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At the border with the past

Analyzing Romania’s transition process



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Abstract

This paper is a study of Romania’s first decade after the Revolution of 1989. Its focus is to answer these four questions: 1.When did the transition process start? 2. When did the transition process end? 3. Which of the alternative models of transition was used in Romania? 4. Which type of model would have suited best the Romania transition process? In answering these questions the article analysis the intentions and capabilities of the new political leadership and the political and economic developments of the decade.

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Motto

*You have to change the system as a whole to get rid of the dysfunctional properties.*

Janos Kornai

*I think people belonging to the elite of the former socialist regime have, with few exceptions, totally forgotten the Communist Manifesto but they have a network of friends from the old days. Right now these relations are extremely powerful in business, in politics, in cultural life. People who knew each other in the old system, know exactly who is a friend and who is an enemy; that won’t cease overnight. However, 10 years is a relatively short time. You should ask the same question in about 20 or 30 years.*

Janos Kornai

# 1. Introduction

*Birds are sitting in a tree. A gun is fired. They all rise in the air and then land again. Each bird may be on a different branch, but the whole flock is back, sitting again in the tree.*

As this joke might suggest, the point of departure of this paper is to show how a political class, which was nothing but a continuation of the old regime, in order to stay in power, designed a transition process that had nothing to do with democratic transitions, such as Poland, Hungary or Czechoslovakia.

An important question here is why was Romania’s transition chosen as the subject for this research project? First, Romania’s transition, compared to the neighboring states, came very late. Also, the approach to communism that the Ceausescu regime manifested before the Revolution, was very different from the other countries in the region. Even the Revolution, was not so much an anti-communist uprising, as much as it was an anti-Ceausescu one. Therefore the peculiarity of the context in which the transition process was to happen represents in itself a very interesting subject. The second reason for the interest in Romania’s transition process is related to the context of the transition. The leadership that followed proved to be a continuation of the communist regime, and not a democratic one. The methods used in manipulating and controlling the population and the eventual turn out of events, was unique for the region, and here I’m referring to the way Iliescu together with the FSN was able to turn social classes against each other for the benefit the party. The third reason is constituted by the unique phenomena that the change of system created, and here I’m referring to the *mineriade* phenomena, as a sign of the persistency of class struggle, and even hate of an upper class, as opposed to the working class.

This study will cover the first decade after the Revolution – since 1990 until 1999. Much of the literature on the Romanian transition process and its experiments with democracy indicates this decade as being the period in which the transition period took place. What follows after 1999 is the beginning of another type of transition, this time one with a clear target, with clear laws, and regulations: becoming a member state of the European Union.

From an intellectual point view, the concept of transition from socialism to capitalism represents a great research subject. I strongly believe in the fact that even though we cannot always provide the right answers, a research process is based on asking the right questions at the right time. The answers this paper will try to provide an answer for are: 1. When did the transition process start?

2. When did the transition process end? 3. Which of the alternative models of transition was used in Romania? 4. Which type of model would have suited best the Romania transition process? Built on these four questions, the problem formulation of this paper is: *Why was the Romanian transition period so long?*

I consider that the right amount of time has passed in order to be able to spot the results of the transition process that was undergone in Romania, after the fall of communism. Together with this process as a whole, one is almost obliged to look into several matters that were, individually, caught in the process, such as: a controversial politics, unsuccessful political development and inefficient reforms, ethnic tensions, and unique phenomena, such as the repeated coal-miners strikes.

The study of transition reveals facts about the past and also about the future. This process is the sum of the struggles of the past and the struggles of things to come. In it lay a number of important matters, and practical outcomes of the so called post-communist societies. To give an example, one might think of the role of the state, or more specifically, the level of implication and control that is expected of the state to have in the process of transition, or the role of politics in the success of the transition process. This would be just one direction for further research.

The post-communist country status is what defines a society that has just shifted from a single party led politics and a centrally planned economy to a pluralistic political scene and a market based capitalist system. There is a big gap between being a post-communist country and becoming a European member state. This gap represents the time frame of this paper, focusing on the political, economic and social changes that took place, on the one hand because of the fall of communism, and on the other, given the process of transition led by the political “teams” that were formed after 1989. Since history only provided us with one period that was marked by this concept, namely the end of the 1980’s, the theoretical gap had to be filled in with experimental processes of transition.

The purpose of this paper is to show that because of the political environment that was created at the end of the 1989 Revolution, Romania was for a long time – 1990-2000 – still at the border with its socialist past, the Revolution being the perfect context for an anti-Ceausescu feeling to come out, only to provide a replacement for the anti-communist one. There was no clear break from the socialist system. There was no democratic regime that took over the leadership. The privatization process was slow, and at times, given the policies and the political color of those in power, inexistent.

# 2. Methodology

The following section aims to explain the structure of my thesis as well as several considerations for my research. Using Romania’s transition process, which began after the fall of communism in December 1989 as a point of departure, I will examine the first decade (1990 -1999), while making some comments about Romania’s accession to the European Union and its relationship with the country’s transition, and try to answer the question mentioned in the Introduction. The focus of my research and analysis will be on the question of why Romania’s transition period was so long. I will first highlight through an empirical overview of the decade in question, the political and economic developments that have marked the first decade of Romania’s so called democracy. Secondly, I will discuss the way in which the new political leadership, which proved to be a continuation of the old regime, and not a democratic and pluralistic type of leadership, has designed a transition process based on populist and power-hungry decisions.

Before the question can be examined, I must first create a framework for my study prior to engaging in its theoretical and empirical levels. Therefore, I will take various aspects into consideration, such as research design, core concepts, choice of theories, time frame and location, evaluation of the validity and reliability of the design, research strategy concerning the empirical data, methodological considerations for collecting it, and methods of analysis. All of these I consider as crucial components of a successful research aiming at a thorough understanding of the logic and the relevance of my thesis.

## 2.1 Research design

Although there are various main types of structure when it comes to a research project, I have chosen the single case design structure, as it best fits the purpose and the scope of my present study. Despite the fact that it is viewed as less constricting than multiple cases designs (deVaus, 2011), the singular case study allows going more in depth with the analysis. More specifically, I will focus on Romania, as the context of a model of transition based solely on political decisions, where the party and its leader that followed after the fall of the Ceausescu regime, did all that was possible to stay in power and assure its long leadership. A diligent study proves to contain the implications of a research encompassing such complexities.

As for the unit of analysis of this project, since all data is collected regarding Romania, I will consider it to be the very topic of this project. The focal point of this research represents my objective to understand the causal relationship between the post-Ceausescu leadership and Romania’s transition process, the former influencing the latter according to its own political and individual interests.

Furthermore, it has to be mentioned that social research entails different approaches to the case study undertaken. However, a most important aspect for any possible approach is the use of theories. The link between theory and research refers to whether the data is collected in order to test the theories or to build them up. Thus, research can be theory-guided, i.e. employing a deductive approach, or, on the contrary, the theory can be an outcome of the research, meaning that an inductive approach is applied (Bryman, 2004). My analysis does not generate any theories but rather seeks to use them in order to understand and explain the case of Romania’s transition process. Therefore, I will engage in a deductive approach, both descriptive and explanatory. Providing an outline of the political and economic development during the period between 1990 and 1999, which I believe are extremely relevant in understanding and drawing conclusions regarding the ways in which the political interests and needs of the FSN and Ion Iliescu, its leader, have marked Romania’s development after the Revolution of 1989. The validity of my assumptions regarding the political influence on the economic transition of a country is based first on Caporaso and Levine, ‘politics denote the activities and institutions that determine authoritative public decisions for society as a whole’ (Caporaso and Levine, 1993) and secondly on Parish and Michleson, ‘in the transition, the liberalisation of political markets is often as important as the liberalisation of economic markets’ (Parish and Michleson, 1996).

## 2.2 Core Concepts

Given the specific approach and focus of my thesis, I feel that it would be important to present some of the core concepts, even though they are not necessarily complex. Their definition is presented as it results from the theoretical framework. The main concepts which form the foundation of this study, and which will be used extensively throughout my paper are: ‘socialist system’, ‘capitalist system’, ‘transition’, ‘privatization’, and ‘post-communist country’.

### 2.2.1 The Socialist system

Each system, socialist and capitalist, in the context of the transition process from one to the other type of system, is defined by its ‘system-specific attributes’ (Kornai, 2000). All the characteristics that are used in defining the capitalist and the socialist system are those that are ‘necessary and sufficient for the actual, historically observable systems to operate’ (Kornai, 2000).

In what regards the socialist system, the system-specific attributes that define it, as it results from the Kornai model, presented in the theoretical framework, are:

1. The undivided power of the ruling political party, and the dominant influence of the official ideology.
2. The dominant position of state and quasi-state ownership.
3. Preponderance of bureaucratic coordination.
4. The interest and motivation inside the system’s leadership, their behaviour and the features of the relationship between the actors: plan bargaining, soft-budget constraint, the quantity drive, paternalist behaviour of superiors, weak responsiveness to prices, a seller’s market, labour shortage, and unemployment on the job.

### 2.2.2 The Capitalist System

In defining the capitalist system I used the same model and the same pattern as in the case of the socialist system. The system-specific attributes that define the capitalist system are:

1. Political power is friendly to the private property and the market.
2. The dominant position of the private property.
3. Preponderance of market coordination.
4. The type of behaviour of the economic actors and the typical economic behaviour: hard budget constraint, strong responsiveness to prices, no chronic shortage, a buyer’s market, chronic unemployment, fluctuations in the business cycle.

### 2.2.3 Transition

At this point it is easy to define transition as the shift that takes place, and the process of changing from one system to the other. It is the process that starts ‘when society shifts away from the fundamental characteristics’ (Kornai, 2000) of a system (the first three system-specific attributes enumerated above), (or the first three blocks in Kornai’s model). The process of transition ends when ‘society reaches the configuration ... characteristic of the capitalist system (the first three system specific attributes)’ (Kornai, 2000).

### 2.2.4 Privatization

The privatization concept, in the context of the transition process from the socialist system to the capitalist system, by changing from one type of ownership to the other, more specifically, from the centralised type of ownership to the decentralised type of ownership.

### 2.2.5 Post-communist country

In using the concept of post-communist country I refer to the political and economic status of a country that has shifted away from a communist regime (the shift from the first 3 blocks of Kornai’s model has occurred) and is still in its transition period to a democratic and capitalist system (the first 3 necessary and sufficient attributes of the capitalist system are not yet in place.

## 2.3 Choice of theories

Keeping in mind the foremost importance of theories for the outcome of my research, in the third chapter of this study I will provide an overview of the chosen theories. Particular theories on the concept of transition will be used as a theoretical base for the thesis.

The first theoretical approach to transition is that of Janos Kornai. Through his model of the socialist and capitalist systems I will be able to point out, theoretically, the steps that are necessary for the implementation of each of the two systems. Through the same model, I will point out the changes that occur when there is a transition from one system to the other. This permits to confront the empirical data from the overview of Romania’s first decade after the fall of communism, with the model, and discover when the transition begins and when it ends.

The second theoretical approach to transition is that of John Marangos and his Alternative Models of Transition. As the title of his article used in this paper might suggest, ‘Was there an optimum model of transition?’, I use his approach in order to, first, try and answer the question in the article title, but from the point of view of the Romanian context (*Was there an optimum model of transition for Romania?*), and second, I use Marangos’s alternative models of transition in order to discover what type of model of transition, if any in particular, was used by the post-Ceausescu leadership, for the Romanian transition process.

Added to Marangos’s alternative models of transition, I will use Anders Åslunds’s description of the radical and gradual reform programs, in order to discover the approach regarding the speed of reform that was adopted by the post-Ceausescu governments in Romania.

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## 2.4 Time frame and location

In order to make the thesis more focused and specific it is necessary to choose a time frame according to what further analysis and research will be made. In the case of this study, a time frame of Romania’s first decade after the fall of communism has been chosen, i.e. 1990 to 1999. Of course, the prior Romanian background will also be referred to in order for readers to gain a deeper understanding of the problem. Also observations on the following period will be made, with regards to the other transition process that Romanian has undergone, the transition to the European Union member state status. However, the main focus of the thesis will be Romania during its first ten years without a communist rule. I havechosen this specific decade for a number of reasons. First of all, the first decade after the Revolution was the period when transition began in Romania. Secondly, it was the period when the influence of ex-communist party members was still very alive, this influence being the engine for such phenomena as *mineriade* or the inter-ethnic violence. Thirdly, it was the period in which today’s Romanian politics is rooted, parties were created and/or dismantled, certain politicians have come to fame for either their extremist orientations, or hunger of power. Fourthly, because it was the period in which Romania’s struggle with communism and ex-communists was at its highest.

## 2.5 Internal and external validity and reliability of the research design

De Vaus distinguishes between two types of generalisation, i.e. either theoretical or statistical (deVaus, 2001). My generalisation will be mostly theoretical, by applying the theoretical approaches to transition mentioned in order to achieve my aim of understanding why Romania’s transition period was so long. This corresponds to the method de Vaus suggests for generalising findings about the case on behalf of contrasting it with the theory (deVaus, 2001). As for the internal validity of my research, it is rather high since the chosen case study – Romania’s transition from socialism to capitalism – gives me the opportunity of analysing in a thorough manner.

In regards to the external validity of the paper, since a single case-study was chosen for this thesis, the results cannot be generalized beyond this particular paper. Every transition process has its own particularities, given the country and the regime in which it occurs, therefore the findings of the analysis of Romania’s transition process cannot be generalized outside the context of Romania.

As for the reliability of my research, since I presented three applicable and relevant theoretical views on the concept of transition, I have attempted to ensure the quality of my work. A high degree of reliability regarding data collection has been sought, by elaborating a clear methodology connected to the analysis of documents as well as by using the identified core concepts.

## 2.6 Research strategy

There are two ways of studying empirical data: either undertaking a quantitative research approach or a qualitative one (Bryman, 2004). My main method of studying the case of Romanian’s transition from socialism to capitalism will be analysing qualitative data. Thus, I will carry out a qualitative research approach.

With regard to the issues I shall be considering, and following Bryman’s distinction (Byrman, 2004), I will discuss epistemological issues, i.e. related to the social world on grounds of appropriate knowledge rather than ontological issues, i.e. regarding the social world as external to social actors or as still in process of configuring. Since my research fairly suits the study of the social world, I will consider only epistemological issues.

## 2.7 Document analysis

Keeping in mind the fact that my thesis deals with a recent and contemporary issue, I am basing my research on books, scientific articles, and legislations. To ensure its validity, I look for the authenticity, credibility, representativeness and meaning of my sources (John Scott in Bryman, 2004). I therefore employ mainly secondary literature, as relevant a background material as possible.

# 3. Overview of Romania’s first decade after the 1989 Revolution

## 3.1 The overthrow of Ceausescu and the formation of the FSN

On December 21, Nicolae Ceausescu addressed from the Central Committee building an assembly of approximately 100,000 people, not knowing that this would be his last speech. This *celebration* was mainly organized by the party in order for the dictator to condemn the events that took place at Timisoara a few days before – while he was on one of his visits, this time in Iran - and also all the revolutionary events that took place late that year in Eastern Europe. But the party and its leader misinterpreted the mood of the crowd and it all turned into a gigantic disorder when the masses started booing, jeering, and shouting insults. Later on, the sound of what many sources have described as gunfire, firecrackers, and even bombs, turned the whole assembly into chaos, especially when a rumor started to circulate among the people, that the Securitate (Ceausescu’s secret police) was firing into the crowd. Protests and violent street confrontations took place later that day. Ceausescu hid in the Central Committee building overnight. Next day, December 22nd, since the protesters intended to enter the building, the Ceausescu couple was taken to the roof, and their personal pilot was given the order to fly them off the building. That was the last time ‘Romania’s megalomaniacal ruling couple’ (G. McNeil Jr, 1999) have seen Bucharest. Through a series of events, while escaping Bucharest, the Ceausescu couple abandoned the helicopter. Later on, they were caught, and in the end, tricked by the man whom they stopped in order to give them a ride, arrested. The trial took place on Christmas day, December 25th 1989. The couple was sentenced to death by an improvised military court and executed on the same day by a firing squad. Nicolae and Elena Ceausescu, his wife, were the last two people to be executed in Romania. On January 7th capital punishment was abolished.

On December 22nd 1989, the same day that the couple was flying off the committee building, Ion Iliescu, an ex-communist party member, announced on national radio and television that the dictator was overthrown, at the same time announcing the formation of the FSN (the National Salvation Front) (D. Roper, 2000). The FSN established a provisional leadership of the country. Petre Roman was appointed Prime Minister, succeeding Constantin Dascalescu, the communist Prime Minister, and Ion Iliescu was appointed President.

An important detail was that, at first, Ion Iliescu announced that the FSN was not and did not intend to become a political party. The members of the FSN were all party activists, some of them until the collapse of the regime – Ion Iliescu, Petre Roman, Silviu Brucan, Corneliu Manescu (Minister of Foreign Affairs between 1961 and 1972, President of the United Nations General Assembly between 1967 and 1968; he was also one of the six who wrote the famous letter *The Letter of the Six* to Nicolae Ceausescu), General Victor Stanculescu, Dan Martian. On December 27th, 1989, the Executive Office of the National Salvation Front Council (CFSN) was formed. Its president was Ion Iliescu, and Dumitru Mazilu was the vice-president. On the same day, the newly formed Council issued a statement in which it promised democratic elections and at the same time abolished the Romanian Communist Party (PCR) (D. Roper, 2000).

At that time, nobody really knew Ion Iliescu or Petre Roman. The first, educated at Moscow University in the early 1950’s, had been minister of youth and secretary of the party’s committee, in charge of ideology, until 1971. In 1971, given his disagreement with some of Ceausescu’s doctrinaire policies, his status in the eyes of the party worsened. After 1971, he was being ‘pushed into obscurity’ by the party, and started being assigned low level jobs such as Chairman of the State Committee for Water, or afterwards, in charge of the Editura Tehnica publishing house. His FSN colleague and future Prime Minister, Petre Roman, was the son of a Spanish Civil War veteran. His father was, until his death in 1983, a member of the PCR, and in charge of the Editura Politica, the party’s publishing house. At the time of the revolution he was a lecturer.

Going back to December 22nd, on the day of its creation, the FSN issued a ten-point program. It stated: 1. The introduction of a democratic, pluralist form of government; 2. The abolition of the leading role of a single party; 3. The holding of free elections; 4. The separation of powers; 5. The elimination of centralized economic management and the promotion of initiative and skills in all economic sectors; 6. The restructuring of agriculture and the promotion of small-scale production; 7. The reorganization of Education; 8. The observance of the rights and freedoms of ethnic minorities; 9. The reorganization of trade and the halting of food exports; 10. The reorganization of the conduct of foreign policy ‘in the interest of the people’ (Gallagher, 1995).

Even though this program was a positive output from the FSN, no information or strategy was given among the many public pronouncements of the group, on how future problems, conflicts or the rising interests would be accommodated (Gallagher, 1995). The background for all that was being done or said was rooted in a world in which dialogue had never been heard of. None of the politicians had any experience in peaceful resolutions of a conflict. And conflicts were knocking on Romania’s door. Ion Iliescu, Petre Roman and the rest of the founding members of the FSN, were all the products of that background. In the context of their program, the FSN was emphasizing the need for ‘national unity’. But this was a need of the FSN, or more correctly put, it was Ion Iliescu’s personal need, which was going to become very obvious after February 6th 1990.

At its formation, the FSN emphasized the fact that it was not a political party and that it will have nothing to do with the upcoming elections. On February 6th 1990, however, the FSN issued a statement, saying that it will participate in the elections as a political party. It was the twenty-seventh party that was going to run for presidency. Its amount of famousness was due to its involvement in the Revolution. Another factor that indirectly decided its status was the fact that the FSN was in control of the national television (D. Roper, 2000).

The expressed need for ‘national unity’ mentioned before, highlighted the uncomfortable feeling that described Ion Iliescu in the context of democratic elections. A pluralistic political context, in the eve of the first round of democratic elections, was not a comfortable context for the FSN leader. The idea of ‘diverging interests, free-wheeling debate, and the legitimate right of opposition groupings’, that would probably question the intentions of his decisions, was not an easy going scenario.

## 3.2 Social tension and ethnic clashes

On January 5th 1990, the FSN was making this following public statement regarding the much oppressed national minorities during the Ceausescu regime:

The revolution in Romania, a historic act of the entire people, of the Romanian people and of the national minorities, attests to the unity and solidarity of all the homeland’s sons who have wished freedom and authentic democracy. The bloodshed in common has shown that the policy of national hate-mongering based on chauvinistic policy of forced assimilation as well as the successive attempts to defame neighboring Hungary and the Hungarians in Romania, could not succeed in breaking the confidence, friendship and unity between the Romanian people and the national minorities.

The National Salvation Front solemnly declares that it shall achieve and guarantee the individual

and collective rights and liberties of all the national minorities. (Gallagher, 1995)

The statement raised hopes among minority groups that some practical steps would be taken regarding their rights and status in Romania. Statements about individual and collective rights were also made officially in their ten-point program, issued on December 22nd. Additionally, the creation of a Ministry of National Minorities was promised.

A number of decisions followed, such as reintroducing the radio and television programs in the areas of Romania inhabited by ethnic minorities, in their own languages. Another issue addressed was that of restoring teaching in Hungarian to the school curriculum. A side effect would have been the removal of the Romanian pupils from the institutions that had previously been Hungarian. The decision was in the hands of one of the two deputy ministers of education, Attila Palfalvi, a Hungarian member of the government. Besides him, other Hungarian personalities were considered in the de facto unelected parliament, on December 23rd, such as Karoly Kiraly – a Marxist dissident under Ceausescu, the now famous Laszlo Tokes, and Geza Domokos.

All these decisions and apparent policies regarding minorities had taken place or were discussed in the tumultuous two weeks after the Revolution. The confused, hurried, and uncertain atmosphere permitted the anticipation of a ‘new era in the treatment of minority affairs’ (Gallagher, 1995). But these decisions of the FSN were based on the fact that the Hungarians had created the HDFR – the Hungarian Democratic Forum in Romania, a political body. It was created on December 25th, 1989, when none of the Romanian parties had actually taken shape yet, by Geza Domokos, the director of the Kriterion publishing house. Given his job at the publishing house and considering Iliescu’s identical position at Editura Tehnica publishing house, the two must have known each other, and such relations could count when trying to explain certain decisions in the confusing context of a revolution.

Even though on January 11th Geza Domokos declared that the purpose of the HDFR, was to ‘achieve the rights of the Hungarians with due respect for the territorial integrity and sovereignty of free and democratic Romania’ (Gallagher, 1995), warnings were expressed by Laszlo Tokes and Andras Suto related to the difficulties that the Hungarians might face when trying to achieve widespread acceptance of minority rights in the nationalist context that was left as inheritance by the communist regime.

In his warnings, Laszlo Tokes was referring to the Romanian teachers’ ‘sharp attitude of opposition’ (Gallagher, 1995) against the return of the Hungarian schools, and the recognition of collective rights. He also stated that through their attitude, they continued to ‘make the old mentality prevail’ – referring to the nationalist attitude of the Ceausescu regime. In line with him was Mihai Sora, the newly appointed minister of education, in his warning of ‘the attitude of the society and its openness’ (Gallagher, 1995).

This was an issue at the conclusion of which one side was going to be at disadvantage. To paint a clear picture of this type of matters in post-revolutionary Romania, a relevant example is that of the dispute over church property between the Orthodox Church and the Greek Catholic Church. This dispute erupted when the latter was allowed to worship legally. The Orthodox Church was acting in the same manner as the teachers who were holding on to the Hungarian schools, as if they were churches.

Coming back to the issue of the Hungarian schools, the first sign of public tensions took place in Cluj, when Romanian pupils were moved to the old RCP training school, so parents and teachers together took to the streets. In the same city, following the announcement of Attila Palfalvi that the city university would have a separate section for minorities (Hungarian and German), a League of Romanian students was formed to protest against the formation of higher education along ethnic and linguistic lines.

On January 27th Attila Palfalvi was removed from his post on the grounds of creating tensions between Romanian and Hungarian populations with his decisions. This situation has provided the perfect context for the ‘beneficiaries of Ceausescu’s nationality policies’ (Gallagher, 1995) who, while still keeping their old posts, won during the communist era, have lain low during the first weeks after the Revolution, when the anti-communist sentiment was still strong. These officials being threatened by the removal of the regime’s policies regarding minorities, used any means possible to generate fear towards the purposes of the HDFR, about which Geza Domokos was talking earlier. Historical images were revived, the stereotype of the pre-1918 arrogant, insensitive and oppressive Hungarian being reenacted.

In February 1990, the Vatra Romaneasca Union (Union of the Romanian Heart) was formed. It was a radical group that used a huge amount of resources in order to fight against, block and depict Hungarian demands as extremely dangerous.

Given its immense development after the Revolution, the FSN was now at the crossroads. On the one hand, it had promised and subscribed to the Hungarian demands regarding minority rights, but on the other hand it was confronted with the need of extending its authority across the country, and this aspect was dependent on former party activists that had come to power together with Ceausescu’s policies regarding ethnic minorities, policies which at first the FSN was condemning. This was a situation for ‘ingenious compromise’, but as Tom Gallagher suggests, the Romanian democratic experience was only two months old, and there was no room, no expertise and no possible initiative for such demanding compromises.

There were three aspects that raised the concern of the HDFR. The first was the announcement of the FSN on January 23rd that it will become a political party and that it will participate in the upcoming elections. In relation to this aspect, gigantic demonstrations took place in Bucharest between January 25th and January 29th, organized by the opposition – the National Liberal Party (PNL), the National Peasant Christian and Democrat Party (PNTCD) and some other smaller parties. In defense of the decision to become a political party, Iliescu later declared that it was the ‘pressures from bellow’ that made the FSN reach the conclusion that it had become more than a provisional government. He was referring to gatherings in which workers from Valea Jiului area (coal miners) and other similar areas – meetings that were also organized during the communist era in order to provide a back-up for party decisions – have requested that the FSN would participate in elections. In order to eliminate the tensions that intensified around him and his sudden decision, he addressed the public to come and help remove those that do not want a democratic Romania. The next day, 5000 coal miners came to Bucharest in order to eliminate the opposition.

As Gallagher puts it, through using the meetings with the workers as a way of legitimizing the party and a possible future program, as well as manipulating the masses and using the miners as a ‘security’ force, Iliescu gave signs of a strange continuation of the old party lines, rather than actually reforming the political scene and creating a democratic context for the upcoming elections. It became clearer and clearer that power sharing was not a solution for Ion Iliescu. Later on, I will come back to the aspect of the FSN becoming a political party, particularly in regards to the involvement of the miners.

A second aspect which raised the concern of the Hungarian community was that a great number of anti-communist dissidents and personalities have left the FSN when it decided to become a political party. The obvious desire of the FSN – which now becomes the Provisional National Unity Council (PNUC) in order to be able to include opponents after certain concessions were made – to become the leading political actor, and depending, in this, on ‘Ceausescu’s loyalists’ (Gallagher, 1995), was a clear photograph of an undemocratic situation.

A third aspect that worried the Hungarian minorities was the declaration made by Iliescu on January 27th, in which he suggested that the Hungarians were exclusively responsible for the tensions present in Transylvanian cities.

When the FSN published the programme that would represent the basis for the mandate it was aiming for in the elections, nothing was included in it regarding collective rights of minorities. Departing more and more from the moments after the revolution, the FSN was putting more and more distance between them and the declarations they have published in the first weeks of the transition (Gallagher, 1995). On March 3rd Tokes Laszlo was heard on Budapest saying that ‘nationality differences could sharpen dangerously in Romania … The Bucharest government is doing nothing to resolve the nationality problems, and none of the December promises in this connection have been realized’ (Gallagher, 1995).

As a response to Tokes’s predictions, on March 19 violence erupted in Tirgu-Mures. The number of dead and injured is still unknown. There is also no certainty on what exactly happened, or at least that’s what the officials say. After the events, Tirgu-Mures has ‘won’ its reputation of being the first post-communist Eastern European city that witnessed ‘conflict spilled into fatal violence’ (Gallagher, 1995).

## 3.3 The beginning of the ‘Mineriade’ phenomenon

The ‘Mineriade’ phenomenon started off in close connection with the anti-communist phenomena taking place in the famous by now University Square in Bucharest, where many of the events that marked the Revolution occured. There were two precedents. The first, in 1945, when the communist party used the miners as a force to intimidate, and in some cases eliminate, the opposition. Convincing the miners – and also the workers and peasants, was not a very difficult task for the party. The instigation of the less-educated or the unemployed was an easy to do assignment, since, given their poverty, these social classes had fallen so easily in the trap laid down by the ideals of socialism. Between 1944 and 1947, the miners constituted the ’Garzile Patriotice’ (Patriotic Guards) formation. They were a tool of intimidation, demoralization (provided by the idea of class struggle), and finally, liquidation of the political adversary.

As for the second, it was actually a quasi-precedent. It took place back in 1977. It did not have a political background nor a political party to instrument it, and it was not intended as an ‘anti-’ manifestation. Its purposes were economic alone. This second example, however, was unique, an exception from the whole ‘mineriade’ phenomenon.

The first time the miners came to Bucharest after the Revolution, was as soon as January 1990. An anti-FSN demonstration was organized. Ion Iliescu organized a counter-demonstration with a big mass of miners and workers from in and outside Bucharest. During the days of the demonstration, the headquarters of the opposition political parties were vandalized, as well as newspapers offices that were still not friendly to the FSN. The phenomenon was further shaping up the next month, February 1990. Another huge anti-communist demonstration was organized in the center of the capital, but this time the police together with the military managed to disperse the crowd before the miners actually got to Bucharest.

By now the constant anti-communist demonstrations turned into a phenomenon themselves. People take to the streets. There were even people living in tents in the University Square. This anti-communist sentiment continued through the next months. The Square was occupied for 52 days. Among other things, people were shouting ‘Better dead than communist!’ During those last couple of months people finally realized who the government was and what their background was. Some of the demonstrators resorted to extreme measures, such as hunger-strikes. When Silviu Brucan, who was one of the founding members of the FSN, was asked why there were no negotiations with the people in the Square, he replied that one cannot negotiate with people that do not eat. In fact, the context was of such nature, that negotiations could not be made.

The 52 days of constant demonstrations and persistent anti-communist singing and shouting, became annoying for the leadership, and on the 13th of June, the police intervened violently trying to disperse the large crowd. On the night between the 13th and 14th of June, gun shots were fired. The army and the police were on every corner. Next morning, seven dead were found in the street. Two hundred were wounded. Nobody knew the identity of the shooters. Except for a small number of arrests, the intervention had no effect on the big crowd.

Given the absolute power that Iliescu was granted after winning the May elections, the demonstrators and their anti-communist\anti-FSN protests and singing, were a reason of defiance in the face of Iliescu’s past and present. At the same time, those that he called ‘golani’ (punks), Ceausescu had called ‘huligani’ (hooligans) – referring to the protests in Timisoara, which in the end triggered the Revolution, represented what the entire Romanian communist experience called the Western decadence.

Seeing no other way to end the 52 days demonstration, Iliescu reactivated the old communist class fight among workers and intellectuals. On June 14th the miners came to Bucharest. Iliescu met them and commanded them to ‘occupy and clean’ the University Square. In his speech he mentions fascism, drugs, organized groups, obscure forces.

The miners worked together with the police. Cars and ‘guides’ for the city were provided. Police vans full of miners were driven to the Square. Protesters and pedestrians alike were beaten randomly. Some were killed while others were detained abusively, only to be released months later, without any explanation. Some said that June 14th was worse than December 21st, when the Revolution started.

At the same time, in the street, interviews were taken by the national television, which by now was owned by Iliescu and company. There were miners that ‘confessed’ to have found drugs, weapons and ammunition, electronic type-writers, and money printing machinery at the headquarters of opposition parties, thus somehow reproducing Iliescu’s speech at their arrival in Bucharest.

Iliescu used the miners as ‘Patriotic Guards’. He almost said it himself in his speech, asking workers in Romania to come and defend democracy and the values of the new democratic state. As it happened many times before, during the historical manifestations of communism in Romania, the class fight was promoted as the good fight, and this fight needed its fighters. Groups such as the ‘Patriotic Guards’ were necessary to promote and create a society without class. Miners were heard in the streets shouting ‘Moarte intelectualilor’ (‘Death to the intellectuals’) and ‘Noi muncim, nu gandim’ (‘We work, we do not think’).

If one tries to take a step back and watch the ‘photograph’ of the whole event, the way everything was organized and instrumented, the discipline in its entirety, it gives the impression of a purpose more complex than a simple dispersal of a demonstration. For many years after the events in June 1990, Romania was considered the most brutal country in Europe. In order to make the picture even clearer, Iliescu, to disperse the demonstrators, has used the same leadership as Ceausescu did in trying to repress the revolt in Timisoara: Mihai Chitac (Interior Minister) and General Stanculescu (Defense Minister).

As in the case of the nationalist tensions and street revolts that took place in Targu-Mures in March 1990, the events that happened during June 13th and June 15th 1990, in Bucharest, were an added barrier to the democratization of Romania, and a huge set back of its transition process, which at that time had not even started. It was another way of erasing the values and purpose of the anti-communist revolution. Through all the unfortunate events that took place after the revolution and also through the political and economic decisions that the FSN had taken, it transpires a continuation of the communist heritage, different from the Ceausescu perspective, but totally against the purpose of the 1989 Revolution. As I shall further investigate, almost every decision taken by the FSN had a political purpose, and that is one of the main reasons why the transition process had been so slow in Romania, but to this aspect I will come back in more detail in the analysis section of this paper.

Two other manifestations of the phenomenon had taken place since 1990. One in September 1991, that resulted in the overthrow of the Petre Roman government. The last one occurred in January - February 1999. The reason for the 1999 ‘mineriad’ was the reduction of subsidies, and therefore the closing of the mines. On February 14th, 1999, Miron Cozma, the leader of the miners since the Revolution, was found guilty for the 1991 ‘mineriad’ and was sentenced to 18 years in prison. During the same time, the miners were being led again towards Bucharest by the same Miron Cozma, only this time they met a strong resistance from the military branch of the Romanian police forces, the ‘Jandarmeria’. Miron Cozma was arrested during the clashes. The turnout was 100 jadarms and 70 miners were injured, and one miner died.

## 3.4 Romania’s Economy and Politics between 1990 - 1999

In 1990 the economic advisors of the FSN had to choose between assigning one of the two possible paths of reformation, based on the experience of other Easter European countries: shock therapy or gradual models of transition.

Ceausescu’s much hated austerity program designed to pay off Romania’s international debt has left Romania with a good start, given that at the start of 1990 Romania’s debt to international financial institutions was almost inexistent. Its ‘current account balance, debt-to-GDP ratio and hard currency holdings’ (Ropper, 2000) were better than any other country in Eastern Europe.

The FSN decided to approach reform by adopting a gradualist path. This can simply be explained through observing how political considerations where the decisional mechanism, as well as the fact that the former communist elite managed to retain its political power. The first thing the Petre Roman government did was to ‘restore living standards and work conditions’ (Stan, 1997). This decision was based on the FSN’s expectation that the population would not have the ‘willingness to undergo a second dramatic welfare depreciation’ (Stan, 1997) which would have obviously happened if they would choose the shock therapy, having Ceausescu’s last decade as an example for austerity and compression. Mugur Isarescu, Governor of the Romanian National Bank, also tried to explain the fact that shock therapy would not have suited the Romanian context, even though it would have been the appropriate solution for reforms. He said that the so called ‘shock therapy’ (more shock than therapy) taking place in the 1980s due to Ceausescu’s plan to pay of all international debt has burdened the Romanian population, and that after the Revolution, the population was still carrying that burden.

After the Revolution, FSN’s political needs, between January and May 1990, could only be obtained through populist decision and not through real ‘reforms’. They provided wage increases with the intention of obtaining the support of state workers, even though there were parts of industry sections that were inefficient. It also maintained price controls and promoted an overvalued exchange rate. The level of imports was increased, the level of exports of foodstuffs was halted, quantity restrictions on the use of energy were removed, price of energy was lowered, and working hours were reduced. In any other context, probably, these decisions would not have counted for much, but in post-communist Romania, energy and working hours were sensible subjects, especially after the power cuts and the unending working hours of the socialist regime. All these were meant to increase the popularity of Iliescu and the FSN before the May elections (Ropper, 2000).

After the elections and victory of the FSN, Romania’s ‘good’ economic start was already spent on populist decisions. And it did not stop there. The FSN addressed unemployment through permitting workers to retire 5 years earlier. This decision, instead of proving to be a positive plan, created an enormous increase of the demand on the pension system. After the decision was legalized, in just one year, 400 000 workers filed for retirement (Ropper, 2000).

The result of populist measures was an enormous ‘explosion of consumption’, a great ‘drop in investment and industrial production, and the level of imports financed through the foreign exchange reserves went sky high (Stan, 1997).

1991 was marked by the coming of the miners to Bucharest in September. The Roman section of the FSN, the section which favored economic reform, was in dispute with the reluctant group, centered around Iliescu. The miners were used as a political tool again, even though officially it was said that the reasons for their coming were the low salaries and the inflation. The reformist government was overthrown. The issue of fast reforms was clearly the reason for the break-up of the FSN. The break-up between the reformist section of the FSN and the more ‘conservative’, was known as the ‘war of the roses’ (the rose was the political symbol of the party). Petre Roman handed in his mandate, though not with the intention to resign, but having in mind the change of the government. Iliescu came out declaring that he accepts Roman’s resignation. A dispute erupted, but Iliescu said that it was a ‘semantic’ dispute. Inside the party, members had to start choosing sides. Later, Iliescu appointed Theodor Stolojan, the finance minister, as prime minister.

Tighter monetary policies were implemented. Monthly inflation rose to 20%. Industries compiled arrears amongst themselves in order to be able to finance their operations. At the end of 1991 these compiled arrears amounted to 50% of GDP. In the end the arrears issue was solved through bank credit expansion as a result of a law passed by the parliament (Ropper, 2000).

In the same year, the socialist collectivization program was ended through the land ownership law. Through this law, land was returned to their owners, which counted around seven million people. The distribution of land was limited to ten hectares. There were families that did not even receive as much as ten hectares in full. Even though the plan sounded good, it was not well thought through. Because of the limited land distribution the government managed to create small unproductive and inefficient farms. But provided that land was given to the people, the political goal was met, and once again the populist manifestation of the FSN triumphed. Towards the end of 1991, in November, opposition parties created the Romanian Democratic Convention (CDR). The parties that constituted the core group of the Convention were: the Civic Alliance Party (PAC), the Romanian Ecological Party (PER), the PNTCD, PNL, UDMR, and PDSR.

In parallel with the inefficient privatization program in agriculture, the FSN government was building the industrial privatization program, but with even less efficiency. Approximately 6300 state owned enterprises (SOE) were turned into commercial companies, with 70% of their capital distributed to the State Ownership Fund (SOF), the rest being distributed to the Private Ownership Fond (POF), formerly owned by the population. What was left of the un-commercialized SOE’s, were turned into *Regie Autonoma* (RA’s), which were state owned, and under the direct leadership of the Minister of Finance. The number of these SOE’s was approximately 450, and they included some of the biggest and important industries, such as Renel, the Romanian electric monopoly (Ropper, 2000). But to the more complex context of the privatization process in Romania I will come back further in the exposition of the Romanian overview.

By 1992 the industrial sector deteriorated in such a manner that during the years since the revolution the domestic output had decreased with 25%. Because of failure of privatization in the industrial sector, its deterioration continued. Production did not effectively produce anything that could have been exported. The industries were extremely expensive in what regards their energy consumption. Unemployment in this sector increased by 12% in 1992, especially in branches such as textiles and machine building. Romania’s growth policy was export-based, but since the industrial sector’s consumption of energy was so high, the government kept the subsidies, but employment decreased (Ropper, 2000). Towards the end of the year the export oriented growth policy proved inefficient, because the political needs and politically influenced decisions did not generate growth. The September national elections prevented Romania from ‘pursuing a real export-led model of development.’

In the September 1992 elections, the newly constituted FDSN met the first real opposition since Romania had stopped being a communist country – the CDR coalition. The FDSN’s fight was taking place on two fronts. On the one side, it was fighting the Roman followers of the initial FSN, accusing them of the corruption that had engulfed Romanian politics. On the other side, it was offensively highlighting the advanced age of the leaders of the CDR convention. Another issue that was worth being verbalized particularly by the leaders of the FDSN was that, if the convention won the elections, especially the PNTCD, who was the driving mechanism of the convention, a witch hunt for former communists would begin. It underlined the idea that the agenda of the CDR is based on revenge.

Emil Constantinescu was chosen as the candidate of the convention for the presidency race. Since the beginning of the process of choosing a candidate caused friction between the leaders of the parties in the convention, the choice was a compromise nominee, and since Emil Constantinescu was a neutral person, belonging to neither of the parties, he became the choice of the coalition. He was a professor in the Geology Faculty, at the University of Bucharest. After 1989, he was one of the founders of the Civic Alliance, and later he was named vice-president of the organization as well as chairman of the Anti-Totalitarian Forum.

Event thought the pre-election polls predicted that Constantinescu would win the elections, the FDSN managed again to be more successful than the opposition. It received 28% of the votes, which meant 35% of the parliamentary seats. The CDR received only 20 % of the votes. The Roman faction of the FSN received 10%. Unlike the 1990 elections, this time only seven parties and coalitions made it to the parliament. Among them were several nationalist parties, but they represent a matter to which I will return shortly.

Even though the elections took place in an East European context in which ex/communists were being thrown overboard, Iliescu still managed to receive 61% in the second round. At one point there were complaints of stolen votes and actually ‘over 10% of the ballots were nullified because of procedural irregularities’ (Ropper, 2000), but overall, these irregularities could not have influenced the final results of the vote.

The influence of Iliescu’s ‘stature’ went in other directions. First, the FDSN was very ‘successful’ at capturing the attention of former FSN members, who were now county prefects, in order to join the party. This was also the reason for the bad election results on the side of Roman’s FSN side. Another ‘weapon’ in the hands of the FDSN was the control of the media, television, radio, and written press. It was very easy to build a negative image for the old convention lead by the intellectual Emil Constantinescu.

After the elections, given the efforts of the opposition, the FDSN only managed to get a majority of seats in the parliament, and not all. Therefore, Iliescu brokered agreements with other parties. Here is where I come back to the nationalist profile of the parties that won the parliamentary seats in the elections. The difference between the elections of 1990 and the elections of 1992 is that in 1992 there was a very clear distinction between parties. Now there was a clearly defined opposition, embodied by the CDR. The rest of the parties were: The greater Romanian Party (PRM), The Socialist Labor Party (PSM) and the Party of Romanian National Union (PUNR). All three parties were led by controversial people, with either a communist background or an extremist political orientation (Ropper, 2000).

The PRM was led by Vadim Tudor, at present Member of the European Parliament. Before 1989, he was in close relations with the Securitate, ‘working in tandem’ (Gallagher, 1995) with an officer that was providing the weekly magazine *Saptamana*, which he edited together with Eugen Barbu, in order to ‘smear intellectuals’ that were suspected of liberalism (Gallagher, 1995). This access to secret or restricted information continued after 1990, due to his close relations to the ‘unreconstructed elements of the state bureaucracy’ (Gallagher, 1995). The PSM was lead by Ilie Verdet, Ceausescu’s former prime-minister. The last member of the coalition was the PUNR leader Gheorghe Funar, known for his strong nationalist ‘stance’ (Gallagher, 1995) while being the mayor of Cluj, considered the capital city of Transylvania. In 1992, he was the PUNR’s presidency candidate. In 1997, after being expelled from the party, he joined Vadim Tudor’s extremist party, of which he is at present the General Secretary.

All three parties were strongly nationalist formations, anti-Hungarian, and anti-Semitic, and nostalgic in their manifestations for the Ceausescu family’s variant of communism. While the unofficial coalition was being created, no negotiations existed with the opposition. Given the nationalist flavor of FDSN’s new coalition government, the UDMR refused membership. As a result of the coalition the FDSN has collected almost all governmental portfolios. Iliescu appointed Nicolae Vacaroiu as prime-minister. Before 1989, he worked at the Committee for State Planning together with Theodor Stolojan, the interim prime-minister between September 1991 and November 1992. During this period another important member of the FDSN rose to fame, Adrian Nastase, who was chosen then as president of the House of Deputies from which position he was later – March 15th, 1996 – forced to resign given serious corruption charges.

Even though it was thought at first that the coalition would work for the overall benefit of the FDSN, it only proved efficient in that they provided back-up for acquiring majority of seats. On the efficiency side it only brought difficulties for the Vacaroiu government. The relationship in the coalition was informal, given that Iliescu was concerned with an official agreement because the PUNR and the rest of the parties would create a bad image in the eyes of the West. The same eyes of the West were the reason for the 1993 FSN’s change of name into The Party of Social Democracy (PDSR). The relations were based on the three parties providing the new PDSR with the ability of passing legislation.

The year of 1993 had a good start for Romania. On February 1st, Romania signed the association agreement with the EU. The status of associate country was granted because of Romania’s increase of amount of trade, given also that it represented the second largest Eastern European market. In its decision, EU counted more on political criteria, than on economic ones. The required criteria for full membership were the stability of the democratic institutions, the rule of law, human rights, and the protection of minorities.

In August 1993, the PUNR negotiated its official enter in the government. Even though the PDSR could not think of an official inclusion of the PUNR, it still needed its support in the parliament. Finally, in January 1994 an agreement was signed, but it was only made public in August 1994.

At the same time, the PRM was requesting government portfolios. Together with the PUNR, the PRM was pressing the PDSR for coordination of policies on national and local level. This would have eliminated any possible regional ‘gaps’ to occur in the implementation of policies promoted by the coalition. As a result, in January 1995, the PDSR signed an agreement with both PUNR and PRM, and the PSM, which stated that all four parties will coordinate policies. On top of the signed agreement, the PRM was requested a public declaration from the PDSR of the fact that the ‘quartet’ would act against any ‘anti-Romanian manifestations’. After the signing of the agreement, the PDSR rushed forward to declare that this agreement was *only* a political document. The PRM and PSM were offered lower level government positions, but no portfolios.

The agreement got to be seen as a desperate act on the side of the PDSR, who artificially intended to create cohesion inside the coalition. Later, it became clear that the Vacaroiu government was pursuing unpopular policies.

As early as March 1994 the government was again reorganized. The changes though were not substantial and were mainly on Iliescu’s political ‘strategy’. Towards the end of 1995 charges of corruption, inefficiency in attracting foreign investment (given the lack of economic reform), a fallen economy, infighting among members of the coalition, ‘plagued’ the PDSR. Iliescu’s oscillations between gradual economic reform and economic populism confused both ‘real reformers and former communists’ (Ropper, 2000) from his own camp. The problems of 1993 and 1994 were hidden under the cover of the statistics mask, but it all became clear in 1995. The lack of professional politics on Iliescu’s side transpired from his desperate need of integration in Western institutions such as NATO or EU, while the relationship with and the attitude towards national minorities was far from settled.

In order to patch the relationship with the minorities, he proposed a ‘three-part document to hasten the signing of a Romanian-Hungarian treaty’ (Ropper, 2000). Coalition partners were against Iliescu’s proposal. Given the refusal of his proposal, the PRM was thrown out of the coalition. The ambiguous relationship between Iliescu and the two other parties lived on. The intended cohesion could not be created inside the coalition, leading to the decline of the PDSR.

But the political scene has proved to be unhealthy altogether. The CDR was also facing several divisions during 1993 and 1994, which ultimately lead to its fragmentation. By May 1996 the Romanian political context was changed almost entirely. The CDR also lost some members (PSDR, PAC, and PL) and Roman’s faction of the FSN has created a coalition with other social-democratic groups, and called it the Social-Democrat Union (USD). The general changes and especially the ones that took place inside the opposition convention, proved favorable for the CDR, given the elimination of any barriers or divisions from the inside that stood in the way of its development. The positive outcome began to be visible during the local and parliamentary elections that took place in 1996. The CDR received 19.6% of the city-council seats. The PDSR got 18.8% and the USD 12.2%. In regards to the mayoral competition, the PDSR received 928 mandates, more than double compared to the CDR, which got 475. The symbiosis between the PDSR and small cities and villages was still alive and kicking. Major urban areas were almost ignorant of the PDSR, and this finally led the party to understand the problems it was facing.

### 3.4.1 Attempts of privatization

The National Agency of Privatization was formed in the early month of 1991. Its aim was ‘to develop a privatization strategy and to monitor and control of its realization’ (Tache, s.a). It was responsible for the implementation of the Mass Privatization Program (MPP).

#### 3.4.1.1 Privatization of Housing

Before 1990, most of the population was living in state-owned apartments. Private ownership existed, but it was restricted to one housing-unit per family. In 1990 the Government passed specific legislation for the sale of state-owned houses and its payment process, either through down-payments or installment payments. This legislation provided tenants with the possibility of purchasing the state owned-apartments they were living in. The prices were relatively low, especially for the housing units with a high level of depreciation. By May 1992, around 2 million apartments were bought by their tenants.

#### 3.4.1.2 Privatization in Agriculture

Before 1990, the Romanian agriculture was split between the large Agricultural Production Cooperatives and the State Agricultural Enterprises (state owned farms). The Agricultural Production Cooperatives owned 51.3% of the land and the State Agricultural Enterprises owned 20.4% of the land. What was left belonged to individual farmers (Frydman, 1993 in Stan, 1997).

As mentioned earlier, the de-collectivization process of the Romanian agriculture began with the 1991 Land Law. The main focus of this law was the restitution of confiscated land through the communist collectivization program launched in March 1949. The law proposed that each family would receive up to 10 hectares of land. It was applicable to 75% of the agricultural land, which meant over 8 million hectares. In areas where peasants decided to keep the cooperative system, they were re-organized as autonomous or commercial companies.

The implementation of the law proved ‘complicated and time consuming’ (Stan, 1997). There was a huge lack of clarity and transparency in what regards the ownership rights and the application of the process. For example, not all persons who were reallocated land had titles of ownership. In 1992 ownership rights were established for 9.22 million hectares of arable land, but of this, only 79% was actually distributed (Stan, 1997).

In the end, the huge fragmentation of the land, given the 10 hectares limit, together with the delay in establishing ownership rights, and disputes over the privatization of the cooperatives, have caused a huge decline in agricultural output, turning ‘Romania from an exporter to an importer of grain in 1992’ (Stan, 1997).

#### 3.4.1.3 Privatization of state-owned enterprises

Through the law of Restructuring the State Owned Enterprise, state enterprises were split into two categories: those that would remain under state management (enterprises that were part of the strategic areas of the economy, and will be re-designed as autonomous administrations) and those that were going to be privatized (the rest).

In 1992 the State Ownership Fund (SOF) started operating. Initially it was the majority shareholder for all commercial companies. The board of the SOF included the president of the National Agency of Privatization, five members that were appointed by the president, six appointed by the Parliament and five by the government. During the period when the Parliament was supervisor of the SOF, several leadership changes and organizational problems occurred, ending up in the end as a subordinate of the government.

During the same year, five Private Ownership Funds (POF’s) were established as private organizations. Each of the five had a different territorial base, therefore, competition was not introduced, and also each ‘received 30% of commercial companies shares on behalf of the public’ (Tache, s.a).

# 4. Theoretical framework

The theoretical framework for my thesis is constructed of three theoretical approaches to transition. The first studies the elements that constitute a system and the way in which, through paying close attention to the process, a country goes through in order to complete its transition, certain observations being made related to the time transition begins and when it ends. The second theoretical approach studies alternative models of transition and tries to answer the question *Was there an optimum transition model?* The third is one that develops an original model of the economic system and transition, and demonstrates the path Romania followed through its transition.

Socialism, compared to capitalism, was a short and failed experiment. It is believed that the societies which have undergone the socialist experiment will simply return to their natural state – capitalism – when the socialist experiment has failed. Considering Romania, the country did not have any experience with capitalism, and more than 40 years of socialist/communist experimentation cannot simply permit a society to *return* to its initial state, the supposedly natural capitalist state, or whatever other state that was. The transformation required in order to have a successful transition represents a unique process, a new concept. Nothing like this has ever happened in history, and tensions were to occur along the way.

## 4.1 Purpose

The theoretical approach to transition is meant to illuminate and explain two things. The most important of them is the way the new political leadership after the 1989 Revolution has influenced the transition from socialism to capitalism.

The second aspect that is seeks to be explained through the theoretical framework chosen for this study is how the decisions, actions and the type of policies and reforms chosen by the new leadership have slowed down the development of the Romanian society, economy and political class.

## 4.2 Kornai’s model of the Socialist and Capitalist systems

### 4.2.1 System specific attributes

The first thing that has to be pointed out is that each of the two systems, socialist or capitalist, existed in ‘specific historical manifestations of various kinds.’ All the historical manifestations have common characteristics, for both the socialist and capitalist system. Kornai names these common characteristics ‘the systems-specific attributes’ (Kornai, 2000). The system specific attributes are of great importance in Kornai’s theoretical approach for two reasons: first, because they are ‘sufficiently important to influence deeply the realities of society, politics, the economy, culture, and daily life’ (Kornai, 2000); and second, because the system specific attributes are ‘the essential criteria for distinguishing between the two great systems’ (Kornai, 2000).

Kornai method of describing and comparing the two systems is not a holistic one. He has chosen a minimalist path, paying attention only to the main characteristics, which are ‘necessary and sufficient’ (Kornai, 2000) in order for each of the two systems to operate as a socialist or capitalist system.

### 4.2.2 The Socialist System

The system-specific attributes that characterize the socialist system, as shown below in Kornai’s model, are:

1. The undivided power of the ruling political party (Marxist-Leninist party), and the dominant influence of the official ideology.
2. The dominant position of state and quasi-state ownership

(When the first two attributes are in place, they automatically produce the third attribute.)

1. Preponderance of bureaucratic coordination.

(The actual forms of the bureaucratic coordination can vary from one country to another, and from one period to the other, but certain essential factors remain unchanged: elimination o free enterprise and autonomous actors from the market, centralization of decision-making and information, hierarchical dependence and the dominance of vertical relations over horizontal ones.)

1. The interest and motivation inside the system’s leadership, their behavior and the features of the relationship between the actors: plan bargaining, soft-budget constraint, the quantity drive, paternalist behavior of superiors, weak responsiveness to prices, a seller’s market, labor shortage, and unemployment on the job.

### 4.2.3 The Capitalist System

The system-specific attributes that characterize the capitalist system, as shown below, in Kornai’s model, are:

1. Political power is friendly to the private property and the market.

(Here, democracy is not a necessary condition for capitalism to function; the system can also operate under a dictatorial regime. The only requirement for capitalism to function in such conditions, is that the political regime not to be against private property.)

1. The dominant position of the private property.

(Dominance does not mean absolute rule. Kornai rephrases the wording and says that ‘nonprivate organizations must not gain a dominant role’) (Kornai, 2000).

1. Preponderance of market coordination.

(As in the case of private property, the term ‘preponderance’ does not rule out the presence of other coordination mechanisms, but it underlines the fact that the market is the main coordination mechanism in the capitalist system).

1. The type of behavior of the economic actors and the typical economic behavior: hard budget constraint, strong responsiveness to prices, no chronic shortage, a buyer’s market, chronic unemployment, fluctuations in the business cycle.

(Kornai, 2000).

4.2.4 The transition from one system to anothe**r**

At this time, in the context of the study of transition from socialism to capitalism, a very important question begs to be asked: When is the transition process from one system to the other completed? In the light of the approach presented above, the first thing to be mentioned is that the transition process begins when a society shifts away from the basic system-specific attributes of a system, as seen in the first three boxes in the model of the socialist system designed by Kornai, and follows the path towards developing the specific attributes characteristic to the other type of system, as can be seen in the first three boxes of the model of the capitalist system. To answer the question asked above, according to Kornai, the process is complete when the system specific attributes of the new system are acquired. Additionally, these new features of the new system need to become irreversible in their development, in order for the transition process to be successful.

## **4.3 Alternative political-economy models of** transition

In order to solve the transition problem – which simply put is the movement from a centrally administered to a market based economy – John Marangos suggests that several key issues need to be addressed:

1. What was the goal of transition?

2. What process should be used in order to achieve that goal?

3. What policy instruments were appropriate?

4. What elements of the existing economic structure should be maintained?

The answers to these questions could never be found only through economic analysis, but they would rather be contained in the perception of social reality as well as issues of an ethical nature. Another important question here is ‘What is a good society?’

These questions and the fact that different economists, using different and at times contrasting economic theory, have given rise to alternative models of transition. All alternative models have clear and characteristic methods of analysis and have different goals.

There are two reasons for using this theory in studying Romania’s long transition. The main reason is that given its clear and transparent structure, it can be used as a tool of analyzing the Romanian transition process. The second reason is that it can be a research tool in trying to answer the question: Was there an optimum model of transition … for Romania?

Since the differences between economic models are the result of different political, philosophical, cultural and moral values, all alternative models of transition have their own characteristic set of values which also define them. However, as Marangos notes, with the exception of Radice, the literature on alternative models of transition does not exist.

### 4.3.1 The social science perspective

The problem of the transition process was not only a problem of the economical field – more precisely, it was not just the dispute over which of the two should have the higher hand, the market or the government. As we have seen described in Kornai’s model of the socialist and capitalist model, market relations are not independent of other social relations, and especially of the political aspect. The process of transition, and the economic changes, in order to be understood properly, require a closer look at the relations between economy and politics, between economy and ideology. Janos Kornai also made a very easy to grasp line of causality between each of the two systems (including, of course, their historical manifestations/variations) and economics. The ‘historical background, national culture, economic and political structures, and international aspirations’ (Marangos, 2006) are all factors that can affect growth patterns. For all these reasons, the political-economy perspective of Marangos’s theory is the one that suits best the study of the transition process.

4.3.2 Alternative models of trans**ition**

The alternative models of transition are: the Shock Therapy model, the Neoclassical Gradualist model, the Post-Keynesian model, the Pluralistic Market Socialist model and the Non-pluralistic Market Socialist model.

What is the basis on which the different models are distinguished from one another? Marangos calls the basic attributes of each model, the ‘primary elements’ (Marangos, 2006). The primary elements are distinct and characteristic in the case of each of the models. Marangos also points out the ‘secondary elements’, with respect to the desirable reforms.

#### 4.3.2.1 The primary elements

The primary elements are as follows:

1. Economic analysis
2. What is a good society?
3. Speed
4. Political structure
5. Ideological structure
6. Initial conditions

**a. Economic analysis**

The process of economic analysis involves ‘the application of a social scientific method’ (Marangos, 2006) in formulating economic choices. It provides a description of the economic reality through abstraction and generalization. Three types of methodologies result at this point:

1. Neoclassical economic analysis
2. Post-Keynesian economic analysis
3. Marxist economic analysis

**i. Neoclassical economic analysis**

In this type of economic analysis the individual is characterized by ‘rational maximizing behavior’ (Marangos, 2006). The determination of prices is made in a perfect economic competition. The driving mechanism is based on the equilibrium between the supply and demand curve. At its foundation stands the belief in the fact that the market is efficient enough in order to be able to allocate resources and achieve equilibrium between production and distribution.

**ii. Post-Keynesian economic analysis**

The rational maximizing behavior of the individual and of the firms is questioned here. Given the use of ‘aggregate demand’ (where consumption is determined by disposable income and planned investment by expected profitability), there would be persistent labor market disequilibrium. An oligopolistic environment is the context for price determination.

**iii. Marxist economic analysis**

The Marxist economics point of view sustains that the crises which the capitalist market continuously goes through will worsen and at one point will lead to the collapse of the whole system as such. In turn this will lead to the development of the socialist system. It also dedicates itself to highlighting the way the market, through its absolute power, creates exploitation and alienation.

**b. What is a good society?**

Each of the three types of economic analysis presented above has a corresponding view on what is a good society. In order to the underline the role that ideology plays in choosing a type of economic system, Marangos quotes Anders Aslund: ‘the choice of economic system is profoundly ideological’ (Aslund, 1995).

The three alternative views on what is a good society are:

1. Competitive capitalism

This view on what is a good society corresponds to the neoclassical model of transition. Here, given the discretionary power of the state, the market holds the upper hand. The state only acts when there is a failure of the market. It provides ‘safety nets’ for institutions and justice is applied equally for all citizens. There is no involvement of the state in the process of distribution of wealth.

2. Social-Democratic capitalism

The correspondent for this view on what is a good society, is the Post-Keynesian type of economic analysis. This type of thinking searches for the amount of freedom that is compatible with ‘a socially desirable outcome’ (Marangos, 2006). State intervention is justified. The right combination between, on the one side, primacy of individual values, private ownership, and the advantage of the market, and on the other side, common good, state property and planning is important. Common good is expressed inside the welfare state. It is believed that ‘the discretionary power of the government can improve the outcome of the economic system’ (Marangos, 2006).

3. Market socialism

This view on what is a good society creates a combination between the market and socialist principles. Its concerns are with combining centralized management with decentralized management, market coordination with planning, the individual values with the common good, and state property with private property. Its goals are different that those of the other models, it tries to prevent exploitation, reduce alienation, greater equality of income, wealth, status and power, and to satisfy the basic needs of the population. All these can only be achieved, according to market socialists, through socialist economic system. The capitalist system is regarded as the source of negative outcomes which cannot be avoided only through the discretionary power of the state.

**c. Speed**

With regards to speed, the transition from the socialist system to the capitalist system can take two forms, either Shock-Therapy (or big-band approach) or Gradualist type of transition (evolutionary approach).

The speed of the transition is extremely relevant in the context of the neoclassical model of transition. The other two models, the Post-Keynesian and the Market-Socialist models, are both in favor of the gradualist approach. Their reasoning was based on the fact that institutions, organizations, behavior and thinking can only be changed gradually.

**d. Political Structure**

The transition process depended, among other things, on the development of the political structure in the country. Regarding the political structure, there are three types of transition models:

1. Political pluralism

A transition model that is based on political pluralism, ‘introduces fundamental changes with consent, debate and discussion, agreement and compromise’ (Marangos, 2006) as means of dealing with decision and issues. Given the diversity of human beings, political pluralism accepts the antagonisms and conflicting interests in society. There is not only one possible way, no single line, not just one ‘correct perception of issues’ (Marangos, 2006). Political pluralism brings with it the free discussion of different opinions. The state does not impose common good on the people. ‘Pluralism does not involve discretionary power (Marangos, 2006). The shock therapy path of transition is ‘consistent with political pluralism’ (Marangos, 2006).

2. Democracy

In a political system ruled by democracy, all political members are equals. A democratic system implies ‘the right of participation in the choice of government, in the process of legislation and in the control of administration’ (Marangos, 2006). A requirement of the democratic political system is the existence of political parties that ‘compete to win office within defined periods of time’ (Marangos, 2006). The government exercises discretionary power. The neoclassical gradualist model, the Post-Keynesian and the Pluralistic Market socialist models of transition are all in favor of a democratic political system.

3. Non-pluralism

Within a non-pluralistic political structure, the transition process is based on the decisions on single party (‘with a monopoly of power’) (Marangos, 2006), which designs the attributes and the path of the process (‘the party scientifically derives the correct understanding of things’) (Marangos, 2006).

**e. Ideological structure**

‘Ideology refers to a cohesive set of values and beliefs about other, the world, and one’s own self’ (Marangos, 2006). It is a complex image of the way society functions. It gives shape to the human mentality, with regards to perceiving, interpreting, and decision making. The change from system to the other brings with it a change of ideology, and therefore a change in all its implied characteristics. Inside a market system, ideology can provide:

1. Self-interest

A market economy encourages self-interest and self-help. The neoclassical understanding of things preaches the fact that in order to understand social phenomena, individual actions need to be understood first. Inside the limits drawn by the law, individuals are free to follow their own values and convictions. ‘The neoclassical model of transition would be in favor of stimulating a self-interest ideology’ (Marangos, 2006).

2. Common good

This type thinking considers unification of individual goals with the goals of the society. A question that governs this type of thinking is: ‘Should there be any restrictions on individual behavior in market system in the name of the common good? If the answer were yes, then would the common good be determined? ‘(Marangos, 2006). The answer to this question is different from one model of transition to the other. The Post-Keynesian model consists of the combination between ‘a self-interest ideology with the common good within a democratic political environment’ (Marangos, 2006).

3. Participation

Inside a system, the decision making process, aside it formulating the common good, can also provide the hierarchical relations within an enterprise and also in society. Here lies the question regarding the lowest class in the hierarchy – the workers class – are they allowed to participate in the decision making process of the enterprise? In a pluralistic political system, their participation would be encouraged, but in a non-pluralistic political system, participation is encouraged only through the party mechanism.

**f. Initial conditions**

The countries involved in the transition process were all countries with different experiences in reform, with a different political structure, a different culture, and different ideological elements. At the same time they shared one characteristic of the transition process, in general, that of the uncertainty and the absence of historical paradigms (Marangos, 2006).

The supporters of the Shock-Therapy path sustained their point of view through saying that their *way* could have applications for economies with ‘different initial conditions and political environments’ (Marangos, 2006). The neoclassical gradualists were concerned with initial conditions, given the fact they represented the mechanism that was at the basis of the gradual transition of society. At the same time, they used the initial conditions to ‘delay the reforms and distort the achievement of a free market’ (Marangos, 2006). The initial conditions were also important for the Post-Keynesians, and the market socialists, who considered them important because they would help in shaping socialism (Marangos, 2006).

#### 4.3.2.2 The secondary elements

According to the secondary elements, each model has to answer to questions which are related to:

1. Price liberalization
2. Privatization
3. Institutional structure
4. Monetary policy and financial system
5. Fiscal policy
6. International trade and foreign aid
7. Social policy

**a. Price liberalization**

Those in favor of the Shock-Therapy model of transition were in favor of immediate price liberalization and removal of restrictions on prices. The other models of transition supported price controls and the gradual removal of administrative price controls.

**b. Privatization**

The process of privatization was considered the most ‘pressing issue’ of the transition process of a country. But at the same time privatization did not exclude other forms of property, and at the same time, the amount of state owned enterprises that should be privatized depended on what was believed to be a good society.

Privatization could occur through the following alternative methods:

1. Restitution

A legal background was adopted in order for the state to be able to return properties to their rightful owners, in case they existed and could prove their past ownership.

1. Auctions

Janos Kornai, in dealing with the transition from the socialist to the capitalist system, argued that for the state property to become privatized in a democratic manner, in a manner that would allow every individual to become a possible buyer, would be done through auctions, the higgest bidder, at a real market price, become the rightful owner of the auctioned enterprise. Foreigners would be allowed to participate in the auction, as long as national interests were respected. National interests are decided according to what is believed to be a good society.

1. Financial intermediaries

The ownership of state owned enterprises were passed to financial intermediaries. The ownership structure may consist of pension funds, worker and\or management funds, citizen funds, or private financial institutions (banks or government agencies). This method brought along a loss in government revenue.

1. Distribution of vouchers

This method supplied every mature individual in a society with vouchers that could be used in buying shares in former state owned enterprises. This method was advantageous in the sense that it provided speed to the privatization process, it was a relatively transparent process, it created an instant capital market, and also the fact that the population was involved in the reform process. Some also talk about the fact that the method encouraged the development of a ‘share-holding culture’ (Marangos, 2006).

1. Spontaneous privatization

The collapse of the former system provided the power, the opportunity and the ability to former enterprise managers to appropriate the enterprises they have managed. In fact, managers became owners through actually confiscating the enterprises. The values of the assets was devalued in order to be bought at a very low price. The process proved to be extremely inefficient, since privatization was done selectively, and not for the benefit of the state.

1. Labor managed firms

This method this method provided the transfer of ownership in the hands of the workers. The advantages were low administration costs, and the implementation of the cooperative was a fast process. These new enterprises would be filling the gaps of the private and state sectors – unsuccessful state owned enterprises could become labor managed cooperatives

1. Leasing

This method was used in certain cases where the privatization of specific enterprises was undesirable or risky, its privatization took the form of leasing the state property to individuals. The process being market determined, it resulted in the ‘productive exploitation of resources’ (Marangos, 2006). At the same time through this method the preconditions for turning the enterprise into private property were already created.

The shock therapy model of transition was in favor for those methods of privatization which assured increased speed of the process – restitution, auctions and distribution of vouchers. The neoclassical gradualists were in exact opposition, they favored a slower pace of the privatization process, and they favored the auctions method. For Post-Keynesians the methods that were more suitable for the gradual pace of reform and privatization were restitution, distribution of vouchers, transferring of ownership to financial intermediaries (state controlled) and labor managed firms. The pluralistic market socialists were in favor of transferring ownership in the hands of the workers. Through this method, the process encouraged participation, while retaining a big percent of the state owned enterprises. Non-pluralistic socialists favored retention of state enterprises, and also sustained the development of cooperatives and the leasing of land (Marangos, 2006).

**c. Institutional structure**

With regards to the development of an institutional structure, the transition process has to provide an answer to the question of what would be the best approach to its creation. Would it be through the involvement of the government or it could emerge spontaneously, through repeated social actions? The Post-Keynesian model and the pluralistic market socialist model would choose the conscious intervention of the state. The neoclassical model would favor a creation of institutions through the forces of the market.

**d. Monetary policy and financial system**

From the point of view of the neoclassical model, central banks should control the money supply in order to avoid inflation. A market economy was dependent on a stable and competitive financial sector. The Post-Keynesian model was in favor of a state-controlled central bank, and regarding the banking system, this model intended a combination between private owned and state-owned institutions. The Marxist perspective is the elimination of the ‘power of the financial establishment’ (Marangos, 2006) in order for the government to be able to take full control of the money supply. This would result in a government-controlled central bank and state-owned commercial banks (Marangos, 2006).

**e. Fiscal policy**

For the Neoclassical model of transition point of view the tax system has to be neutral and the budget balanced. The tax system should not be a tool for the government to discourage certain behaviors. Subsidies have to be abolished and a hard budget constraint needs to be established. The Post-Keynesian model encouraged the government’s discretionary power for implementing fiscal policies with the purpose of achieving full employment. Market socialists were against the discretionary fiscal policies sustained by Post-Keynesians, and believed them to be inefficient. For them ‘power was the natural result of private property, which as able to neutralize government fiscal policy’ (Marangos, 2006). As a result, for them, the majority of property had to be in a social form.

**f. International trade and foreign aid**

The dispute among the alternative models of transition in regards to foreign trade was about whether ‘a uniform and convertible exchange rate … would contribute the economic welfare’ (Marangos, 2006). The Shock-Therapy model favored a full convertible exchange rate and an immediate establishment of free trade (Marangos, 2006). A fully convertible currency would reestablish trust in the currency, it would also stimulate foreign trade, it would attract the essential foreign investment (foreign investment provides resources, technology, and expertise) (Marangos, 2006). The neoclassical gradualist model was in favor of full convertibility, but achieved gradually, through a payments union. The Post-Keynesian model favored the maintenance of ‘tariffs through a permanent clearing union’ (Marangos, 2006). For them tariffs and a discretionary exchange rate was important. For the market socialists the maintenance of tariff and non-tariff barriers through a socialist customs union was essential. The non-pluralistic socialists (China) kept tariff and non-tariff barriers and a discretionary exchange rate.

**g. Social policy**

In order to be able to avoid the hardships of the transition process, social policies had to be developed. From the neoclassical point of view, in order to avoid dependence, welfare benefits were available for a limited period. It was considered a ‘safety net’. For the neoclassical gradualists discretionary measures were needed but only for the duration of the gradualist transition process. Since the welfare state was both an expression of the common good and a result of government intervention, it was the choice for the Post-Keynesian model. The market socialists were in favor of the creation of a ‘basic livable income for all’ (Marangos, 2006) without taking into consideration the ‘individual economic conditions’ (Marangos, 2006). The welfare model of the non-pluralistic market socialists (the Chinese model) was the so called ‘iron rice bowl’.

# 5. Empirical analysis

## 5.1 Analysis of post-communist Romania according to Kornai’s model of the socialist and capitalist systems

### 5.1.1 Fundamental features of the transition process in Romania – (the first three blocks of Kornai’s model)

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In Romania, when referring to the transition from socialism to capitalism, people talk about democratization and democracy. With regards to the issue of democracy, Kornai makes the following statement - ‘… democracy is not a necessary condition for capitalism to function: it can operate under dictatorial regimes as well, as long as the political powers are friendly to private property, free enterprise and freedom of contact between individuals’ (Kornai, 2000). Given the huge impact that the Ceausescu regime had on the Romanian society, it was only normal for people to dream and expect that after the Revolution, the first thing they would get would be democracy. The post-Ceausescu leadership was very conscious of this thing. What the population didn’t realize was that after the Revolution, blinded by their need of democracy – where democracy meant anything that was not ceausescu-ist - what they got was a group of former high ranking real communists.

The first three blocks in Kornai’s model are the characteristics of the political power, of the distribution of property rights, and of the coordination mechanism. Kornai states that in certain cases, the transition process starts in blocks 2 and 3 (see model), but in order for that to occur, the conditions of the first block have to be achieved, that is a political leadership has to emerge, which would be friendly to private property and the market (Kornai, 2000).

Since the fall of Ceausescu has ended a ‘historical manifestation’ (Kornai, 2000) of socialism in Romania, the floor was opened for either a democratic leadership, constituted of a party or a coalition of parties that had no connection with the former Ceausescu regime, or a communist reformist party, that would lack Ceausescu cult of personality, but would favor real socialist values. The FSN was created, and it was an alliance of the former kind. It included a big number of ex-party members, some of them actually high-ranking officials of the Ceausescu regime such as ex-prime minister, ex-minister of foreign affairs, chief editors of the parties publishing house, son of a Spanish Civil War hero. Romania’s first political leadership was a failed one, from the point of view of the people, who have just came out of an anti-communist Revolution.

As it can be easily predicted, once the FSN was given the opportunity of acquiring the leadership of the country, it went for it. Their group was concentrated on attracting more and more people to their ideas and their goals. They avoided shock-therapy, because that would have assured the loss of popular political support. Therefore a gradualist path was chosen. The term *gradualist* also enabled them with the possibility of postponing reforms as much as politically useful for the ex-communists.

They took advantage of their connections and used the working class – the heavy industry contained most of the economically active population (UNDP Report, 2001 -2002) - as a tool against the intellectuals and students, who were clearly anti-communist, and created a social class war, which resulted in the birth of the mineriad phenomena. At the same time the context was used in order to remove the opposition. Through the upheavals that emerged in the days of the 1990 June mineriad, all opposition headquarters were destroyed. Manipulation through the media emerged also, waves lies were published in centrally controlled news-papers about certain political personalities in the opposition, known from the communist period as anti-socialist and anti-communist. The national television was airing interviews with miners that were taught what where clearly instructed on what to say. Their nationalist flavor, also obvious in the formations name (National Salvation Front), has become obvious when, certain extremist groups were created in Transylvanian cities, and were acting against the minority groups, and the FSN has signed partnership agreements with their leaders just be able to hold a majority of seats in the Parliament.

The FSN’s politics was characterized by:

- the acquisition of power by any means and lack of transparency in decisions, ambiguity.

-the need to have a power monopoly, was the reason for the constant delay of reform and the populist decisions that replaced real reform.

- given the gradualist path that was decided for the transition process, the parties popularity increased rapidly, and reform and development towards a market economy was developing slowly.

- the party used the alliance with extremist (PUNR, PRM) and neo-communist parties (PSM) in the 1992 elections in order to acquire majority of seats in the parliament.

- they used ‘the fear of the working class that the opposition parties, which were in favor of a rapid path of reform, would allow foreign capital to penetrate and dominate the economy (Weiner, 1997).

- the constitution written (based on the constitution of the French Fifth republic) by the FSN as a result of winning the elections in 1990, it created a presidential form of government that could degenerate into a dictatorship. The president was enabled to appoint the director of the Intelligence Services, he was commander-in-chief of the armed forces, he was the chairman of the supreme council of the national defense, he could introduce a stage of siege in the country, he appointed the prime minister, and according to the art. 49, he could suspend the rights of the citizens, if public order were threatened (Weiner, 1997).

At the beginning of the 1990’s the private sector was totally dominant. The GDP was based on the industry. The heavy industry sector contained the majority of the working population. The entire decade was characterized by gradual, slow reforms. Three types of reform measure have characterized the beginning of the transition process in the economic sector, and according to Kornai’s model, they represent ‘the shift away from the fundamental characteristic of the socialist system (Kornai, 2000):

1. Stabilization measures

They were supposed to create fiscal and budgetary discipline, control the inflation and create a competitive exchange rate.

2. Liberalization measures

They were supposed to liberalize prices and trade, broaden the tax base, cut marginal tax rates, encourage market determined interest rates, and open to foreign direct investment.

3. Structural measures

They were supposed to build and strengthen the legal and the institutional system, which was necessary for the market economy, for privatization of public enterprises, for elimination of monopolies, and for changing the social security system (UNDP Report, 2001 -2002).

### 5.1.2 The economic phenomena that resulted from the political agendas of the decade (1990 – 1999) (blocks 4 and 5 of Kornai’s model)

The UNDP’s Report on Romania’s transition process (UNDP Report, 2001 -2002), state that the evolution of economic reforms can be divided between two distinct periods: 1. 1990\1992 – 1996; 2. 1996- 2000. As it was shown in the overview of the decade in discussion, these two periods are closely linked to the political agendas of governing coalitions, and also of the international financial institutions whit which Romania has signed certain agreements.

Between 1990 and 1993, the monetary and fiscal policies that were implemented had a negative effect on the entire society. The inflation rate remained constant at ‘three digits’ (UNDP Report, 2001 -2002), purchasing power declined and unemployment increased to 10 %. In 1991 Romania signed an agreement with the IMF with regards to a stabilization plan, devaluation of national currency, and the introduction of a new structure for the currency exchange. On a short term basis, this stabilization plan proved inefficient. The government was forced to reduce subsidies in key sectors of the economy such as mining, agriculture and industry, and the result was a 40 % in real wages in the first three years of the transition. Privatization measures (the three privatization programs – MEBO, MPP and capital market privatization) proved inefficient, given the very little growth that was registered, and at the same time, debt and the budget deficit increased. Even though the level of privatization was slow (as a result of gradualist measures of the FSN) and inefficient, the level of FDI increased throughout the decade – in 1991 it was 37 million US dollars, and in 1999, it reached 1 billion US dollars. Between 1991 and 1992 GDP decreased with 21%. Between 1990 and 1993, the industrial Production Index (IPI) decreased with almost 50%. In 1994 more than 80% of the arable land was returned to the rightful owners. Until 1995 the level of exports increased, and it kept fluctuating until the end of the decade. Between 1993 and 1996 GDP increased with 17 %. In 1997 the level of IPI increased. Between 1997 and 1999 GDP decreased again with 14%. Throughout the decade, the number of employees decreased with 44%, especially in sectors such as agriculture and constructions. A comparative look at the difference between public and private sector contribution to the GDP, between 1990 and 1999, shows that: in 1990 the public sector contributed more than 80% to the GDP, while the private sector contributed with 16%; in 1999 the public sector contributed only 38%, while the private sector contributed with 60% (UNDP Report, 2001 -2002).

### 5.1.3 Conclusions to Kornai’s model of transition applied to Romania’s first decade after the Revolution

The numbers indicate the existence of reforms, but at the same time, their fluctuation throughout the decade indicates the fact that interferences occurred, the ‘organic development’ (Kornai, 2000) that Kornai was talking about, did not take place, but a certain interventionist, pushed type of reform process developed gradually. Political interventions and disputes over power, or tensions inside the coalitions that were governing the country, transpired to the economic sector, and could be seen in the decision and policies that were implemented as was mentioned by the UNDP Report.

Taking into account that at the end of the decade (1999 -2000) the private sector’s contribution to the GDP was higher, the level of FDI increased unexpectedly, the level of exports and IPI increased, we can say that at the end of the decade Romania was hinting at that the fact that the transition process was reaching its finish. Even though the pass at which everything was implemented was very slow, Romania took action in all directions presented by Kornai in the first three blocks of his model:

* The political scene suffered several changes, but in the end, also influenced by the European Union accession on the horizon, it was restructured, but not entirely. The second transition process began after 2000, reforms regarding a democratic system, rule of law, human rights, freedom of expression being implemented, but again at quite a slow pace.
* Privatization of the former state-owned enterprises
* Constitution of new private firms – small business start-ups, mostly (which

started right after December 1989);

* Restitution of the properties confiscated by the communist regime between

1945-1985.

A very important role in finishing Romania transition period was its accession to the European Union. This in itself was another transition process, it possibly constituting the subject of another research paper. Some researchers say that only through its accession to the EU did Romania actually reach a functional free-market economy (Scarlat, 2005).

## 5.2 Analysis of post-communist Romania according to Marangos’s alternative models of transition

### 5.2.1 Analysis of the Romanian transition process according to the primary elements



(Marangos, 2006)

#### 5.2.1.1 Economic analysis

Post-Ceausescu Romania could not have been characterized by any other type of economic analysis, than Post‑Keynesian. Even though a Neoclassical type of rationality would have been healthier, given the context, the new leadership, through its actions after the Revolution, has proved that it did not believed in ‘individuals characterized by rational maximizing behavior’. The Romanian population did not have that type of behavior. Nor did they believe that Romanian enterprises were ready for the market competition.

#### 5.2.1.2 What is a good society?

In the light of what Anders Åslund sustains – ‘the choice of economic system is profoundly ideological’ (Åslund, 1995) - two things need to be considered. The first, is that the new leadership that consisted of many former party members could not afford to lose momentum, since in the eyes of the public, they were those who won the Revolution. The second thing that needs to be considered is that there was no professional background, no experience and not one person who could have been able to prescribe a path that was not under the control of the leadership (the party). The entire photograph of this element is simple now: a perfect combination of common good and individualism, state property and private property, planning and market. The market socialist type of thinking that resulted from the FSN’s decisions and policies right after the fall of the Ceausescu regime was also used a populist tool, considering the amount of political support Iliescu received because of inefficient decisions that were taken.

#### 5.2.1.3 Speed

As almost any other decision that was taken with regards to the transition process in Romania, the problem of speed was also influenced by the political needs of the FSN, that was facing elections and its need of wining was put before the needs of the country. A gradualist path was chosen. A shock –therapy type of path for the process would have decided the faith of the party and its leader from the beginning. And since the elements before the speed, the economic analysis and the beliefs about what is a good society, were according either to the Post-Keynesian or the Pluralistic Market Socialist model of transition, the problem of speed could not have been that of shock-therapy since, the only model that was in favor of that, was the neoclassical model. It was believed that institutions, behaviors and patterns of thinking could not change immediately.

During the presidential campaign, before the 1990 elections, the Iliescu leadership made it very clear that they would chose a gradual transition process ‘from the command economy to a mixed type of economy, including private ownership of property’ (Weiner, 1997). Iliescu also said that the state ‘would continue to manage some key industries, in order to avoid inflation and unemployment’ (Weiner, 1997).

#### 5.2.1.4 Political structure

Here, a description made by the World Bank, in its analysis of the years of transition in Eastern Europe becomes relevant. It includes Romania into a group of countries characterized as ‘Concentrated Political Regimes’ (World Bank, 2002). The countries that are part of this group, ‘they conduct multi-party elections, but for some period of the transition they have either curtailed full rights to participate in those elections or otherwise limited political competition through restraints on civil liberties’ (World Bank, 2002). Regarding this type of behavior, the Romanian opposition was raising its concerns vis-à-vis Iliescu and the new constitution after the elections in 1990. The president was enabled to appoint the director of the Intelligence Services, he was commander-in-chief of the armed forces, he was the chairman of the supreme council of the national defense, he could introduce a stage of siege in the country, he appointed the prime minister, and according to the art. 49, he could suspend the rights of the citizens, if public order were threatened (Weiner, 1997).

As it results from the data gathered in the overview, the political structure that characterized Romania in its transition period was a strange combination between Non-pluralistic tendentious (at the beginning of the process) and Democracy (after the FDSN has lost its popularity).

#### 5.2.1.5 Ideological structure

In the Romanian context, the most logical choice at the start of the transition process was to affirm that the state would take care of the common good, while it will also support individual gain. For the leadership this choice was suitable from two points of view: on the one side it filled the gap that the centrally administered communist party left when it dispersed, and create therefore a comfortable situation for the population; on the other side it provided itself with flexibility and space of implementation for any type of policy.

#### 5.2.1.6 Initial conditions

The initial conditions were very important for the post-Ceausescu leadership and for the other parties and coalitions that formed governments along the period. The shock-therapy that took place in the 1980’s was used a as gap to fill by Iliescu with reforms that would bring him fame, such as increase in wages. The dictatorial background of the country also provided the perfect populist tool, a reference to was before was constantly positive in speeches or in the presidential campaign. Also, the initial conditions were later used in a different way, and here I make a reference to the ethnical tensions that emerged right after the Revolution in Transylvania. They were based on the uniformisation philosophy of the communist party. To some extent the initial conditions can explain why certain decisions were taken at the beginning or during the transition process.

### 5.2.2 Analysis of the Romanian transition process according to the secondary elements

#### 5.2.2.1 Price liberalization

Price liberalization was a careful and gradual project, given that the economy contained many distortions, reflected in the large differences between domestic and world market prices. The prices that were to be liberalized during the transition process were split in two categories: whole sale prices, prices of raw material and intermediate products, in one category, and in the other, the prices of consumer goods and services. The first round of price liberalization took place on November 1st, 1990. The second round of liberalization was postponed until April 1st, 1991. Both round of liberalization were accompanied by a devaluation of the national currency.

#### 5.2.2.2 Privatization

At first it was inexistent. Different programs of mass-privatization were created, but proved inefficient. Given the gradualist type of path chosen, the privatization process was slow, and it took almost the entire decade in order to have an increase of shares from the private sector in the GDP. The methods used in the privatization of medium-size and large enterprises were management-employ buyout, and direct sales. Another approach that was adopted in the privatization of state owned enterprises was the case-by –case scenario.

#### 5.2.2.3 Institutions

Since the path chosen for Romania was one where state intervention was combined with the market, where common good was combined with the individual value, institutional development could not have another faith. The state could not wait for institutions to be created naturally, and the process required the intervention of the state, so characteristic to the Post-Keynesian model of transition.

#### 5.2.2.4 Monetary policy and financial system

During the transition process Romania was paying a huge accumulation of payment arrears. Loss-making enterprises continued to be financed. Here one can think of the network of the former party member and their relationships, considering also the fact that many of the enterprises were bought by their former managers. The main sources of financing for the loss-making enterprises were the ‘increased tax liabilities and the increased bank credit’.

The Romanian National Bank is an independent institution, since 1991.

#### 5.2.2.5 Fiscal policy

The legal framework for the Romanian taxation policies during the transition period began together with the post-Ceausescu institutional development. A new fiscal system was needed in order to align with the market economic requirements. The transition period coincided with two of the three stages of fiscal reform in Romania. The first, between 1989 and 1992, when important fiscal rules were adopted, such as the wages tax law, corporate income tax law, and the public finance law). The second period was between 1993 and 2002, during which the VAT (added value tax) was installed together with others, such as capital tax, global income tax.

#### 5.2.2.6 International trade

Romania’s international trade consists of three distinct periods.

1. 1990-1993

This period is characterized by a great decline of foreign trade. The reasons of the decline were the change of system, imbalances in the internal markets, and the restriction which were imposed given the countries unstable economic and political geographical positioning.

2. 1994-1998

The second phase of the Romanian foreign trade is characterized by the efforts made in order to force exports in the context of Romania’s integration in the WTO and the EU, by the undervaluation of the currency compared to its purchasing power, and by the efforts made by Romania to integrate into the CEFTA area.

3.1999-2006

The third stage represents the period in which Romania actually managed to privatize its industrial sector and reorganized the inefficient ones, it created a liberal economic environment, and real facilities were granted to the foreign investors (Hagiu-Magura, 2009).

#### 5.2.2.7 Social policy

During the transition period, Romania addressed social policy as follows:

Social assistance – cash benefits, lifeline utility tariffs, deinstitutionalization.

Unemployment – flat benefit or severance.

Pensions – reformed pay-as-you-go system, with minimum poverty based benefit.

Fiscal implications – reduced fiscal burden of pay-as-you-go reallocated toward targeted social assistance. (World Bank, 2002).

### 5.2.3 What was the path that Romania followed, according to the findings that result from the analysis of the primary and secondary elements?

It is very clear by now that Romania did not use one model in particular. There are several reasons for this. One of the reason, as it was mentioned earlier, is that the FSN did not have a professional economist that would actually be able to provide economically efficient advice. A second reason would be the fact that many of the decisions and policies that were taken, either by the FSN, or the CDR coalition, were based on power-related motives. The FSN wanted to rule, while the CDR wanted to implement actual reforms, but in order to be able to do that, need to win elections. Another important reason for the mixture of transition model elements is the fact that the leadership, the FSN, was extremely interested to win over the external eye, especially of the European Union. At the same time it tried to satisfy its former party members, while attempting to win over the European Union.

### 5.2.4 Which of the alternative transition models would have suited the Romania better?

In spite Mugur Isarescu’s (the governor of the Romania National Bank) motivation of why the gradual approach was chosen, the study of all alternative models of transition shows that the model that would have drastically changed Romania’s transition process was the Shock Therapy model.

Romania’s long transition process was the result of political reasons. The Shock Therapy model would not have allowed the political to overcome the economic reform, given its unpopular methods that would have, in the end, removed the political interest from the equation.

# 6. Conclusion

The assumption with which I started this paper was that the political interests of the post-Ceausescu political establishment have negatively influenced the development of the country, during its transition period, prolonging the period. After the empirical overview has been finalized, my assumption seemed to be correct. But after the theoretical framework and the analysis were put together, my assumptions proved correct. Romania’s transition process did start after the Revolution. But it was only a mask, one that would hide the reality of the power-hungry ex-communist members of the newly formed FSN.

The framework for reform and restructuring was there, but the discipline, the professional expertise and most of all, the political support, were lacking immensely. Other problems came given the gap that the communist party and especially Ceausescu variant of communism, has left behind. In Romania the culture of dialog, transparency, rule of law, democracy were missing completely. The idea of opposition was removed from the public consciousness. People’s minds and lives were filled with a socialist philosophy that had no substance, no life. Therefore, after the Revolution, the people obeyed the first hand that was ready to take the power. Being obedient was their first reaction. Problems occurred when a group of people, which became very large in just a couple of months, opposed what they were given. That was the moment when Iliescu truly showed his real face to the public.

As the entire literature on Romania’s transition period points out, it was a long period, through which the Romania population struggled with unpopular policies and reforms that were not systemic, and wore not meant to actually change anything. A decision that might had a small positive effect today, was going to produce a huge side-effect, tomorrow. A gradualist path was chosen for the transition because any other choice would have made the first ruling party after Ceausescu regime, unpopular, and would have never won any elections. And this brings me to the questions this paper has intended to answer. 1. When did the transition process start? 2. When did the transition process end? 3. Which of the alternative models of transition was used in Romania? 4. Which type of model would have suited best the Romania transition process?

The first two questions were strictly related to Kornai’s model of the socialist and capitalist systems. In his minimalist model he points out the steps that a transition process can take in order to reach its goal, which are the fundamental characteristics of the capitalist system. In this model, related to the Romania context, two were the things that were important for my problem formulation and my initial assumption: the moment when the transition process began and the moment it ended. The hint that Kornai’s model provides is the fact that the transition process starts when a society moves away from the fundamental characteristics of its present system and it implements the fundamental characteristics of the new system. These features are necessary and sufficient for a system to function. According to his model, Romania did start its transition process right after the Revolution, given a certain number of changes that took place, and indeed it ended, or was close to its end around the closing of the decade that was studied in this paper. It is also because another incentive for ending the transition appeared on the horizon, the accession to the European Union, which meant a whole different type of transition process, once again.

The last two questions that the paper was meant to answer were related to Marangos’ alternative models of transition. His question ‘Was there an optimum model of transition?’ (Marangos, 2006) was extremely helpful for me, but with a little twist, introducing Romania in the picture. I kept asking myself, was there an optimum model of transition for Romania? But in order to answer this, I first had to go through the empirical data and see what actually happened. But after all the political and economic developments were matched with the primary and secondary elements that form the model of transition, in Marangos’ view, there was no clear answer for the question: Which of the alternative models of transition was used in Romania? The data, when matched with the model, was pointing to different types of models at the same time. And I realized the way to actually answer the fourth and final question - Which type of model would have suited best the Romania transition process? I realized that my approach was different than my assumption. My assumption, as I stated earlier, was that politics has played the main role in prolonging Romania’s transition process. But my approach in analyzing the transition process was to go through economic details and match it with a political-economy alternative models, while the answer was very clear. The only model that would have changed Romania’s transition process was the one that eliminated from the beginning the predominance of politics in the transition process, the Shock-Therapy model. The FSN ignored this type of approach because of the fact that this path would have developed independently, even though with negative results at first, from any political decisions.

This study requires a second part, one that would focus on Romania’s transition to the European Union. Only then can Romania’s path towards real democratization and transition to a real-market economy be described.

Silviu Brucan, one of the many ex-communist party members that were included in the leadership of the FSN said that „Pentru a deprinde democraţia, românii vor avea nevoie de 20 de ani” (‘To adopt democracy, Romanians will need 20 years.’). To this day, there have been 22.

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