

**Number 51**

**ROMANIA: ONE YEAR INTO THE CONSTANTINESCU PRESIDENCY**

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## **LIMPING TO NOWHERE: ROMANIA'S MEDIA UNDER CONSTANTINESCU**

**Peter Gross**

In its long-awaited electoral victory, the "democratic opposition"<sup>1</sup> in November 1996 promised, finally, a concerted effort "to undo the legacy of 50 years of rule by communists and former communists."<sup>2</sup> In light of this promise, the Romanian media had three specific expectations:

(1) Lift government control over national public television (TVR1), and end the disinformation broadcasting and discrete manipulation by the first three post-Communist governments and the president's office.<sup>3</sup>

(2) Modify or re-legislate the Penal Code, enacted in 1996, and specifically remove the amendments on defamation and insults, which delineated harsh prison terms and fines for journalists found guilty under the Code and provided uncalled-for protection for public officials (elected and appointed); and enact amendments guaranteeing access to information and protection for journalists.

(3) Mandate a change in the practice of journalism (long argued to have taken on the mantle of the "opposition" and of politico-ideological partisanship) and redefine the profession along Western lines with a consonant and enforceable code of ethics.

President Emil Constantinescu's government did make progress during its first 17 months in power. Romania's relations with its neighbors have improved, civilian control over the military has gradually been instituted, and foreign investments have increased. Unfortunately for the mass media, these 17 months have been disappointing, calling into question the nature of democratization envisioned by the new leadership and, specifically, its commitment to establishing a truly independent media and a cultural and legal foundation that fosters media and journalistic professionalism. The media itself has demonstrated only limited reform and desire to professionalize. It has acted as a brilliant mirror and expression of Romanian society, politics, and

Romanian government (controlled by the PNTCD). Ion Vaciu, the former deputy of the TVR Union, is now a personal advisor to Adrian Nastase, a high official of the Romanian Social Democratic Party (PDSR).

### **The Legal Ties That Bind**

The 1996 amendments to Romania's Penal Code,<sup>9</sup> which legislate prison sentences for journalists found guilty of defamation<sup>10</sup>—particularly of public officials and civil servants—elicited criticism from the then-opposition politicians as well as journalists and foreign organizations, such as the Helsinki Watch and the Paris-based Reporters Sans Frontiers.<sup>11</sup> Despite this and the seeming support by the new Parliament to alter the offending amendments, no movement toward change is discernible. In fact, developments in 1997 and 1998 reveal a confusing smorgasbord of intentions on the part of the new leaders.

In May 1997, the new minister of justice, Valeriu Stoica, said that imprisoning journalists found guilty of defamation or insults was not a just punishment and promised to replace such sentences with community service and/or additional fines. Four months later, he reiterated his views, but added that convicted journalists could also be prohibited from practicing their profession. On January 22, 1998, Stoica dropped a bigger bombshell. His ordinance regarding civil damages, to be awarded in cases of "moral damages," made it even easier to drag the media into court under the existing definitions of damage to "honor and dignity." High monetary penalties appeared to be mandatory. The uproar from Romania's media was instantaneous and, ironically, the parties formerly in power and responsible for the passage of the anti-media Penal Code amendments also raised a storm. On February 2, Prime Minister Victor Ciorbea stepped in and rescinded the ordinance. Adrian Ursu, writing in *Adevarul*,<sup>12</sup> said that the Stoica ordinance eloquently spoke for the manner in which the "new Power" understood the "democratic right of freedom of expression."

Journalists continue to be dragged into court, accused under the Penal Code amendments of 1996, and condemned to prison terms and/or paying exorbitantly high fines. Three recent cases warrant mention. In December 1997, Marius Avram, the editor of the Cluj newspaper, *Stirea*, and a correspondent for Radio Free Europe in Prague, was found guilty of defaming the city's mayor, Gheorghe Funar, in one of his editorials. Cluj journalists responded by announcing that they would march through the streets chained to each other. They also opened a "Press Freedom" bank account at a local bank to collect the six million *lei* fine (approximately \$750—roughly the equivalent of seven months' salary) assessed against the journalist. In a second case, *Romania Libera's* (the national daily) Alba Iulia correspondent, Florin Corcoz, was found guilty of defaming a bank official whom he had accused of fraud. Third, another *Romania Libera* journalist, Ada Stefan, who investigated and reported on a corruption case involving a judge, was also found guilty of defamation. Although the case was closely monitored by the Independent Journalism Center (CIJ) in Bucharest, at one point in its journey through the Romanian judicial system it was tried by a judge closely related to the judge who was suing Stefan for defamation.

The CIJ reports<sup>13</sup> that legal actions against journalists are common, particularly in the countryside, where they are mostly brought by local authorities. Many of these cases drag on for years.

The lack of an independent judiciary only aggravates a situation in which bad laws are written and applied. Furthermore, as Adrian Marino accurately assessed Romanian contemporary reality, "the notion of a 'nation of laws' is not yet anything more than pallid theoretical-juridical fiction, taken seriously only by the incurably civic minded."<sup>14</sup>

A law drafted with the intention of modifying and completing the Penal Code was finally adopted on May 7, 1998. It reduces the old prison sentence (3 to 36 months) for insults to a fine but retains prison sentences for defamation (imprisonment for 2 to 12 months or a fine).<sup>15</sup> The final version of the Penal Code is expected sometime in 1998.

Unless changes made to the Penal Code include modifying what constitutes defamation, these suits will continue to be a sword of Damocles hanging over the media and its representatives. These suits, however, are only one of the obstacles faced by the media. Another major problem plaguing the media is the absence of something similar to the United States' Freedom of Information Act and, equally as important, access to government meetings. Surveying developments on access in Romania since November 1996, Adrian Ursu concludes that "transparency has become steam, doors are slamming shut one by one, and attempts to shut the journalists' mouths and to snatch the pens from their hands have increased."<sup>16</sup>

For years now, each chamber of Romania's bicameral Parliament has taken turns attempting to restrict access of journalists to its public deliberations. The election of the "democratic" opposition was supposed to have stopped such actions, but it has failed to do so. For example, in March 1997, the Senate obliged journalists to be accompanied by "persons from the [Senate's] administration" and to "reflect the activities of the permanent commissions" only on the basis of information offered by the commissions' spokespersons. In other words, journalists were "under guard" and functioned essentially to transmit public relations releases.

One year later on March 10, 1998, the Senate finally reconsidered and modified the rules governing the press's access to its workings and legislative meetings. The modification specifies that the "meetings of the [Senate's] commissions are public" unless the individual commissions decide otherwise. The next day, March 11, the education commission of the Chamber of Deputies barred journalists from covering its debate on the completion and modification of the Education Law by passing an emergency ordinance (Nr. 36), claiming it was a national security issue. In response, the Romanian Press Club (established in 1997) issued a statement reminding the Permanent Bureau of the Chamber of Deputies that any commission barring access to journalists acted against the constitution<sup>17</sup> and demanded "urgent reevaluation" of such action. This statement was released through ARPress and published in the national dailies *Romanian Libera*, *Ziua*, *Curentul*, and *Liberatate*. If the Chamber of Deputies did not reconsider, the Club warned, it

would "institute a total embargo on coverage of the Chamber's work." This was a strange threat in light of the obligation the press has vis-à-vis the public; it also played into the hands of the various commissions who wanted to prohibit press coverage.

Yet another incident in this very long string of attempts to keep the media from covering the work of elected and appointed officials occurred on April 22, 1998. The Ministry of Agriculture and Food Supply (Ministerul Agriculturii si Alimentatiei) erected new barriers to media coverage. It demanded presentation in advance, not only of the journalists' general accreditations to cover government, but a second special accreditation, *curricula vitae*, and lists of the journalists' articles dealing with the Ministry. The Ministry of Agriculture and Food Supply is not alone in this approach to media coverage. According to an ARPress report on April 22, after the new government headed by Prime Minister Vasile Radu came to power, all ministries and their organs have increasingly demanded more proof of journalists' accreditations. In addition, press credentials are being disregarded by various government press offices.

Currently, a law regarding public access to information awaits Parliamentary action. The language, intent, and application of this long-awaited law will require close scrutiny. How long it will take to enact it is anyone's guess, given the continued infighting in the Democratic Convention that controls the institution and other pressing problems awaiting attention, such as the economy. Confusion, on one hand, and authoritarian, controlling tendencies, on the other, appear to reign supreme in most politicians' and political parties' vision of the role of the media in a free society and freedom of expression overall. Unfortunately, this has not radically changed with the "democratic opposition" now in power.

### **Journalism without Journalists or Journalists without Journalism**

Since 1990, the media has generally described itself as a "press of opposition"; that is, it approached its news reporting and commentary from a political perspective opposed to the president (Ion Iliescu) and party (PDSR) in power. After the opposition's victory at the polls in the autumn of 1996, it quickly changed their moniker to "*presa de transitie*" (the press of transition). This change in self-assigned function, in support of the post-1996 leadership, simply placed the media in the service of the new government and political powers, obviating its role of independent reporting and analysis. At the other end of the spectrum, those media organs that had toed the previous official line suddenly became "oppositional" after November 1996. TVR was the one exception.

The problem in Romania is not an absence of pluralist media resulting from "chosen strategies,"<sup>18</sup> although that may be more true in the television field than it is in the written press. However, pluralist media, operating in an environment where freedom of the press exists, is still not necessarily an independent press. Media ownership is not easy to ascertain; no one talks about it except in private conversation and then only on background. Proving the connection between media and political parties and even state institutions can be difficult. However, after examining the small circulation of some newspapers and small audiences of some radio stations, it is certain that too many media outlets exist more for political reasons and purposes than for commercial ones.

Others do exist for commercial reasons, but their political leanings are closely linked with their profitability. Business, the economy, and the market are politics in Romania.

Even publicly owned media, such as *Romania Libera*,<sup>19</sup> have clear, politically biased editorial policies that affect not only editorials and commentaries but also reporting. *Romania Libera* openly supports the monarchy, President Constantinescu, and the Democratic Convention in general. *Ziua* is run by the Omega Investment Group and owned by Dinu Patriciu of the Liberal Party, and militates for that party. *Cotidianul*, Ion Ratiu's paper, does the same for the PNCTD, and *Romania Mare* is the political paper for the party of the same name and its leader, Corneliu Vadim Tudor.

It is not only media ownership or the source of subsidies that influences the news media and its role but the strong ties between media outlets and journalists and particular political parties and politicians. Many connections and influences that create journalistic partisanship are on an individual level. The political symbiosis between a political party and politicians with a media outlet or a journalist is difficult, if even possible, to prove conclusively. The actions of many journalists during the 1996 parliamentary and presidential election campaigns suggest, in part,<sup>20</sup> such a link: many journalists reported on the campaign while concurrently writing campaign literature, speeches, and commercials for political parties and politicians.<sup>21</sup>

A recent work argues that the media is even less independent than owners, subsidizers, or the state attempt to suggest. Richard Hall argues that the influence of the old Securitate, now broken up in various factions,

on political behavior is a systemic condition affecting all media sources regardless of ownership type (state or private), ideological orientation, or relationship to the regime...that problem has been the degree to which the remnants of the former Securitate continue both directly and indirectly to influence how and what those in the media report.<sup>22</sup>

The extent of the old Securitate's influence, direct or indirect, is difficult to ascertain. Some media outlets are in the hands of former Securitate officers. For example, television station *Antena 1*, *Radio Romantic*, and *Jurnalul National* are owned by Dan Voiculescu, a former Securitate officer-turned-businessman; *Curierul National* is owned by George Constantin Paunescu, another former Securitate officer who is now a businessman with an interest in the daily *Evenimentul Zilei*, among other investments.

For the "press of transition," formerly the "press of opposition," the umbilical cord to the official transition cause and the honeymoon with the former opposition, now the "establishment," was cut short by the autumn of 1997. At the very least, it thinned out into various strands that selectively connect and disconnect, depending on the issue. By no means did the extreme politicization of journalism end, nor did the even more unprofessional partisanship of the press or broadcast media change. A majority of Romanian journalists are openly opinionated and publish unverifiable, incomplete, and even fictitious articles that are often highly sensationalized. This a

widely recognized practice among those who would wear the mantle of "analyst" or "expert." Romanian journalism is a dubious blend of advocacy communication, news reporting with an partisan objective, and the reporting of rumor in the guise of "news."

During a major national crisis, or on matters of national interest (for example, diplomatic relations, international scrutiny of ethnic relations, and Romania's NATO candidacy), journalists freely enlist as agents of mobilization, manipulation, and propaganda. This was pervasive in the 1997 coverage of Romania's attempts to become one of the first-round candidates for NATO membership and the subsequent decision in Madrid. It also occurred during the 1995 debate over the Council of Europe's Recommendation 1201 on minority rights. As Gabriel Andreescu noted, the debates over Recommendation 1201 were "generally emotion- rather than fact-based...because of the lack of accurate, balanced information available to the public."<sup>23</sup>

In April 1998, during Foreign Minister Andrei Plesu's visit to Washington seeking support for Romania's NATO candidacy, the Romanian "national press" finally spoke candidly about Romania's responsibility for getting itself ready for candidacy. Until then, NATO candidacy had been portrayed as if it were dependent on how other countries treated Romania, whether foreign enemies wished to derail this candidacy, whether the West would again betray Romania, and so on. The candor was a refreshing approach to the issues, but it remains to be seen whether it is a lasting change in Romanian journalism. There have been other limited attempts to improve journalism by individual media outlets (such as, *Pro-TV* and *Adevarul*) and by individual journalists, but they are the exception.

Nestor Rates, the director of Radio Free Europe's Romanian department and a close observer of the Romanian scene, admits that as a journalist he is often "frightened" by what little value most Romanian journalists place on verifying information, the quality of their sources, and the "destination" of their information after it is published. He has stated that "the absence of standards of accuracy...of professional responsibility and ethics for the [information's] impact probably represents the gravest negative in journalism in the present phase."<sup>24</sup>

The media does serve as a "watch dog," but does so from partisanship tied more often to who owns, controls, influences or manipulates it; from the need for attention; and from their own political, personal, and market-driven interests. It sees, smells, digs, barks, and bites selectively. As already mentioned, the worst is not that Romania's media is highly politicized, but that it is also highly partisan by its own individual choosing or by editors', publishers', directors', and/or owners' proclivities. In this context, Hall's conclusions are accurate: we should not define "independence as narrowly as we do by simply arguing its existence on the basis of the media being free of state political and economic control and willing to criticize and investigate regime officials."<sup>25</sup>

Since the Iliescu government was voted out, television and radio stations have multiplied, resulting in more work for journalists. Together with the print media, however, most journalists still struggle for financial viability and for a professionalism that will elude them as long as



decisions regarding what is and what is not to be covered, the manner of coverage, and presentation are made for political and personal reasons by those inside and outside the media. Mihai Coman points out that the news media are in permanent "electoral campaign" mode, which results in their playing a continuous mobilization role

orienting the journalistic discourse toward militant variations (not favoring the objectivity necessary in a civil press), involving taking positions inevitably partisan (in nature), overworking the opinion genre, disfavoring those of the information genre, creating unusual ties between political actors and the press institution.<sup>26</sup>

Despite all of this, first-rate investigative stories occasionally do appear, such as the political phone scam involving the incumbent president, Ion Iliescu, and the dominant party, the PDSR, during the 1996 election campaign. Romanian journalists have the capacity to be professional. Articles dealing with economics and coverage of disasters, such as the explosion of a military aircraft that killed 15 people and the floods that ravaged portions of the country in 1997, are frequently balanced and thorough.

In their investigations and critiques of the government, its official representatives, and the political arena, however, journalists contribute to the political battles and become political players themselves. They expose contradictory reactions from politicians and political parties toward the press, for example, the alacrity with which politicians will use journalists and their well-developed fear of them. Politics brought down Prime Minister Ciorbea in April of this year, but Cornel Nistorescu, who has noted that politicians spend more time on television and in front of journalists than working "in the real sense of the word," blames his downfall on the media. The public, he wrote, blames the press for the political chaos, and even politicians worry about the "terror" of the press. Nistorescu's words encapsulate the essence of the Romanian media: it lacks independence, but at the same time, it holds terror for those who control, subsidize, or simply influence it:

The fact that the Romanian politician is hungry (for) television, from where he exists most often all crumpled, not to mention soiled, cannot be said to be the responsibility of the press, but must be seen as his irresponsibility. Thus is explained why politicians wanted [their own] newspapers, tried to influence them and have stuck their tails even in television, forgetting that, for the electorate, work itself, decisions count much more than [offering their] opinion... Ultimately, this invoked terror of the press is nothing but a sign of a freedom wrongly used, coupled with the weakness of politicians.<sup>27</sup>

Put another way, the many political parties and the even more numerous politicians have created monsters they hoped to control, influence, and use, but are now being threatened by these same monsters. The power of the media, of their politicized and partisan journalism, of their journalists, has been derived mostly from politics, politicians, and political parties. That relationship has today been somewhat equalized. The power of the media in politics has grown. There is now relative mutual dependency because the media still depends on political entities and politicians and because it is so politicized and partisan. Political parties and politicians have

increased their courting of the media, not certain when and to what extent they can control or influence it.

## **Conclusion**

The Romanian mass media has had a role in affecting political culture. Civil society, the amalgam of non-party, nongovernmental groups and associations that participate in social and political life, is slowly developing in Romania, but its power to control state authority and "to limit its expansionist drive"<sup>28</sup> is circumscribed. Some labor unions, organized religions, ecological movements, ethnic organizations, human rights organizations, and other such non-party and non-governmental entities are still too weak to play a significant role in Romanian sociopolitical life. It is still "limited to pockets of urban intellectuals and its impact on national politics has been meager."<sup>29</sup>

In turn, civil society "is a form of political society" that is closely intertwined with a nation's political culture.<sup>30</sup> The weakness of civil society in Romania leaves this political society to be almost exclusively defined by party, state, and governmental entities. Theories of civil society vary, and it is not clear whether political parties "constitute elements of civil society or of the political system."<sup>31</sup> The separation between state and civil society is certainly clearly made, and in Romania the state has a preponderance of power over civil society that is not likely to tip the other way for a number of years. Regardless, as is the case elsewhere in Eastern Europe,

etatization and politicization of public life give primacy to political interests. Even if political parties were to be defined as an emanation of civil society, at a time of falling voter turn-outs and a tendency for large segments of society to opt out of public life, they cannot be said to represent all society.<sup>32</sup>

What does this mean for the news media? The various Romanian media are subordinate or beholden to a large and diverse number of authorities. In theory, as Splichal and others have suggested,<sup>33</sup> this may constitute the essence of a well-developed civil society, but these authorities are almost exclusively all political, and the small remainder are commercial-political. Therefore, to reiterate, the media does not represent a well-developed civil society but only the "other" form of political society, that of political parties and state and government entities. Even the ethnic media, the only general circulation media belonging to non-party, non-state, and non-governmental entities, is so politicized and partisan in nature, that they, too, cannot be said to represent "civil society."

As such, the media is affected by and affects only part of political culture. However, it fails in other ways more meaningful to a transition to democracy. Partisan media institutions contribute to political polarization and jeopardize political discourse, and such media, "whether private or state-owned, are clearly not the best method to serve the creation of civil society."<sup>34</sup> To become stable democracies, societies have to adopt certain beliefs and values, such as,

belief in the legitimacy of democracy; tolerance for opposing parties, beliefs, and preferences; a willingness to compromise with political opponents, and underlying this, pragmatism and flexibility; some minimum trust in the political environment, and cooperation, particularly among political competitors; moderation in political positions and partisan identifications; civility of political discourse; and political efficacy and participation...<sup>35</sup>

The Romanian media, being as politicized and partisan as it is and serving not only as *campi di battaglia* but as the very weapon of the political combat described earlier, does not encourage such beliefs and values and, equally as important, fails to serve as a model of such beliefs and values.

The argument can be made that the Romanian media serves both the audience/voters and the political parties/politicians, but the balance decidedly tips in favor of the latter. In Poland, Bralczyk and Mrozowski found that the media is a "third force," as indeed the Romanian media is, which exerts "a significant influence," but only if it is, à propos the Romanian media as well,

relatively independent of the two other participants, and particularly the candidates and the parties or political movements which support them. And they perform it [this role] to the extent to which they actually bring influence to bear on societal attitudes and behavior.<sup>36</sup>

The Romanian media's influence on political culture, as in the 1996 presidential and parliamentary elections, is a reinforcing rather than a formative one.<sup>37</sup> Its discourse mirrors the nature of politics carried out in the political system established after December 1989, as well as its ownership, source of control, and influence mentioned above. Thus, media and journalism offer mostly unverifiable, uncited, incomplete, and biased information heavily tilted toward "conclusions" and "analysis" offered up as "the truth."

The media's nature, their journalism, remains today a mixture of Don Quixote and his side-kick, Sancho Panza, with a considerable touch of Lenin, Iago, and Machiavelli on one side and Mencken on the other, with an occasional sprinkling of Woodward and Bernstein of Watergate fame—usually a serendipitous form of politically motivated investigation/assignment. Romania does not have the sort of media that allows a culture of criticism, independent thinking, and free discourse. Neither is it the sort of media that contributes to the reshaping of Romanian political culture.

## NOTES

1. The so-called "democratic opposition" was made up of a coalition of parties under the umbrella of the Democratic Convention. The main presidential candidate of the democratic opposition was Emil Constantinescu.

2. Tom Gallagher, "To Be or Not to Be Balkan: Romania's Quest for Self-Definition," *Daedalus* 126:3 (Summer 1997): 63–83.

3. Liviu Antonesei, "Cultura Politica si Terapie Sociala in Romania Post-Comunista," *Revista de Cercetari Sociale* (1994): 118-23.
4. TVR is still the only truly national television station. Pro-TV and other private, commercial stations are making headway in becoming accessible to all Romanians, but it will take another year or two for them to attain nation-wide signal coverage.
5. "The Law Concerning the Organization and Functioning of the Romanian Radio Society and of the Romanian Television Society," *Monitorul Oficial*, June 18, 1994.
6. Dumitru Iuga, the head of the Free Union of TVR, accused the new TVR leadership of again fulfilling a "political mandate." See *Telegrama*, June 3, 1997.
7. Author's discussion with TVR personnel in October 1997.
8. Adrian Ursu, *Adevarul*, February 5, 1998.
9. Principally, but not exclusively, Articles 205 and 206. These articles call for prison sentences for those convicted.
10. What constitutes an insult is left open to wide interpretation. Furthermore, it gives insults the same level of legal protection as defamation—the former potentially based on the truth and the latter based on the absence of truth.
11. See Peter Gross, *Mass Media in Revolution and National Development: The Romanian Laboratory* (Ames: Iowa State University Press), 82-86.
12. February 4, 1998.
13. CIJ fax to author on February 11, 1998.
14. Adrian Marino, *Pentru Europa. Integrarea Romaniei. Aspecte ideologice si culturale*. (Iasi, Romania: Polirom, 1995), 23.
15. "Proiect de lege pentru modificarea si completarea condului penal," *Telegrama*, May 8, 1998.
16. Ursu, *Adevarul*, February 5, 1998.
17. Indeed, Article 65 of Romania's 1991 Constitution explicitly states "the meetings of both [parliamentary] chambers are public."
18. Henry F. Carey, "From Big Lie to Small Lies: State Mass Media Dominance in Post-Communist Romania," *East European Politics and Society* (Winter 1996): 16-45.
19. One can purchase shares of *Romania Libera* stock in Romania or on the London stock exchange.
20. In part because some have clearly taken on such jobs simply for the extra income.
21. Author's interviews with editors and journalists in a number of Romanian cities during the 1996 election campaign.
22. Richard A. Hall, "The Dynamics of Media Independence in Post-Ceausescu Romania," in *Post-Communism*

- and the Media in Eastern Europe*, ed. Patrick H. O'Neil (London: Frank Cass and Company, Ltd., 1997), 102–23.
23. Gabriel Andreescu, "Political Manipulation at Its Best," *Transitions*, December 1, 1995, 46–49.
  24. Intre Deontologia Profesiei—Interviu cu Nestor Rates, " *Dilema*, February 6–12, 1998, 8.
  25. Hall, "The Dynamics of Media Independence," 102–23.
  26. Mihai Coman, "1996—Concluzii si confuzii," *Curierul Romanesc*, January 1997, 6.
  27. Cornel Nistorescu, "Inamicul public numarul unu," *Evenimentul Zilei*, April 2, 1998.
  28. Vladimir Tismaneanu, *Reinventing Politics* (New York: Free Press, 1992), 171. For a good description of the state of civil society in Romania, also see Katherine Verdery, *What Was Socialism and What Comes Next?* (Princeton: Princeton University Press, 1996); Vladimir Pasti, *Romania in Tranzitie: Caderea in viitor*. (Bucharest: Nimera, 1995); and H.R. Patapievici, *Politice* (Bucharest: Humanitas, 1997).
  29. Vladimir Tismaneanu, "Romanian Exceptionalism?" in *Politics, Power, and the Struggle for Democracy in South-East Europe*, ed. Karen Dawisha and Bruce Parrott (Cambridge: Cambridge University Press, 1997), 403–50.
  30. Bruce Parrott, "Perspective on Post-Communist Democratization," in *Politics, Power, and the Struggle for Democracy*, 1–39; see also A. Bibic and G. Graziano, eds., *Civil Society. Political Society. Democracy*. (Ljubljana, Slovenia: The Slovenian Political Science Association, 1994).
  31. Jerzi Szacki, "Wstep. Powrot do idei spoleczenstwa obywatelskiego," cited in Karol Jakubowicz, "Media Autonomization in Central and Eastern Europe: Some Remarks on the Polish Case," *Mimeo*, 1998.
  32. Ibid.
  33. Slavko Splichal, *Media Beyond Socialism* (Boulder, CO: Westview Press, 1995); also by the same author, "Civil Society and Media Democratization in East-Central Europe: Dilemmas in the Evolution of the New Model," in *Civil Society. Political Society. Democracy.*, 305–324.
  34. Andrej Skolkay, "Journalists, Political Elites, and the Post-Communist Public: The Slovak Case," in *Post Communism and the Media in Eastern Europe*, 61–81.
  35. Larry Diamond, Juan J. Linz, and Seymour Martin Lipset, eds., *Politics in Developing Countries: Comparing Experiences with Democracy* (Boulder, CO, and London: Lynne Rienner Publishers, 1990), 16–17.
  36. J. Bralczyk and M. Mrozowski, "The Presidential Election Campaign on Television: Construing the (Self-) Portrayals of the Candidates," cited in Karol Jakubowicz, "Television and Elections in Post-1989 Poland: How Powerful Is the Medium?" in *Politics, Media and Modern Democracy*, ed. D.S. Swanson and P. Mancini (Westport, CT, and London: Praeger, 1996), 131.
  37. Peter Gross, "Mythical Giants: The Media in Romania's 1996 Elections," unpublished paper, 1997.

## **CHANGES AND INCONSISTENCIES IN THE ROMANIAN PARLIAMENT AND GOVERNMENT**

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Seven years after the revolution that toppled communist dictator Nicolae Ceaușescu, Westerners joined in the euphoria and optimism of the Romanian people when the country's first genuinely reform-minded government was elected in November 1996. One year into the presidency of Emil Constantinescu, should we still be as euphoric? What impact have two cabinet reshuffles, a lengthy political crisis, and the fall of a prime minister had on the government's promised reform program? How successful has the parliament been in fulfilling its mandate? What role has President Constantinescu played in moving his country forward?

I was fortunate to spend most of 1997 and early 1998 in Bucharest working with the new government and parliament on communications, management, and policy issues as director of a government training and technical assistance program for the International Republican Institute (IRI). This opportunity allowed me to meet and work with many of Romania's new leaders, observe their efforts to generate fundamental change in Romanian society, and note the inconsistencies between their promises and reality. Outlined here are some of my observations about how Romania's three major public institutions—the cabinet, the parliament, and the presidency—fared during Romania's first year of real post-communist governance, and what may be in store for the country's future.

### **The Cabinet**

The original cabinet of Prime Minister Victor Ciorbea, as appointed in November 1996, consisted of the prime minister, 20 additional ministers, 4 minister delegates, and 4 deputy ministers. Ministry portfolios were negotiated by the winning coalition after the elections. The vast majority of cabinet positions went to the parties within the Democratic Convention of Romania (CDR), the dominant coalition partner in the new government. Within the CDR, the National Peasant Christian Democrat

Party (PNTCD) took over the prime minister's office and 8 ministries; the National Liberal Party (PNL) got 3 ministries; and the Civic Alliance (AC), 1; the Union of Social Democrats (USD), the second major coalition partner, received 7 ministries: 6 for the Democratic Party (PD) and 1 for the Romanian Social Democratic Party (PSDR).

The final ministry portfolio went to the third coalition partner, the Hungarian Democratic Alliance of Romania (UMDR). The CDR also filled 7 of the 8 minister delegate and deputy minister slots that had been granted cabinet status. The eighth slot went to the UMDR.

The cabinet had a chaotic and confusing start. Given the lack of a transition law specifying what must be turned over to an incoming government, the outgoing cabinet took the files, equipment, and furniture with them. Although it was an initial hindrance to the new appointees, other factors had a greater impact on the simmering tensions within the fragile coalition and the bumpy internal and external start. These factors included inexperience, an overly ambitious agenda, lack of structural government reform, and poor communication.

### **Inexperience**

The Communists had not tolerated any kind of political opposition during their 50-year rule, so the leaders who assumed office in late 1996 were brand new to governing for the most part. The lack of a trained political “farm team” that could be tapped to fill key positions was a major obstacle. The cabinet consisted primarily of academics, scientists, engineers, lawyers, or economists. One minister was a doctor and another was an actor and film director. Under the Communists, decision making was centralized at the very top of the government, and everyone else waited for instructions. The whole country operated that way and the newly minted leaders came of age under that system. As a result, they were suspicious of subordinates and reluctant to delegate authority despite their commitment to democracy, openness, and transparency. It was not unusual to find ministers trying to book their own schedules, play spokesperson, and be expert in all policies. Most found all this a bit overwhelming. Even when the most minor of issues came before the cabinet for decision, every minister was allowed to weigh in on the subject at hand, regardless of level of expertise. Cabinet meetings routinely dragged on for ten or twelve hours at a time, yet consensus often could not be reached.

Inexperience also leads to poor press and public relations. Many ministers thought that if they made good decisions, they had done their job. They did not perceive that their responsibility should include explaining their decisions to the press and the public. Other ministers eagerly courted the media and did not hesitate to publicly criticize the very government in which they served. There was no government-wide communications message or strategy.

Relations with parliament also suffered. Members of parliament quickly became frustrated with the inability to get the attention of individual ministers or to get any useful information out of the cabinet regarding either constituent concerns or proposed policy initiatives. Inexperience meant that many ministers simply did not appreciate the importance of developing good parliamentary relations.

## **Overly Ambitious Agendas**

The cabinet took office with a clear agenda but little sense of how difficult it would be to implement it. The CDR based its campaign on a "Contract with Romania," modeled after the "Contract with America" used by Republicans in the United States.

Because the election resulted in a coalition government, significant parts of that agenda immediately had to be compromised. All of the coalition partners had promised major social and economic reform during the campaign, but their approaches were often radically different. The new cabinet had to find consensus—a tedious and time consuming process that delayed the launching of many of policy initiatives.

To win backing from international financial organizations and to attract foreign investment, the cabinet promised sweeping privatization and other major economic reforms. It also promised reform in virtually every area of public policy and initiated an aggressive campaign to win NATO membership. The new government gave itself 200 days to deliver on its promises. By most objective standards, it failed to deliver much within that time frame. The workload of trying to do so much so quickly pushed many high-ranking officials to the point of exhaustion. The lack of a short priority list also made it difficult to articulate a coherent and consistent message to the public. Underestimation of how long the policy development process actually takes contributed to strained relations with the parliament, as the cabinet kept missing self-imposed deadlines for unveiling draft legislation.

## **Lack of structural reform**

Because of its emphasis on necessary economic and social reforms, the government placed too little emphasis on reforming public institutions to carry out its policies. For example, part of the reason for the slow progress in privatization was the lack of an efficient governmental structure to implement it. However, this situation was not unique to the privatization mission. The new Ministry of Industry and Trade was the result of a merger of two previously separate ministries, but the merger was far from complete more than a year into the new administration. Staff were still split between buildings across town from each other and little had been done to integrate them. Furthermore, the Department of Public Information was given cabinet status and the mandate to oversee the government's public relations effort, yet administratively it reported to the general secretary of the government, who was also in the cabinet.

Most high-level appointees were new to governing, but the bureaucracy stayed pretty much the same. There was no systematic effort to communicate with or train rank-and-file government workers, and not much was done to make the bureaucracy more open, transparent, or user friendly. Ministers failed to understand the consequences of bureaucratic resistance to their policies or how to manage such resistance.



## **Poor Communication**

Lack of good internal and external communication was perhaps the most severe deficiency of the new government. There was never a unified or consistent message either internally or externally despite frequent contact between officials at the very top: parliamentarians often could not get information out of the cabinet; ministers were often unaware of major presidential pronouncements; and key ministerial advisors had no clear sense of policy priorities.

Media relations were particularly troublesome. There was collaborative strategy for dealing with the media. Most ministry press offices lacked the confidence of their ministers and the authority to speak on their behalf. A shortage of official spokespersons forced most ministers to speak for themselves. The lack of a coordinated media strategy freed each minister to say and do whatever he wanted regardless of the consequences. Many times ministers would contradict government policy through their words and actions. For example, three ministers publicly embarrassed the government when the media revealed they had signed a petition to restore the monarchy.

A general lack of appreciation by many ministers for the role of the press in a free society and a general lack of interest by the media (particularly newspapers) in accurate and objective reporting compounded this problem. The informal rules and traditions that govern the relationship between politicians and the press in the United States had not yet developed in Romania. Many journalists who openly campaigned for political change joined the new administration, but did not understand their new roles. Their replacements were young, inexperienced reporters who failed to understand how government works. Many editors and publishers openly advocated for the election of the current government, believed they were responsible for its victory, and thought they should have greater influence over its policies than has proved to be the case. They expressed their frustration by running unflattering, often sensational and irresponsible stories. One national newspaper characterized the government's plan to hire more political appointees as nothing more than an attempt to provide new lackeys who would attend to the entertainment needs of ministers.

## **Political Tensions within the Coalition**

Given the coalition status of the new government, political tensions were unavoidable, but during its first year in power, these festering tensions were allowed to get out of control. All three major partners, the CDR, USD, and UMDR, have strong philosophical and ideological differences. They are a coalition only by necessity. The tensions created by substantive differences within the coalition flared up as a result of poor internal communication and lack of an external communications plan. Efforts to suppress these differences for the greater good of reform (and the more pragmatic desire to stay in power) were consistently eroded by off-the-cuff public statements and arbitrary decisions for which the groundwork had not been laid in advance. This put one or more coalition partners on the defensive at any given time and took precious time and energy away from governing.

The dominance of political parties in the Romanian political system also created problems for the coalition. Virtually every decision or statement by a member of the cabinet was analyzed in terms of his party membership. When the spokesperson for the Foreign Ministry (controlled by the PD) was

publicly exposed for trying to put a negative spin on a visit to Washington by Prime Minister Ciorbea (a PNTCD member), party politics was immediately suspected—especially after the foreign minister initially resisted Ciorbea's demands to fire her. When the government's Department of Inspectors (which answers to the prime minister) issued a report alleging corruption among top level PD officials, politics was again assumed to be the reason. While such controversies come and go, the media was fed a steady diet of such conflicts throughout 1997 and early 1998. Their accumulated weight along with personal agendas and ambitious egos eventually led to open warfare between the PNTCD and the PD, the walkout of PD ministers from the cabinet, and the resignation of Prime Minister Ciorbea.

## **Parliament**

Under the Romanian Constitution, the parliament is "the supreme representative body of the Romanian people and the sole legislative authority of the State." While the parliament is bicameral, its two houses, the Senate and the Chamber of Deputies, have virtually identical powers. Members of both houses are elected at the same time to four year terms. Seats are distributed proportionally based on national party lists in the 42 *judets* (counties). Members of Parliament (MPs) are not required to reside in their *judets*, so parties tend to run their most favored candidates in *judets* where they have the best chance of winning a seat. This system causes parliamentarians to care more about currying favor with party bosses than with constituents and removes any institutional incentive to engage the public in activities of the parliament. Compared to the cabinet and the presidency, the parliament is the least popular public institution; it appears to be struggling the most to define its role in the new democracy.

The governing coalition of the CDR, USD, and UDMR maintains a solid majority in the parliament, but this has not resulted in smooth sailing for the government's initiatives. As the months passed, relations between the two institutions became increasingly strained. Parliamentarians resented the cabinet's propensity to govern through emergency decrees while the cabinet became frustrated with the unreliability of its own coalition members in the parliament. The likelihood that the parliament would reject the 1998 state budget as proposed by the Ciorbea Cabinet was a major factor in the prime minister's resignation.

Like the cabinet members, many parliamentarians were inexperienced. After the 1996 elections, 53 percent of its members were new. The new faces are cause for both optimism and concern. On the one hand, they invigorate a somewhat lethargic institution with new blood. Many new members are more eager to reach out to their constituents and encourage greater openness and transparency than their more senior colleagues are. On the other hand, most have little idea of how to accomplish this, limited understanding of an MP's role, and even less grasp of how to interact with their colleagues or with other public institutions. Few know much about how legislative bodies function in Western democracies.

The staff of the parliament is small. For example, the chair of the Foreign Affairs Committee in the Chamber of Deputies has only three assistants. Most rank and file members have no Bucharest-based staff of their own. As a result, they do their own research, write their own bills, and schedule their own time. The concept of political appointees who serve at the pleasure of individual members

does not really exist, and members do not know how to use the few staff who are at their disposal effectively.

The government's parliamentary oversight as well as its role in drafting legislation is weak. Senators' and Deputies' complaints regarding the lack of ministerial accountability have met with a slow response to make ministers more accountable. Most draft laws are written by the ministries, reconciled in the cabinet, and passed by the parliament without being changed substantively.

The parliament is supposed to be the primary link between the people and their government, yet it has been slow to improve its transparency and openness. Generally speaking, outreach to non-governmental organizations (NGOs) and civil society has not been a major priority. Many parliamentary votes, especially on controversial issues, are taken by secret ballot. Public access to the buildings where the parliament meets is limited, and while public viewing of sessions is possible, it remains very difficult. Media access to committee meetings is still a subject of dispute. It is virtually impossible for the public to obtain copies of draft laws, and interested NGOs do not fare much better. An office to service NGOs and the public was recently created by the Chamber of Deputies, but has yet to establish a real identity or focus.

To be fair, the post-communist parliament has had little time to establish strong democratic traditions of behavior and process, yet it must do so if it is ever to reach its potential as envisioned in the Constitution and the institutional power of law-making bodies in most Western democracies. Virtually every decision and action of parliament has the potential to set a precedent, so this is a critical time to establish sound democratic practices and cement the relationship between parliament and the people.

### **The Presidency**

Romania's Constitution gives the president limited formal powers, but behind the scenes he can yield vast influence. The current president, Emil Constantinescu, is a geologist by training and had never served in a government role prior to his election. Initially considered an inexperienced academic who lacked charisma, he surpassed expectations during his first year in office, capturing the imagination of the public and becoming the nation's most popular political figure. He launched a major anti-corruption campaign, proved to be a staunch defender of Romania's foreign policy interests, and did not hesitate to step in at key moments to resolve disputes within the governing coalition. Besides the anti-corruption effort, his priorities included improving the quality of life for Romania's children and improving Romania's relationship with its neighbors.

The president's office is perceived to function more smoothly than other government institutions and his staff is given generally high marks. This is in large part because his core staff has been working together as a team since his first presidential campaign in 1992. But like their colleagues elsewhere in the government, they are new to their current roles and have made their share of mistakes. There are complaints about an inability to get timely information out of the president's office, lack of appropriate notice about major pronouncements, and poor internal communications.

## **Reform**

It could be argued that this paper paints a relatively bleak picture of Romania and its progress one year into the Constantinescu presidency. However, despite the many problems and deficiencies in Romanian democracy, there is still reason for optimism. Yes, the cabinet was inexperienced, overconfident, and did a poor job of focusing its agenda or communicating with the Romanian people during its first year. Yes, Prime Minister Ciorbea proved to be an inexperienced manager who had to resign, unable to reconcile the many conflicting personal agendas, ambitions, and egos of his coalition partners. Yes, the political crisis earlier this year essentially halted decision-making for almost three months and called into question the government's ability to manage the country.

But before the crisis became all-consuming, look at what had been accomplished: tough price liberalization and economic reforms were launched early in the administration. A new foreign investment law was enacted, and treaties were negotiated with Ukraine and Hungary in an effort to end long-running hostilities. The ambitious campaign to join NATO almost succeeded and did much to improve Romania's image abroad. Beneficial changes and improvements were made in agricultural and social protection programs although they were unknown to most Romanians because of the government's poor public relations efforts. Labor unrest fell far short of predictions. Things were going well enough to merit an encouraging visit by the President of the United States in July 1997. Speaking in University Square, a key battleground during the 1989 revolution, President Clinton congratulated Romania on its progress, told a crowd of more than 100,000 people to stay the course, and promised continued American support.

The political crisis, ill-timed as it was, did pass, and the reshaping of the cabinet under a new prime minister followed democratic procedures. Even at the height of the crisis, there was no talk of ending it by anything other than democratic means. Following Ciorbea's resignation, the president nominated a new prime minister who had ten days to form a cabinet and win parliamentary support for it. This process for changing governments between elections in the Romanian Constitution had never before been used, but it was successful.

The new prime minister, Radu Vasile, was a consensus choice acceptable to all of the coalition parties as well as to the opposition parties in the parliament. He is perceived to be a better manager, a more decisive leader, and a better communicator than his predecessor was. He adroitly took some early steps to restore discipline within the cabinet and begin repairing relations among the coalition parties and with the parliament. For example, the Social Democrats, who walked out of the Ciorbea Cabinet, have returned, taking back most of their former ministerial portfolios.

Structural reform was given new life. The cabinet was downsized to be more manageable. To improve coordination of the privatization process and speed up the sale and restructuring of large state companies, a privatization ministry was established. The reform agenda was refocused. For the first time in Romania, deadlines were set for privatizing and restructuring specific companies. Promises were made to issue fewer executive decrees.

As a signal to the international financial institutions that put their assistance on hold during the political crisis, Prime Minister Vasile publicly stated that he understood this was Romania's last

chance. As an olive branch to the media, he promised regular off-the-record sessions with top editors.

And what about the parliament? Its institutional problems are real, but here too in the first year under the new government progress was made. Despite its collective hesitancy to reach out, individual members are interacting with their constituents around the country. Town meetings and legislative newsletters are becoming more common. A sizable majority of members now have constituency offices. The NGO/Public Information office in the Chamber of Deputies is now open, even if not fully operational. A bulletin board outside the entrance of the Parliament Palace now lists the Chamber's daily schedule and activities. Just a few weeks ago, the parliament welcomed its first-ever class of student interns, a project I was pleased to help bring to fruition.

Both chambers are undertaking a rules reform process to better organize the parliamentary workload and shift emphasis away from plenary sessions and toward committee meetings. Rather than rewrite the Ciorbea budget in the cabinet, the new prime minister decided to let the parliament make the necessary changes through its committees. Once frowned upon, the opening of committee meetings to reporters is now beginning to take place.

President Constantinescu, who by nature of his constitutional role as head of state is able to pick and choose when to get involved in government battles, has stayed out of most of them and remains extremely popular. While his anti-corruption campaign has had mixed results, he gave the keynote speech for a high-profile ethics seminar for cabinet and parliamentary leaders, organized by IRI. This seminar helped refocus the effort and build momentum for passage of a new anti-corruption law. Along with the Foreign Ministry, his office successfully negotiated Romania's new treaties with Hungary and Ukraine. And his effective use of the bully pulpit has kept the spotlight focused on the plight of Romania's children.

## **Conclusion**

Before being too critical regarding the speed of reform in Romania, we should remember that it has been less than a decade since Nicolae Ceaușescu was forced from power, and little more than a year since this true reform-minded government was elected. At the beginning of the 1996 election cycle, the prospect of Romania's opposition forces winning the presidency and a majority in the parliament appeared remote, yet it did happen. With little in the way of precedent or tradition to guide it, this government has been taking small—and even unnoticed—reform-minded steps every day. Rather than being discouraged by how far Romania still must go to implement fully a market economy and develop democratic roots, why not be encouraged by how far the country has come in such a short time?

The future and staying power of the current government is still far from certain. Despite the problems experienced by Romania's government one year into the Constantinescu presidency, the Romanian public has remained relatively patient. Its support of reform has not wavered significantly in the past year, and it is willing to give the new prime minister more time to fulfill the coalition government's promises. However, similar to his predecessor, Prime Minister Vasile lacks experience as a manager. Also like Ciorbea, he did not pick his cabinet. Ministers were chosen by their party leaders, meaning their loyalty to Vasile could be as fleeting as many ministers' loyalty was to

Ciorbea. Vasile, like Ciorbea, also has his critics, including many PNTCD members who were unhappy with the way Ciorbea was treated in the weeks leading up to his resignation.

The Social Democrats who forced the political crisis got what they wanted: Ciorbea's resignation, a streamlined reform agenda, and public timetables and deadlines for implementation. Is that enough to keep them on the team, or will personal ambitions of some of their leaders force yet another government crisis? Will the PNTCD become more conciliatory and more open to dialogue than it was under Ciorbea, or will its tendency to make unilateral decisions without consulting its coalition partners re-emerge under Vasile? With elections scheduled for 2000, how long can the government suppress party and personal self-interest and work together for the good of the nation?

Most important of all, does the government really understand how critical it is to accomplish the long awaited reforms which everyone seems to agree are necessary? Romania's future will largely be shaped by the answer to that question. The proof, as many are fond of saying, will be in the pudding.

## **U.S. ROMANIAN RELATIONS SINCE THE ELECTION OF PRESIDENT EMIL CONSTANTINESCU**

**Jonathan Rickert**

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The election of Emil Constantinescu as Romania's second president in November 1996, and the normal transfer of power that accompanied it, marked an important step forward in the evolution of Romania's young, post-Ceaușescu democracy. It also opened the way to faster, more robust development of bilateral relations between the United States and Romania and gave new impetus to Romania's aspirations for membership in NATO and other Western institutions.

Although U.S.-Romanian ties have had their ups and downs over the years, since the late-1960s, the bilateral relationship has been qualitatively different, even "special," from those the U.S. has maintained with other Warsaw Pact countries of Central Europe. During the second half of the 1980s, Romania's declining value to the U.S. as a relatively independent player within the Warsaw Pact and President Nicolae Ceaușescu's increasingly destructive and inhumane domestic policies seriously strained the bilateral relationship. The violent overthrow of the dictator in December 1989, however, spurred interest on both sides in resuming close, mutually beneficial ties. While there were some doubts and questions within the U.S. government as to the extent to which the Ion Iliescu-led National Salvation Front (NSF) represented a true break with the Communist past, the U.S. moved cautiously toward genuinely normal relations with the new government in the first half of 1990.

The arrival of the Jiu Valley coal miners and their violent actions in Bucharest in mid-June 1990, however, brought that progress to a quick halt. Regardless of the still-murky specifics of how and why they came to the capital, the obvious connection between the newly elected, NSF-dominated government and the miners could not be ignored. Thus, while providing significant humanitarian and other assistance and seeking to influence the direction of the new government, the U.S. maintained a certain distance from Iliescu and the government headed by Prime Minister Petre Roman.

In September 1991, another coal miners' incursion, or *mineriada*, occurred in Bucharest, toppling Roman and bringing on technocrat Teodor Stolojan as a caretaker prime minister until national elections could be held in October 1992. Those elections resulted in a solid victory by Iliescu over the Democratic Convention of Romania (CDR) candidate, Emil Constantinescu, and a plurality in parliament for the Social Democratic Party of Romania (PDSR), now without Roman. The PDSR formed the new government with the support of three smaller "extremist" parties, two of them nationalist and the other the leftist successor to the Romanian Communist Party.

The time between Stolojan's appointment and the November 1996 elections saw a steady, if not rapid, improvement in U.S.-Romanian relations. If the pace of reform, especially economic reform, in Romania was disappointingly sluggish, there was progress in other areas. For example, the overall human rights situation in the country steadily improved. The two governments consulted more frequently on matters of bilateral and regional concern and cooperated more closely in international organizations. Military-to-military ties expanded significantly, and Romania became an early, active supporter of Partnership-for-Peace. Official visits in both directions increased in number and importance. The U.S. granted Romania Most Favored Nation (MFN) tariff status again. Behind the scenes, the U.S. worked with Romania, as well as with Hungary and Ukraine, to encourage the conclusion of bilateral treaties of friendship with these two key neighbors. In sum, while U.S. relations with Romania were not as fully developed by the November 1996 elections as those with Poland, there had been significant progress and a solid foundation laid for the future.

The U.S., of course, did not take sides in the 1996 electoral contest, just as it had not in the earlier elections of 1990 and 1992. The hope was that the voting would be free and fair and that all concerned would accept the outcome. On none of these scores was there any cause for disappointment. The electorate chose Constantinescu over Iliescu for president and gave a majority of seats in the parliament to his party, the CDR, and its allies. This strengthened the first democratic change of government in Romania in 50 years and opened a new phase of U.S.-Romanian relations.

It may be helpful to divide the period since Constantinescu's election into two parts: November 1996 to the Madrid NATO summit in July 1997, and Madrid to the present. While the new government was heavily occupied in reorganizing itself early on and trying to implement the domestic economic reforms it had promised in its "Contract with Romania," furthering relations with the U.S. was also an important priority. However, as the months passed and Madrid began to loom larger on the horizon, the Romanian approach to its bilateral ties with the U.S. became almost exclusively focused on NATO.

Romania's vigorous, sustained campaign to convince the U.S. government of its qualifications for NATO membership and of what it could contribute to the Alliance was most visible in the stream of government ministers, members of parliament, and special envoys, who passed through Washington in the spring of 1997. This campaign culminated with the visit of Prime Minister Victor Ciorbea in June. The message that these government representatives carried was essentially the same: Romania was ready, willing, and able to undertake the responsibilities and burdens of NATO membership, and by its inclusion in the Alliance, it would contribute to stability in the volatile Southeast European region. Romania would be a contributor rather than a consumer of security. Some added, as a secondary theme, that Romania's failure to enter NATO at the same time as Hungary would not be understood or accepted by the Romanian public and could have a destabilizing effect at home.



The American officials who met with the Romanian envoys were favorably impressed with their commitment and seriousness of purpose, even when feeling slightly overwhelmed at times by their numbers. Through the visitors' efforts and, more importantly, the active commitment of the Ciorbea government to instigating domestic economic reform, cleaning up corruption, and maintaining good relations with neighboring states, Romania moved from being a long shot for consideration as a NATO member to being a serious candidate. Indeed, by the Madrid summit, Romania's candidacy attracted strong support from France and Italy and varying degrees of backing from other Alliance members. In the end, Romania was not included in the first group of new members, but those reasons are beyond the scope of this paper.

Were the results worth the effort? The campaign for NATO membership undoubtedly raised Romania's profile in positive ways in the U.S. and the West and showed conclusively that it knew where it wanted to go and was determined to get there. However, the drive for NATO admission took place at a time when the new government's early reform efforts appeared to be losing some of their original steam. Perhaps there was no connection between the heavy investment of government time and effort in the NATO issue and the gradual slowdown in the implementation of essential domestic economic reform. If there was even an indirect link between the two phenomena, then the costs and benefits need to be weighed carefully.

In at least one important respect, Romania's pre-Madrid efforts presaged and paved the way for positive bilateral developments since then. During Ciorbea's mid-June visit to Washington, he broached and the American side accepted the idea of establishing a bilateral "Strategic Partnership" to strengthen U.S.-Romanian relations. Presidents Clinton and Constantinescu announced the concept in Bucharest and charged their respective bureaucracies with providing the substance for it. The Strategic Partnership was launched officially during the October 4-5 visit to Bucharest by Marc Grossman, the Assistant Secretary of State for European and Canadian Affairs. At that time, he and Foreign Minister Adrian Severin described the Partnership in a joint press release as

a framework established by the two governments for developing closer bilateral relations, especially in the political, economic, and defense fields. Its goals are to expand political cooperation and economic activity on a mutually beneficial basis; help make Romania as strong a candidate as possible for NATO membership in the future and for integration into other Western structures; and strengthen a democratic Romania's contribution to security in Central and Southeastern Europe. The primary tools for achieving the Strategic Partnership's goals will be consultations, policy coordination, and joint activities, including those already in place under the Partnership-for-Peace, SECI, and SEED programs.

There is a risk that the Strategic Partnership can either be over-hyped as a quantum leap forward for U.S.-Romanian relations or else dismissed as more empty words devoid of substance. Neither is correct; both definitions do a disservice to the Strategic Partnership and the goals it seeks to advance. In fact, it is a practical means to organize, coordinate, and intensify the bilateral dialogue and is a useful framework for achieving specific, agreed-upon goals. Its success or failure will be determined by the skill, diligence, and imagination with which both countries use this potentially valuable tool.

The activities which take place under the Strategic Partnership are divided into four baskets: the military relationship, political and economic reform, regional security, and non-traditional threats. Implementation is centered in Bucharest, where the U.S. Embassy meets periodically with Romanian officials from the Foreign, Defense, and other Ministries. This is an approach that was first pursued successfully in Warsaw, although the Polish partnership has a narrower focus on military and defense issues. The Strategic Partnership recognizes that in Romania, as in Poland and other Central European states, traditions of interagency cooperation either are lacking or are underdeveloped. Thus, the methodology is intended not only to help reach jointly agreed goals but also to foster those habits of cooperation so important to effective policy implementation.

Although the Strategic Partnership is bilateral in nature and preceded the launching of the State Department's Southeast European Action Plan by several months, it is an integral part of that larger initiative for helping to stabilize the region. Indeed, a democratic, increasingly prosperous Romania would have a great deal to contribute to promoting regional stability, something that both the U.S. and Romania fully recognize.

The initial indications of the Strategic Partnership's effectiveness are encouraging, but not yet conclusive. When Foreign Minister Andrei Plesu visited Washington in March 1998, he was favorably impressed by what he learned about the Partnership over the course of a 90-minute interagency meeting at the State Department. Nevertheless, it must not be forgotten that the Strategic Partnership is a vehicle, not a cure-all. It can contribute significantly to strengthening U.S.-Romanian relations, but only if both sides continue to pursue it with commitment, energy, and imagination. At present it appears that both governments are dedicated to doing exactly that.

Looking ahead, in the personal view of the author, Romania's greatest challenge remains economic reform—restructuring, privatizing, attracting foreign private investment, and freeing up the domestic private sector. While that challenge is one to be met by Romania and its present government, now led by Prime Minister Radu Vasile, how it is handled will inevitably affect both U.S.-Romanian relations and the pace of other reforms. The bilateral relationship is likely to remain cordial under almost any foreseeable circumstance. However, for those relations and for Romania to reach its full potential, economic reform must progress further, faster, and deeper. There are various ways in which the U.S. can support that process, but only the Romanians can make it happen. It is the hope of the United States that they will succeed and do so *cit mai repede!*

**ROMANIA'S STATE OF THE ECONOMY:  
STARTED BUT UNSUSTAINED UNDER ILIESCU;  
RECOVERING AND RISING WITH CIORBEA AND CONSTANTINESCU**

**Karen Zietlow**

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The countries of post-Communist East Central Europe which have been attempting to implement market economies have had to deal with five major issues: price liberalization, trade liberalization, currency convertibility, privatization (including of the banking system), and macroeconomic stabilization. Although Romania has followed a different time frame than its neighbors, it has managed significant headway in each of these areas, and all of its post-Ceaușescu governments have contributed. President Emil Constantinescu's first year in office reinforced public support for deeper reform, piqued Western interest with promises of large-scale privatization, and accomplished more structural economic reform than the seven years under former President Ion Iliescu.

Between 1990–96, President Iliescu and the ruling ex-Communists consistently hampered economic reform. Although most prices were liberalized, the cabinets under the Iliescu presidency attempted to pursue a gradual approach to economic reform and were reluctant to privatize. Nonetheless, by 1994 and into 1995, the Romanian economy began recovering from the demise of state socialism and even posted rapid rates of growth. Then, however, an exchange rate crisis, scandals in the banking sector, and large losses in state-owned industries derailed recovery. Tighter monetary and fiscal policies, which had led to rapid drops in inflation in 1995, were undone in 1996 as upcoming elections persuaded the government to enact more populist policies.

Although the resulting economic downturn did not take hold until 1997, Iliescu and his party lost the 1996 parliamentary and presidential elections because they had clearly failed to provide a sustainable economic recovery and to improve fundamentally the electorate's living standards. President Emil Constantinescu and Prime Minister Victor Ciorbea began their term in November 1996 with a mandate for faster, more thorough economic reform. The new government worked closely with

the International Monetary Fund (IMF) and the World Bank to stabilize the economy. It unified the exchange rate regime, cut the budget deficit, and accelerated privatization. Unfortunately, in their well intentioned haste, the reformers neglected important details by promulgating decrees without appropriate debate or consensus. More importantly, Ciorbea failed to harmonize the various interests of the ruling coalition. In the end, the Ciorbea government was one of laudable plans and a good start, but incomplete implementation.

## **Iliescu's Tenure**

*State of the Economy.* To understand Constantinescu's first year in office, it is necessary to look at the point of departure first. Similar to the rest of Eastern Europe, economic output declined in Romania through 1992. GDP fell 29.7 percent between 1987 and 1992. The economy began to recover in 1993 and 1994 as output rose 1.5 percent and 3.9 percent, before increasing to a surprising 6.9 percent in 1995. Slower increases in exports and stagnant agricultural output resulted in slower growth in 1996 (4.1 percent).

Once considered the "bread basket and gas station" of Eastern Europe, Romania's agriculture and energy sectors both experienced sharp declines in output in the last years of the Ceaușescu era and the first years of the transition. Due to sweeping agricultural land reforms, an estimated 81 percent of total farm land was in private hands by the end of 1991, up from 21.4 percent in 1989. However, the Iliescu government continued to support Romanian agriculture by providing tax breaks, low interest loans, bonuses for production, subsidized prices for inputs, and minimum procurement prices. Most subsidies benefited state farms, allowing them to retain control over both the distribution of agricultural inputs and the storage and marketing of agricultural outputs. These policies proved to be deleterious for Romania's budget, for Agricola (the dominant bank in the agricultural sector), and for small private farmers.

By the late 1980s, Romania had the largest amount of oil-refining capacity per capita of any country in the world outside of the Persian Gulf states. Some capacity was closed in the early 1990s, but the sector remained inefficient. Instead of allowing prices to rise to world market levels and restructuring energy-wasting enterprises, the government chose to keep tight controls on energy prices, which encouraged consumption, and to grant enormous subsidies to the refining sector.

After reaching a high of 10.9 percent in 1994, Romania's unemployment rate fell to 9.5 percent in 1995 and 6.4 percent in 1996. The large decrease in 1996 was partially due to the increased absorption of workers by the private sector, but also to fewer layoffs at state-run enterprises (anticipating electoral concerns). Real wages rose for the first time in five years in 1995, by 16.6 percent, due to low inflation plus sharp increases in output and labor productivity. In 1996, government concessions to workers, which were designed to attract votes, led to continued increases in wages. By the end of the year, real wages had increased an additional 9.5 percent.

The governments under Iliescu kept price controls in place on energy, some foods, and certain industrial products in an attempt to control inflation. Nonetheless, year-on-year inflation rates remained at 200–300 percent from 1990 to 1993, before falling to 62 percent by 1994 and 28 percent in 1995. This achievement was one of the casualties of the 1996 election campaign; the Romanian

government loosened monetary policy considerably before the election in an attempt to buy votes. Combined with other factors, this caused inflation to rise from its low of 25.3 percent year-on-year in September 1995 to 45 percent in October 1996.

**Monetary Policy.** The success in curbing inflation prior to 1995 was largely due to a tight monetary policy between autumn 1993 and the end of 1995 under the leadership of the governor of the National Bank of Romania (NBR), Mugur Isarescu. During this period, Isarescu established more independence for the central bank. He reduced monetary emissions, raised interest rates, and attempted to unify the exchange rate. But from mid-1995 through late 1996, the independence of the NBR from the Parliament eroded, as the Parliament forced the NBR to funnel credits to struggling enterprises and agriculture.

**Exchange Rate Policy.** Through autumn 1995, Romania had made substantial progress in exchange rate stabilization. In 1994, most of the cumbersome restrictions on the foreign exchange market were eliminated. The new interbank market effectively unified the exchange rate regime. The exchange rate was determined by the interbank market around a nominal reference rate set by the NBR; this rate was in turn influenced by the interbank currency market. However, in November 1995, an unusually high current account deficit depleted reserves and precipitated an exchange rate crisis. The nominal reference exchange rate and the interbank market rate began to diverge significantly because of government restrictions imposed on the interbank market. In March 1996, the NBR partially divorced the interbank market from the kiosk market by taking away the foreign exchange licenses of all but four banks, making it easier for the NBR to manipulate the market. The IMF and foreign investors criticized the policies adopted by the NBR.

**Fiscal Policy.** From 1990–93, the Romanian government collected taxes from Romanian state-run enterprises and monetized the remaining deficit. Between 1993 and 1994, significant legislation was passed that introduced profit taxes, payroll taxes, taxes on dividends, excise duties, and a new system of customs tariffs. One of the most significant steps was taken in July 1993, when the government replaced the Communist-era turnover tax with a value-added tax (VAT). Despite these improvements in the tax system, Romania's fiscal policy, like all its policies, became a victim of the elections. Prime Minister Nicolae Vacaroiu's government was able to keep finances under control in the first half of 1996, but then abandoned all pretense of fiscal responsibility in June when local elections were a clear victory for the opposition.

**Foreign Investment.** Despite being the region's second most populous market, Romania has one of the lowest per capita foreign investment levels in Eastern Europe. The country's tangled bureaucracy, lack of institutional reform, uncertain political atmosphere, and tendency for labor unrest has discouraged investment. According to the NBR, investment in 1996 was a mere \$207 million, down more than half from 1995. Cumulative foreign investment totaled only \$1,219 million by 1996. This reflected the skepticism with which foreigners viewed Iliescu's management of Romania's economy. Developments in 1996 further damaged Romania's image with foreign investors. Foreign investors were not only concerned about the exchange rate and banking crisis but also about technical and regulatory problems in Romania's stock markets and investment funds, high inter-enterprise payments arrears, and bureaucratic red tape.

**Privatization.** Privatization has been one of the most troubled areas of reform in Romania. In 1991, the State Ownership Fund (FSP) was created and given 70 percent of the shares of the enterprises to be privatized. Five regional Private Ownership Funds (POFs) were created to make shares available to the public. Other than this transfer of administrative control, little privatization occurred. A second initiative was launched in summer 1995 after considerable pressure from the IMF and World Bank. Coupons were distributed to the population, and almost 90 percent of Romanians exchanged their vouchers for shares in state-owned enterprises or gave them to one of the POFs to invest. About 1,800 of the 4,000 companies offered were over-subscribed and another 1,000 fully subscribed.

The Mass Privatization Program was not completely successful, however. Since the voucher sale only allowed for ownership of 60 percent of equity, the FSP could easily remain in effective control of companies' shares. In addition, the largest and most profitable national companies were left out of the scheme. The process of distributing shares in the companies to the various POFs was not transparent; the government's emphasis on preventing a concentration of vouchers in private investment funds added bureaucratic costs to the process and increased public confusion. Information on the 4,000 companies was sketchy. Key laws concerning bank privatization, foreign participation on the stock market, and the involvement of other investment funds in Romania's privatization had not been passed. Most importantly, a secondary market to trade the shares of the newly privatized companies was not in place. The United States funded an over-the-counter market for this purpose, but citizens were prohibited from trading shares until the RASDAQ market was fully operational in September 1996. Prior to 1997, the State Ownership Fund had privatized only around 3,000 companies from a portfolio of 8,700 companies in 1992.

**Trade and Current Account Balances.** Exports grew 25.5 percent in 1994 and 22.3 percent in 1995. However, policies adopted in 1996 damaged Romania's trade balance. As the 1996 elections neared, the government used a significant portion of the \$1.4 billion it had borrowed to pay for imports. Additionally, restrictions on foreign exchange trading in the commercial banking sector made it more difficult to procure foreign exchange to import the necessary inputs for Romania's manufactured exports. Foreign exchange controls also gave exporters an incentive to under-report their export earnings and keep the difference in foreign bank accounts. Romania's exports grew only 2.2 percent in 1996, reversing four years of rapid growth. Romania's current account deficits averaged 4.5 percent of GDP between 1990-95. Due to the slow down in export growth, Romania's 1996 current account deficit reached \$2.6 billion, or 7.3 percent of GDP.

**Foreign Debt.** Romania began to borrow heavily on international capital markets starting in autumn 1995. Romania's ability to borrow was enhanced by the country's BB- rating—just below investment grade—from both Standard & Poor's and ICBA. Gross debt rose significantly during the Iliescu regime from \$709 million in 1990 to \$7.9 billion in 1996. In 1996 alone, it increased nearly \$1.5 billion.

In short, by the time of the elections in autumn 1996 Romanians were fed up with the government. The exchange rate had fallen sharply and inflation had accelerated. Voters were disgusted with rampant corruption. The partial recovery in growth and consumer welfare had been jeopardized by Iliescu's refusal to fully relinquish state control in order to complete reforms.

## **Constantinescu & Ciorbea: A Better Start**

In the November 1996 elections, the opposition campaigned on promises of faster privatization, an end to corruption, improved social programs, and policies designed to attract foreign investment. With a decisive mandate, the new government under Prime Minister Victor Ciorbea initiated a reform program designed to galvanize Romania's transition and shed the burden of heavy state intervention in the economy that was damaging long-term growth prospects. Working closely with the IMF and the World Bank, the new government further liberalized prices, expanded privatization, unified the exchange rate, and halted the provision of loans from the central bank to loss-making enterprises. Aided by the imposition of a package of austerity policies in the second quarter of 1997, the central bank stabilized the currency and reduced inflation. The government launched an effort to eliminate the drag on the economy of loss-generating state enterprises by revitalizing the privatization of state assets and increasing the inflow of foreign investment. The government passed a series of laws in the spring of 1997 designed to accomplish these goals. Foreigners could now own land, invest with fewer bureaucratic restrictions, and participate directly on Romania's stock market.

But as 1997 wore on the government was increasingly accused of stalling on key reforms, particularly privatization and the restructuring of industry. In an attempt to renew the reform process, the prime minister began issuing emergency decrees, sidestepping both the Parliament and even the parties in the coalition. This resulted in haphazard legislation which was more confusing than helpful. Many began to see Prime Minister Ciorbea as lacking the political negotiating skills vital for holding together the governing coalition. The members of the coalition, for their part, became more concerned with promoting their own views and personnel than pushing forward needed economic legislation. But in the end, the impasse ostensibly came down to the slowed pace of reforms, with the Democratic Party blaming Ciorbea's administration.

Despite a government reshuffle in December that brought several prominent technocrats into key economic ministries, the coalition came under increasing stress: the Democratic Party demanded the resignation of Prime Minister Ciorbea along with accelerated reforms. With limited political options and faltering public support Ciorbea's party acquiesced in April. Although contrary to apparent public opinion, much had already been accomplished.

**Monetary Policy.** After the liberalization of the exchange rate and increases in state-controlled prices, the NBR raised interest rates and tightened liquidity. Inflation had surged and the Romanian *leu* had fallen precipitously in January and February 1997, but then the leu stabilized and inflation began to fall rapidly. At the end of September 1997, M2 was up 114 percent and domestic credit to non-government institutions increased only 84.3 percent, compared with one year earlier, a period in which the level of consumer prices increased by 161 percent. In the second half of the year, the NBR tried to ease interest rates in line with falling inflation rates: the Lombard rate was cut from 200 percent to 140 percent in August, and the discount rate from 50 percent to 40 percent in late July. When inflation rates then began rising again, the bank raised the discount rate to 65.6 percent in November. Despite the NBR's successful monetary policies, the Ciorbea government was quick to blame the national bank when retail prices headed higher than expected in the autumn because it failed to support the leu.

In fact, around mid-year the bank had sought to prevent the currency from appreciating to avoid derailing Romanian export growth and in the fourth quarter was content to allow the moderate depreciation in an effort to preserve competitiveness and conserve foreign exchange reserves.

**Exchange Rate.** The Ciorbea government took a number of steps to reunify the exchange rate regime. In January and February, the NBR let the leu depreciate swiftly toward the kiosk rate. In February, the NBR returned dealer licenses to 24 banks. This allowed the exchange rate market to function once again. After considerable turbulence in early 1997, Romania's foreign exchange market settled down in the second half of the year. Large foreign currency inflows accompanied market liberalization efforts, and the NBR became concerned with the inflow of too much foreign exchange. Because open market operations were not well developed, the NBR had difficulty in allowing the real effective exchange rate to fall. In the first half of the year, the NBR purchased roughly \$1 billion to keep the leu lower against the dollar. The real effective appreciation vis-à-vis the dollar occurred while the dollar was appreciating against European currencies, meaning that Romanian exports to Western Europe became less competitive. The NBR was reluctant to continue this policy indefinitely as it could have created inflationary pressures. Thus, in autumn 1997, dollar purchases slowed somewhat. As export growth failed to accelerate in the third quarter, the exchange rate came under some downward pressure once again and hit 7,995 by the end of December. The national bank had pledged to keep the rate above 8,000 in 1997, but also had a target of building reserves to \$4 billion. More recently the leu has been steadily depreciating against the dollar. By the end of April 1998, the exchange rate was 8,384 lei/USD. Some of the pressure was determined by the increasing foreign currency demand for imports. Other sources attributed it to political uncertainty.

Seeking formal recognition of its commitment to accelerating the country's transition to a market economy, which in turn would increase investor confidence, the Romanian government decided in 1997 to move to meet the requirements of the IMF's Article VIII on convertibility. An IMF mission in mid-1997 determined that the conditions of this article had nearly been satisfied in the actions taken during the first half of 1997 to restore the foreign exchange market and unify the rates. It was only necessary to do away with the remaining restrictions relating to the limited foreign exchange access for physical persons. In March 1998, Romania notified the IMF that all restrictions on current account operations had been eliminated.

**Fiscal Policy.** Because of the previous government's attempt to win the 1996 election, Romania's budget deficit surged to 5.7 percent of GDP in 1996. The new government pledged to the IMF that the budget deficit in 1997 would decline to 4.5 percent of GDP, and in fact it dropped to 3.7 percent. The Health, Education, and Labor Ministries saw their allocations rise, but all other ministries were subjected to cuts. The state budget cut subsidies to industry in half in 1997 by targeting 150 non-performing enterprises where subsidies were drastically reduced. Direct agricultural subsidies increased, but at the same time, the NBR was scheduled to reduce its credit emissions to the agricultural sector, resulting in an effective cut of 0.6 percent of GDP in subsidies to this sector.

Trimming the budget in late summer 1997, in light of disappointing revenue collection, was a step in the right direction of fiscal austerity. But as economic activity contracted further, it became clear that the burden of loss-making enterprises would make the deficit target infeasible unless the situation was remedied immediately. Thus, an ordinance was passed to close 17 major money-losing



companies as quickly as possible. In addition, the decision was taken to direct 70 percent of privatization revenues to the state budget rather than to the privatized enterprises and the State Ownership Fund as had previously been the case.

Ciorbea's 1998 draft budget, adopted largely intact by his successor's cabinet, planned a budget deficit of 3.6 percent of GDP as agreed with the IMF. This was to be accomplished by an increase in budget revenues from indirect taxes and by a prudent salary policy. Programs to compensate those most affected by the closure of loss-making enterprises are to take up 12.5 percent of GDP in 1998, or 45 percent of the budget. At the beginning of February, the VAT rate for food, agricultural produce, and other select items increased 2 percentage points to 11 percent, and for all other products by 4 percentage points to 22 percent. There was a reduction in the number of goods subject to the lower VAT rate, as well as in the number of VAT-exempt products. These measures were predicted to increase budget revenues by 0.7 percent. Moreover, the excise tax on gasoline and diesel oil was increased dramatically in March, leading to a 50 percent increase in retail prices of gas and diesel fuel and sparking off storms of public protest.

In early 1998, Romania moved from a focus on payroll taxes to an income tax. Previously, payroll taxes accounted for as much as 60 percent of a worker's wages, while no other forms of income were subject to taxation. The new system taxes interest, dividends, and other forms of income. However, it is designed to provide some tax relief for the Romanian worker, as the rates on wage income fell and the minimum tax threshold was raised. This revision is expected to negatively affect the state budget by 0.6 percent of GDP this year, while the average Romanian will see an after-tax increase of 6 percent of income. At the beginning of 1998, the government introduced new provisions to the decree on profit tax. The amended decree encourages investments by deducting accelerated depreciation; provides exemption from profit tax for authorized establishments, owners' associations, and charities; and makes advertising and promotional expenses fully deductible.

**Foreign Debt.** Romania's gross debt level reached record levels in May 1997 at \$8.7 billion, compared to \$7.9 billion in December 1996. Net borrowing from international financial institutions, \$2.7 billion in 1996, rose to \$3.3 billion the end of 1997. If fresh loans from the IMF and World Bank are negotiated, this will rise further. In May 1998, Standard & Poor's lowered Romania's long-term foreign currency credit rating from BB- to B+, and its long-term local currency credit rating from BBB- to BB. In explaining this move, Standard & Poor's cited the absence of political will in successive governments to address the country's structural weaknesses. The resulting imbalances are amplified by Romania's burgeoning debt service pressures: \$2.2 billion in foreign debt matures in 1999.

**Privatization.** The IMF has consistently made it clear that Romanian commitment to faster privatization is a requirement for further aid. The major political parties are all in favor of faster privatization, but the government has had difficulties in practice, especially in passing appropriate legislation. The Ciorbea administration emphasized attracting foreign strategic investors who could bring cash and technical expertise. One of the first initiatives of the new government was to reorganize the State Ownership Fund (FPS). In early 1997, all 17 board members were replaced, and in April the government put the FPS under its direct control. The FPS had previously been accountable to Parliament, which was hostile to privatization under the Iliescu regime.

The new government also created a Ministry of Privatization. Then-Reform Minister Ulm Spineanu cited reports of mismanagement, ineffectiveness, and corruption in the privatization process as the main reasons for taking these decisions.

In June 1997, the government issued a landmark ordinance that allowed foreign portfolio investment on lucrative terms, and also provided financial incentives for foreign direct investment. The decision caused the Bucharest Stock Exchange (BSE) to hit record highs in early July. Last June, the government also revoked a provision that rebated 60 percent of a company's purchase price to pay off debts or invest in updated technology. The decree's supporters argued that the earlier arrangement merely led investors to accept inflated prices for state assets in the knowledge that a large share would be ploughed back into the firm, while the state received too little for its assets. As a result of the change, the number of firms privatized dropped in July and August. Then in January 1998, after heavy criticism from domestic investors and the World Bank who saw the June foreign investment decree as giving foreigners an unfair edge, this ordinance was replaced by another decree that reduced some incentives for foreign direct investment and eliminated others while putting foreign and domestic investors on equal footing. The provisions concerning portfolio investment will be addressed in a new law later this year. The decrees have caused heated public discussion and are on the parliamentary agenda for debate, which means the provisions will probably be changed yet again. The frequent changes of this and other legislation have produced confusion and uncertainty.

Actual privatization was accelerated in the early spring of 1997. By mid-September, before the political squabbling began, 1,108 companies had been sold off. The proceeds for the year were close to 1 trillion lei, which exceeded the receipts from all previous privatization by 60 percent (about \$465 million last year, compared to \$250 million from 1992-96). Privatization is nearly complete for some sectors: garments and cement (both 100 percent), food packaging (90 percent), plastic processing and building materials (both 86 percent), and technical supply wholesalers (80 percent). But by year end, only 1,304 firms had been sold compared to 1,450 in 1996. Only 4 percent were large companies. Given governmental hesitation, foreign investors have been taking a wait-and-see approach. While 222 firms were privatized in January 1997, only 23 were sold off in December, and 134 in the first quarter of 1998. The FPS currently holds stock in over 5,500 companies, of which 698 large firms account for 71 percent by value.

A privatization law was one of the most important to be passed by the extraordinary session of Parliament in January 1998. The law's stipulations include reorganizing privatization bodies; developing the Romanian capital market through FPS activity; making transactions transparent; including trade-union representatives on the FPS board; and setting environmental protection conditions. A banking privatization law was also finally passed and should lead to the privatization of several important banks in the near future.

Based on decisions taken by Ciorbea's cabinet, 35 percent of the national telecommunications company, Romtelecom, is to be privatized by autumn 1998. A controlling interest in the largest Romanian copper works, Phoenix Baia Mare, will also be sold to a strategic investor. In early 1998, the government took preparatory steps toward the privatization and restructuring of the energy sector.

Legislation was finally readied to end the state monopoly in coal extraction and close inefficient mines. Altogether, around 1,600 companies are supposed to be sold via public offers or direct negotiations. The 1998 program includes the sale of 50 companies on the BSE and 250 on RASDAQ. To avoid disrupting current activity on the local secondary market, the FPS intends to sell some companies on the Thessaloniki and London stock markets and is negotiating contracts for the offering of firms through GDRs and ADRs on exchanges abroad. The planned privatizations were initially expected to yield \$1.7–\$2.7 billion in 1998, or 1.9 percent of GDP. This forecast will most likely be revised downward given the slow start, although a successful sale of Romtelecom shares would alone meet a large part of the goal.

**Foreign Investment.** In the first two months of 1997, foreign investment in cash received reached \$190 million, nearly the same as in the entire year 1996. According to the Romanian Development Agency (which measures committed investments), the 1997 volume of foreign direct investment was \$3.78 billion, an increase of \$600 million compared to 1996. Foreign interest in Romania had quickened because of the policies adopted by the Ciorbea administration. Western businesses welcomed the passage of a new law on foreign land ownership in April 1997. In June, the Romanian government passed a new mining law putting foreigners and local companies on equal footing. Another legislative breakthrough lowered the threshold above which foreign companies could benefit from a tax break and customs duties holidays. The new green-field investment law allows companies with an investment of \$5 million or more (down from \$50 million) to pay a profit tax of only 15 percent instead of 38 percent and enjoy reduced tariffs on components and raw materials.

**Banking.** Romania's banking sector became an area of focus for the Ciorbea government. After having been rocked by several scandals in 1996 involving mismanagement, corruption, and bad loans by two prominent private banks, Dacia Felix and Credit Bank, legislators tried to bring Romania's banking practices in line with West European standards. In May 1997, the government sent Parliament a draft which specifies when banks can be declared insolvent, demands international audits, and requires foreign banks to open up branch offices before they can have direct financial operations in the local market. This law (which was finally passed in April 1998) gives the NBR clear responsibilities and allows it to intervene more quickly in troubled banks.

**State of the Economy.** During its 17-month rule, the policy decisions of the Ciorbea government, designed to bring long-term growth, had an immediate negative impact on the economy. In early 1997, Ciorbea projected that GDP might fall 2 percent for the year due to the industry restructuring and fiscal austerity mandated by the IMF. Actually, GDP fell 6.6 percent, as investment and reform nearly halted due to political hesitations and legislative confusion. A good harvest in 1997 kept GDP from decreasing even more. Industrial production began slipping in April 1997 after stabilization measures were introduced in March. For the year, industrial output was down 5.9 percent. A quarter of the national economy's losses came from the mining sector. For 1998, the government was hoping only for zero growth—a decrease in the first half followed by modest growth in the second half of the year.

Despite floods in the summer, 1997 was a bumper year for grain, but agricultural output is still not up to its potential, due in part to an obsolete and undersized fleet of combines and inefficiently small farms. Private wheat farmers pointed to extensive areas that had been sown but not harvested.

The procurement price was far short of their costs. Soaring prices of fuel, fertilizer, mechanization, and seed acquisitions, along with higher costs for processing and storing, have hurt farmers. Poor quality and handling capacity inhibits grain exports. The government had contemplated paying grain producers a bonus for export deliveries, but the plan was abandoned by the government after consultations with the IMF, primarily because the cost could have amounted to as much as 300 billion lei.

The slow privatization of the state agricultural enterprises, the lack of modification of the Lands Fund Law and the Agricultural Credit Law, and the non-liberalization of agricultural land transactions upset a World Bank delegation, which postponed the release of a second Agriculture Sectoral Adjustment Loan installment that will now have to be renegotiated. At that time, the government was being squeezed by the Agrostar farming trade union confederacy. Agrostar threatened to take to the streets in protest over the government's farming policies, including the decision to liquidate, rather than privatize the state pig and poultry farms.

Ciorbea's government made more progress in reversing the distorted energy policies of the previous government. Fuel and electricity prices were doubled in January 1997 and then raised another 50 percent in March to help boost them toward world market levels. Gas and heating prices were raised in May. While these price increases contributed to the large increases in the consumer price index, Romania will benefit from the more efficient allocation of energy. The government's decisions to restructure the Darmanesti and Petromidia refineries should reduce imports of crude. The two refineries accounted for more than 5 percent of losses in the Romanian economy in 1996.

From a 7.9 percent gain in 1996, retail trade fell 26.8 percent in 1997. This was a logical result of the new government's fiscal austerity. Purchasing power declined 40.5 percent last year, and Romania's standard of living decreased 21 percent. After healthy gains in the real wages of Romanian workers in 1995 and 1996, the austerity policies of the Ciorbea government required to defeat the strong inflationary surge in the first quarter of 1997 more than rolled back those gains. Only partially indexed to the inflation rate, the average real wage in the first three quarters of 1997 fell by 20.4 percent.

Leaders of the major national trade union reached a compromise agreement with the Ciorbea government in July 1997 that raised wages by 15 percent starting in August plus a 14 percent indexation in October. Pensions were increased by 16 percent from July and 14 percent starting in October. The indexation was applied to roughly one million employees in the budgetary sector. To ease the political backlash from the accelerated liquidation of money-losing state enterprises begun in August, the government agreed to generous severance pay for displaced workers. In addition, it bowed to wage terms urged by the trade unions for the fourth quarter.

Steps taken by the Ciorbea administration showed that it is possible to close down factories and offer enough compensation to displaced workers to avoid a political confrontation—but not without fiscal repercussions. The Ciorbea government went to considerable lengths to accommodate the unions' concerns about economic restructuring because labor unions still hold considerable clout in Romania (and perhaps because Ciorbea used to be a trade union leader).

Nonetheless, because of the continued reform program, aggregate demand should decline further in 1998. The government admitted early this year that it did not expect living standards to improve in 1998.

Unemployment rose under Ciorbea's administration as the worsening economy impeded growth in the private sector and as the government shut down some loss-making state factories. Over the first three quarters of 1997, the official rate of unemployment grew to 6.9 percent of the labor force compared with 5.9 percent reported one year earlier. The rate of unemployment then escalated more sharply, however, as the impact of the accelerated industrial downturn and the closure of several large state-owned enterprises was felt. Between December 1996 and December 1997, the unemployment rate rose from 6.4 percent to 8.8 percent. By the end of February 1998, the unemployment rate was 9.7 percent with just under one million unemployed. By the end of 1997, 179,925 of the unemployed had been made redundant by the government's restructuring program, over 75,000 from the mining industry alone.

Before the change of government, the Ministry of Work and Social Protection estimated that a further 21,324 individuals would shortly be dismissed from the enterprises whose restructuring programs had been approved. The overall number of unemployed could soon reach 1,100,000, putting the unemployment rate over 10 percent—the highest since May 1995.

Because of the previous government's effort to buy the 1996 election, inflation skyrocketed in the early part of 1997 as the new government made the necessary corrections. In particular, Ciorbea's government raised energy prices and liberalized virtually all other prices in the economy. Romania's monthly inflation rate was in the double digits for four months in a row between December and March, averaging 18.4 percent, before falling precipitously. Year-on-year inflation rose from 38.7 percent in December 1996 to a peak of 177.4 percent in June 1997 and fell to 151.4 percent in December. Monthly inflation ended at 4.5 percent in December. Producer prices also rose considerably in 1997. As the majority of Romanian household income is now spent on food, it is significant that the February 1998 increase in the VAT rate allows fewer exemptions for food items. But since the majority of prices have now been liberalized and energy prices will start to benefit from greater efficiency, the worst of Romania's inflation is over.

**Trade and Current Account Balances.** According to final 1996 trade figures, exports rose 2.2 percent to \$8.9 billion, while imports rose 11.3 percent to \$11.4 billion. This gave Romania a staggering \$3.4 billion trade deficit in 1996. As the election neared, the former government used a significant portion of the \$1.4 billion it had borrowed to pay for imports. Romania's harsh winter also created a higher demand for fuel imports, contributing to the surge in overall imports in the final two months of 1996. In 1997, the Ciorbea government's efforts to liberalize trade and allow the exchange rate to depreciate helped curb Romania's imports and kept the trade and current account deficits slightly lower than they would have been otherwise. Exports were up modestly, and imports were marginally lower than in 1996. The foreign trade deficit was \$2,846.5 billion in 1997, \$504.3 billion less than in 1996. Commodity exports were up to \$8,428.9 million, 4.3 percent higher than in 1996. The value of imports was \$11,275.4 million, 1.4 percent less than in 1996.

The current account deficit fell from 7.3 percent of GDP in 1996 to 6 percent in 1997. Reduced labor costs in industry partly counterbalanced the negative effect on competitiveness of the real rise in the exchange rate in autumn. Imports of fuels, which account for one-fifth of Romania's imports, fell significantly as a result of the liberalization of energy prices and rationalization of its production. This development, which should be even more pronounced in 1998 as more of the energy sector is restructured and privatized, will help Romania to significantly reduce its trade and current account deficits.

## **Hindsight**

There have been many criticisms of Ciorbea's leadership during Constantinescu's first year in office. For example, Ciorbea characterized the restructuring of the mining sector as an unprecedented success, but it was not. Half of the mining workforce was laid off last summer and granted a severance pay of 12 months' wages. This is leading to similar claims in other sectors, claims that Romania cannot afford. Romania's parliament blocked some important measures to further liberalize agriculture. In particular, it rejected a proposal to shut down or privatize 75 loss-making state farms. The list, prepared by the Agriculture Ministry, accounted for 40 percent of the total losses in the agricultural sector in 1996, but Romania's parliament insisted on studying each farm on a case-by-case basis. Because of such difficulties with parliament, the Ciorbea government resorted to bypassing Parliament and ruling by decree. Unfortunately, what this method gained in speed it lost in inconsistency and declining credibility, as investors became accustomed to decrees changing form frequently and dramatically.

Most importantly, critics have pointed to the continued privatization malaise. By last year, the private sector accounted for only 58 percent of GDP, the lowest rate in East Central Europe. Ciorbea had promised that his government would privatize 50 companies per week, but only half that goal was achieved. The government's repeated reconsideration of the hit list of 17 large companies to go into liquidation was another example of vacillation. The cabinet's failure in the case of the Roman truck manufacturer was widely publicized. The executive first decided to shut down Roman, only to reverse this position after the workers blocked traffic on national highways and railways. The Petromidia refinery had originally been slated for liquidation, until it was pointed out that it was the most modern of Romania's refineries and that a foreign investor had already expressed an interest in purchasing and restructuring it. Restructuring of the large utility companies was not begun in earnest until June 1998. The government was unable even to pass privatization legislation until January 1998 when emergency measures were taken—the haste of which has resulted in Ciorbea's successor revising the rules once again.

Despite these failings, in 1997 Romania liberalized the currency market, increased hard currency reserves, introduced full current account convertibility, heightened the interest of foreign investors, and furthered its goal of macroeconomic stabilization. The package of bills passed by the extraordinary session of Parliament in January 1998 included much-needed laws on privatization, banking, property, and foreign direct investment. Membership in the EU and NATO, while still many years away, has become more plausible.

Both the West and the Romanian public had high expectations that under Ciorbea's government market reforms would proceed more quickly. Indeed, promises of radical economic reform resulted not only in tighter monetary and fiscal policies, but also in the beginning of institutional reform, precisely what the IMF and World Bank had waited for in vain during the seven-year reign of former President Ilescu. While the program was far from perfect—and the implementation of it even worse—it did address the major causes of Romania's residual structural impediments to economic reform. In short, we should not overlook the accomplishments of Ciorbea's administration. Its policies will be largely continued under Ciorbea's successor, Radu Vasile.

### **Looking Ahead**

Even without the recent change in government and the dent in Romania's image created by the political impasse, 1998 would not have been a strong year economically for Romania. Assuming Vasile's team remains unified and focused on their economic goals, they will not be able to exceed Ciorbea's targets for the year. Growth will be close to zero, while average annual inflation will be around 50 percent. The budget deficit could conceivably come in near 4 percent. However, if Vasile were to loosen fiscal and monetary policies in order to boost growth, as some officials have suggested, inflation and the budget deficit would rise significantly.

Since all the main parties are supportive of more reform, the newest Romanian government will not radically alter the reform course. Instead, they will build on the accomplishments of Ciorbea's cabinet and learn from its mistakes. Prime Minister Vasile could have better luck maneuvering around the same obstacles that impeded Ciorbea. If he is successful, though, he must give credit to the foundations laid by Ciorbea's cabinet in the initial period of Constantinescu's term. This year and next will be critical to Romania's transition to a market economy. The completion of restructuring and privatization requires abnormally cooperative political relations for the good of the country. Full implementation of the necessary economic reforms will necessitate politically unpopular measures, on top of anticipated social pressures in the wake of low GDP growth, high inflation, and stagnant living conditions in 1998. But the country is now on the right track. Although Romania is five or six years behind its Central European neighbors in implementing institutional reform, it is still probable that economic reform will be considered successful before Constantinescu leaves office.

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