

Elections 2004

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RETURNS WITH
A VENGEANCE**

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This pre-election paper from the Romanian Academic Society uses state capture and policy capacity as the two main indicators to evaluate the stakes of the forthcoming November 2004 elections. As Romania scores the lowest on political competitiveness amongst new EU entrants or applicants, a change in power in Romania is likely to bring more benefits than risks, this report concludes. However, changing the corrupt operating mode of the Romanian society is likely to be a difficult job, even for the only politician fully aware of the stakes of this game and willing to fight it openly, Traian Băsescu.

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HOW TO UNDERSTAND CORRUPTION IN ROMANIA

Can 2004 elections free the Romanian state from capture, or Europe will embrace its first fully-fledged predatory elite when Romania joins in 2007?

In order to stimulate change in a society, we must first understand how it works. There are reasons why some states are weak and function alongside their society rather than together with it. Far too often, externally induced processes of modernization end up as 'simulated change' against the backdrop of structural, informal continuities. Governments pretend to govern, and citizens pretend to follow, but, in practice, informal economies thrive, taxes are only partially collected, policies, whether good or bad, are seldom implemented and an informal order balances the formal one, rendering statistics a poor instrument in describing the society. Such countries seem to resist 'modernization' despite successive government pledges and decades of modernization policies. They do not develop modern bureaucracies. Their peasants do not turn into citizens but remain dependent on local power holders. Their politics remains confined to networks of clients and do not open to the entire society. Predators control their economies, not only taking the lion's share of resources but also, in the process of enriching themselves, generating massive poverty for the rest of society. There are appearances of democracy and market, but they are deceptive, remaining, for the most part, forms without content. Particularism is high in such societies. Particularism is the mentality prevailing in collectivistic societies where standards for the way a person should be treated depend on the group to which the person belongs. This is the opposite of universalism, the practice of individualistic societies, where equal treatment applies to everyone. In a universal society, rules of the game tend to be the same everywhere and behavior is easy to predict; in particularistic societies, rules tend to be specific to that society only and behavior is predictable for insiders only. Of course, the two are ideal models, and universalism is not perfect in Western societies, nor is particularism consistent across the underdeveloped world.

All these are important for the social stratification of postcommunist countries, due to annihilation of many other definitions of the individual's distance from the groups or networks holding power. The closer an individual is to the source of power, be it a charismatic leader or a privileged group (such as the nomenklatura during the communist era), the better positioned he or she is to enjoy a superior status. Individuals who enjoy this privilege are linked in status-based groups such as castes, orders, or networks. Their access to public goods is disproportionately larger compared to those not included in such networks and groups. Figures from public opinion surveys show that only networked people get their share. People with resources have to bribe to obtain what is rightfully theirs out of the public goods. But the two categories together make less than 25% of the whole society. Most Romanians can only summon resources to bribe occasionally (for instance, when a

Romania is still predominantly a status society where people are treated according to how close they are to the group in power

health crisis occurs in one's family) in the rest of time just having to accept deprivation¹.

Tab. 1. Designating the privileged

Country	SOME PEOPLE ARE ABOVE THE LAW IN THIS COUNTRY						SAME PEOPLE ARE PRIVILEGED UNDER ANY REGIME
	AGREE	Of which...			Networked people		
		Politicians	Criminals	The rich	Policemen		
<i>Romania</i>	68	88	53	87	76	91	78
<i>Bulgaria</i>	87	93	83	96	74	94	78
<i>Serbia</i>	81	90	89	87	75	92	82
<i>Montenegro</i>	69	78	89	82	44	90	56
<i>Macedonia</i>	85	92	75	90	56	91	60

Source: IBEU Gallup survey

As Tab. 1 shows, there is generalized perception that some groups are above the law, more notoriously politicians, policemen, the networked and the rich. Same groups are perceived to enjoy privileges regardless the change of regime. Upwardly-mobile individuals strive to become part of such status groups rather than change the rule of the game: there is a culture of privilege underpinning status societies. The majority less endowed with resources of every kind stand to lose, though, and they show their resentment in opinion surveys. This subverts the trust in important political institutions.

Where do this privileged, status groups come from? Communism created special 'politocracies', as power was the main instrument of allocating social rewards. Political office was closely intertwined with social status, generating what Andrew János called a 'modern version of the old tables of rank'. Evidence gathered from studies examining the political economy of communism suggests that the uneven distribution of power according to status was the norm rather than the exception under communist rule. Examples of such status holders range from the apparatchik, the "director", the party member, the civil servant, or the state salesman in charge of allocating resources, always in short supply, to the members of any group recognized officially, such as the Union of Writers and Journalists or a sports club. As other resources or forms of social stratification had been de facto annihilated, status became the main provider of social hierarchy.

Such status groups were able to convert influence into wealth during the transition and, unlike in other accession countries, in Romania they still hold disproportionate control of all opportunities, therefore hindering free market relations and fair competition. Businesspeople, journalists, normal citizens and, in the last years, the authors of the European Commission Regular Report on Romania, all allude to this phenomenon when speaking about Romania's widespread corruption.

Pre-modern predatory elites, not bureaucratic corruption, represent Romania's main problem

But speaking of 'corruption' is somehow inaccurate here. Their definition of corruption is the use of public office to seek personal gain, but this definition implies that a public sector already exists and operates in a fair, non-discriminatory manner. This is seldom the case in either rural or communist societies. They have never reached the stage of fully-fledged modernization and their governments have never achieved the impartiality, impersonality, and fairness that presumably characterize modern

¹ This argument is summarized from the report to the European Union Fifth Framework Program IBEU by the Romanian Academic Society; and also in Alina Mungiu-Pippidi 2004 'Fatalistic Political Cultures Revisited' in Jan Zielonka, H.D. Klingemann, D. Fuchs and R. Inglehart *Political Culture in Post-Communist Europe*. Oxford: Oxford University Press

bureaucracies. Therefore, corruption often manifests itself not just by the use of a public position for personal gain but, more broadly, as the widespread infringement of the norms of impersonality and fairness that should characterize modern public service. Influence – and therefore power – is here the main currency, not cash. In a world of scarcity status groups control access to every resource. Most notably to the state and public ones, but due to corrupt privatization, to a sizable share of the private resources as well. They come together to form networks, which thrive at the expense of the larger society. Barrington Moore called such groups ‘predatory elites’, *who, in the process of generating prosperity for themselves, produce social poverty of a scale otherwise unwarranted in that society.*

Tab. 2. Discontent with main institutions

Countries	Parliament (%)	Local govt (%)	Courts (%)
Romania	42	22	52
Bulgaria	49	34	46
Serbia	61	52	53
Montenegro	41	35	37
Macedonia	54	46	55

Are Romanians too critical when it comes to corruption? Actually they are not. While Romania falls clearly in line with other non-accession countries in the region when it comes to rule of law and status society, and thus emerging as a typical Balkan country, Romanians have clearly started to value some of their political institutions, and are less critical towards local government, for example (Tab. 2), seen as more accountable than either Parliament or the courts. Trust and accountability are related. Also performance in government is noticed when it exists. In Bulgaria an overwhelming majority appreciates the government of Simeon as less corrupt than its predecessors. Bulgaria has been the stage of an unprecedented large scale anticorruption campaign based on the cooperation between the civil society (*Coalition 2000*) and the government. In only a few years this approach – so different from the strictly formal attempts made in Bucharest – has produced remarkable results.

Romania, like Poland and some other countries in the region, adopted with little adjustment standard recipes from the global anticorruption arsenal. In such programs governments were asked to organize grand anticorruption shows, professions where traffic of influence was rife were encouraged to adopt codes of conduct, societies already suffering from informality and a deficit of implementation were pushed to adopt numerous laws and regulations. Finally, defective judiciaries and law enforcement agencies were burdened with the task to clean the rest of their societies. The results of this legalistic push were modest, in spite of the effort invested and the backing of donors – something the successive governments probably suspected all along since they happily obliged with fresh strategies and laws every half year or so. However, as Tab. 3 (the Bulgarian case) shows, it does not have to be this way. Skepticism is not fatally grounded in poverty and attempts to really increase government accountability are positively perceived and rewarded by the public opinion.

New institutions are not necessary if what blocked the old ones was a lack of political will

To put it briefly, "corruption" is a disease of the modern society and bureaucratic state. However, in societies where modernization itself is far from finished and the state has always been in the private property of certain privileged groups. The very notion is misleading as it suggests a completely different stage of evolution. *Therefore searching a solution in the anticorruption toolkit of the Western developed democracies is inappropriate: the answers on how to build a fair and bureaucratic state are to be found in the history of these countries, not their current legal arsenal.* The well-known

concept of *state capture* also gets a special twist in such societies: businesses do not need to capture the state because the most important of them belong to people who already 'own' the state. They are MPs, ministers, have all their relatives and friends in the network of power.

Tab. 3. Perception of corruption and the rule of law

	Rom (%)	Bul (%)	Serb (%)	Monten (%)	Maced (%)
In this country some people are above the law	67.5	87.4	80.5	69.0	85.4
Too many people get away with illegal acts these days	81.2	88.1	74.5	52.0	82.6
Honesty of central govt increased compared to previous years	9	52	22	19	48
Honesty of central govt decreased compared to previous years	55	21	36	27	7
Transparency International Corruption Ratings*	2.9	4.1		2.7	2.7

*CPI Score-2004 relates to perception of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt)
Source: IBEU Gallup survey, Transparency International

Counting the rotten apples

Some people may doubt a model relying on public perception indicators only. However, the *Romanian Coalition for a Clean Parliament* has dug up solid evidence to back these subjective data². On the first count, the Coalition, formed by some of the most important Romanian civil society organizations, has documented 143 cases of candidates to Parliament from the ranks of the government party and its junior partner PUR who, in one form or another,

- have made use of their public position for private gains for themselves or their party clientele;
- have amassed fortunes clearly out of line with their asset declarations (ranging from top PSD characters such as Șerban Mihăilescu or Doru Ioan Tărăcilă who are millionaires but have modest bank accounts balances to report, to the more humble but no less difficult to explain savings account of 200,000 Euro of Mircea Geoană);
- have switched repeatedly from one political party to another to keep or get some privilege;
- were connected with Ceaușescu's Securitate.

The PSD (+PUR) ballot reads like a Romanian *who's who* in terms of wealth, power and conflicts of interests

Scores of prefects, deputy prefects and secretaries of Prefectura offices can be found on the list of the Coalition, as well as many leaders from county councils. PSD members tend to revolve around well-known companies in which many of them are hold shares (such as *Cominco* in Moldova) and which thrive on public contracts. Many on the electoral lists pose in successful businesspeople and display in their assets disclosure forms flashy cars, villas and summer houses, but the debts of their companies to the state budget, if paid, would substantially ease the pressure of social expenditures. The national pattern is reproduced at the local level. Regional groups converge in a super-national network mixing business with politics. The law is also

² See <http://contracoruptie.org.ro>

distorted to perpetuate the network. During the last summer recess of the Parliament, for instance, the government passed an ordinance³ allowing big debtors to the state budget to hide their debts until the very convenient date of November 30, two days after elections, with the perspective of complete write-off at the end of December. TV channels with a tame, pro-government line took advantage of this ordinance (94/2004), and so did other party clients. Following the pressure of the civil society PSD withdrew from its list of candidates almost 30 people, outrageous cases indeed but also without exception from provincial Romania. Their temporary marginalization does not mean they are out of the network, only that they took a step back, giving up the idea of being MPs in exchange for promises of jobs in diplomacy, public administration or public companies.

The situation of the other parties does not allow any possible comparison. The 30 black-listed candidates from contender Alliance DA, the 3 Hungarian candidates and the 46 members of PRM denounced as morally unfit by the civil society do not necessarily belong such networks (though some individuals may do). They may be on their way towards this goal, but many are just individuals with a dotted personal record. PRM for example displays a bizarre assortment of former petty cronies of Ceaușescu, such as his doctor, his architect, a couple of his propagandists and historians, but they cannot be charged of being the big sharks of corruption in Romania. Unsurprisingly, the most notorious and corrupt politicians from these opposition parties, Hungarians included, are in business with other PSD people, in a nice example of cross-party cooperation. In some counties the larger network does include opposition parties, as it is clearly impossible to be in the big business as a political outsider. While the opposition leaders have become aware of the problem lately and partially purged their candidates lists, much remains to be done, especially by the Liberals, and it is unclear if Traian Băsescu, the main opposition leader, will have enough power to dismantle this system by himself.

Support from the civil society does exist in this anticorruption struggle, but the media is divided, as many owners and publishers are themselves players in this game. For instance, the two main private TV channels, very different in their corporate histories and profile, are nevertheless part of the larger network. Antena 1 is owned by Dan Voiculescu, former manager of *Crescent*, the Cyprus offshore that handled Ceaușescu's foreign trade in the late eighties. He chairs a minor party allied with PSD which is actually just the political outlet of his media group. ProTV is managed by Adrian Sârbu, who is godson of Mircea Geoană, the PSD would-be premier. Mr. Sârbu is also part of the selected few to have been part of CFSN, the provisional Revolution government in 1989, without having been a dissident. The third major channel is the public one, traditionally subordinated to the government anyway, who controls the majority in its supervisory board⁴. In the print press few leaders do not belong to the network, and the most notorious ones, with the best free press credentials, Cornel Nistorescu and Petre Mihai Băcanu, a former dissident, have recently been eliminated from the management of their newspapers.

However, unlike his predecessors running the opposition Băsescu is at least aware that the system itself needs a complete overhaul. At least judging by his declarations, that is. Romanians are indeed fearful that an alternation in power may be again a missed opportunity to reform the system: they complain in surveys that regardless the change of regime the same oligarchs are beyond the law.

³ Executive order taking effect immediately after publication, before being discussed and adopted by the Parliament.

⁴ Just to be on the safe side PSD tried to sack the board anyway recently. TVR enters elections with this threat hanging over its management.

**Underdevelopment
and political
dependency go
hand in hand in
Romania**

The map of Romania drawn following the black lists of the Romanian Coalition for a Clean Parliament is also illuminating. Parties tend to be cleaner in Bucharest, where grand fraud is done usually under the appearance of legally – by spotting loopholes in the law to skip tenders, or passing legislation to pardon the debts of political clients. In territory, however, we find a correlation between the low level of development and and high percentage in agricultural-related occupation, on the one hand, and a high number of objectionable individuals on the ballots, on the other. Counties such as Dâmbovița, Giurgiu, Gorj, Ialomița, Dolj, Botoșani, Teleorman, among the poorest strip areas counties in Oltenia, Muntenia and Moldova, have almost all the top candidates on the lists. Unfortunate cases such as Bihor or Iași have situations where practically all political parties are in the politico-economic network and it is difficult to find any clean electoral list to vote for. At the other extreme, the more developed Arad, Alba, Sibiu in Transylvania have few names on the list, and all political parties tend to be cleaner there.

As it looks now, the map shows how ridiculous the slogan of separating business from politics still is. Of over two hundreds candidates screened, none declared a conflict of interest in their disclosure form, mandatory since 2003. Many are current or would-be MPs, and more than half own businesses in their own name, or on the names of their wives and children. The main incentive to become a politician, at least as a member of the current governing party, is to become part of the inner circle. This means you will not be bothered by the tax office, get at least a share from every public contract in your region, that every public institution in your area will buy from your private business (insurance, medical supplies, pesticides, IT, office supplies, construction services). In short, that you will get a rent. Once your influence is secured as part of the status group, benefits accrue naturally. Unfortunately for the captors, elections threaten the system, especially in dependency areas of subsistence farming. Here public resources are so strictly controlled by local predatory elites that whole villages vote PSD almost without exception, and PSD gets nearly 100% of the mayors (directly in elections, or through administrative and financial pressures after that). The development map and the corruption map of Romania are strictly correlated, as good theory predicts. Monitoring elections on the ballot day can only make a marginal difference in cliff-hanging constituencies; but the distortion of popular will is structural permanent in underdeveloped rural areas.

The correlation between the lack of competitiveness of the political system and corruption has been proved before⁵. A postcommunist country is likely to be more corrupt if one party stays longer in government and as a result divides the spoils less. So far, Romania is the country with the lowest number of alternations in power after 1989 among the EU new member and candidates, and as a result PSD is the strongest postcommunist party in this region. It has survived in office more than any other (eight years, or up to ten if we judge by some of its most prominent individual representatives). Little surprise therefore that the screening of the Coalition for a Clean Parliament confirm the finding that a long period in government with a weak opposition by your side increases the probability of corruption. In this terms, a rotation in power this year can only be beneficial for the quality of governance – and even for the European future of PSD itself.

Can the electoral competition solve all these problems? The Romanian opposition has clearly increased its coordination capacity in the last weeks under the authoritative leadership of Traian Băsescu. There are still concerns, primarily among eurocrats and foreign commentators, that the DA Alliance does not have enough manpower and skills to run the machinery of the government properly. In the light of their experience

A rotation in power in 2004 can only improve the quality of governance in Romania

⁵ For instance by Anna Gryzmala-Buše from Princeton, writing on Hungary, Poland and the Czech Republic.

with the previous center-right coalition, such worries are probably understandable. However, they are overblown, since both the failures of 1997-2000 and the achievements of 2001-2004 are exaggerated, as we argue in the next section of this report. The main challenge for a DA Alliance cabinet will not be technical in nature, such as preparing the files for Brussels or achieving budget deficit targets – after all, they managed trickier things in public finance management in 1998-99 and started the negotiations with EU in 2000. Instead, the real challenge will be to resist to the assault of their own clients, who will rush to replace those of PSD – and thus verify voters' worst expectations. Ironically, it will fall on Băsescu, a leader who begun politics in the same boat with the current president Ion Iliescu, to become the leader of the Romanian opposition vowing to destroy the corrupted system.

ILIESCU RETURNS WITH A VENGEANCE

If PSD wins the continuity will be less with the current government, and more with the indecisive, perestroika-style policies of 1992-1996. Iliescu may again forge a red-brown coalition with the extremist Vadim Tudor

Most governments in transition countries have little merit for the pace of economic growth during their mandates. Since the post-communist economies were distorted and in need of substantial structural reforms, the typical indicators of growth were as likely to show the lack of reforms as their presence, while the beneficial effects of painful policies, when implemented, may have appeared only after a certain period of time, often longer than an election cycle.

This is a very important point for the democratic accountability in the East-European societies: if the public discussion is muddled and voters cannot make the right connection between cause and effect, then accountability is weakened, good policies are not identified and rewarded, and incentives for political professionalization are low. Keeping the country on the right course depends in such cases only on the determination (and even selflessness) of its leaders, who are taking risks without knowing for sure if they would be able to reap political benefits before the following ballot. Their values, character and agenda become all the more important in such situations.

Therefore, a comparative overview of the three main stages in Romania's post-communist political history:

- the era of pains without reform under the first full mandate of president Iliescu (1992-1996);
- the era of painful reforms under the center-right coalition (1997-2000);
- the era of harvesting the benefits of reforms under the PSD government with dual, Năstase-Iliescu leadership (2001-2004)

offers a good basis for building scenarios for Romania in 2005-2008. All we have to do is look back at the proven track record of each of the main political actors in order to judge their professionalism and leadership quality.

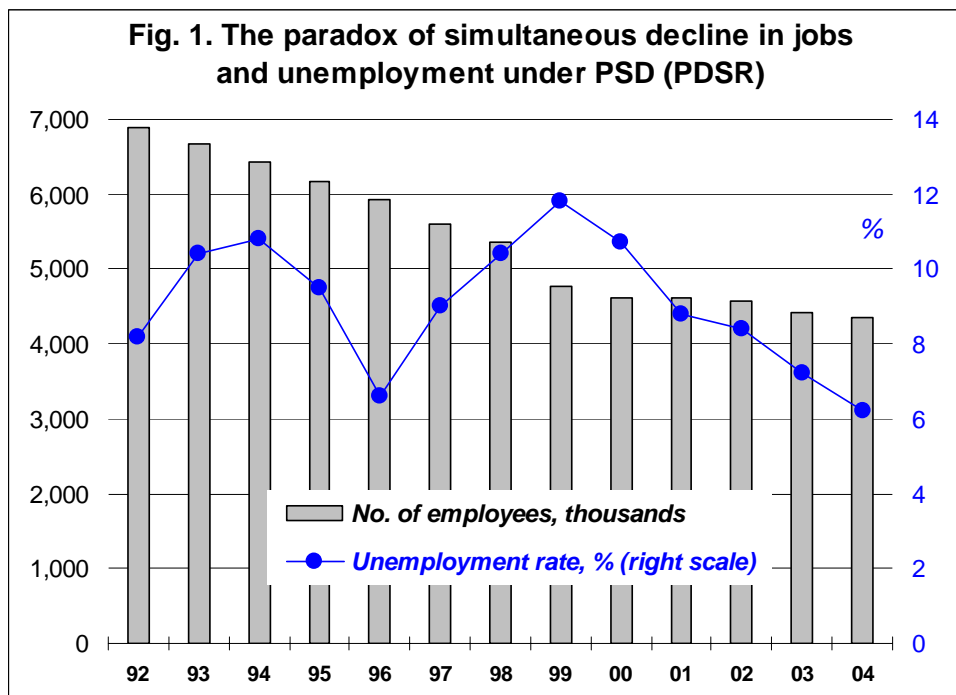
Romania inherited from the Communist times one of the most distorted economies in Eastern Europe, characterized by severe misallocation of resources; obsolete and energy-intensive industrial assets; primitive, subsistence agriculture, dotted with huge and inefficient state farms; penury of basic goods and repressed inflation; and no small private sector worth speaking of. The task facing the new authorities was staggering – but so was the situation in other transition countries like Bulgaria, while in the Baltic States domestic problems were compounded by the uncomfortable geo-strategic position. The policy choices made by the political leaders after 1989 made therefore the all the difference, and they explain why some ex-Communist countries are more successful today, while others are "at the bottom of the heap".

1992-1996 was the period of social hardship *without* reforms; we could fall again in the same trap after 2004

With hindsight, SAR believes that the transition strategy most beneficial for the Romanian society as a whole would have been a Polish-style shock therapy in the early '90s aimed at correcting as many distortions as possible, as fast as possible, while the public enthusiasm due to democratization was still high after the overturn of Ceaușescu⁶. The stock of public assets existing in December 1989 could have been used to alleviate some of the pains of this shock therapy. Private property could have been re-constituted faster than it has been. This choice, however, required a relatively competent and selfless government pursuing political suicide for the greater good. Poland, luckily, had such a government; Romania, unfortunately, did not.

Instead, in a move which was increasingly obvious after 1992-3, the Romanian ruling parties (an assortment of reformed Communist apparatchiks and nationalist ideologues) preferred to delegate control over economic assets, nominally state-owned, to various rent-seeking groups, in exchange for being allowed to control politics unchallenged, because they had no alternative career option. Public resources, including property which should have been quickly restituted to rightful owners, were squandered with the same purpose – perpetuation in power – either on gifts to cronies, or on populist handouts to the voters. Given the circumstances of the time such developments occurred in all the new democracies of Eastern Europe. But the extent to which the ruling elite was risk-averse and willing to accept stagnation in exchange for political control made Romania unique among the EU candidates. We still struggle today with the effects of this deliberate strategy. There are today one million and a half court trials related to property restitution, most due to this sloppy restitution process on the basis of poor legislation and catastrophic implementation. They burden the Romanian Courts and make Romania closer to Albania than Central Europe.

As it turned out, social pain was inevitable, under both Iliescu and Constantinescu; what differed was the amount of reforms that accompanied it



⁶ As argued by many people even in the early '90s, for example by the prominent economic analyst and SAR member, Ilie Șerbănescu, in his 1995 book entitled suggestively *Half Baked Policies Increase Social Costs*.

Ironically, the crucial choice Romania faced during the '90s was not between a fast and painful course versus a slow and painless one, as many decision-makers thought at that time. As history proved, social hardship was unavoidable – in the form of jobs losses (through deliberate restructuring or natural collapse of state-owned firms), hyperinflation (which eroded salaries, pensions and the savings of the poor) and uncertainty. All governments since 1990 are guilty for using the early retirement as an escape route from politically unpalatable high unemployment. This led to the paradox that the jobs and unemployment have often decreased in the same time (Fig. 1) and to a staggering dependency ratio of 1.4 pensioners per contributor today. However, such policies of postponing hard decisions and throwing the costs on future generations were prevalent especially in 1994-96 and, to a lesser extent, in 2001-04, as the chart shows.

Rather, the real and only available option was whether to give a sense to this social suffering: push reforms faster and cross the valley of mourning – or not. And here the marked contrast becomes apparent between the first half of the decade, overwhelmingly dominated by the personality of Ion Iliescu, and the second one, of the center-right government. It is obvious from the brief description below that the interval 1993-1996 was a time lost for reforms and development in Romania.

The Romanian transition in three steps

- **1990-1996:** After two turbulent initial years dominated by political consolidation of the new institutions and the first attempts to stabilize the economy and privatize, Romania fell into a *pathological stagnation*, with no clear direction of evolution. Economic policies were muddled and implemented with archaic, neo-soviet instruments. Price controls and other tools of administrative intervention in economy were preserved in order to continue populist redistributions. Between 1993 and 1996 the reforms practically halted, with little to be shown in the way of achievements. The positive economic growth, against a background of hyperinflation, financial indiscipline and soaring public deficits, did probably more harm than good and contributed decisively to the deterioration of the banking system. The problem was not so much that of leftist vs. rightist policies – but that of the extreme indecision and lack of courage of a government headed by a weak prime-minister and controlled with an iron fist by president Iliescu, an accomplished survivor.

The best case study to illustrate this chronic indecisiveness leading to erratic policies is that of *property restitution*: agricultural land, urban property and industrial mass privatization. While in other CEE countries some sort of decision was reached in a reasonable interval about what and how to retribute (more, like in the Czech Republic; or less, like in Hungary) the issue was left to drag for years in Romania, one social group was played against another, and property restitution was not regarded as a matter of law, but a subordinated, instrumental device employed to maximize political gains. In each area mentioned several successive laws were passed⁷, usually clashing with each other, and important decisions related to implementation were left to be taken case by case by the low-level bureaucracy. Many conflicting property rights were thus created, unpredictability and permeability to corruption increased, and Romania has become the transition country with the highest rate of per capita property cases in courts. Unfortunately, 1992-1996 was exactly the period when the window of opportunity for restructuring and privatizing was wide open – favorable world

Erratic policies were the trademark of the first full mandate of president Iliescu

⁷ For example, two rounds of mass privatization vouchers were distributed in Romania. The second, issued in 1994 by the Văcăroiu government, partly canceled the effects of the first one issued by the Roman government in 1991, with serious legal consequences.

economic cycle, willing strategic investors – and the basis for the further success among other EU candidate countries was laid down precisely in this period.

Key actors responsible: Ion Iliescu (president), Nicolae Văcăroiu (prime minister), Florin Georgescu (minister of finance)

- **1997-2000:** Against a background of political cacophony and weak implementation capacity that characterized the center-right coalition, important *structural reforms* were nevertheless initiated, both in the economy and the broader public sector. This happened because some of the new leaders truly believed in reforms; but also because the 1992-96 policies were clearly unsustainable and a correction had to take place no matter what, or else a Bulgarian-style crisis would have stricken Romania. In fact, the country barely escaped such a collapse in 1998-99, when the pile of debts made by the previous government had to be repaid, the bubble built in the banking sector popped off, and the democratic institutions had to be defended against the riots of politically-manipulated miners. On the positive side, the problems in crucial areas of the economy such as the mining and heavy industry were for the first time seriously tackled; the currency was made convertible and prices were liberalized; interests rates were normalized (i.e. became positive); the health and education sectors were transformed institutionally; and so was the fiscal system, including local budgets, where transparent, formula-based transfers for local government were introduced. Major privatizations began – Romtelecom, Dacia, BRD, cement, steel plants – and the banking sector was cleaned out. For the first time, Romania appeared to have a government with a genuine pro-reform agenda. The clear position adopted during the Kosovo crisis, in contrast with the traditional pro-Milosevic leaning of Iliescu, is credited today for earning the country's acceptance into NATO. Finally, in the last year of this interval, the care-take government of Isărescu adopted a supply-side economic package which triggered the subsequent growth, and started the negotiations with the EU.

On the downside, the coalition accomplished less than it could have. One cause for this partial failure was the disastrous human resource policy of the parties in power, and another the sheer number of partners in the ruling coalition (four main parties and a host of other small but vocal groups). Moreover, the external conditions turned against Romania: the East-Asian crisis, followed by the Russian crisis, gave potential strategic investors cold feet precisely when Romania's governments finally decided that foreign direct investment is a good thing after all, and privatization acceptable. Reforms of the public administration and judiciary began too late and too indecisively to produce any palpable results, and strong lobby groups managed to delay the finalization of property restitution until the end of the decade.

Key actors responsible: Emil Constantinescu (president), the party leadership of the Christian-Democrats, Liberals and Democrats; Mugur Isărescu (head of the central bank, then prime-minister)

- **2001-2004:** With no serious domestic or international crisis on their hands, the center-left Năstase government staged a reasonable performance as care-takers of the reforms initiated in the previous period. President Iliescu kept to his rather limited constitutional attributions and intervened less than before in domestic policy – at least in the first three years of his mandate – allowing premier Năstase to grow in office as the likely successor to PSD leadership. The restructuring of the mining and heavy industry has continued, though at a slower pace, and so has privatization: in some cases processes already started were finalized (Galați steel plant); in other cases it is entirely the merit of this government (the first assets sold from the energy sector). Overall, the performance was better than some of the critics of this government had expected, especially in economy, as

The current government must be credited for not squandering the opportunities created by their predecessors

they built reasonably well on the foundations laid with so much effort before. Today the economic growth is largely real and healthy, unlike in 1995-1996.

However, the image of the current PSD leaders as competent managers is an exaggeration, unless bureaucratic obedience is equated with competence. By and large their actions were predetermined by existing agreements with the EU, IMF and the World Bank. This externally-imposed agenda, though not always optimal, was much better than the catastrophic policies pursued independently in 1992-96. The current cabinet scores high marks only compared with the previous, inept PSD (PDSR) government of that era. It was during the current mandate that Bulgaria overtook Romania as the Southeast European performer. Bucharest is last to conclude accession discussions with EU, mostly due to the slow pace of negotiations in 2001-02, under Integration minister Hildegard Puwak, who reshuffled politically the staff of the Ministry before having to step down due to a scandal related to a European grant received by her family. Also on the downside, the Năstase government has not advanced any further with reforms in sectors where the current course is obviously a dead end: pensions, health care. In fact, it has left them exactly where they were in 2000 because it felt they are too hot to handle. In other areas, such as public administration and judiciary, things are arguably worse today than four years ago, as informal political control over these sensitive sectors has increased, not decreased. Ironically, while Romania has made progress technically by closing the *acquis* chapters, it has made steps back on pre-accession political criteria like the independence of judiciary, freedom of speech and corruption in administration.

Key actors responsible: Adrian Năstase (prime minister); and, especially in 2004, Ion Iliescu (president).

Two scenarios

SAR believes there are only two likely scenarios regarding the results of the November 2004 elections in Romania.

- A. *The opposition DA Alliance wins*, the Bucharest mayor Băsescu becomes president, and the government is formed by the two members of the Alliance, the Liberals and the Democrats, with the parliamentary support (and, possibly, executive participation) of the Hungarian Alliance (UDMR). In this case we will probably assist to the speeding up of reforms in the first year / year-and-a-half. Public administration, judiciary and the law enforcing agencies will gain more independence – not necessarily because the new rulers are on average more moral, but because the current informal relations between the political class and main rent-seeking groups on the one hand, and the administration and judiciary on the other, will be uprooted by the very alternation in power. Traian Băsescu will become engaged in a fight against corruption which will soon show the limitations of the instruments designed in the past two years. The challenges for the DA Alliance government may come from the existence of a strong red-brown joint opposition made by PSD-PRM, the uneasy cohabitation between its components, the Liberals and Democrats (though things should be simpler this time with only two partners); and from the bottom-up pressures of various interest groups within the two parties, waiting for their turn to plunder the public resources. Liberals are particularly likely to feel such pressures, because in the last year they have significantly outgrown in terms of public support their shaky organizational structure, being the sole parliamentary heirs of the center right constituency.
- B. *PSD wins*, prime-minister Năstase becomes president, moves to the Cotroceni Palace, and becomes largely insulated from domestic issues. Current president

Iliescu returns to the helm of the ruling party and takes effective control over domestic policy. He imposes a weak prime minister with shaky support in the party so that he can rule from behind the scenes. As PSD is not likely to get more than 40% of the votes, the support of the Hungarian Alliance will not be enough this time, so they will need the Greater Romania Party (PRM). The certainty that they would not ally with this extremist and anti-Semitic party is rapidly vanishing. Following an official questioning by the American ambassador in Bucharest about the reasons why a major trade union has reached an agreement with PRM, Foreign Affairs Minister Mircea Geoană, until recently regarded as the most pro-Western politician of PSD, reacted both formally and informally to defend PRM and reprimand the ambassador. Last week Miron Mitrea, the Minister of Transportation and Infrastructure and, unlike Geoană, a leader with real power in PSD, said in a press interview that a party with the kind of electoral support of PRM cannot be ignored, and that he personally "takes it into account". The same statement came from Octav Cosmâncă, another important figure at the top. Clearly, PSD is ready to push this door open.

After all, it was Iliescu who managed the previous red-brown coalition with PRM in 1995-1996. Since he is a politician of formidable skill, but a weak and opportunistic leader in terms of policies, his return in domestic policy is likely to bear his indelible mark: populism, double language at home and abroad, triangulations between the main economic interest groups, manipulation of state institutions and nominally independent agencies through close allies appointed as their heads. The group of people Iliescu has supported all along and placed on the parliamentary lists this year look strikingly different from the young, professional public managers advertised by Năstase's wing of the party as "the new PSD"⁸. They are rather mid-aged, gray bureaucrats with uncertain skills and a history of collaboration with various intelligence services, tied with the president by personal loyalty. The most illustrative example is general Ioan Talpeș, army ideologue under Ceaușescu, then head of intelligence services after 1989 with good connections inside the Milosevic regime, blamed by the media for overseeing the underground oil trade with Yugoslavia during the embargo, and involved in the affair of the corrupt NATO official Willem Matser. Earlier this year president Iliescu imposed Talpeș, above the head of the premier, as deputy prime-minister in charge with Justice and EU Integration. Last week Talpeș made again headlines when he invited the Austrian far-right leader Jorg Haider for an official visit to Caraș Severin, the constituency from where he runs for Parliament⁹.

People like general Talpeș, close ally of Iliescu, are those who will hold real power in government if PSD wins

In fact Iliescu has never used his undeniable authority to pursue any consistent policies, or really fight corruption in practice, so a new period of indecisiveness can be expected, similar to that of 1992-96, with the only difference that this time we will be stuck not at the start line, but somewhere along the way towards Europe. The sources of growth will gradually wear off, and the country will enter another era of lost opportunities. It will eventually join the EU – and remain a black hole with pervasive corruption and Byzantine politics, hard to understand by its partners, where nothing is what appears to be and things are decided not by open discussion, but by informal negotiations and bargains, while rules continue to be enforced selectively.

⁸ In short supply even now in the executive, anyway.

⁹ Needless to say, Talpeș has an impressive and hard to explain personal wealth, which is why he too appears on the list of the Coalition for a Clean Parliament.

CHALLENGES AND TEST CASES FOR THE 2005-2008 MANDATE

- Purging the Parliament of representatives who have dubious personal histories, switched parties while in office or were in conflict of interests at various moments of their political career. While no political actor is perfect in this respect, the current ruling party proved to be the least willing (or able) to clean its ranks, in spite of the attempts made in the last few months. The failed experiment of "primaries" held this summer by PSD, when the lists resulted where endlessly adjusted to accommodate candidates rejected by ordinary members, showed that even when the formal leadership tries to restructure the party, the informal networks are stronger and get it their way, at least as long as PSD holds power.
- Reforming and depoliticizing the judiciary. This monumental task has better chances under scenario A because, as shown before, the rotation in power may create a window of opportunity for a final wave of reforms able to make Romania politically compatible with the EU.
- Preserving the necessary independence of the central bank (BNR) from the executive, after the new governing board took office in October this year. The delicate macro balances during the turbulent times ahead may be difficult to maintain, especially if scenario B becomes reality, with people like Florin Georgescu, the sloppy and heterodox minister of finance of the stagnation era as deputy-head of the central bank.
- Fixing the pension system: reducing the high pressure on contributors and in the same time maintaining the real value of pensions. The "recalculations" proposed by both main contenders in these elections are a necessary, but far from sufficient step. They represent a marginal adjustment, not a structural reform of a system which is rapidly approaching the point of collapse. The situation is actually so bad that there is no quick fix at hand, and as a result we do not see here any scenario which is better than the other.
- Selling the remaining state-owned banking sector (BCR and CEC) and continuing the privatization of the energy sector. For all the recent hype about Eastern Europe as a re-discovered land of opportunity, our region – and Romania in particular – are still not attractive enough by themselves to lure in large foreign investors. Transparency and predictable behavior are crucial for the speedy and successful privatization of important national assets. The protracted experience with Petrom and BCR, where important bidders were put off by indecision and erratic signals coming from Bucharest, is not good omens for the future. Scenario A seems to be better than B, if only because two or three years ago key decision makers from PSD still had doubts whether the state should completely sell its banking assets.
- Concluding important public procurement contracts in a transparent manner, by guarding the national interest. For example, will the foreseeable buying of fighter jets for the army in 2005 or 2006 be the next big public procurement scandal (like in some other new EU member countries), after the string of such cases this year? National security is no excuse for spending taxpayers' money in an opaque manner, nor should such contracts be used in attempts to buy off the benevolence of Western partners or get waivers to unfulfilled international commitments. After comparing the recent controversial contracts (Bechtel, Vinci, EADS) with the famous Bell Helicopter affair of 1998, when the issue was debated openly and the government decided finally to resist pressures and temptations, it looks again that scenario A, though no guarantee, is likely to offer more transparency and accountability.