

Romania after 25 years of transition: historical and meta-structural factors of influence

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Abstract: - The paper analyzes the impact of certain historical and meta-structural factors (such as the adoption of Western style democracy, the adoption of profit as the implicit rule of the game and the accession to the European Union as well as some global factors of influence) on the direction and manifestations of the transition process in Romania after 1989. The aim of the paper is to identify and differentiate the role of historical and objective meta-structure factors versus the role of subjective factors in the establishment of a new institutional and legislative framework in Romania since 1990. The conclusion is that such historical and objective factors are fundamental in understanding what happened in the past 25 years and also for conceiving any feasible strategy for improving the current conditions and characteristics.

Keywords: - transition to a market economy, democracy in a transition country, side effects of adoption of the community acquis.

1 Introduction

25 years is a significant amount of time by any standards and it offers a large enough perspective for identifying some trends and drawing some conclusions with reasonable accuracy about the evolution of a society, be it in a period of relative stability or a period of transition. At the beginning of 1990 my perception was of a gradual improvement of Romania's economy and socio-cultural environment, a vision that started from what Romania was as an economy and society and which presumed that a logical and reasonable governance would eliminate distortions and inefficiencies and optimize and modernize what existed to the point of making the jump to a new qualitative level, that of a developed country. In 1990 it seemed that the transition to a market economy should be simple as long as the objective (the market economy) was such a clear target, well documented after several centuries of experimenting and honing of the model in the nowadays developed countries of the world.

2 The grand perspective

25 years later the result is quite far from this positivist and rather naïve vision and the obvious question is why. As anyone can expect, there is no simple answer to that. But an answer can be found, at a systemic level, in the nature of the processes and rules of the game that most of the time directly and indirectly governed the transition. Many analysts or laymen quite wrongly assumed that transition started with a clean board where decision makers or masses had a total free will to choose one path or another. It was famous from this point of view the debate on the option between a “shock therapy” and a “gradual transition” (Pettinger, 2013). But reality has been far from this voluntary approach and while certain options existed indeed, they were far more limited than usually accepted.

Therefore, my short answer to the question why Romania's transition to the market economy was so long, so inefficient and so unsatisfactory for a majority of the population is that there were **3 + 1 processes** that generated by their intersection this outcome. In my view these three processes have been:

- The mechanical adoption and implementing of the Western style democracy;
- The adoption of profit as the implicit and the de facto only rule of the game;
- The accession to the European Union that implied the adoption of the *acquis communautaire* (the ensemble of rules, mechanisms and institutions that characterize the European Union).

To these three processes we have to add a much larger one (**the + 1 factor**) which includes the whole world economy, a process which combines globalization and a period of discontinuity or disruption in the post second world war model of production and consumption.

This “+ 1” process refers therefore to the global trends and profound changes that affect in one way or another all countries of the world, including Romania. These phenomena deal with technological, geopolitical, demographical and climate changes (to name just the obvious ones) that are laying the foundations for a new economy and society that most experts expect to see in place well before 2050 (European Commission, 2012).

In the following parts I shall detail my interpretation of the impact of each of these processes on the outcome of the transition in Romania. Before that one clarification is necessary. These three plus one processes are not specific to Romania, they can be found in all Central and Eastern European countries. What is different in case of each country is the starting point in a very broad sense. This is why the title of this paper contains the “meta-structural” approach. In my view the starting point of the 1990 transition in Central and Eastern Europe is not located in 1989 but 500 years earlier or even more. It is about the long history of each of these state entities, about how they were established, how they evolved from economic, social, cultural, political points of view, about their social structure (among other dimensions of notable importance is the rural/urban ratio of population), about their entrepreneurial spirit, about governance traditions.

The starting point is not just a moment in time, say year 1990. The starting point is present at any moment through mentalities, traditions, culture at large, and therefore the starting point influences not only the initial decisions and behaviours but also the subsequent ones, until the present day.

In the context of this starting point I have to mention that the different evolutions of the Central and Eastern European countries after 1989 raised to the fore a number of simple and quite often forgotten truths:

- **History is important.** The sense of this statement is that the historical evolution or roots are very important in explaining the trajectory of a state entity. In analyzing Romania’s transition a lot of commentators pointed to the fact that in 1990 Romania had a similar GDP/habitant or steel production per habitant (or a number of other quantitative indicators) with Poland, Czechoslovakia or Hungary. Such commentators assume that 1990 was a sort of equal starting point and therefore explain the different outcomes only by subsequent (and presumably more or less efficient) political decisions (Sachs, 1996). Anyway, if we go a number of centuries ago and analyze the development level of the mentioned state entities, the differences are so notable that the present results are fully explainable (Murgescu, B., 2010).

- **Geography is important.** The transition countries from Central and Eastern Europe can be easily divided into two groups: a) those which have a border with a Western developed country; b) those which have not. Looking at the two resulting groups the differences are again very clear: the countries that have a border with Western developed countries achieved the transition faster and more efficiently; the other ones (including Romania) have been slower, more hesitant and less efficient. Geography should not be regarded in a static way, meaning only from the point of view of year 1990. Geography means interactions, cultural influences and easiness in doing business for the very simple reason of proximity. At the same time, proximity, in a geographical sense, has influenced history and therefore, for better or for worse, these two factors (history and geography) have acted in a synergic manner.

- **Socio-cultural roots.** Under this very broad umbrella we may include many things from religion to the share of urban population, from entrepreneurial traditions to specific folklore characteristics. In the end it is about people, about their perception of life and society, about their vision on the future and the significance they give to the elusive concept of “a better life”. And again there is a correlation: the socio-cultural roots are influenced by history which, in turn, it’s influenced by geography.

I want to stress as hard as I can that these simple truths are not explaining everything. Anyway, they have determined or influenced in one way or another the “raw materials or inputs” that entered in 1990 into the 3 + 1 processes that will be presented at large in the following.

3 The 3 + 1 processes at work

3.1. Adopting and implementing the Western-style democracy

In order to understand how adopting and implementing the Western-style democracy in Romania affected the outcome of the transition to a market economy some analysis of the democracy concept itself is required. When speaking about democracy, even at the most superficial level, we are confronted with at least two “absolute truths” (please do not miss the inverted commas): a) democracy comes from ancient Greece meaning “power of the people” (demos & kratos); b) in terms of Western style “political correctness”

democracy is in an absolute manner the desired and ideal form of social organization which can not be questioned.

In case we try anyway to go beyond these two “absolute truths” some intriguing aspects emerge (Hansen, 1999). **First** of all, the Greek democracy was applied in urban entities which were very small according to contemporary standards: Athens in year 500BC had over 200,000 inhabitants but slaves represented a considerable proportion; the majority of ancient Greek city states were much smaller: Sparta had about 50,000 - 60,000 people, Argos about 15,000 people, Corinth had about 10,000 people. **Second**, not all the people living in the ancient Greek cities had a voting right because women did not, slaves did not, non-citizens did not and the list can continue. For instance, in ancient Athens from about 200,000 inhabitants only about 35,000 men were voting citizens, in Sparta from about 60,000 inhabitants only about 25,000 had voting rights. **Interestingly, in Sparta the voting citizens had to have their education completed in order to accede the voting rights.** The previous figures have to be taken with a dose of relativity given the fact that they refer to a period of over 2,500 years ago, anyway they give a clear image of the often forgotten roots of democracy.

The conclusion of the above is that democracy was not initially designed and therefore it is not guaranteed to function properly in case of populations that count tens of millions, hundreds of millions or even billion plus inhabitants. Above and beyond that, in order for democracy to produce an efficient and effective governance it is necessary that the people with voting power have sufficient information and sufficient education and rationality to ponder on options and vote for those most beneficial ones at the same time for the person who votes and for the respective society/community/nation at large. Looking from this perspective we can find a logic in the ancient Sparta requirement of a completed education (according to the norms of that time) for the citizens to obtain the voting rights.

If we take into account these two aspects (the relatively small size of societies in ancient Greece where democracy functioned for a limited time and the selectively attributed voting rights) it is evident that democracy as it is known nowadays in the Western world is far from being effective and efficient for intrinsic reasons. To these two aspects we can add the fact that in ancient Greece the democratic systems had existed in periods when the state had an absolute power to which no individual right could be opposed (de Coulanges, 1984). Therefore in the ancient Greek city states the importance of the voting rights had been based on the importance and power of the state which applied the will of the voting citizens. Not to mention the fact that in ancient Greece individual rights were of little importance (Boia, L., 2013).

As for the present times, in many Western countries, despite tremendous progress during the 21st century, the population presents still huge differences in education and understanding of complex issues: in some cases there are urban and rural areas with people that have different problems to solve and therefore different targets; there are, in some other cases, large populations of immigrants with voting power that have a very different agenda and different values from the natives.

My point here is that if we take a population large enough (millions, tens of millions or even billions of people) and consisting of a number of relatively homogenous groups which are rather different (such as the urban and rural population, the more educated and less educated groups or the affluent and poor groups) then the democratic mechanisms, even in the **best scenario possible** (meaning no interference in the voting process, high participation or even 100 % participation to the vote and so on), will generate distorted or unpractical outcomes, stop and go policies, unmanageable expectations.

And the more complex the issue (for instance attitude toward global warming, exploitation of shale gas or deforestation, genetically modified organisms, a.s.o.), the more the differences in understanding and attitudes will prevent an effective and efficient functioning of a democratic state. Particularly in cases when the topics under debate are perceived as rather distant in space and time (such as European Parliament elections or the dangerous increase in global temperature at the 2050 horizon) the participation to vote is far less than significant.

The real importance of the best case democratic scenario mentioned above is that it eliminates the influence of manipulation, interference with voting mechanisms, different access to mass-media and similar distortions that happened or were invoked as causes of a long and inefficient transition in Romania or other Central and Eastern European countries. Such distortions did happen. But what the best case democratic scenario demonstrates is that even in the most perfect case democracy (as it is understood today) would not be effective and efficient and would determine a rather hesitant progress on the path to the market economy.

This is an important aspect to clarify at this point particularly because many people tend to think in black and white terms. The arguments presented here are not a case against democracy and, at the same time, they do not represent a ready made alternative which is simply not available. What this paper presents are the

limits and side effects of democracy (as it is understood today) when applied with the best intentions to large, segmented populations that lack both a clear vision on the future and very concrete goals that are widely accepted.

The best proof of this statement is the current situation in the Western European countries which are, without any doubt, both developed and democratic: Scotland had a referendum for exiting the United Kingdom and just narrowly miss it; in Spain Catalonia was advocating its independence by means of a non-authorized referendum renamed for this reason a “large consultation”; the Northern part of Italy has discussed about secession; in Belgium there are long time discussions about the separation between the Flemish and the Valone parts; Venice is discussing about becoming again a city state. Just looking at this enumeration we may wonder if indeed social entities are manageable only when they have similar sizes and conditions like those in ancient Greece. A proof in this line of thought is represented in modern time by Switzerland which is developed, democratic (being famous for the large number of referendums that are organized) and based on administrative divisions / federal states – the 26 cantons – that have a small number of population, with similar values, education and issues to be solved (Statistical Atlas of Switzerland, 2015).

3.2. Adopting profit as the (de facto only) rule of the game

The transition to a market economy of the formerly centrally planned economies meant essentially the transition to private property as well as the adoption of interaction between supply and demand and profit as rules of the game. This is what capitalism is all about and it has worked imperfectly but reasonably well for several centuries in many parts of the world. This model is far from perfection and it is historically famous for failures (often called market failures) that create large crises, huge unemployment, pollution of the environment, sub-optimal allocation of resources and, in certain cases and conditions, significant social inequality.

In our view, the main problem in case of the transition from a centrally planned economy to a market economy has been the way in which societies as a whole implemented the market rules of the game. We do not refer here to persons or political parties but to society as a whole. From this point of view what is relevant refers to: which are the main social categories at the beginning of transition, which are the parties that represent them or are based on these social categories, how homogenous or divided is the population that implement these rules, how much entrepreneurial expertise this population has and how able it is to understand complex socio-economical issues placed in a historical perspective.

The transition to a market economy implies a lot of legal and institutional changes but again we have to see the essence and not the details. And the essence in case of this transition is the adoption of profit as the main rule of the game for using resources, for social recognition, for access to power.

In case the population is segmented (people with access to power vs. people without access to power, urban vs. rural, young vs. old/retired, entrepreneurial experienced vs. non-entrepreneurial experienced and so on) then the profit motif will be applied by each population segment according to its understanding and its access to power and opportunities. In such a case the short term, personal objectives will prevail and the overall results will be rather chaotic.

The participants are not to be blamed anyway because they were given a rule of the game (“profit is good” or “profit is king”) and they just applied it. It happened in a similar manner in all countries of the world in the early stages of capitalism. And even if we have nowadays access to all the historical experience I think that we cannot blame too much Romanians or other people in similar situations that they did not transfer overnight all this historical experience about capitalism to each and every citizen. I am rather sure such a thing would have been impossible.

The profit drive has been so strong in Romania particularly because it operated in an environment where the idea of planning was heavily rejected after 1989 in a non-discriminatory way and no other counter balance was provided. The profit drive favoured short term, personal targets against long-term, society wide ones. As result, the profit drive supported the consolidation of tabloid style media, the disruption of production chains in both industry and agriculture, the disappearance of any operational strategy and long term planning and generally a reactive/opportunistic type of behaviour.

One important aspect to stress, in the same way that I did before with the implementing of the Western style democracy, is that the profit drive in itself is not good or bad and it is not automatically leading to a reactive/opportunistic type of behaviour. The same profit drive may determine in the United States or Great Britain or Germany a pro-active, ethical based attitude. What makes the difference is the background of the companies or individuals that adopt this profit drive, their entrepreneurial experience, their business environment, their availability of capital and last but not least their intrinsic ethical code.

By this clarification I want to stress that I do not blame the profit drive but I just point out that the outcomes of this drive can be very different function of who is using it. In order to even better explain this let us take the case of Nordic countries or that of Switzerland. The profit motivation operate also in these countries but in the background there are also other rules, traditions, values, customs. The companies or people in these countries want to make profit, but they also think about environment protection, about social protection, about care for the old and disabled and so on. These other rules and values and traditions are the result of specific types of historical evolution and they influence the approach to profit and market economy in general. These other rules are not part of the economic or management behaviour but they are at the intersection of economic and management behaviour with culture in a broad sense.

The absence or minimization of such rules, values and traditions generated in Romania a direct approach to the profit drive with no other considerations attached. Again the differences among countries from Central and Eastern Europe may be explained by the different initial conditions (including long term historical characteristics) with which they entered the transition to a market economy.

In some countries there has been a private sector during all the socialist era (the agricultural sector in Poland, the small and medium sized enterprises in Hungary), or the civil society has maintained a stronger form of traditional values and customs (like in the Catholic countries), or some reforms have been implemented in the 1980s (like in Poland, Hungary or Czechoslovakia). The former German Democratic Republic is an even more extreme example of different transition than in Romania because in that case, after the reunification of Germany, the Western socio-economic model has been 100 % implemented, transforming the transition into an almost engineering exercise.

3.3. Accession to the European Union and the adoption of the *acquis communautaire*

The discussion about the impact of Romania's accession to the European Union on the transition characteristics is to a large extent a discussion about institutions in a broad sense (which include both the institutional and legislative framework). Romania applied for European Union membership on June 22, 1995 and the European Commission recommended the opening of the negotiations on October 9, 2002. The negotiations proper started on February 15, 2000 and the Accession Treaty was signed on April 25, 2005. The mentioning of these dates has in view to position the preoccupation for the harmonization of the legal and institutional framework in Romania with the European Union one during 1990 – 2014 time frame.

The topic of the impact of Romania's accession to the EU is often very sensitive because to many people it is rather a blasphemy to question the significance of this impact and it is automatically assumed that it should be positive. Anyway, in reality, the answer is more complex and mixed. And the first aspect to be mentioned refers to the time scale. Numerous econometric models show that there is a convergence taking place between Romania and the EU average, at least as regards the GDP/habitant levels. But the content itself of convergence as it is defined is open to debate while the time necessary for achieving a true convergence is not even estimated which transforms it rather into a desire more than into a reality.

The first issue here is that the general theory of economic integration states that in order to be successful the economic integration needs two prerequisites: a) a similar level of development; b) a strong political will in favor of integration based on a large public support.

If we look at the two prerequisites from the Romanian point of view it is extremely obvious that while the second one has been fully satisfied (Romania being according to Eurobarometer findings the most enthusiast supporter of accession), the first one has not as long as the level of development of Romania expressed by a very imperfect but still acceptable indicator, GDP/habitant, was at the moment of accession of about 1/3 of European Union average.

The requirement regarding the existence of a similar level of development for a successful economic integration is put there for a reason: a similar level of development means (at least in principle) similar issues/problems and therefore similar solutions. In such a case economic integration is beneficial and creates synergies and economies of scale. A second aspect, at least equally important, is that each level of development is characterized by a certain level of effectiveness and efficiency of institutions (regarded in the broadest sense, from national to regional and local levels).

In case two entities decide to pursue economic integration and they do not satisfy this requirement of similar level of development a number of obvious problems arise:

- Different levels of development imply different priorities and therefore different policies. For a less developed state the first priority is to **“catch up”** with more developed countries. Catching-up strategies and policies are very different from strategies and policies of already developed countries.

- Different levels of development imply that the effectiveness and efficiency of institutions are less favorable for the less developed states.

The fundamental problems mentioned above have created after the accession of Romania to the EU a vicious circle represented by the following: Romania is in fact a developing country with central and local institutions characterized by the effectiveness and efficiency specific to developing countries.

As result of accession to the EU Romania has to follow the same macroeconomic indicators as much more developed members (for example Germany) while, in fact, Romania needs to apply institution building and catching-up policies.

At the same time the effective and efficient use of the Cohesion Policy and associated funds require effective and efficient institutions which Romania lacks. Applying the principle of subsidiarity the European Union leaves for the Romanian institutions to adopt and implement the proper policies for catching- up. But Romanian institutions can not do that exactly because they are not developed enough (a fact known from the very beginning).

Therefore the adoption of the *acquis* determined a number of constraints while not providing an overnight improvement of the Romanian institutions. As result Romania has had in 2014, after the first 7 years of participating as a member in the EU, a limited absorption of European funds and the maintaining of numerous gaps as compared to European average in fields that range from agricultural efficiency to education, infrastructure or health care.

These statements do not represent in any way a criticism vis-à-vis the European Union but rather a request for more and not less European Union. By more European Union I imply more involvement of the European Union in directly managing and in fact implementing the catching up process. An example may further clarify this position. As it is well known Romania lacks adequate infrastructure and this is a major shortcoming. At the same time, at the European level a number of infrastructure plans have been decided upon under the name of Ten-T (Regulation (EU) No 1315, 2013 and Peijs, K., 2015). The selection of these infrastructure characteristics has been done in full consultation with the involved member countries. After that, under the current mechanism, the implementation of the projects has been left with the respective countries. And in some cases, Romania included, not so much progress has been achieved because of institutions fragility and lack of effectiveness.

In such a case "more European Union" could have implied that after the direction of the Ten-T corridors has been established in consultation with the involved countries, the implementation could have been done directly under the supervision of the European Commission (European Commission, 2014). In this way the fragility of local (in this case Romanian) institutions could have been overcome by the use of presumably mature, experienced and efficient Western institutions. But such an approach is not possible under the current rules of functioning of the EU institutions and Romania, as well as other countries which lack mature and effective institutions, lags behind in the catching up process.

3.4. The impact of the + 1 process: global trends and profound changes

Some may argue that the profound changes that are taking place in the world economy are more related to the period after year 2000 and, as such, they have not influenced substantially the transition period that started in 1990. To this argument we state that profound changes are long term phenomena that are initiated long before they become evident.

In this respect we can mention changes related to demography, technology or geopolitics. They are definitely long term and their onset can be relatively easy to identify in the late 1980s.

Being part of Europe Romania is affected by the aging process and is one of the countries with the fastest decline of population and, at the same time, increase of the older segment. This aspect, in correlation with others (like social stratification/inequality and urban / rural distribution) has influenced a lot the political options, the attitude towards change and taking of entrepreneurial risks, the openness to innovation and experimenting.

Technology driven changes are even more of immediate importance. The big changes determined by the Internet have been already present at the beginning of the 1990s and they generated a further division of Romanian society and business which can be labelled as "digital divide". One specific characteristic of the Internet or knowledge based economy is that it does not generate trickle down effects (Crow, 2014). While the industrial era meant huge factories and related transportation facilities, schools, hospitals, recreational or public spaces, therefore providing certain living conditions for the majority of the population, the Internet era is much more segregated and based on the individual. This latter situation can be easily exemplified by the block of flats in which an apartment where a young adult is writing market analyses or doing some accounting, sending the

result by email and being paid in an account by some client from US or Australia, while, separated by just a wall, in the neighbouring apartment, we can find some retired couple that is barely making a living from a very small pension. The two life models are separated by just a wall but they are worlds apart. This process did not help Romanian society (and, in fact, a lot of other societies, including those in developed countries) and make it more divided than it had been.

Technological changes, correlated with opening of the markets allowed also for easy imports from Europe but also from the rest of the world. The sudden exposure of Romanian companies to this kind of competition, correlated with the dismantling of existing factories and disappearance of central planning transformed Romania into a primarily consumer market. Romanian capitalists are often blamed for lack of entrepreneurial drive and initiative but they could not have emerged overnight, after 1990, as a mature capitalist class.

New technologies also allowed for establishment by foreign investors of high productivity units that could be very easily connected to the global value chains. Such units have very little impact on local suppliers or the so-called horizontal economy.

The +1 process includes also more abstract phenomena but with huge immediate impact, among them the political correctness (in its various interpretations) and multiculturalism in its normative manifestation. These two dimensions may open endless debates and replace pragmatic approaches with rather abstract and hypothetical ones.

4 Conclusions

The interaction of the “**3 +1 processes**” analyzed in this paper requires a coherent, long term approach from the part of Romanian society and such an approach is not possible, in our view, without proper governance. The building and consolidating of an efficient and effective governance mechanism at all levels represent in our view the essential element for any credible attempt of leading Romania towards a developed status.

This apparent simple solution is much complicated by the fact that the access to such an efficient and effective governance can not be foreseen as a magical on-off process (that is overnight) and, at the same time, can not be conceived either as a bottom-up (which would require a mature, coherent and consistent social structure) or a top-down approach (which would require a centralized approach). The elimination of these two known possibilities does not imply that a solution for a better governance is not possible. It just means that a systematic research for a solution is requested and that there will never be enough participants to this quest.

The future can be much better. We all just have to believe and act in this direction. The 21st century, as well as the 20th century, but in different way, offers huge opportunities and unprecedented challenges. Very different from other times before, now we have access to all the experience of humankind available for a proportion of the population never imagined. Therefore we can all think, search, propose, experiment and interact with each other. While the exact pictures of the future of humankind and of Romania are still far away from us, what we can know for sure is that these future pictures will be based on networking and interaction at the local, regional, national and global scale.

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