economics defined a few factors relevant for economic reform in Romania: the real-time dimension of changes; the need to maintain a degree of stability in the economy while changes are taking place; and the relationship between the size of enterprises and sectors and their willingness or ability to change. In addition, insights from economic sociology identified the use of relational assets within networks as another key mechanism through which actors can eschew the intentions of state policy.

The review of privatisation in post-communist Romania showed that the change in the mechanism of economic co-ordination, from plan to market, was accompanied, and perhaps facilitated, by the change in the social structure and the modalities of insertion of the citizens in the economy. These citizens moved from being employees in the command economy to being shareholders and players in other markets, such as labour, land and housing markets.

On balance, the gradualist programme of reform in Romania also had a slightly better record than shock therapy. Gradualism achieved a return to growth by 1993, macro-stabilisation by 1994, and the setting up of some indirect mechanisms for the management of the economy. It also encouraged a degree of spontaneous restructuring of enterprises. However, the liberalisation of prices was partial and in 1995-6 the management of inflationary pressures and of the current account deficit was becoming difficult. The shock therapy of 1997, on the other hand, led to a steep three-year recession. It is unclear whether the resumption of

growth in 2000 and the successes with privatisation in 1997-2000 were the result of shock therapy. It is likely that the active restructuring of public utilities and the financial sector as well the effective institutional structure built in the previous years contributed to these positive developments.

The trend towards deeper reform during the 1990s was reflected in more extensive relations with the IFIs and the EU. All Romanian governments, irrespective of their ideological preferences, had to balance domestic constraints with the expectations of swift and deep market reform coming from these organisations. The accommodation between these two pressures took the form of a pattern of 'buying-time'. While the Romanian authorities remained committed to the overall objectives of marketisation and, later, EU accession, their concessions to domestic pressures led to temporary reversals in external agreements.

Institutional change

Chapter 4 looked at how the state set the tone for the change in economic institutions. In Romania, for most of the 1990s, political parties did not recognise that it was in their common interest, as political actors, to strengthen the administrative capacity of the state. The record was one of patchy delegation of authority and decree-ism, as expected by Elster, Preuss, and Offe (1998).

The ability of the state administration to model and impose changes in the rules of the economic game for enterprises – from reliance on the state to self-reliance and competition in the open markets – was relatively weak. Greater changes occurred in the banking sector, where, over time, the BNR increased its capacity to act as the regulatory authority in the system. This process also contained phases of retreat on the part of the Bank, under the pressure of the government or the failing banks. This evolution was similar in the stock markets.

The governance role of the FPS was also weakened by the delay in the reform of the public administration. FPS relied on information and personnel from the line ministries, and it could not impose, by itself a new market ethos. On the contrary, its attempts to introduce new regulatory procedures for enterprises – contracts and performance indicators for managers, for instance – were undermined by collusion between FPS representatives and managers.

The IFIs and the EU had an important role in bolstering the institutional capacity of the Romanian government. In time, the ability of the Romanian authorities to assume obligations and carry them through was strengthened and the relations with the IFIs and the EU deepened. At the same time this was a complex relationship. Formal equality could not mask the discrepancies in skill and knowledge between the parties and the asymmetry of responsibility. As a consequence, the pattern of buying time provided the necessary leeway for absorbing these tensions. In spite of temporary reversals and delays, the relationships were maintained and deepened.

Cultural factors in the post-communist transformations

Chapter 5 described the broader cultural context in which the political and economic reforms took place. Strong identification with ideals and intolerance towards relative achievements exacerbated the opposition between political players, the dominance of certain industrial interests, and the slowness of institutional change. At the same time, an autonomous cultural factor, the weak inheritance of technical knowledge in the social sciences, also hampered the development of policy and the change in the tone of public debates.

These features were linked to the continued influence of the communist heroic model of action. Experience under the communist regime was moulded by regime-staged bouts of mobilisation to transcend dire economic, social and political circumstances. This, and the need at the core of the party's identity to reconcile charisma and rational organisation, led to

a continuous search for enemies. Thus, the absolute standards could be, and they were cast around a great variety of objectives. Indeed, the Party wanted nothing less than to shape the whole of the society, and the human nature according to its ideology.

The failure by the PCR to take responsibility for the consequences of its government, and its ignominious end compounded the difficulties of leaving this model of action behind. Informal practices of adaptation and resistance to the communist regime became the source of inspiration for behaviour in public affairs, often leading to a confused negotiation of boundaries between the media and the judiciary, and the politicians and the media. The difficulty in forging and imposing a vision for reform was also linked to this dictate of absolute standards and inability to frame the discussion of issues as one of choice between alternatives and inevitable trade-offs. Also, the inability to reconcile to a certain extent the conflicting interests of the state, the capital and labour is also a symptom of this.

However, over the last decade the freedom to experiment and reflect on these cultural norms led to a significant accumulation of experience. This has begun to erode the primacy of the heroic cultural model, as actors become more confident in their technical knowledge, and some of the economic and political insecurities that characterised the beginning of the transition were partially resolved. While the values of liberal individualism that underpin Western market economies, such as self-confident actualisation but also fairness and co-operation are yet to gain a strong hold on Romanian culture, some significant steps have been taken.

Implications of the empirical arguments for the agency and structure debate

The empirical findings presented above permit some observations about the interplay between agency and structure in the particular circumstances of the post-communist transformations in Romania. For instance, the consistency over time of the orientation

towards market reform – although in doubt at particular moments in time – could be seen as a structural effect determined by the dominance of the neo-liberal ideology internationally and the power of certain domestic groups domestically. But the leeway of actors was also in display in the different ways in which these pressures were played out in policy. In the case of the social-democratic governments of 1990-6, this balancing act consisted of more reform than they might have desired on their own. For the right-of-centre governments of the Democratic Convention, their initial disregard for domestic constraints led to a severe downturn in economic activity and later a change of tack in their policy, from stabilisation and liberalisation to direct restructuring of certain public utilities.

The asymmetry in the structural position of the IFIs and the EU on the one hand and that of the Romanian Governments was in practice negotiated through a strategy of ‘buying time’. This strategy reflects more than mere ‘failure to reform’ or to keep to contracts and agreements. It represented a realistic adjustment to the different power positions and priorities of the partners in this relationship.

The study of the institutional dimension of post-communist transformations also shed light on institutions as a particular kind of structures. As defined by neo-institutionalists, institutions as ‘rules of the game’ have the power to shape the transactions between individuals and groups, and thus, they have a structuring quality.

The study of post-communist institutional change revealed that at one level this change depends on ideational work, in the sense that new values and appropriate procedures need to be generated. To a certain extent, this could be a voluntaristic activity or could rely on imitative policy-transfer. But the test for the development of ideas into institutions is their ability to structure to a certain extent the activities of the actors. This efficacy assumes that their assumptions and requirements are already internalised by these actors. Behind this efficacy is

the effective deployment of authority – in the examples presented in chapter 4, the authority of the state administration, the BNR, the FPS, the IFIs and the EU. It is worth observing that Romania's institutional development became possible after certain economic structures were eroded or displaced. Initially, vested interests were able to put a great deal of pressure on the state to cushion the impact of changed economic conditions of competition in the world markets and to allow them to delay restructuring. The theoretical implication is that institutions can exert their structuring pressure when underlying power relations between actors support them.

Finally, the chapter on culture is the most difficult to link to a specific issue in the agency and structure debate. Certainly, the existence of certain ideal (mental) structures – set ways of perceiving and framing issues around notions about action, what can be achieved and what should be expected – is an important element of post-communist reality. At the same time, it is not possible to trace, at this stage of the research, the exact influence of these structures on discrete events. The reasons why they persist and change are explained in relation to the dynamic and logic of cultural phenomena although some connections between these ideal structures and structures of material interest might be possible to establish in the future.

Methodology and the agency and structure debate

The common methodological thread in the exploration of events, facts and information was the understanding of the relationship between agency and structure outlined in the introduction and throughout the presentation of reflexive theories. For instance, in chapter 1, the analysis reconstructed the perceptions political parties had of themselves, of each other, and of the conditions in the economy and society. The analysis also linked these perceptions to the position of the actors in the political field, their strengths and weaknesses, and the conditions in the economy as structural elements beyond their immediate control.

In chapter 2, the dominance of heavy industries in the economic structure was seen as a material factor that hampered the attempts to reform. Its action was through the direct resistance to reform of the economic interests that had structural power – the strikes, the pressure on the government to satisfy their requests. At the same time, the action of this structural feature was mediated by the perceptions that politicians had of the economy and what was possible or desirable to achieve.

In each of the empirical chapters, material constraints, actors' perceptions of their choices, and of each other were integrated into an account that preserved the dynamic character of their interactions, as shown by the changes identified during this period. The salient structural constraints were the breakdown of the central authority in December 1989, the broad grass roots mobilisation for democracy and economic rights, the relative weakness of the political classes, and the lack of interest of foreign investors. These constraints were clearly perceived as such by the relevant actors and thus they shaped the course of events in Romania. The outcome has been a form of 'popular capitalism' that resulted from extensive mass privatisation and the use of the MEBO method.

Avenues for further research

The results of this thesis could be usefully evaluated in a broader comparative context. The CEE countries could be placed along a continuum describing the strength and particular mixture of these structural conditions. At one end would be countries where strong neo-liberal normative commitment and the relatively more secure economic and institutional bases of the elites, such as in Poland or Hungary, were conditions favourable to swift reform and economic growth. In such cases the disciplining of labour was more effective, as the values of neo-liberalism were more widely shared. This was reflected for instance by greater social acceptance of high unemployment.

At the other end, in Russia, the greater solidarity of the nomenklatura, which acted as a social class against a weak state, weaker elite and social commitment to rules-based capitalism led to the capture of the state by private interests. Capitalism there is characterised by great inequality and weaker rules and economic performance. In Romania, intra-elite conflict between factions that embraced neo-liberal reform and conservative interests, which were not hostile to capitalism but insisted on social-democratic provisions was very strong. This slowed down neo-liberal reform but it also led to the development of broader forms of social inclusion. Regulatory institutions emerged more slowly and the variable economic performance reflected this intra-elite conflict. An interesting and puzzling case is that of the Czech Republic, which managed a swift transition to market economy without major costs to employment. It is possible that the more technologically advanced industry, closeness to Western markets, and strong normative commitment both of elites and the population to neo-liberal ideals led to a form of social inclusion based on the market.

A second line of research development is the question of the integration of the social spheres. A few tentative connections were used as working hypotheses in this thesis. The

consequences of the structural conditions mentioned above cut across the different social spheres. Grass roots mobilisation created significant pressure both for the constitution of political parties and for their assertion in the economic sphere through their respective economic policies. In turn, the importance of this feature was connected with the structural imbalances in the economy, and the breakdown of the central political authority.

But more importantly, the connections between social and political change on the one hand and cultural change on the other could be explored further. It has been shown that the values of individualism could cut through the moral dilemmas and conflicts of post-communist culture by vesting responsibility onto the individual. The major question is what kind of social developments would have to happen before this sort of cultural change would become possible. One hypothesis, derived from Bourdieu's (Bourdieu and Wacquant 1992) notion of the homology between objective and subjective structures, would be that the vast processes of power creation and redistribution in the post-communist period were possibly helped by the confusion of standards, norms, and institutions. By the same token, the gradual consolidation of the new upper classes should motivate and allow them to introduce gradually a new formal system in which their history and the sources of their power would be concealed by the decorum and respectability of a cultural system based on individualism.

LIST OF INTERVIEWEES

Face to face interviews

Bonciu, Florin	General Director, Strategy and Promotion Dept, Romanian Development Agency, April 1998
Burinaru, Adrian	Head of Communications Dept, EXIMBANK, April 1998
Cristea, Octav	Consultant, Consultancy and Strategies in Human Resources, Atlas Consel, April 1998
Fecioru, Cornel	Head of Human Resources Dept, Lafarge, Romania, April 1998
Hociotă, Rodica	Phare Programme, Project Management Unit for Restructuring, FPS, April 1998
Miroiu, Adrian	Deputy Secretary of State for Education and Political adviser to the Democratic Party, February 2001
Moraru, Nicolae	Director, International Assistance Dept, NAP, April 1998
Nedelcu, Dumitru	Head of Post-Privatisation Dept, FPS, April 1998
Popescu, Liliana	Adviser to the Secretary of State for Foreign Affairs, April 1998
Ticşa, Mihai	Macroeconomic Prognosis Unit, Ministry of Finance, October 1999

E-mail communications

Viorica Alexandru	Consultant on Governmental Communications Strategies and European integration, Club Europa, May 2001
Barbălată, Irina	Consultant for the RICOP Phare Programme, Ramboll Consultants, May 2001
Cojocariu, Corneliu	Spokesperson for the Romanian Commercial Bank, October 1999
Ivănică, Madălina	Adviser in the office of the Chief Romanian Negotiator with EU, May 2001
Nedelcu, Codruţa	Consultant on the development of the NGO sector, ARIN, April 2001
John Redwood	Conservative Member of Parliament, UK, February 2001

GLOSSARY

Bârlădeanu, Alexandru was a member of the Central Committee of the Romanian Communist Party until 1965, when he retired to avoid confrontation with Nicolae Ceaușescu, whose economic policies he criticised openly. In 1989 he was one of the six signatories of a widely publicised 'open letter' to Ceaușescu. The letter condemned Ceaușescu's rule and asked for liberal reforms in politics and economy. In 1990 he was a member of the CNFSN, and later the President of the Senate for the 1990-2 legislature.

Băsescu, Traian is currently the leader of the Democratic Party. See *Partidul Democrat*.

Brucan, Silviu is a political scientist of international reputation, an influential commentator and opinion maker. He was one of the members of the CNFSN and advised President Iliescu and Prime Minister Roman during the first weeks after the revolution. He refused to accept political office, but continued to have a public presence through his media appearances.

Câmpeanu, Radu returned from his exile in France after the revolution of December 1989 and re-established the National Liberal Party in January 1990. He was his party's presidential candidate in the May 1990 elections, when he lost in favour of Ion Iliescu. He took the National Liberal Party in the Democratic Convention, but retreated at different times, believing that his party would earn more votes by itself. He played a marginal role in Romanian politics for the rest of the decade.

Ceaușescu, Nicolae was the communist leader of Romania between 1964-1989. Initially an advocate of liberalisation and ideological openness, after 1971 he started a Cultural Revolution inspired by the Chinese and Korean communist regimes. He eliminated his rivals to the position of Secretary of the PCR and in the last two decades of his rule his influence was virtually unchecked within the Party. In 1981, in reaction to a debt crisis, he decided to pay Romania's foreign debt in full ahead of time, which was the beginning of increasing restrictions on imports and food and energy scarcities. He was hostile to Mikhail Gorbachev's perestroika and glasnost and re-affirmed his commitment to communism. In November 1989 he was re-elected unanimously as the Party leader, but only a month later he failed to quell mass uprisings against his regime in spite of mobilising the army against the demonstrators. Ceaușescu fled the Party Headquarters on December 22, 1989, but was captured, tried, sentenced to death and executed three days later by the new revolutionary regime together with his wife, Elena.

Ciorbea, Victor was a prominent member of the PNȚCD. A former leader of one of the major national labour unions, in 1996 he was elected mayor of Bucharest. Ciorbea gave up that post for the role of Prime Minister in the Democratic Convention government, between November 1996 and March 1998. After the failure of the PNȚCD to enter the Parliament in the 2000 elections, Ciorbea won the leadership contest against Andrei Marga, a former Secretary of State for Education.

Consiliul Național al Frontului Salvării Naționale (National Council of the National Salvation Front - CNFSN) emerged as the revolutionary post-communist government, and ruled between December 1989 and end of January 1990. The Council was the ruling body of an organisation, the FSN, that was, at that stage, yet to emerge. It was replaced by CPUN in February 1990, after FSN registered as a political party.

Consiliul Provizoriu al Unității Naționale (Provisional Council of National Unity CPUN) replaced CNFSN as the provisional government, on February 1, 1990. FSN retained half of the seats and the presidency. The rest of the seats were divided between the 27 parties that emerged in January 1990. It ruled until the first free general elections in May 1990.

Constantinescu, Emil is a former President of Romania (1996-2000). A geology professor at the University of Bucharest, Constantinescu started his political career as the CDR presidential candidate in the 1992 elections. During his Presidency he was instrumental in the nomination of Victor Ciorbea and Mugur Isărescu as CDR Prime Ministers, but was hostile to the ascendancy of Radu Vasile. He was active in promoting the Romanian case in negotiations for membership in NATO and EU.

Convenția Democrată din România (Democratic Convention of Romania) was an umbrella organisation constituted in late 1990 as a coalition between the main opposition forces against the rule of FSN and later PDSR. Its prominent members were PNȚCD, PNL and the PSDR. It won the 1996 elections and ruled until 2000. It dissolved prior to the 2000 elections.

Coposu, Corneliu was the leader of the Youth organisation of the PNȚCD before 1947 and a personal secretary to the legendary PNȚCD leader Iuliu Maniu. Coposu was a political prisoner of the communist regime in the 1950s. He re-established the PNȚCD after the revolution of 1989 and advocated democratisation, restitution of property confiscated by the communist regime, and stern opposition to the FSN and later PDSR. He died in 1995 at the age of 79.

Cunescu, Sergiu was a member of the old Social Democratic Romanian Party (PSDR), and a political prisoner of the communist regime. In 1989 he re-established PSDR and acted as its leader until 2000 when a younger generation of leaders decided to participate in elections on a common list with the PDSR. The merger of the two parties and the establishment of the Social Democratic Party (PSD) took place in June 2001.

Dăianu, Daniel is a former Chief Economist to the National Bank of Romania and Secretary of State for Finance (1998). He lost his job in the Vasile Cabinet when he refused to endorse a privatisation deal with the American company Bell Helicopters who had made the purchase conditional on the Romanian Army buying over \$1 billion worth of helicopters.

Dimitriu, Sorin was the head of the State Ownership Fund and Secretary of State for Privatisation in 1997-98. Prime Minister Vasile dismissed him in October 1998 because of the slow pace of privatisation.

Frontul Salvării Naționale (National Salvation Front FSN) emerged out of the CNFSN in February 1990. It was the major force in the CPUN and won the first free elections of May 1990. FSN was responsible for the first pro-market reforms in the economy. After the demise of the Roman government, in September 1991, conflicts within the party led to a split between the Roman and Iliescu factions in early 1992. The Roman faction used the name until January 1996 when it became the Democratic Party, while Iliescu's faction was named the Democratic FSN and later became the PDSR and recently the PSD.

Funar, Gheorghe. See *Partidul Unității Naționale Române (PUNR)*.

Iliescu, Ion was a member of the Central Committee of the PCR until 1971 when he was demoted for criticising the policies of Nicolae Ceaușescu. He remained in different positions in the PCR until 1989 when he organised the CNFSN. Iliescu served as the president of the CNFSN and then the CPUN and was elected President of Romania in 1990, 1992 and 2000. His connections with PCR were a major handicap in his co-operation with the Historical Parties, but they did not harm his standing with the Romanian electors. He was an advocate for moderation in the political competition, supported the rules of democracy and sought to act as a facilitator for inter-party co-operation during his terms as President.

Ionescu Quintus, Mircea is a prominent member of the older generation of liberals. See *National Liberal Party (PNL)*.

Isărescu, Mugur has been the Governor of the Bank of Romania since 1990, with a short interruption in 1999-2000 when he served as the Prime Minister. In the 2000 elections, he ran as the Democratic Convention 2000 candidate for President but he lost in the first round.

Năstase, Adrian, a lawyer, is the current Prime Minister of Romania and leader of the Social-Democratic Party (PSD). He was vice-president and president of the PDSR, and a President of the Senate in 1992-6. He is the first party leader to accept the position of Prime Minister.

Paleologu, Alexandru is a prominent figure in the Romanian public culture and a liberal. See *Partidul Național Liberal (PNL)*.

Partidele Istorice (Historical Parties) is a generic term for the political parties that existed before the beginning of the communist regime in Romania in 1947 and were resurrected by their old members after December 1989. The most prominent of these parties were PNȚCD, PSDR and PNL. Most of the leaders of these parties perished in political prisons between 1946-64. The survivors of this onslaught remained bitter about the way they were treated by the communist regime. They saw the revolution of December 1989 as an opportunity for making public these grievances against the PCR and what they saw as its reincarnation, the FSN and PDSR.

Partidul Comunist Român (Romanian Communist Party - PCR) ruled Romania between 1947 and 1989. By the end of the period it had about 3.5 million members, but after the December 1989 it disappeared from the Romanian political scene. Under popular pressure, the FSN officially dissolved the PCR by decree at the end of January 1990.

Partidul Democrat (Democratic Party - PD), a centre-left reformist party, was known as the FSN-Roman between 1992 and January 1996. The PD has been the leading member of the Social Democratic Union, an alliance with a minor social-democratic party from January 1996 to the present. It participated in the government with the Democratic Convention in 1996-2000. Current leader is Traian Băsescu, a former Secretary of State for Transport and present mayor of Bucharest.

Partidul Democrației Sociale din România (Romanian Party of Social Democracy - PDSR) was the conservative splinter of the original FSN. Between early 1992 and July 1993 it was known under the name of the Democratic FSN. PDSR was in power between 1992-1996, when it ruled in intermittent coalition with the PRM, PUNR and PSM. It won almost 40% of the votes in the 2000 elections and rules as a minority government.

Partidul Național Liberal (National Liberal Party PNL) is one of the three major historical parties revived after the revolution. It had numerous splinters. Some factions operated within the Democratic Convention, such as the National Liberal Party - the Youth Wing and the National Liberal Party 1993, others, under the leadership of Radu Câmpeanu contested some of the local and national elections on their own. Prominent parliamentarians, liberals of the old guard who were members of the party prior to 1947 and served sentences as political prisoners under the communist regime include: Alexandru Paleologu, Radu-Renee Policrat, Mircea Ionescu Quintus. Current leader is Valeriu Stoica.

Partidul Național Tărănesc Creștin și Democrat (National Peasant Party – Christian and Democrat - PNȚCD) was one of the main opposition parties in post-communist Romania. It was the dominant member of the Democratic Convention and nominated the first two Prime Ministers of the Democratic Convention stint in power, in 1996-2000, Victor Ciorbea and Radu Vasile. In 2000 it organised a smaller coalition of democratic forces in

order to participate in the elections, called the Democratic Convention 2000. It failed to gain enough votes to enter into parliament in 2000 and its political future is now in question.

Partidul România Mare (Greater Romania Party - PRM) held its first congress in March 1993. It was an ally of the Văcăroiu government at different times in the 1992-6 legislature and won a surprise 20% of the vote in the 2000 elections. Its ideology is nationalistic and it is regarded as an extremist party.

Partidul Social – Democrat al României (Social Democratic Romanian Party - PSDR) was one of the three main historical parties revived in January 1990. It was an active member of the democratic opposition, within and outside of the Democratic Convention. A member of the Socialist International, in 2001 it merged with the PDSR to form the Social Democratic Party (PSD).

Partidul Social Democrat (Social Democratic Party - PSD) is the new name of the ruling party in Romania, which resulted from the merger in June 2001 of the PDSR and the PSDR.

Partidul Socialist al Muncii (Socialist Party of Labour - PSM) was the official successor to the PCR. Ilie Verdeț, a former Prime Minister under Nicolae Ceaușescu, led it until March 2001. In 1992-1996 it participated in the Văcăroiu government, in coalition with PUNR, PRM and PDSR. It promoted extreme left policies and was a reluctant supporter of privatisation. It ceased to play a role in Romanian politics after the 1996 elections.

Partidul Unității Naționale Române (Party of National Romanian Unity (PUNR) first participated in national elections in 1990. Its leader, Gheorghe Funar, was a presidential candidate in 1992 and 1996, and was the mayor of Cluj-Napoca, one of the major cities in Transylvania during this period. Before the 2000 elections, PUNR merged with a smaller party led by Virgil Măgureanu, a former Romanian Intelligence Service chief, to form the National Alliance. It failed to obtain the necessary number of votes to enter parliament.

Pleșu, Andrei is a philosopher, member of the ‘Păltiniș Group’ of anti-communist cultural resistance led by the legendary Constantin Noica (1909-1987), a prominent intellectual who survived political prison and enjoyed almost cult-like status in the Romanian culture. Pleșu served as Secretary of State for Culture in the provisional government of Petre Roman until May 1990 and as Foreign Secretary in 1997-8.

Policrat, Radu-Renée is a member of the older generation of liberals. See *Partidul National Liberal (PNL)*.

Roman, Petre was the first Prime Minister of post-communist Romania and led the provisional government between December 1989 and May 1990. After the victory of the FSN in the May 1990 elections, he remained in the post and presided over the beginnings of the economic reform programme, launched in November 1990. After his dismissal in September 1991 by President Iliescu, the conflicts between his reformist faction and the conservatives in the FSN led to a split at the beginning of 1992. Roman remained the leader of the party during the 1990s, was the President of the Senate in 1996-9 and the Secretary of State for Foreign Affairs in 1999-2000. In the 2000 elections he was his party's candidate in the presidential elections but garnered fewer votes than the party. He lost the leadership elections in early 2001.

Sârbu, Radu was the manager of the Cluj office of the State Ownership Fund before serving as the head of the State Ownership Fund between October 1998 and November 2000. He is currently under investigation for the legality of some of the privatisation sales conducted during his time in office.

Șerbănescu, Ilie is an economist and publicist. Without political affiliation, he was appointed Secretary of State for Reform in the Ciorbea and Vasile Cabinets.

Severin, Adrian was the first president of the National Agency for Privatisation in 1990 and was one of the main architects and supporters of the privatisation law of 1991. After FSN broke up in early 1992, he sided with the Roman faction and in 1997 he served as Secretary of State for Foreign Affairs. He was dismissed in December 1997, when his claims that certain politicians and journalists were spies for foreign powers were found groundless.

Stoica, Valeriu, a former Secretary of State for Justice in the Democratic Convention governments, is currently the leader of the National Liberal Party (PNL).

Stolojan, Theodor was a civil servant in the Ministry of Finance prior to the 1989 revolution. In July 1991 he was a speaker for the government in the debates around the privatisation law in the Senate and served briefly as the Director of the National Agency for Privatisation. In September 1991 Stolojan was appointed Prime Minister, with the mandate to prepare the first general election in accordance with the new post-communist constitution. He worked for the World Bank for a few years before returning to Romanian politics in 2000 when he was the candidate of the Liberal Party in the presidential elections.

Uniunea Democrată a Maghiarilor din România (Democratic Union of the Hungarians in Romania - UDMR) has had consistent representation in the parliament since 1990. It promotes the interests of the Hungarian minority in Romania and has taken a position favourable to market reform in the coalition with the Democratic Convention in 1996-2000, and it is currently supporting the Năstase government.

Uniunea Social Democrată (Social Democratic Union - USD) has been a coalition between the Democratic Party and a minor social democratic party from January 1996 to the present.

Văcăroiu, Nicolae was a civil servant in the Planning Commission prior to the 1989 revolution. In 1992 he was appointed to lead the PDSR government and, in spite of general scepticism, he managed to hold on to his mandate for four years. He was elected as an MP in 1996 and 2000 and served in the commission for privatisation and economic reform of the Senate.

Vasile, Radu, an economist, was a vice-president of the PNȚCD and a Prime Minister between March 1998 – December 1999. After leaving office he established a far right party that failed to enter parliament in the 2000 elections.

Appendix 1: Results for parliamentary elections in Romania in 1990, 1992, 1996 and 2000

1) Results of the parliamentary elections in Romania in 1990 and 1992 (percentage)

Parties	1990		1992		Percentage Change	
	Chamber	Senate	Chamber	Senate	Chamber	Senate
FSN	66.31	67.02	10.18	10.38		
DFSN*	-----	-----	27.71	28.29		
FSN+DFSN	66.31	67.02	37.89	38.67	- 28.42	- 28.35
PNL♣	6.41	7.06	2.44	2.68		
New Liberal Party*	-----	-----	0.58	0.52		
Liberals	6.41	7.06	3.02	3.20	- 3.39	- 3.86
PNTCD♠	2.50	2.56	-----	-----		
PER♠	1.62	1.38	-----	-----		
PSDR♠	0.53	0.50	-----	-----		
CDR *	4.65	4.44	20.01	20.16	+ 15.36	+ 15.72
UDMR	7.23	7.20	7.45	7.58	+ 0.22	+ 0.38
PUNR♦	2.12	2.15	7.71	8.12	+ 5.59	+ 5.97
PDA♥	1.83	1.55	2.99	3.30	+ 1.16	+ 1.75
PRM *	-----	-----	3.89	3.85		
PSM *	-----	-----	3.03	3.18		
Other Parties	11.45	10.58	14.01	11.94		
Total	100.00	100.00	100.00	100.00		

- * Did not run in 1990.
- ♣ Did not pass the 3% hurdle in 1992.
- ♠ In 1992 ran on CDR lists, which included 18 parties and associations.
- ♦ In 1990 ran jointly with the Republican Party
- ♥ Did not pass the 3% hurdle for the Chamber of Deputies in 1992.

Source: Adapted from Shafir (1992g).

2) Results of the Parliamentary Elections in Romania, November 1996 (percentage)

	Chamber	Senate
CDR	30.17	30.70
PDSR	21.52	23.08
USD	12.93	13.16
UDMR	6.64	6.81
PRM	4.46	4.54
PUN	4.36	4.22

Source: Adapted from Popescu (1997, 181).

3) Results of the parliamentary elections in Romania, November 2000 (percentage)

Party	Lower Chamber	Senate
PDSR	36.61	37.09
PRM	19.48	21.01
PD	7.03	7.58
PNL	6.98	7.48
UDMR	6.80	6.90
CDR	5.04	5.29
ApR	4.07	4.27

Source: www.politics.ro/alegeri26nov2000_official.php, visited on 2/12/00.

Party acronyms: Elections 1990 and 1992

FSN	National Salvation Front (Roman)
DFSN	Democratic National Salvation Front (Iliescu)
PNL	National Liberal Party
PNL-AT	National Liberal Party - Young Wing
PNTCD	National Peasant Party-Christian Democratic
PER	Romanian Ecologist Party
PSDR	Social-Democratic Party of Romania
CDR	Democratic Convention of Romania
UDMR	Democratic Union of Hungarians in Romania
PUNR	Party of Romanian National Unity
PDA	Democratic Agrarian Party
PRM	Greater Romania Party
PSM	Socialist Party of Labour

Elections 1996 (new names or new parties)

PDSR	Party of Social Democracy of Romania, changed name (July 1993) of DFSN
USD	Social Democratic Union, an alliance of the PD and a small social-democratic Party.
PUN	National Unity Party, changed name of PUNR

Elections 2000 (new names or new parties)

PD	Democratic Party
ApR	Alliance for Romania

Appendix 2: Romania: Macroeconomic indicators 1989-2001.

Main indicators of economic performance (percentage change).

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (est.)
Real GDP	-5.8	-5.6	-12.9	-8.7	1.5	3.9	7.1	3.9	-6.9	-5.4	-3.2	1.5
Inflation (CPI annual average)	1.1	5.1	161.1	210.4	256.1	136.7	32.3	38.8	154.8	59.1	45.8	45.9
Wages (nominal annual average)	3.9	10.5	121.3	170	202.1	129.5	na	na	na	31.9	-16.1	3.3
Unemployment	na	na	na	6.2	9.5	9.5	9.5	6.6	8.9	10.3	11.5	11.17*
General government balance (per cent of GDP)	8.4	1.2	3.3	-4.6	-0.4	-1.9	-4.1	-4.9	-3.6	-2.8	-2.6	-4.2 (IMF)
										(BNR)	(BNR)	-5.0 (IMF) -3.8 (IMF)

The data for 1989 and 1990 are from Kasper Bartholdy (1996, 544).
 For 1991-1994 the data are from Raiser and Sanfey (1998, 272).
 For 1995-1999 the data are from BNR (1999, 28-9). The estimates for 2000 are from IMF (2000, 16, 36, 43).

* Calculated based on monthly averages given in the BNR Statistical Bulletin, Dec. 2000, p. 24.

Indicators of external vulnerability (in US billion)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (proj.)
External debt**	-0.8	0.6	2.1	3.2	4.2	5.5	5.48	7.20	8.58	9.30	8.43	9.34
Current account balance (US billion)	2.9	-1.8	-1.18	-1.51	-1.23	-0.51	-1.77	-2.57	-2.13	-2.96	-1.28	-1.5
Trade balance (US billion)	2.6	-1.8	-1.25	-1.37	-1.13	-0.48	-1.57	-2.47	-1.98	-2.62	-1.09	-1.44
Exchange rate (leu to USD, av.)	14.9	22.4	76.3	308	760	1,580	2,033	3,083	7,167	8,874	15,332	21,693*

Sources

The data for 1989 and 1990 are from Kasper Bartholdy (1996, 544).

For 1991-1994 the data are from Raiser and Sanfey (1998, 272).

For 1995-9 the data are from BNR (1999, 28-9). The estimates for 2000 are from IMF (2000: 16, 36, 43).

** The external debt for 1989 and 1990 is given as net of reserves, end of year. For the rest of the period, the figures are for the total external debt.

* Calculated based on monthly averages given in the BNR Statistical Bulletin, Dec. 2000, p. 24

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Private sector share of the GDP (percent)	16.40	23.60	26.40	34.80	38.90	45.00	52.00	58.00	61	62

Sources: IMF (2000, 31); World Bank: Public Enterprise Reform and Privatisation Database

Appendix 3

Cultural factors in economic and political transformations: A detailed example

In chapter 5, the argument was made that schemes of perception and interpretation socialised as part of the formal political culture of the communist regime in Romania survived during the 1990s. Their influence will be documented here in relation to a heated political moment in Romanian post-communist history: the resignation of Prime-Minister Victor Ciorbea, 15 months into his mandate, as a result of political conflict within the ruling coalition. After winning the elections in November 1996, the Democratic Convention, led by the National-Peasant Party - Christian and Democrat (PNȚCD), with the participation of the National Liberal Party (PNL) and the Democratic Party (PD), pronounced the end of the 'democratic transition'. It claimed that at last the country had made a break with communism by voting out of power the 'neo-communist' government of Nicolae Văcăroiu and the President Ion Iliescu (Make 1998).

The new Prime Minister, Victor Ciorbea, a member of PNȚCD, launched early in 1997, with the support of the IMF, the World Bank and the EU, an ambitious stabilisation and liberalisation programme. It led, however, to recession and higher than expected inflation (151% year on year, compared with a projection of 90%). As the consequences of the programme were becoming clear, disputes within the coalition centred on the failure of Ciorbea to implement the restructuring and privatisation measures necessary to secure the long-term macro-economic stability sought by this programme. Attempts to close certain loss-making enterprises, in the summer of 1997, were stalled by opposition from the enterprises concerned and controversy over their financial situation.¹ Politically, this conflict took the form of public declarations by the members of the Democratic Party,

¹ One analyst claimed that implementation of plans for plant closure was judged by the government as likely to lead to social unrest. This outcome would have hampered their attempt to portray Romania as a factor of stability in the region, which in turn was a crucial argument in Romania's campaign to join NATO prior to the organisation's Madrid meeting of July 1997 (Secăreș 1998).

especially Traian Băsescu, criticising the record of the government, in December 1997. As this was an explicit breach of an earlier rule made public by Ciorbea, that ministers should not make public statements about policy without consultation in the cabinet, Băsescu was forced to resign. He was the second PD minister to leave the government, after Adrian Severin, the foreign affairs minister made accusation of espionage against some journalists and politicians that were found baseless.

The obstructive politics initiated by the PD lasted until the end of March 1998. After its two ministers resigned, PD refused to endorse the budget for 1998 and pressed for the resignation of Ciorbea. The unfruitful visit by the IMF negotiator to Bucharest and the negative assessment on the release of the third instalment from the stand-by loan also undermined the credibility of Ciorbea (Pasti 1998a). Against this background, at the end of March 1998, just as Prime-Minister Ciorbea was about to present his resignation three of his ministers, went public with an appeal to the public opinion. They were Daniel Dăianu, Finance Minister, Andrei Pleșu, Foreign Affairs Minister, and Ilie Șerbănescu, Minister for Reform (1998). It went like this:

We feel obliged, in our capacity as members of the government, uncommitted to any party structures and consequently free of political ambitions, to make a collegial appeal to all the segments of the public life - be they the civil society, the governing coalition or the opposition - and to all the institutions responsible for the administration of the country, for an adequate and prompt approach to the prolonged crisis we are traversing. Each of us, in our respective domains of specific competence, notices every day a worrying aggravation of the situation, liable to lead to a blockage that would be difficult to reverse. At this late hour, it is not about people, programmes and ideologies. It is about profound, structural ails which no subsequent government, irrespective of its political colour and competence, could remedy other than in time, through a patient investment of pragmatism, ingenuity, professionalism and continuity. There are no providential individuals and no miraculous recipes. Frankness, lucidity, and disinterested effort are needed. This is exactly what, at this moment, we lack. At this very moment, when the acceleration of reforms in the economy is vital and requires firm and resolute measures, that would benefit from a solid political support, at this very moment the political discourse allows itself to be confiscated by populism, demagoguery, and electoral excitement. The reform seems to have become a simple pretext for the negotiation of certain power positions. The probability for early elections increases, and this paralyses the reformist thought and daring effectiveness. The real economic context is ignored and its importance is minimised. The small euphoria of 'let's not dramatise' is preferred. To signal the evil, to tell the truth, is, for some, a banal form of defeatism or ill

will. Those who can take decisions hesitate, those who do not hesitate, are not allowed to take decisions. Telling for the confusion caused by the superficial political agitation is, for instance, the arbitrary ungrounded dispute around the budget.

The human capital available to us is not used. The bad rewards make it difficult to mobilise the specialists, and those who still want to get involved are often rejected, according to criteria that put the political file or personal interests above competence. The right tone in the communication with the citizens is not found. The institutions function with difficulty, against a background of resistance to change that is discouraging. At all levels we encounter managerial incompetence. It is impossible to enter into the damaging fortresses that are the *regies autonome* and the loss-making enterprises. The drastic, unavoidable intervention is postponed, for fear of social reactions that might endanger 'the stability' of one's post that has become a fetish. The national wealth - precarious in any case - tends to be squandered through negligent or occult distribution. The lag of our country in relation to processes of globalisation and technological advancement becomes more pronounced. Against this background our legitimate desire to become integrated in the European and Euro-Atlantic structures risks to lose its arguments. It is not possible to build an offensive and convincing diplomatic action in a context of prolonged instability, indecision and corruption. A country with remarkable potential and a significant strategic position looks condemned to miss once again its historic chance for development. All of these should give us insomnia, or, if we managed to fall asleep, to wake us up. It is not a simple political crisis that we have to resolve, but a deeper one: a crisis of principles, of mentalities, and, ultimately, a crisis of identity (Dăianu, Pleșu and Șerbănescu 1998).²

This appeal is interesting at a number of levels. Messages to do with pragmatic self-interest mingle with cultural props belonging to the code of heroism, imminent danger, and the need for transcendence. The main point they wanted to put across was that early elections, a perceived threat at a time of inconclusive negotiations for a political solution to the conflict between the PNTCD and the PD, would be a mistake. Firstly, because the causes of the difficulties were long-term and they could not be solved immediately, irrespective of the government. Secondly, because instability frustrated or paralysed 'reformist thought and daring effectiveness', a reference to their agenda. The appeal also denounced their adversaries: the resistance to change was reflected in personnel policies in the public administration and the 'impossibility to enter' in the *regies autonome*.

This relatively straightforward message was however heavily overlaid by confusing

² The English translation of this appeal belongs to this author.

characterisation of their own intentions, those of their adversaries, the diagnosis of the current situation and their own gesture of coming to the public with a direct appeal. Precisely because these ministers were among the most credible and most technically competent forces in the government it is interesting to note that they unwittingly donned their appeal in the cultural language of the time.³

Thus, the authors, ministers in some of the crucial ministries of the country, made the choice of appealing directly to the public to do something they could not do on their own. They seemed to be able to notice, to worry, and to take decisions, but, unaccountably, their efforts were hampered as 'those who do not hesitate, are not allowed to take decisions'. The sense that solutions to the problems they identified could not be found from the places they occupied was very disturbing indeed. This admission of powerlessness undermined the conventional assumptions about government: was it the case that although nominally in power, they did not have power? Or was it rather that they did not want to assume its responsibilities?

At a minimum, this appeal was a breach of a convention within the democratic pact: those elected to rule are doing so in the name of and for the people. They may do it badly or not at all, but then they have the choice of resigning or wait for the judgement reserved for the electorate on the day of the election. By coming to the public with this admission they

³ In decoding this message, issues of methodology arise. Among them is the question of the authors' intention in projecting their message, the extent to which they identified with all the contents of their communication. To ask this question is to ask the question of the interplay between subjective (what the authors think they are saying, as gleaned from what they say explicitly) and objective, i.e. social elements (what the authors communicate unwittingly). The interpretation here is based on the idea that, both intended and unintended components of the message are important, an issue recognised in social psychology (Argyle 1992) and sociology (Goffman 1969). In other words, by 'objectifying' the message, by treating as an 'object' for analysis, the aim is not only to make a statement about the subjective views of the three authors in question. But also to point out the ways in which what they say unwittingly reflects their participation in the broader social context. This is possible because, according to Bourdieu, 'social agents are knowing agents who, even when they are subjected to determinism, contribute to producing the efficacy of that which determines them in so far as they structure what determines them. And it is almost always in the 'fit' between determinants and the categories of perception that constitute them as such that the effect of domination arises' (Bourdieu and Wacquant 1992, 167).

failed to take any of these honourable solutions and blurred the definitions of these two roles, the electors and the elected. They seemed to want to plead for sympathy by preempting the electors' evaluation of their performance and drawing them into shouldering responsibility for the outcome of their performance in office. They did not frame their ministerial positions in a technical way, as a job. By stepping out of the prescriptions of their public role, they confused the boundaries between the discipline of that role and their private emotional needs.

Nothing short of heroic transcendence of difficulties was called for in this appeal, and perhaps this was the scale on which they assessed their own performance. The way they framed it confirms the power of this reference point. To launch the appeal was an extreme measure, justified by the pathos of the situation, a continuous 'worrying aggravation of the situation', and purified of selfish reasons. The implication, reinforced later by derogatory remarks on the assumed 'selfish' motivation of others suspected of being interested primarily in their posts, is that only pure motives are allowed in politics. Self-interest, the motor of progress in liberal ideology, is here made illegitimate. No connection seemed possible between 'frankness, lucidity and disinterested effort', the qualities considered necessary to resolve the crisis, and self-interest. On the contrary, they are granted effectiveness of their own accord, once embedded in a motivation of heroic dedication to the public cause. This is perhaps another facet of avoiding responsibility, a common cultural prop. The refusal to stay within the discipline of the public role is doubled here by unwillingness to concede to having selfish reasons.

Some of the assessments contained in the appeal can be defended as reasonable and true. The perception of political instability is indeed costly for the credibility of the Romanian governments and their ability to negotiate with NATO and EU. The lack of consistency in economic policy also creates difficulties. However, these observations do not serve in this appeal a clear strategy for action or, at a minimum, a list of clear objectives to be realised

through specific policies. Those called to help are a diffuse mass, asked to transcend the limitations of the present for the sake of a problem free if not idealised future.

The persistence of this conception of politics as a question of heroism, the notion of lack of self-interest as the moral guarantee of the politicians was also at the forefront of Ciorbea's mind. In his long resignation speech pronounced in front of the TV cameras on March 30, 1998 and published next day by the press, his main concern seemed to be to establish that he was an honest man, that he did not profit materially from his position. After deploring his forced departure, which was the result of a sophisticated 'mineriada',⁴ he said in his defence:

Perhaps I lack in the instinct for conservation, but I did not consider necessary the fear, the suspicion and the other manifestations of the 'political manhood' so cherished in certain places: the fist on the table, the shrewdness, the swindling, the blackmail, the lack of common sense, the getting rich overnight at the expense of the citizens and so on. I was not avid for power or its external accoutrements, and for this reason I believed and believe sincerely that it is possible to work as a team, that the government programme is a sufficient document of faith to silence rivalries. I had hoped that at the end of this process we would all have won, i.e. the country, the citizens, the parties and the politicians. I could not conceive that the common good would be valued less by some than an illusory momentary victory. Because the popularity built on these methods and with this price does not last, and, in the end, the people and the history will sanction this popularity, as it deserves (Ciorbea 1998).

The role of the politician is again cast in purist terms, and the confusion between the actor and his actions forms the basis of his judgement of his colleagues' actions. This refusal to 'dirty his hands' and engage in tough, pragmatic politics was according to some analysts the cause of Ciorbea's downfall. The lack of pragmatism and authority in forging a common line within a divided coalition led to a prolonged stalemate in government, which in turned caused a slowing down of reforms at the end of 1997 and the beginning of 1998 (Pasti 1998c). His inability to offer leadership in difficult circumstances was also linked to the fact that while in opposition, during 1990-1996, the Democratic Convention as a whole chose an uncompromising moral stance, rather than active engagement with pragmatic

policies and responsible governance (Pasti 1998b, 1998d). It was thus possible for them to substitute the agreement for a stand-by loan with the IMF for their economic policy, with the effect of causing a deep, unexpected recession that lasted until 2000.

This situated analysis of political statements, at a moment of change and crisis, has shown that cultural props belonging to the communist culture were mobilised, as late as 1998 to justify actions and decisions of great consequence. That politicians, a mere nine years into a democratic regime, were still struggling to find the appropriate definitions of their roles and the values around which to rally the public was perhaps not surprising. The crucial developments that would have to happen, if more efficient governance is to become possible in Romania, are to do with the understanding of politics as the legitimate and orderly pursuit of self-interest, of boundaries around public roles, and the appropriate assumption of responsibility for one's actions.

⁴ This is a reference to the invasion of Bucharest by the miners from Valea Jiului, which led to the resignation of Petre Roman in 1991.

Note: All internet sites were active at the time of the research. Hard copies of web documents and manuscripts are available from the author.

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