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CONTENTS

LEGAL	6
FOCUS: BAD POLITICS PROMPTS BAD JUSTICE	6
POLITICS	19
WARNING: TIME FOR A RESHUFFLE	19
WARNING: GREATER ROMANIA PARTY PERCEIVED AS MAIN POLITICAL ALTERNATIVE	22
ECONOMY	29
ECONOMIC POLICY CHALLENGES	29
HOW VOLATILE IS THE ROMANIAN ECONOMY?	32
SOCIAL	36
WILL BRASOV BE THE NEXT TO ERUPT?	36

SELECTED INDICATORS

	Q1- 2001	Q2- 2001	Q3- 2001	Q4- 2001	Jan- 2002	Feb- 2002	Mar- 2002	Apr- 2002	May - 2002	June- 2002	July- 2002	Trend
GDP growth (quarterly, annualized), %	4.8	5.1	5.1	5.4			3.1					↘
Devaluation of the Leu/\$, monthly average, %	2.1	1.9	1.5	1.2	1.9	1.3	0.9	1.7	0.2	-0.16		↘
Inflation, monthly average, %	2.7	2	1.8	2.4	2.3	1.2	0.4	2	1.9	1.2		↘
Interest rate (BUBOR, one week) %	3.4	3.2	2.6	2.6	2.7	2.5	2.5	2.4	2.4	2.14		—
Industrial output, % change	6.8	-0.3	-0.6	-3.0	4.6	3.8	5.6	1.7	2			—
Trade deficit, monthly average FOB/CIF (mil USD)	274	408	205	504	257	239	263	340	344			↗
Unemployment rate, %	10.7	9.3	8.1	8.1	12.4	13.2	13	11.1	10.2			↘
Average net monthly salary, USD	99.2	96.3	92.9	96.4	114.1	106.3	111	118.5	114			↗
State pensioners / employees	0.97	0.97	0.98	1			1.01					↗
Trust in government, % (The current government can improve things)	57	46	48**	42	45		38				32	↘
Pessimism, % (Country heading in the wrong direction)	54	52	44**	48	51		57				62	↗
Subjective welfare, % (Better off than last year)	18	19	19**	22	11		12				11	—

* *projection*; ** *urban population only*

ABSTRACT

Romania's justice system is in trouble, and public distrust has reached a critical level. But is this situation due to the system itself, or is it rather triggered by a tradition of political interventionism in justice affairs? As the **Legal section** argues, in reforming the justice, the process followed is just as important as the ends, and unless political interference is brought to an end, it is hard to see how the justice system could be empowered to fulfill its normal role in a democracy. The forthcoming changes in the Constitution represent a good opportunity to take a step in the right direction, but is there enough political will to do it?

Under the appearance of a prolonged status quo, some worrisome trends in public mood can be discerned, and these are analyzed in the **Politics section**. The radical Greater Romania Party (PRM) has consolidated its second position in opinion polls, as the ordeal of democratic opposition continues and the support for the government is slowly, but steadily declining. The report signals that it is high time for a government reshuffle, in order to give it a fresh boost in public confidence, one year and a half into its mandate.

The **Economy section** discusses the possible effects of the recent increase of energy prices, the need to enhance policy coordination between the Government and the Central Bank, and the risks associated with the recently announced increase of the minimum wage. It also examines the volatility of some of Romania's key economic indicators, and warns about the country's vulnerability to external shocks.

Finally, the EWR team went to Brasov, in order to assess the risk of social unrest in this city of Southern Transylvania, which has a consistent tradition of social protest and faces great challenges in industrial restructuring. The findings of this assessment are presented in the **Social section**.

FOCUS

Bad Politics Prompts Bad Justice

The will to terminate the political subordination of the Romanian judiciary is not strong enough

During the recent months, a string of media scandals surrounding the issue of the (lack of) independence of the Romanian judiciary gathered public attention. Evaluations from the international community were also critical, with no exception¹. As the judiciary reform process is however advancing, Constitutional modification projects, as well as a new law for the Functioning and Organization of the Judiciary are presently under drafting. This report, therefore, will look not only at problems of current practice and legal framework, which are responsible for the low credibility and ineffectiveness of the juridical process in Romania, but also at potential consequences of the on-going attempts to reform them. However, since the proposals for amending legislation and specially the Constitution are still fluid and change constantly, it is difficult to build an argument based on the current drafts. In this report, therefore, we will discuss principles rather than details and will refer only to essentials. Equally, this report tries to issue a forecast based on an assessment of political will to change the present situation.

The public is skeptical, with more than two-thirds considering that the justice system does not serve the public interest in Romania (Fig. 1). Under these circumstances, the political will to change and the awareness of the main actors concerning the issues at stake are crucial.

Fig. 1. Trust in judiciary, %

	Not at all	Hardly	To some extent	A lot
Does justice serve public interest?	29	40	18.5	3.4

Source: CURS poll, July 2002

¹ Documents consulted for this report were: 'Indicators of the Judiciary Reform in Romania', May 2002, American Bar Association, Legal and Judicial Systems in Romania, A World Bank Diagnostic Review, September 2001, Preocuparile Partidului Social Democrat cu privire la Revizuirea Constitutiei, Phare Horizontal Program 'Reinforcement of the Rule of Law' Republic of Romania, Recommendations, 1.5.02 version, 'Legal and Judicial Reform in Central Europe and the Former Soviet Union', by Mark. K. Dietrich, World Bank, 2000, and the Open Society Institute 2001 Report on the state of the judiciary in Romania. Some of these documents were consulted as drafts, and therefore they are not quoted in the text. The authors wish to express their gratitude to all these organizations for their support. The content of the present article is the sole responsibility of its authors and does not involve in any way the organizations quoted above.

However, a report from the EU assistance program PHARE “Reinforcement of the Rule of Law” points explicitly to the absence of will to reform the judiciary: “Regarding the overall situation concerning the implementation of Rule of law standards in Romania it was found that important deficiencies in the existing legislation threaten the judiciary as an independent institution. Even more important than this, however, is the fact that the different actors in the field are perceived not always to be aware of all the implications of the concept of the Rule of Law. One of the most important of these being the absence of infringement on individual cases and control over the substance of the work of judges by the executives.”

The overall attitude of the Parliament Committees and of senior figures in the judiciary is indeed close to denial in many instances, which jeopardizes even the attempt to a thorough analysis. In a focus group of the functioning of judiciary², a Supreme Court Judge who plays an important role in the reform designs appreciated that problems are mostly of logistics and that “Negative evaluations of the Romanian Courts come only from people who lose trials.” A secretary of state in the Ministry of Interior stated on the same occasion that after attending a meeting of GRECO (the Council of Europe anti-corruption initiative), his conclusion was that “Romania has no special problems compared to the other states present” and that no radical judiciary reform is needed, but on the contrary such a reform should rather be avoided in order not to turn the judiciary into “a state within a state”.

This report is structured as follows:

- A. A review of alleged political interventions in the affairs of the judiciary
- B. A diagnosis of the legal framework and of the potential of constitutional and legal modifications proposed to address the current problems
- C. Recommendations on steps needed to restore credibility of the judiciary reform ahead of NATO’s Summit in Prague.

A. Bad system or bad practice?

There have been many situations in which the poor performance of the judiciary was blamed on the intervention of the political factor. For the purpose of this review we will just discuss three:

1. Poor performance of the judiciary due to poor legislation
2. Politicization of the anti-corruption campaign
3. Pursuit of purely political objectives through the Office of General Attorney.

1. Legislation beats jurisdiction?

² June 22 at the Romanian Academic Society.

Examples of the first category abound. The most widespread concern the confusing and often contradictory property restitution laws passed by the Romanian Parliaments starting with 1991. As the concern to offer social protection to property-less categories over the owners dispossessed by the Communist regime overrode most of the time the concern to restore property and the rule of law³, property restitution legislation worked poorly.

Case study one. Property restitution

The law 18/1991 was at the same time both a restitution, as well as, strangely enough, a privatization law. Not only peasants and former landowners had their property rights reestablished, but others received land in their property as well. Article 8 ran as follows:

“The establishment of the right to private ownership on lands belonging to the estate of former agricultural cooperatives is undertaken under the conditions established by the present act either by the reconstitution of the property right or by its constitution.

The law benefits former members of the cooperative who brought their own land when it was created, members who had been deprived in any form by the cooperative of their land, as well as their heirs by virtue of the civil law; and also the members who did not bring any land and other specially defined persons’.

The latter was supposed to refer to the ‘late-settlers’ in the village, and to the Communist time village bureaucracy, but it opened the door to arbitrariness. Poor wording was further aggravated by poor implementation: mayors were entrusted with a large authority as heads of restitution committees, and since the 1991 mayors were practically self-appointed (the first local elections took place in February 1992) it is not difficult to guess how fairly they distributed the land. For the land to suffice, the law imposed an upper limit at 10 hectares per family, but since the law left the decision on how much to the restitution committees, after cutting the shares of mayor’s cronies there was too little land left to meet even the 10 hectares imposed limit. Land availability was in fact severely limited by the exemption of the lands belonging to state farms. Owners whose former holdings had fallen in the area of these units received ‘shares’ instead of land.

The small ‘privatization’ operated by this law was more than dubious. Even by Communist law, the land belonging to state farms was part of the public estate; the one belonging to the cooperative was held in collective, *but it was not state property*. In the case of most peasants their land was not nationalized, but ‘willingly’ reunited in the cooperative estate. The 1991 law thus practically privatized something which had never been state property, but in fact private property.

After the 1996 arrival to power of the National Peasant Party, traditionally tied to the interests of the peasantry, another law (169/1997) tried to counter the negative effects of the first one. This law extended restitution to 50 hectares in the limit of available land and opened the possibility to restore the land from state farms as well. Its implementation was however paralyzed by its dependency on the law of state farms privatization, blocked for three years in the Parliament by a powerful cross-

³ See Program of FDSN, 1992.

party lobby of state farms managers. This other law was needed in order to ‘calculate’ the land available for restitution. With law 169 thus put on hold, most mayors stopped the restitution altogether, even when it was clear where the land should come from. In many cases, people who did not have legal rights over the land sold it formally or informally, prolonging the legal hell of land restitution. Others sued the state farms for their land and won in Court long before state farm privatization was politically agreed⁴. The few landowners who managed to recover up to the 50 hectares allowed still have no formal property titles, so they cannot dispose of it. The effects of this odyssey of land restitution on the land market are easy to guess.

After a decade of restitution, only 60% of land property titles were distributed. Over half a million lawsuits have meanwhile flooded the judiciary, which operated with its ancient procedure codes and in offices so poorly equipped that they hardly had a telephone connection, not to mention computers with Internet connection. The average length of a property trial, including all possible appeals up to the Supreme Court of Justice is difficult to calculate, but lawyers place it at four years, if the trial is not complicated. The trial, however, is often complicated by the fact that the losing part has estranged the disputed holding or used it for construction, often getting a construction permit from local governments. This means additional years and the need to get a sentence to have the decision enforced.

Little of this nightmare was the doing of the judiciary. The poor law, the defective implementation, the authorization to build on holdings without titles, the slowness of distributing titles – thus prompting informal sales, are all political factors. The Parliament passed the two laws and delayed the privatization of state farms; the local governments were ineffective to restore land, often corrupt as well, and refused to show up when summoned in Court, thus further delaying final solutions. The offices of the prefect, branches of the central government in the counties, entrusted with the writing and distribution of titles, behaved the worst of all, taking years to complete the job even when mayors had long finished theirs. Tampering with records of property was frequent, and as the records are kept by local governments this also added to the burden of Courts. In twelve years of freedom and ten after the Constitution was passed, no Minister of Justice has managed to pass a minor change in the procedural code, which would allow judges to move on with trials even when witnesses and defendants refuse to show up, claiming that they were not found. A simple doorman in a local government refusing to sign a citation from the Court can in this way postpone a trial indefinitely on grounds that the mayor was not notified. This is widespread practice and could have been solved long ago if political will was there to solve it.

Land restitution is just one example, but a spectacular given its role in preventing the creation of a land market, which seriously hampered Romania’s economic recovery. The situation of nationalized real estate was by no means better. Two restitution laws, 112/1995 and 10/2001 managed to add burden to the judiciary’s task as well. In view of the fact that most Central European countries fully solved their property restitution by 1995, struggling by that time with privatization only, the dates when Romania’s above mentioned acts were issued are striking evidence of the difficulty to summoning enough

⁴ The case of the state farm in Slatina, Arges. Cases alluded to in this case study are drawing on the Romanian Institute for Recent History Working Paper 4, ‘A Tale of Two Villages. Modernization and de-modernization of the Romanian village’, IRIR, Bucuresti, 2002

political will and consensus to enact restitution. But the laws passed were also poor laws, carrying the germ of further conflict. The 1995 law allowed tenants to buy (by a certain deadline) if the house had not been recovered by the former owner; and the 2001 law did not make in kind restitution the rule, but instead substituted it with vague compensations, such as shares in privatizing companies or money (to be regulated by another law, still not adopted, on a methodology for calculating the amount of compensations). This legal ambiguity led to situations when tenants bought houses under litigation, and which subsequently were won in courts by the original owners. The European Court of Human Rights (ECHR) in Strasbourg has already ruled in nine cases in favor of the original owners, and the total amount of compensations to be paid by the Romanian state as a consequence of these rulings, including costs of the judiciary procedure itself, is of more than \$1.5 million. Other similar cases (around 90) are in line, some for smaller properties, some for buildings evaluated as high as \$1.5 million each. The Romanian government is certain to lose them all, since they are similar to the first.

In the ‘Brumarescu’ case vs. the Romanian government, the ECHR ruled that compensations can be made either in kind or in cash, for an amount equivalent *to the market price*. Therefore, if the future law regulating the amount of compensations will advance a different solution, diminishing the cash compensations, it will only generate a fresh set of trials with easily predictable rulings. Furthermore, whilst the number of cases submitted so far to the ECHR is under 100, it is likely that much more cases will be filled after these path-breaking cases, as it becomes increasingly clear that the ECHR tends to rule in favor of original owners. However, it is not the numbers as such, but the substance of the dispute, which is worrisome. The ECHR ruled that Courts are competent to provide solutions each time, whilst the policy of Romanian post-communist governments has been precisely to deny the Courts the right to judge restitution of buildings, be those either nationalized private property or Greek-Catholic confiscated churches. According to the Romanian government, these cases should have been solved by legislation. This fundamental contradiction points to the *inconsistency of the Romanian Parliament and of its widespread practice to assume that one can legislate in a vacuum of both rights and international law*. The problem originates at the top of the political establishment, however, as both the President and the Ministry of Justice have publicly stated what the ‘right’ solutions are. Recently, the Ministry forwarded to Courts copies of a letter sent by Orthodox Patriarch Teoctist, who asked that Courts decline jurisdiction in the matter of confiscated Greek-Catholic churches (granted by the Communist régime to the Orthodox church).

Is it the fault of the Romanian Courts that these cases have reached the ECHR? To a limited extent only; the main responsibility seems again to rest with the political power. In order to reach ECHR, a case must be judged first at every level of judicial authority in the country. Most of the cases in Strasbourg had been objects of extraordinary appeals by the General Attorney, meaning that the Romanian courts had originally ruled in favor of the owners, i.e. similarly to the ECHR. Only after what can be seen as political pressure, namely the extraordinary appeal by the General Attorney to a final ruling in Justice, did the Supreme Court of Justice rule against the owners, thus leaving owners with no other option than to seek further justice in Strasbourg. Judges in the Supreme Court of Justice are not tenured, thus being the only judges in Romania who are appointed for six years only; under these circumstances, they cannot afford to alienate the political power.

2. A partisan approach to fighting corruption

The second set of issues concerns the politicization of the anti-corruption offensive. In 1997 the Romanian government started a process of cleaning Romanian state banks, crippled by preferential loans, in order to prepare them for privatization. Fully endorsed by the World Bank, IMF and the EC, the process consisted in creating more accountable and transparent loan-making systems, as well as in replacing the major actors involved in the bad loans and to a great extent in covering deficits with public money. While the process itself and the situation of the banks, notably BANCOREX and Banca Agricola, was beyond dispute, making those responsible accountable in front of the Court has proved a long and tedious process, as they were entangled with still very influential interest groups. The main actor in the BANCOREX case, Razvan Temesan, has recently benefited by an extraordinary appeal of the General Attorney (appointed by the Minister of Justice) against a sentence dismissing him as Board Chairman of BANCOREX. According to the last ruling, Mr. Temesan can claim his old job back or compensations of up to half a million dollars.

Fig. 2. Appointment of anti-corruption attorney

Preferred solution	%
Appointed by government	14
Appointed by Parliament with 2/3 majority	24
Appointed by Opposition	12
Other solutions	12
Don't know	37

The second notorious case involves the dismissal of the man responsible for the legal pursuit of Temesan and the like – former attorney Budusan, who headed the anti-corruption department within the General Attorney's Office. Mr Budusan, dismissed after the switch of power in 2000, won his case in front of the Romanian Supreme Court of Justice. He was then pursued for collaborating with the French justice in the investigation on Adrian Costea, a corrupt businessmen who had defaulted on a BANCOREX loan, but was a contributor to the electoral campaign of President Ion Iliescu. Again nothing illegal could be proved against him, but Mr. Budusan resigned and left the Attorney's Office.

The third case involves an attorney from North-Western Romania, Al. Lele, who ordered the arrest of the son of the Bihor prefect for gasoline smuggling. The attorney was fired and investigated for abuse shortly afterwards. A young attorney, Cristian Panait, sent from Bucharest to complete the investigation, committed suicide after deciding to close it, a decision reversed by his superiors after internal scandal. It was the suicide which attracted a lot of media attention, but the attention was subsequently diverted towards trivial or sensational issues instead of pursuing a clear internal investigation on how a decision by the investigating attorney can be reversed by his superiors.

Prompted by the need signaled by most international donors, notably WB and EC, that corruption must be decisively tackled, the current government reinvented the anti-corruption department which used to be headed by Mr. Budusan, under a different name and with more powers. The proposal was rushed through both Chambers in time to get it adopted by summer holidays. However, an essential point was dropped in the process from the original proposal by the EU consultant who provided advice to the government⁵.

This point specified that the Parliament approves with a majority of two thirds the person nominated in the newly created powerful position of anti-corruption attorney. Under the current proposal the appointment is largely done by the Minister of Justice and President,

⁵ Under the framework of Pre-Accession Program of the EU consultant David Martinez Madero.

and if they represent one and the same party, as in the current legislature, there is no check from the opposition and little guarantee that cases like Budusan will not occur again. If each régime finds guilty only the suspects of the previous one – and even this is doubtful, at the current length of trials – then the new law will curb corruption just as successfully as every previous attempt. The public is aware of this, and in a recent poll indicated the Parliament with 2/3 majority or even the opposition parties (such model was tried in Latin America) as being those who should appoint this Attorney. Only 14% believe that the government should do it.

3. Controversial powers and acts of the General Attorney

Many of the controversial decisions described above were due to the intervention of the General Attorney's Office. In order to remove a General Attorney who was an appointee of President Ion Iliescu, the 1996-2000 centrist regime changed the manner of appointment, allowing the Minister of Justice to make the recommendation to the President, thus openly subordinating this office to the government. The move, even if mistaken in substance, did not go formally against the Constitution, as Article 131 of the 1991 Constitution runs as follows:

Article 131. Status of Public Prosecutors

1) Public Prosecutors shall carry out their activity in accordance with the principle of legality, impartiality and hierarchical control, *under the authority of the Minister of Justice.*

The authority of the Minister is further enhanced by the Law on the organization of the Judiciary, which makes the Minister an all-powerful attorney through articles 33, 34 paragraph 5 and 91 paragraph 2. Article 33 specifies that the Minister can ask the General Attorney to start an investigation each time he or she considers that public interest is affected.

The exceptional power of attorneys as compared to the judges, when shielded by the government, is proven in many cases. Attorneys in Romania are literally magistrates, and in the Court they sit at the same level with the judges while defense attorneys are seated in the public; the attributions of the attorney in Court are vague and poorly separated from that of the judge, except for the final decision act. The ECHR also ruled on this, establishing that in the Romanian system of law the attorney, even if he is a magistrate, has no such 'functional quality'.

The Codes of Procedure have traditionally included a procedure known under the name of 'extra-ordinary appeal', which allows the General Attorney to invalidate a decision of the Supreme Court in restricted circumstances. In a 1993 revision of codes the word 'extra-ordinary' vanished, and the name became 'appeal for invalidation'. In the same time the circumstances allowing such interventions were expanded. The instrument of the 'appeal for invalidation' has been used for canceling Courts ruling in favor of property restitution, mostly on grounds of incompetence to rule in such cases. Articles in the Civil and Penal Code regulating this appeal suffered frequent interventions, which is an indicator of the political stake, whilst articles which would allow trials to go smoother are still untouched. In 2001, besides the already broad grounds for appeal, another broad and vaguely defined category was introduced: "obviously unfounded". Suspicion of such can make the General Attorney attack final decisions of the Supreme Court at any time and

the Court must designate other judges for the new trial. Those know already that the original 'final' ruling was politically 'wrong', so they are bound to judge under considerable pressure. The procedure was extensively used against Court decisions that restored property prior and after the 1995 law, but has had other uses as well. Among the most controversial interventions by the present General Attorney Joita Tanase, one can quote:

- a) Extraordinary appeal against the verdict condemning to 15 years in prison Generals Victor Atanasie Stănculescu and Mihai Chițac, both of whom were involved in the repression of anti-Ceausescu protesters in Timisoara, ended with more than one hundred dead. Both generals were also involved in dubious transactions with public funds during the 1990 government. The final decision was postponed for fall 2002, but important political figures of the power made public statements in their defense.
- b) Extraordinary appeal against the sentence validating the election of the Toplita independent mayor Nicolae Baci, who had won against a candidate from the current government party.
- c) Extraordinary appeal against a verdict ruling in favor of the validity of a guarantee contract between the collapsed investment fund FNI and the state bank CEC, through which CEC guaranteed backup for the fund. If the contract is valid CEC should have to pay damages to investors cheated by FNI, which means that indirectly the state will have to pay. The Supreme Court of Justice managed to defend its initial ruling in this case, as the appeal was initiated a year after the verdict, the legal term being of six months. It is hard to accept the idea that Romania has a General Attorney so incompetent as to overstep by six months the term of an appeal. Rather, it is more plausible that the action undertaken by his office was meant to intimidate the Court or send a powerful signal that its decision should not be enforced. The term for extraordinary appeals was subsequently prolonged to one year.
- d) Extraordinary appeal against the decision of the Supreme Court of Justice ruling that the Presidency had illegally severed a civil servant, who was granted tenure by the law 188/1999. The few civil servants who sued the government for being dismissed at the change of power in 2001 have all managed to win, many cases being still under appeal. The appeal by the General Attorney quoted at length reasons, which could have been found in the initial motivation of dismissal by the Presidency.
- e) Arrest of a former assistant to 1996-2000 President Emil Constantinescu, on charges of circulating false information. The material circulated through Internet was an anonymous attack against Prime Minister Adrian Nastase, consisting in a compilation of press cuts on Nastase's private fortune. The case was known under the apocalyptic name of 'Armageddon 2' and received extensive coverage in both domestic and international media.
- f) Extraordinary appeal against a decision declaring bankruptcy of the International Bank of Religions, an alleged money-laundering bank. The Supreme Court maintained the verdict.

B. The system under change

There have been repeated attempts to reform the justice system. The former Minister of Justice, Valeriu Stoica, notoriously sent to Parliament a large package consisting of reforms of the two procedural codes, the Criminal and the Civil code, but due to political reasons, the coalition government was unable to pass in 2000 the Stoica package. As it is often the case in Romanian politics, the current government started from scratch, to the despair of international donors who had assisted the drafting of the Stoica package. Since 1997, most modifications have been operated through government ordinances, another habit pursued by governments regardless of ideology. At present, two essential documents are under work, however, and they need being considered with full attention:

- a) A full proposal for another law (that is to say, not just modifications) for the organization of the judiciary, intended to substitute the 1992 one. This is work in progress at the Justice Ministry, and no draft was yet made available to civil society, although foreign consultants had access.
- b) A set of modifications to the status of the Judiciary in the Romanian constitution. These were published as part of the proposal to modify the Constitution by the government party. However, observing the situation of modifications proposed for other sections of the Constitution, it is quite likely for these modifications to be just a basis for political bargaining, and, therefore, there is no certainty that they will be passed. Constitutional changes need two-thirds majority of the reunited Chambers and approval in a referendum, which makes it more likely for the Law on the organization of the judiciary to be enacted first.

Modifications proposed to the current system are generally appreciated as positive. However, many observers fear that, although positive in essence, they are not enough to curb the practice of political interventions. The most important modifications regard:

- 1.** A growing role for the Supreme Council of Magistrates. Already under way, the reform of this body as proposed by the new Constitutional articles 132 and 133 would create a two-sections Council made of seven judges and five attorneys (one being the General Attorney), completed each by three civil society representatives, all elected by the Senate for a mandate of six years. According to certain interpretations, the Senate was selected due to its prospective election via uninominal vote. This Council would take over important attributions currently held by the Ministry of Justice, such as nomination, control and revoking of judges, as well as appointments in leading positions. The Council would be presided by the President of Romania, who can be replaced by the Minister of Justice. The modifications proposed have the merit to remove the recommendations of the Minister of Justice in many instances specified in the current Law of Organization. However, seeing that the proposal by the minister of Justice was still in place in the recent appointment of the Anti-Corruption attorney (with just an approval by the President), these modifications may well remain on paper. The current Constitution already specifies that:

Article 132. Composition

The Superior Council of the Magistracy shall consist of magistrates elected for a term of four years by the Chamber of Deputies and the Senate, in a joint session.

Article 133. Powers

(1) The Superior Council of the Magistracy shall nominate Judges and Public Prosecutors for appointment by the President of Romania [...] in accordance with the law. In this case, the proceedings shall be presided over by the Minister of Justice, who shall have no right to vote.

(2) The Superior Council of the Magistracy shall perform the role of a disciplinary council for Judges, in which case proceedings shall be presided over by the President of the Supreme Court of Justice.

The current composition of the Council favors the higher Courts, which means that the majority tends to be made of senior judges. In Romania, unfortunately, this means judges with a Communist past, as all senior characters served under the communist régime and were party members. Despite the considerable rejuvenation of the body of judges, which recruited mostly young females in the past ten years, the current Council is not representative for the age and gender structure of the judiciary as it has come to be over the last ten years. The same goes for the attorneys, who recently elected very controversial characters as delegates in the Council. Elections by the whole professional body can help only if they are direct and democratic, granting equal status to voters in different stages of profession.

2. The role of the Supreme Court of Justice will be changed from its current main current role as Court of Appeal, turning it into a Court of Cassation and on the same occasion granting tenure to member judges. This move is welcomed by many judges in the Court, overburdened by a growing caseload; in 2001 alone 92 judges solved 26 000 cases out of a total of 40 000. This, however, will give more weight to inferior Courts of Appeal, allegedly more sensitive to political intervention than the Supreme Court of Justice. The second risk related to this reform is that, due to a reduction in the number of judges, and to the full re-nomination of the Court once its name is changed (into High Court of Cassation), judges who are not politically obedient may simply and legally be cleansed and the Court may be filled with tenured judges with only one political orientation.

3. Empowering attorneys. The modifications proposed empower attorneys in their relation with the Ministry of Interior. The Ministry has started lately a process of demilitarization, but the double subordination of policemen who work in judiciary investigations provides grounds for discontent and makes their legal subordination to attorneys just a formality. The fact that policemen gave up recently their military grades does not mean that it will not take many years for the Ministry of Interior to become a truly civil structure. Establishing the leading role of attorneys in everyday practice is a necessary step. However, none of the proposed modifications allude to a change of the Article 131, thus leaving attorneys under authority of the Justice Ministry, despite granting them a special chamber in the Superior Council.

4. The Constitutional Court decisions, which could until now be reversed by the Parliament with a two-thirds majority, will by modification of the Constitution become final if neither Government nor Parliament do not adjust the unconstitutional content of the proposed law in thirty days.

C. Conclusions and recommendations

The main problem preventing the empowerment of the judiciary is still political. Politics overrides logistic factors, and it also overrides organization and administrative problems. The reason why many Courts do not have their own budgets and power to organize their own finances is also political. The reluctance to grant autonomy to Courts has long prevented financial decentralization of the judiciary. The Emergency Ordinance 179/11/1999, which modified the Law of Organization, tried to take some of the necessary administrative steps, by creating the position of ‘economic director’. But due first to lack of political will and partisanship, this good move failed to take full effect.

The analysis of the current trend in Romanian judicial reform must rely on facts rather than on formal reforms proposed on paper, once it becomes clear that the lack of political will remains the main problem. It is hard to seriously consider good proposals to curtail political interventionism, when the two Chambers have just adopted a nomination mechanism for the Anti-Corruption Attorney, which again puts the Ministry of Justice in control. The complicated sequence of this appointment mechanism, done by the President on the basis of a proposal by the Superior Council, itself based on the recommendation of the Justice Minister, only illustrates the tough bargaining between stakeholders.

Caught between the Justice Minister and the President, the Council, which is now appointed by a simple majority in Parliament, is reduced to a decorative role. Unfortunately, in the current regime, as well as in the previous one (1996-2000), the government cannot help showing its distrust in the ability of the magistrates to regulate themselves, and takes the approach that only by strengthening the role of the Ministry can reform progress. Many sentences are inept in Romania and quite a number of judges are corrupt, but as the intervention of the Ministry failed to prevent the development of this environment it is hard to see why the Ministry believes further interventionism will set things right. Since the reform on empowering the judiciary is about process just as much as it is about ends, this constant enhancing of the power of government over the judiciary can in no way bring about progress.

Recommendations

(1) The Ministry should act as a watchdog of the legislative process – which is in bad need of streamlining, professionalism and systematization, rather than as a watchdog of the judiciary. The latter function should be passed to a representative body democratically elected. The role for the Ministry is

invaluable in enhancing the legal drafting capacity, and in strengthening the role of the Legislative Council or of a new body in charge with *ensuring consistency of contents, not just form, of the current and future legislation*. The Parliament in Romania functions poorly due to the lack of accountability created by the electoral list system and the lack of professionalism of many committees and experts. This can be compensated through internal regulations reducing its role as a transformative legislature. The Minister of Justice should rally political support in this direction. With regards to the body of magistrates, its responsibility should rather consist in creating the framework for not producing further incompetent and corrupt judges, since a direct fight against those already incompetent and corrupt comes at an unacceptable price.

- (2)** The practice of appointing in every major position, be it Supreme Court of Justice, General Attorney or Council, judges or attorneys endorsed by one political party is catastrophic and an end to it must be envisaged. Instituting *partitocrazia* over appointments, that is to say, dividing them on the basis of a political algorithm, is no guarantee for independence and fairness. The solution lies in the appointment of judges (proposed by a democratically elected Superior Council of Magistrates) by a majority of two-thirds of the Parliament. The composition of the Council itself should be modified to allow higher participation from judges below the level of Appeal Courts. The risk incurred by this proposal is the deadlock in Parliament, but as such a deadlock will entail a heavy political cost disclosing the will to continue interventionism, it is a risk worth taking. It is a historical opportunity for the Minister of Justice to initiate this procedure, the only one capable of granting credibility to the Romanian judiciary. When the World Bank and the European Commission, not to mention scores of professional associations and NGOs, all consider that nominations are political, at least a major problem of credibility must be acknowledged and a solution devised.
- (3)** The two General Attorneys – Supreme Court and Anti-Corruption – should be appointed with a two-thirds majority of the two Chambers. The ambiguous role of the attorneys in Court should be clarified. Extra-ordinary appeals, which only generate uncertainty over final solutions, should be severely limited as they were prior to 1993. They are proven to serve mainly as a tool for political interventionism, and provide too much power to the General Attorney over the Supreme Court. Article 131 of the Constitution should also be revised and the line saying ‘under the authority of the Minister of Justice’ should be eliminated. Alternatively, if prosecutors remain subordinated to the Justice Minister, their independence should be secured and an equal status with defense lawyers should be enacted.
- (4)** The same should happen with nominations in the new High Court of Cassation. Otherwise, this worthwhile reform will also be perceived as pure political cleansing. Judges should indeed be tenured, but not after political selection, or else an otherwise positive step will only enhance distrust.
- (5)** The Courts system should be empowered by decentralization, including decentralization of the budgets. Endowing the Superior Council with its own budget is a positive step, but needs more follow up. Many of the organization

problems of the Courts could be solved if Courts would have some freedom regarding their own organization. Some decentralization should apply to the Attorney's Office. Prosecutors should receive cases through a random procedure, and made sovereign over their files against even their superiors.

- (6)** Control of the judges should pass as fast as possible from the Ministry of Justice to the Superior Council of Magistracy.
- (7)** Procedure codes should be urgently revised to allow streamlining of the judgment process. Rather than starting from scratch, proposals left from the previous governments should be reconsidered and sent urgently to the Parliament.
- (8)** Reform steps should be discussed with civil society and opposition parties in early draft stage. Consultations are badly needed to enhance credibility of this process.

No ideal system is there to protect the judiciary from political intervention if there is political will to continue along these lines. Nothing short of full independence of the judiciary, protected by Parliament via a two-thirds majority of both Chambers, can stop the spiral effect of political interventionism and allow the strengthening of the judiciary. This requires clearly more political will than what seems to be available presently. Political will in this case means a broad consensus to empower the judiciary, going well beyond just the Minister of Justice, involving the leaders of the government party, the Prime Minister, the Presidents of the two chambers and the leaders of the opposition as well. All those are needed to reach a common decision and agree to stand by it while in office as well as in opposition. The ECHR by itself cannot reform the Romanian judiciary, though it will continue to rule against the Romanian government. This is merely to say that the transformation of Romania cannot be achieved just through outside pressure, be it from the European Commission, the IMF or other. It needs the Romanian government and Romanian Parliament to succeed. 58% of the public already declares its skepticism towards the newly created anti-corruption institutions. After all, there is no reason for the public to show more respect to the justice system than the government does. The best way to change this situation is for politicians to begin showing more respect. Restraint from publicly indicating preferred solutions in justice would be a good place to start.

POLITICS

WARNING

Time For a Reshuffle

The summer holiday of the Romanian Parliament ended a season of growing popular discontent. Scandals of corruption involving the Ministry of Labor, the apparent inability

Fig. 1. Public mood on life and government

Indicators	%
Country headed in wrong direction	62
Worse off than a year ago	45
Government able to handle problems	32
Most politicians are corrupt	76

of justice to prosecute effectively cases of grand financial corruption while trying to bail out banks and bankers overwhelmingly considered as corrupt have contributed to growing skepticism that the government can handle things. Most Romanians remain skeptical about NATO integration and the number of people considering that the country is heading in the wrong

direction and that they fare worse than a year ago has grown. There is a strong correlation between those who perceive that the direction is wrong and their life worse off, and the trust that the government can handle things. The model elaborated in EWR 3/2002 is again confirmed. The main causes leading to the growing perception that the government is not good enough are the popular feeling that the fight against corruption has gone amiss and that people fare worse compared to a year ago. Educated Romanians are the most disappointed. The decrease of trust in government, starting with last November, has been steady at about 2.5 % per month. The number of people seeing the government as

Fig. 2. Top of distrust in political institutions

In your view, do these institutions work in the public interest presently?	Yes	No
Political parties	8	80
Parliament	17	77
Government	23	72
Presidency	36	54
Local government	52	44

unfit has risen sharply since then, reaching presently 54%, that is to say a large majority for the skeptics over the trustful.

The discontent with government's performance also shapes the trust in all political institutions. Romanians are especially distrustful towards Parliament and political parties, perceived as not working in the public interest. The only government institution faring comparatively better is local government, which has evolved through years to enjoy considerable trust. The novelty is the decline in public trust of the Presidency, once the most popular institution of the state. This decline is due to respondents tying the fortunes of government, Parliament and Presidency together. Building an index of trust in government out of these three items produces indeed a strong factor⁶.

The model explaining distrust for this factor is close to the model explaining perception of government performance only, presented in EWR3/2002. A minority believes the government to be competent enough, but not acting in the public interest. Another determinant of distrust is the perception of a conflict between employees and employers. There is growing resentment against managers and 'nouveaux riches'. Romanians blame their 'Latin-American' type of transition, with growing social disparities and predatory elites, on those who govern, but specially on MPs and political parties, perceived as selfish, corrupt and incompetent.

Fig. 3. Explanatory model of trust in Government

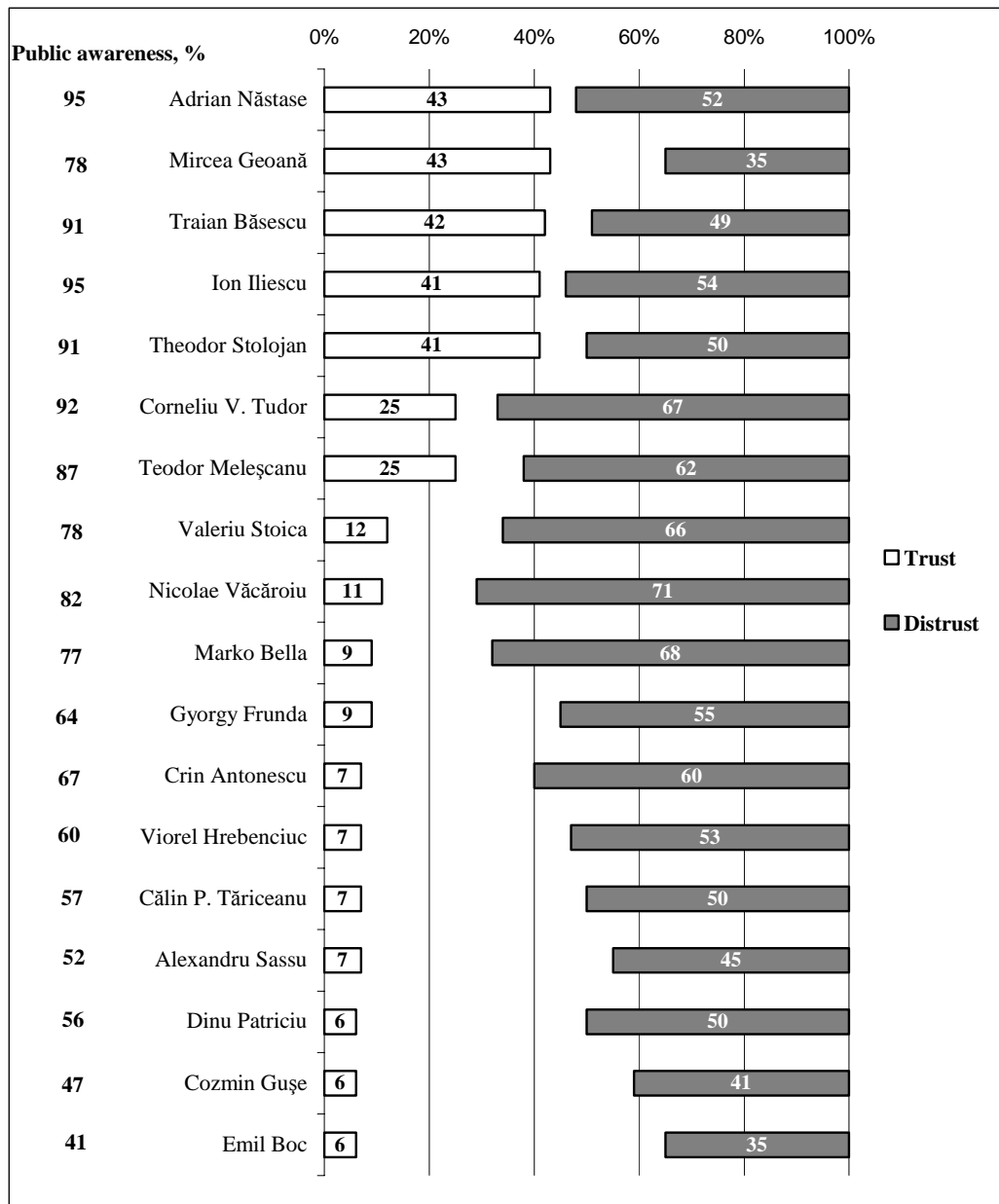
Predictors	Regression Coefficients (Standard Error)
Subjective well-being	-0.260 (0.035) ***
Evaluation of the Government's fight against corruption	-0.162 (0.025) ***
Income	-0.000 (0.000)
Town Size	-0.018 (0.017)
Age	0.076 (0.041)
Education	0.041 (0.014) **
Country headed wrong direction	-0.093 (0.015) ***
Conflict between employers and employees	0.160 (0.058) **
Adjusted R ²	14.7

*Dependent Variable: Factor score of trust in Government, Parliament and President. Level of significance: *p<0.05, **p<0.01, ***p<0.001 (strongest correlation)*

⁶ Principal component analysis, KMO=0.72%.

If institutions fare poorly, do individual politicians fare better? Hardly so. Only Mircea Geoana, the Foreign Affairs Minister, enjoys a positive balance between distrust and trust, but this is traditionally the situation for Ministers of Foreign Affairs, who escape the blame for domestic problems. As the invitation to join NATO seems more and more a certainty, it is likely that Geoana will score even higher in terms of public confidence. It is doubtful that NATO accession will benefit much to the Prime Minister, who carries the burden of price increases in energy and gasoline, and even less so to the Defense Minister, Mircea Ioan Pascu, who slipped a threat to the domestic press that made him the public enemy number one in the government, for the media.

Fig.4. Public confidence in Romanian politicians



The Prime Minister is doing nevertheless quite well in such an environment of distrust. He is seen as the main possible successor to President Iliescu, enjoying 32% direct preference. As the frequency of Nastase's showings in the media is already very high, there is little he can do, however, to grow further from now on. The difference between the high score of PSD (46 % options) and the relatively little score of Nastase as a potential presidential candidate is explained by the 46 % voters of PSD who are still undecided. It will not be easy to gain the confidence of those.

The public opinion has not yet been won over by the new generation of politicians. Cozmin Guse and Emil Boc have increased considerably in public awareness, but the distrust exceeds the trust from afar. They seem unlikely to become favorites of the public opinion in the near future. Far better known politicians fare even poorer, with a high rate of awareness and a high rate of distrust as well. The list includes characters as diverse as Vadim Tudor, Nicolae Vacaroiu, Valeriu Stoica and Dinu Patriciu.

What can a Prime Minister do in such circumstances, when personally rated with a good performance by observers, but running a government, which has begun to decline? There is one evident option: a reshuffle of the government. The performance of government members has been very uneven, and those who carry most unpopularity should leave in order to protect the Prime Minister from further erosion. There are some likely candidates, whose departure would give great satisfaction to the media and public, but also ministers who simply have done nothing remarkable so far should be reexamined. Multiplying institutional structures to bypass conservative ministers works poorly, and the price paid in the public opinion is the same. So the time is ripe to cut the liable and the ineffective.

WARNING

Greater Romania Party Perceived as Main Political Alternative

Bad season for the government? Figures for the opposition are even worse. The parties from the former government coalition have further shrunk to the point that the National Peasants are hard to be noticed with just 2% of preference. Scandal plagued both the Democratic Party and the Liberal Party, leading to the departure of Liberal leader Valeriu Stoica, the main artisan of the party's entrance into the Parliament in 2000, and his replacement with Theodor Stolojan, a representative of the business lobby, formerly tied with President Iliescu, and the most popular former Prime Minister of Romania to-date.

Fig 5. Party preference trends since 2000 elections

	Elections 2000	March 2001	June 2001	October 2001	January 2002	March 2002	July 2002
PSD	36,9	56	50	60	47	47	46
PRM	20,2	15	17	14	16	16	19
PNL	7,2	11	9	8	11	11	9
PD	7,3	6	9	8	11	12	11
UDMR	6,9	6	7	6	7	7	7
PNȚCD	5,3	3	3	2	3	2	2
PUR	**	**	1	**	2	2	3
UFD	***	-	1	1	1	1	2
ApR	4,2	-	2	-	*	*	*
Other	12,1	3	1	1	2	2	3

included in PNL **included in PSD * included in PNȚCD (CDR 2000 in elections)*

1 – average between the two Chambers, source Central Electoral Office

If Mr. Stolojan wins the race for the Presidency of National Liberals, his victory would mean the total conquest of main political positions by National Salvation Front characters, now equally distributed between opposition and government. Stolojan's recruitment was a maneuver of Stoica, who practiced widely what the Italians call "transformismo" as main political strategy. For instance, he recruited party candidates after polling to see who are the most popular in a town or region, liberals or not. Furthermore, he cared little if they had been members of another party or of many other parties. In Sinaia, for instance, the 1996-2000 Mayor was a former Communist apparatchik, who then won elections running as an independent, then moved to the Liberals when they were in government, to eventually end up at PUR, the minor coalition party in the current government. Stoica also recruited highly controversial characters from other parties, or people reputed for changing parties just in order to keep their positions. Ironically, this is how he has come not to be able to rely on local branches of his party.

While Stolojan fares better in polls than Stoica, having however a high rate of distrust combined with high awareness, the combination which does not lead to much promise, the party is not doing so well. Not only it has contracted from 11% to 9 % after the scandal, but even fewer people see it as an alternative to government. Only 24% of Romanians see an alternative to the current government in the present political offer, and most of those prefer Greater Romania Party (37%) only 17% trusting the Democrats, and 11% the Liberals to run the country. Out of 24%, these percentages are not impressive at all. An alliance of

Fig. 6. A few good men

Presidential favorites	% of vote
Adrian Nastase	32
C. Vadim Tudor	22
Traian Basescu	16
Teodor Stolojan	14
Mircea Geoana	6

the last two would be trusted to govern by an additional 7%, and a new party is expected by 4% of the Romanians.

When polling separately the projected coalition between Liberals and Democrats, the enthusiasm is mild to low. Most people feel that this would not make any difference, as they trust these parties neither separately, nor together. Stoica has collected many Democrats one by one in the last years, as well as National Peasants who defected. Despite this, however, PNL did not manage to produce any new idea or frontline

Fig. 7. Coalition between Liberals and Democrats is a good idea

	%
Don't know	24.7
Good	16.2
Somewhat	16.7
Bad	19.5
Changes nothing anyway	22.8

character, and it is precisely this novelty and freshness of people and discourse that the public is seeking, *an alternative style rather than an alternative government*. This is shown in the large number of undecided in both presidential and party preference, the largest group in the sample.

Meanwhile, Greater Romania Party has grown another 3% and its leader consolidated firmly in the second position after Nastase. The preference for Vadim Tudor comes mainly from capitals of *comune*, Romania's rural administrative units, reuniting a few villages.

The *comune* and small towns were the place of massive social engineering in communist times, subjected to forced urbanization under an ambitious plan meant to turn 600 of them into towns by the end of century. This campaign led to the creation of non-viable industries, which subsequently collapsed, and important and irreversible changes to people's life style. 38% of Tudor's voters come from *comune*, and an additional 26% from villages. This explains why in models determining the main causes of the vote for Tudor *the residence in rural areas becomes for the first time a determinant*, along with age and gender. Men continue to be considerably more attracted by Tudor than women, but the older group was traditionally Mr. Iliescu's. 37% of the voters are undecided with regards to a presidential candidate, while 46% are undecided concerning a favorite party. This large number explains why PSD still scores so high. The undecided are recruited from various categories, villagers, the poor and the better educated alike.

Fig. 8. Town size by President preference, %

	Nastase	Tudor	Stolojan	Basescu
Cities over 200,000	33.7	13.1	16.0	15.4
100-200,000	23.0	18.9	17.6	16.2
30-100,000	30.6	16.1	27.4	12.9
Towns smaller than 30,000	26.8	19.7	15.5	19.7
Communes	35.9	34.7	8.2	12.4
Villages	39.5	24.3	9.2	19.1
Total	33.4	22.3	13.8	15.8

(Legend: figures to be read in row, not column. Differences up to 100 % are other candidates)

Overall, the only political gains in recent months are Tudor's and his party's, and it is worrisome that after the disappearance of Ion Iliescu, the politician who seems to collect from rural areas most is Vadim Tudor. Nastase is leading in absolute figures when breaking the preference by town at every category, but Tudor is close to him in *commune* centers. The pattern described above triggers a warning, as it is clear that Greater Romania Party is the best positioned to be the second party in the next elections as well. And if the government passively assists to its erosion, it may even come to worse.

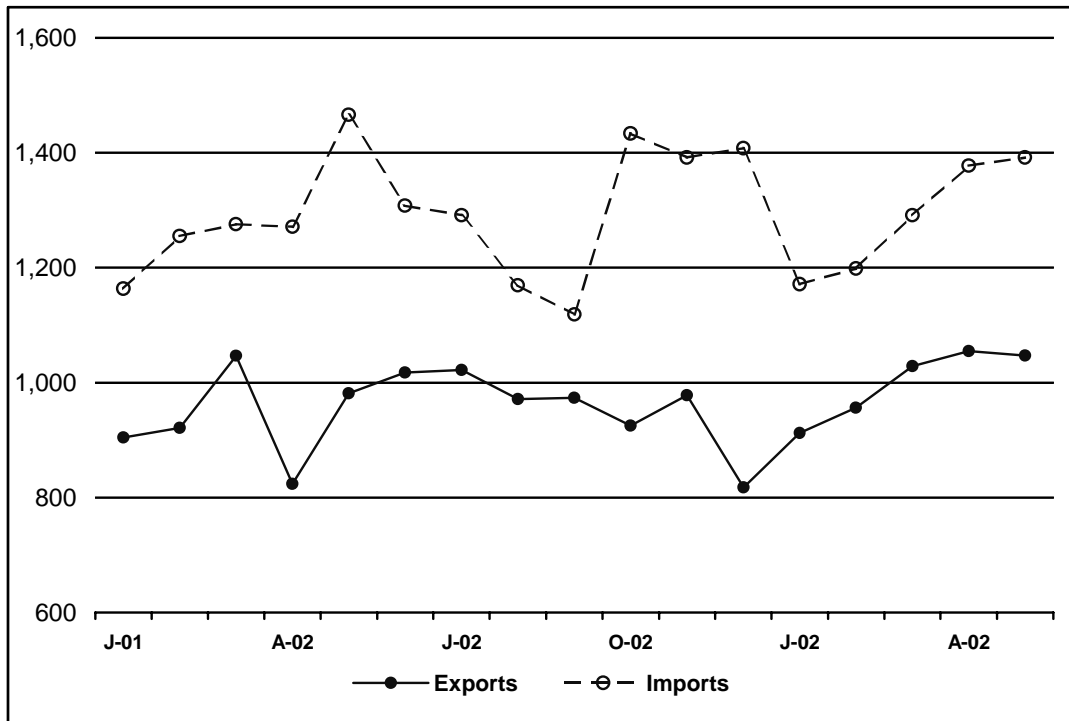
ECONOMY

Economic Policy Challenges

Daniel Daianu

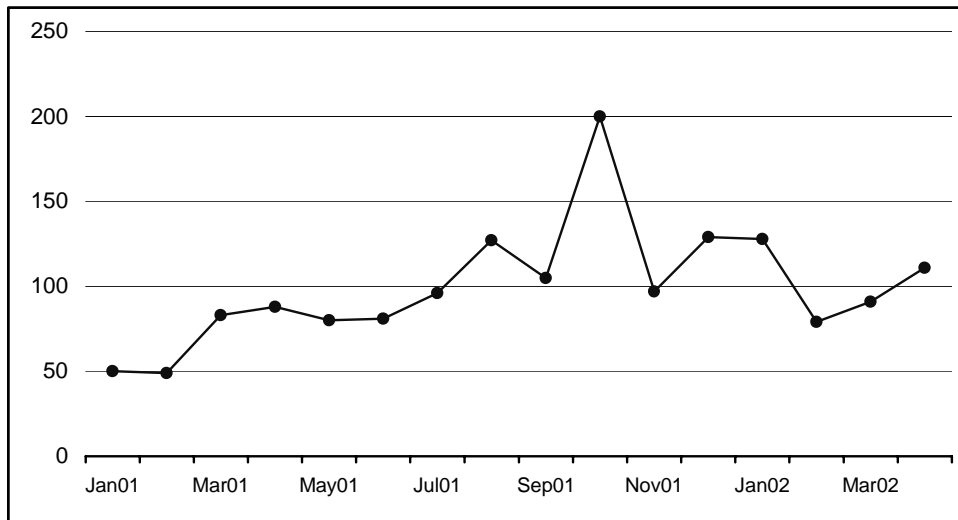
This is the second part of a review of challenges which economic policy is bound to face in Romania in the period to come. New data confirm some positive macroeconomic dynamics; disinflation continues at a brisk pace and the rise in private transfers from abroad has helped reduce the current account imbalance in the first months of this year as against the same interval of last year. One should introduce a note of caution, however, since imports surged quite rapidly during last April and May.

Fig. 1. Foreign trade evolution, monthly data (\$ million)



Source: NBR

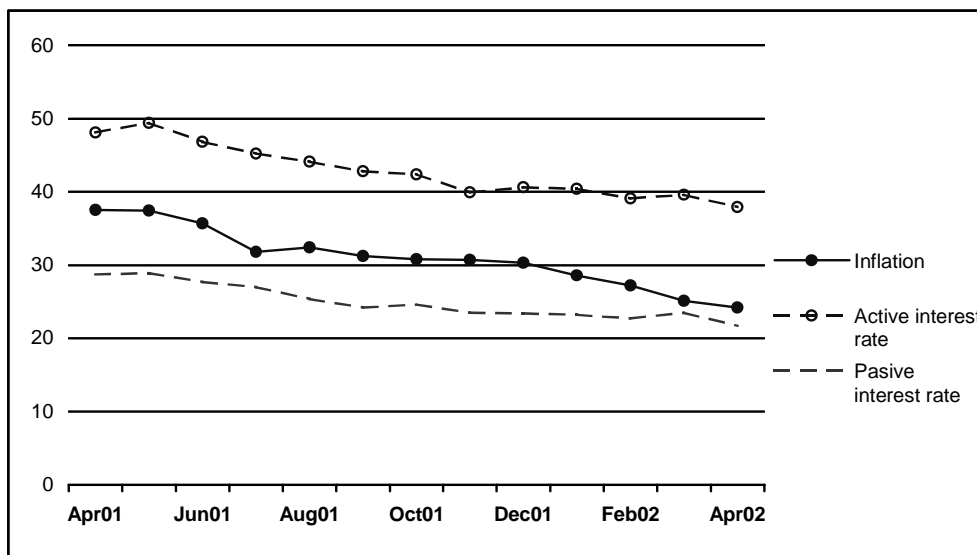
Fig. 2. Foreign remittances, net monthly flows (\$ million)



Source: NBR

But substantial worries remain vis-à-vis the extent of financial indiscipline in the economy against the background of disinflation and insufficient restructuring (owing, also, to the feeble level of foreign direct investment in the Romanian economy at a time when domestic capital formation is still low). Likewise, the decreasing interest rates, which follow the decline of inflation, may strain banks which use high spreads as a means to cover various high costs – including the consequences of their non-performing loans. It is fair to add, nonetheless, that decreasing interest rates help those firms, which are burdened with debt.

Fig 3. Interest rate, nominal and real, for non-banking customers, %



Source: NBR

In the present article, the focus is on the relationship between the price of energy and arrears, a key aspect of policy coordination, and last, but not least, on the pledge made by the Government to raise the minimum wage.

1. Arrears and the price of energy; the social dimension

As a phenomenon, arrears (financial indiscipline) can be much compounded by the ability (or inability) of many households and firms to respond adequately to the drastic change in the relative price of energy. It is hard to dispute the rationality of the rise in the price of energy for the corporate sector to a market equilibrium level; this rise is part and parcel of the process of imposing hard budget constraints in the economy by eliminating an across the board subsidy and of stimulating energy saving and productivity gains in the enterprise sector.

A more refined analysis should be made in the case of households. A similar big rise in the energy price happened in early 1997⁷, whereas, at that time, the proportion of individuals living below the poverty line was about 22% of the population. During 1997-1999, as a result of very painful adjustment measures, the economy plunged, which had a quite severe impact on many people's incomes. At present, the proportion of the population living below the poverty line is of more than 40%. Even before the rise in the price of energy price, many households (especially made up of retired people) were not capable of paying their electricity and heating bills during the cold season. It is no secret that these people will continue not to be able to pay their energy bills; and the collection rate of these receivables (for the energy suppliers) will fall accordingly⁸. Therefore, the financial situation of energy providers is not likely to improve in this respect; indeed, overall things could get even worse, specially considering the social implications of this measure as well.

Arguably, the rise in the price of energy for households was not well calibrated (it was too high). In addition, it was not accompanied by a program of a distribution in time of the additional payments to be made by households. Arguably, the Government should have tried to implement a two-tier price structure, with the household sector paying less. However, to reduce the price of energy for households now would be a non-starter, since it would damage the policy credibility in general. To keep the price of energy stable for a longer period of time (which should cause its erosion due to inflation) does not solve the problem in the immediate future. Consequently, the Government has no choice but to come to the rescue of the most afflicted individuals. Reportedly, it intends to work out an assistance program for those who cannot pay, but its technicalities are still to be drawn up. Whatever the means envisaged for alleviating the financial burden put on low-income

⁷ According to EWR 5/2001, the electric energy price for households grew from 10 USD/MWh in February 1997 to 45 USD/MWh in April 2001, and the price for heating increased from 5 USD/Gcal in February 1997 to 17 USD/Gcal in April 2001.

⁸ It is quite surprising how those who worked out this plan bet on a better collection rate (as far as households are concerned), which should be judged as a performance criteria in the discussion with the IMF and be included in the additional letter of intent.

households, one should be aware of the threat that some of those who used to pay may cease to do it – which would make the situation for the energy providers even worse – unless the assistance is very well targeted. Equally, if subsidies are considered, these should be paid directly into the escrow accounts of the energy suppliers, instead of being given to low-income individuals, in order to prevent that subsidies be diverted to other purposes.

It is fairly difficult to evaluate the impact on the finances of energy suppliers of the rise in the price of energy for households; it is also difficult to estimate the impact on the public budget of the pledge made by government to help needy families, since this assistance has not been yet outlined in concrete details.

As far as the corporate sector is concerned, a very strict monitoring has to take place in order to verify whether payment amelioration, where it does exist, is sustained. In addition, it may well be that some of the firms, which eventually started to pay (or pay more) for electricity and heating, in order to avert being disconnected from energy suppliers, increased their arrears toward other suppliers. Thus, aggregate arrears may not necessarily decrease, as it is expected. Such a state of affairs would be bad omen for the sustainability of economic recovery and would not wait too long before showing up in the books. This is why the Government urgently needs to identify the worst offenders, those who can pay but do not pay, and put pressure on them.

2. Policy coordination

There is considerable room for improving economic policy coordination. The last EWR (no.4/2002) dealt with several aspects in this respect and argued in favor of a cut in the number of economic ministries and for the creation of a Ministry of the Economy⁹, which could include the Department of Foreign Trade as well¹⁰. Herein we discuss the cooperation between the Government and the National Bank (NBR) in order to pursue effectively the main goals of economic policy, namely disinflation and economic recovery.

Lately, there has been a flurry of statements regarding the level of interest rates in the economy. Government officials decried the level of real interest rates. At the same time, National Bank spokesmen explained the limited ability of the Central Bank to intervene and the dangers of letting liquidity loose, as a means to reduce interest rates. This issue was discussed in the last EWR. The overall impression that one receives from such statements is that there is not much of a dialogue between the Government and the NBR regarding policy coordination. As a matter of fact, a

The linkage between budget policy and monetary and exchange rate policies should increase.

⁹ The Ministry of Economy, as in Germany (actually, this model is to be found in Austria, Greece and other EU member countries), would cumulate the prerogatives of the current Ministry of Development and Prognosis and have the task of coordinating overall economic policy. But such a task would not be easy to implement in view of the number of existing economic ministries, the key role played by the Ministry of Finance in the whole algorithm of economic policy-making, and the political heavyweights which are at the helm of some ministries (The Ministry of Industry, the Ministry of Transportation).

¹⁰ The Department of Trade could join the Ministry of Industry, as in the UK and Greece. A Ministry of Industry and Trade would deal with all issues regarding the functioning of industry and trade.

substantial and substantive policy coordination between the Government and the Central Bank is indispensable for implementing the agreements with the International Financial Institutions, and the Stand-by agreement with the IMF in particular. This is because the monetary program and the exchange rate policy of the Central Bank are closely inter-linked with the budget policy of the Government. The rise in the reserves of the Central Bank, the pace of disinflation, the expansion of base money (of net credit in the economy and of the money supply, in general) are seen in connection with the size of the budget deficit, the recourse of the budget to domestic sources of finance, the expected trend in interest rates, the wage policy of the Government, and so forth. To the extent that the Stand-by agreement is viewed as a *process*, the operational linkages between the Government, via the Ministry of Finance, and the NBR are obvious. But clashes of views do occur during program implementation, as economics is not a hard science and policy options present trade-offs. However, there are ways to enhance the communication between the Government (Ministry of Finance in particular) and the NBR, and to establish an operational consensus which should help policy implementation.

Recently, the Prime Minister asked his office (his economic advisor) to maintain a closer relationship with the NBR. This can definitely help. But in order to have a clear venue for consolidating a systematic dialogue between the Government – via the Ministry of Finance – and the NBR, one possible option would be to resuscitate the Joint Credit Markets Committee; this body, which is made up of leading officials and experts of the Ministry of Finance (MOF) and NBR, was set up in 1998 and used to hold weekly meetings aimed at coordinating the interventions of the two institutions in the credit markets. The Treasury of the MOF actually operates as a mini-central bank by drawing liquidity from the credit markets through its borrowings and injecting liquidity when it makes expenditure. MOF's interventions in the credit markets have counterparts in the sterilization operations of the NBR, when the latter tries to keep control of the expansion of money supply. Actually, the dynamic of domestic interest rates is driven by both MOF's borrowings and expenditure, as well as by NBR's attracted deposits and money injections through foreign exchange transactions. Consequently, the coordination of both institutions' policy moves is critical for their impact on credit markets and on interest rates, specially given that the monetization of the economy (the share of money supply in the GDP) is low.

The revival of this committee would be more than useful and it should be complemented with a more effective dialogue between the members of a troika: the Governor of NBR, the Minister of Finance, and the Prime Minister's advisor for economic affairs. It goes without saying that a better communication between the Prime Minister himself and the Governor of the NBR would smooth things out considerably. The creation of a Ministry of Economy, if well thought out and prepared, would significantly simplify policy coordination.

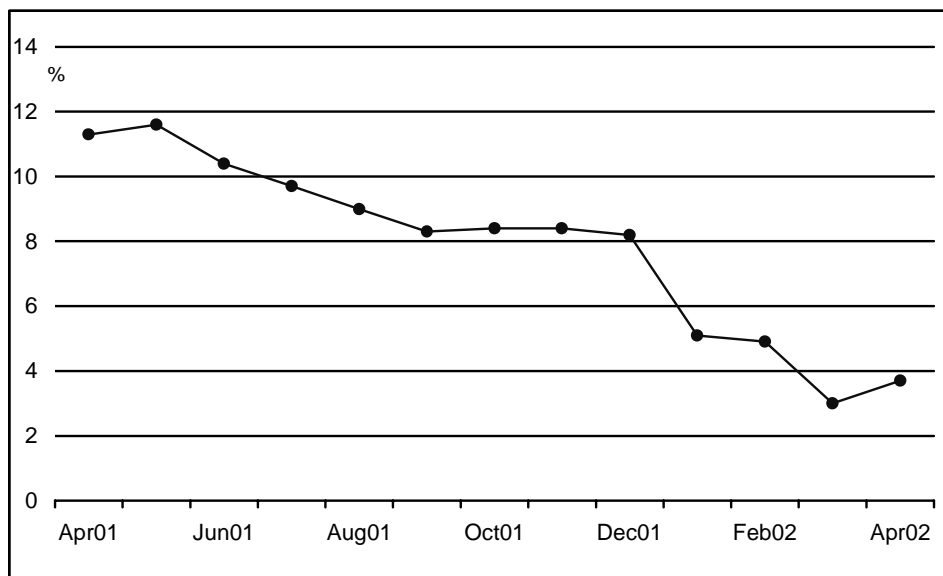
3. The rise in the minimum wage

The Government announced a rise of about 25% in the minimum wage: from approx. 60 Euro to 75 Euro (2,5 million ROL at the current exchange rate). This planned rise is the outcome of protracted talks with some trade unions and was hailed by some as a means to preserve social peace this year. One can go further and see this rise in the context of

the search by the Government of ways to compensate for the drastic rise in the price of energy.

But one has to consider the downside of this measure as well. To the extent that this increase pushes the rest of the pay scale upwards, inflationary pressures will appear next year and the profitability of some firms (where productivity gains do not occur quickly enough) may be impaired. As a matter of fact, there are few signs that productivity is rising according to expectations. Whilst the growth of industrial production is less impressive, the number of employees has actually increased since the beginning of this year (from 4.31 millions in January 2002, to 4.38 millions in April 2002).

Fig. 4. Industrial production, aggregated growth as to similar period last year



Source: NBR

The propensity to operate in the shadow economy is likely to increase for such firms. All this sequence of possible effects would have a budget impact, which needs to be estimated by the Government. Such estimates were not made when the decision was taken to increase the minimum wage, maybe because the government surmised that most of the effects would be felt in the next year's budget. But this is not a convincing reason when all possible effects are considered. Again, lapses in policy coordination and formulation come to the surface and require to be carefully and decisively addressed. The Government needs to bolster its analytical capacity in the economic field and be more forward looking with its decision-making.

How Volatile Is the Romanian Economy?

Over the last 3 years, the Romanian economy has embarked on a path of growth that promises to be more than short-lived. Capital flows enter the country to such an extent (adding to more than 15% of GDP last year) that they pose serious sterilization problems – in 2000 and 2001, the accumulation of net official reserves hardly covered one third of the net private capital inflows. The exchange rate is appreciating in real terms, inflation is calming down (although the pace of disinflation is disputable) and foreign trade volume is expanding (although at a slower rhythm than last year).

How stable are these evolutions, however, and what are the risks for them to be suddenly reversed in case of adverse shocks? To answer such a question, we calculated the volatility of various macroeconomic variables, by their coefficient of variation, equal to standard deviation over mean for a sample of data.

In Romania, private capital inflows volatility is among the highest in the region (see table 1). As theory predicts, FDI proved, indeed, less volatile than portfolio investments, and these, in turn, were less volatile than other short-term private flows. Nevertheless, the FDI volatility, highest amongst EU candidate countries, validates the hypothesis that FDI has been more attracted by conjectural reasons (mainly opportunities to conclude special privatization deals with the authorities) than by solid macroeconomic grounds. A recent work¹¹ finds that FDI in Romania is strongly correlated with the accumulation of trade deficit and private debt¹², indicating that capital inflows from direct investments are associated with significant capital outflows.

Volatility of portfolio investments is likely to continue amid various reorganization measures on the BSE and Rasdaq; over the first four months of 2002, portfolio investments were actually net negative (-\$37 million). As regards the volatility of other capital inflows, the capital account opening will only add to the trend, a fact already revealed by recent significant changes in the volumes (and sign) of the balance of certain payments items, such as direct investment outflows¹³ or residents' deposits abroad¹⁴.

However, the overall volatility of net foreign assets is remarkably decreasing lately. This is normal in view of the fact that the policy of capital account opening was to liberalize capital inflows before capital outflows. When capital outflows will be fully liberalized – in the near future – as well as specific money market instruments, major reversals may appear and volatility may dramatically increase. As Fig. 7 points out, historically, net foreign assets have a higher volatility than net domestic assets, and this feature was particularly visible in times of financial liberalization, as it was the case in 1997.

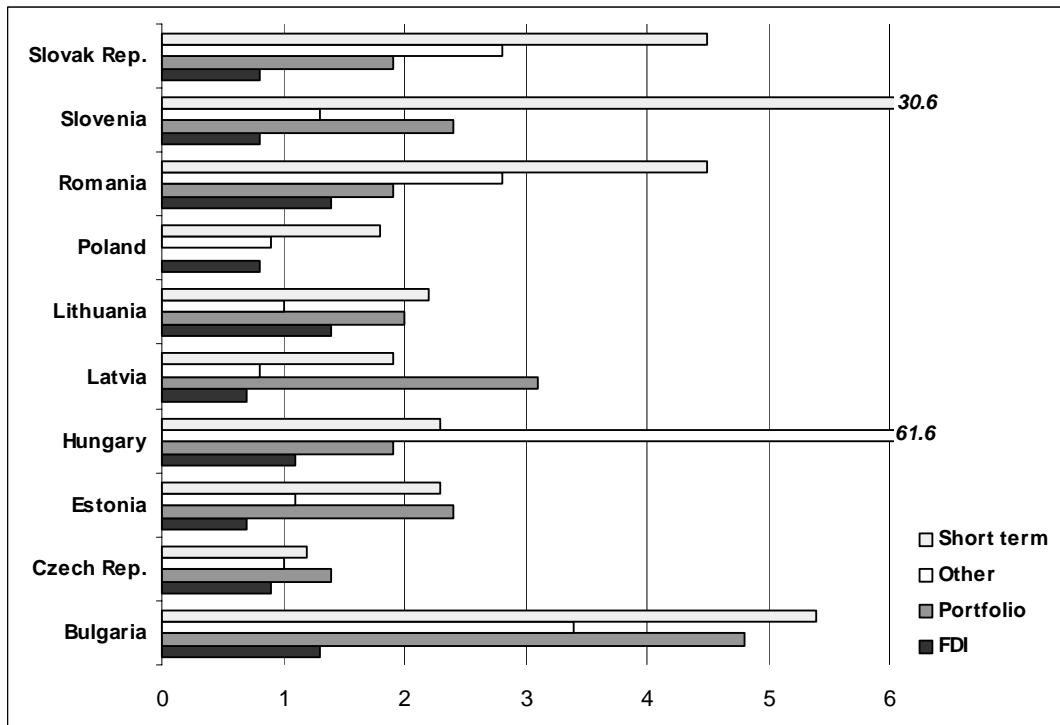
¹¹ Liviu Voinea (2002) *Revisiting FDI Patterns in Transition. The case of Romania*, paper presented at the 7th EACES Congress, Bologna, June 2002.

¹² Correl = 0.65, respectively 0.68, for a number of 12 observations.

¹³ From \$18 million in the first four months of 2001, to -\$34 million in the first four months 2002.

¹⁴ From \$1 million in the first four months of 2001, to \$340 million in the first four months 2002.

Fig. 5. Volatility of capital inflows



Note: quarterly data for the '90s were used; abnormal data for Hungary and Slovenia come from the underestimation of the mean, due to some significant capital reversals. Source: Claudia Buch, Lusine Lusinyan (2002), *Short-Term Capital, Economic Transformation, and EU Accession*, Economic Research Center of the Deutsche Bundesbank, Discussion paper 02/02

Fig. 6. Volatility of net foreign assets (st. dev./mean), monthly data, 1991-2002

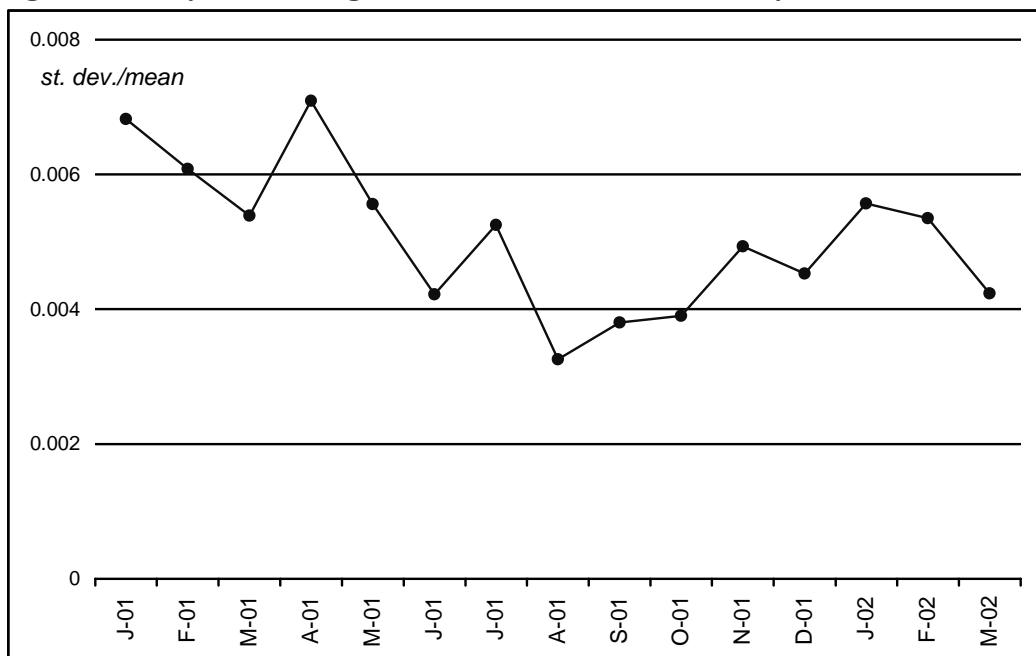


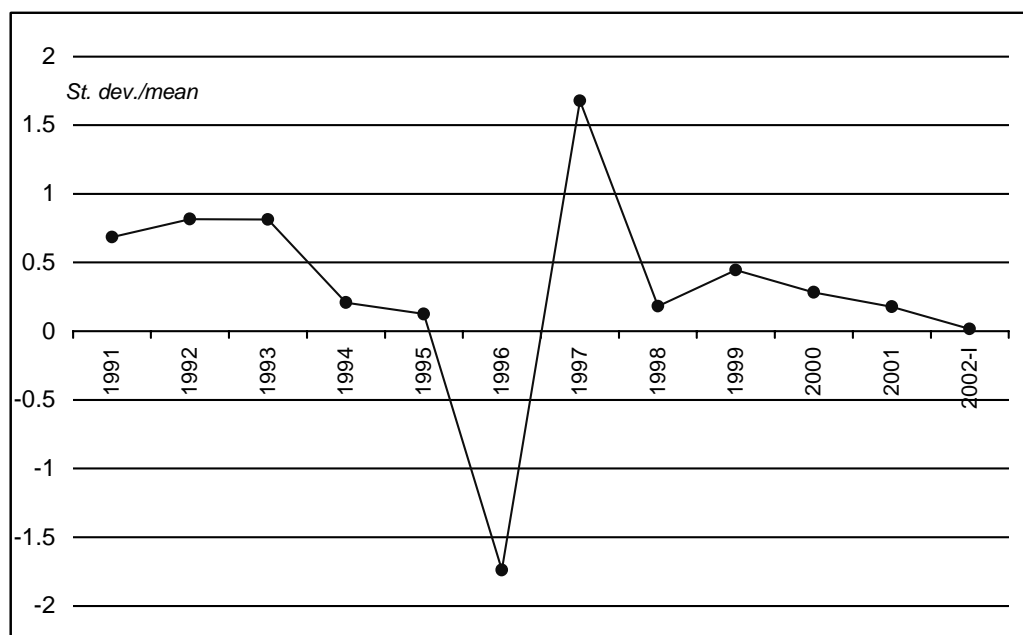
Fig. 7. Volatility of various macroeconomic indicators

	Number of observations and period	Standard deviation / mean
Net foreign assets	135 / January 1991 – March 2002	1.83
Net domestic assets	135 / January 1991 – March 2002	0.95
Exports	15 / March 2001 – May 2002	0.07
Imports	15 / March 2001 – May 2002	0.08
Exchange rate ROL-USD	317 / January 2001 – March 2002	0.06
Transactions' volume, Bucharest Stock Exchange	18 / January 2001 – May 2002	0.61
Transactions' volume, Rasdaq	18 / January 2001 – May 2002	0.56

As expected, transactions on the primary and secondary markets proved volatile. Exports and imports were very stable, a finding which is consistent with the lack of significant changes in trade structure and performance, as described in our previous materials (see Annual EWR 2001, and EWR 3/2002).

The stability of the exchange rate is particularly worth noting. Variations were in a very narrow band.

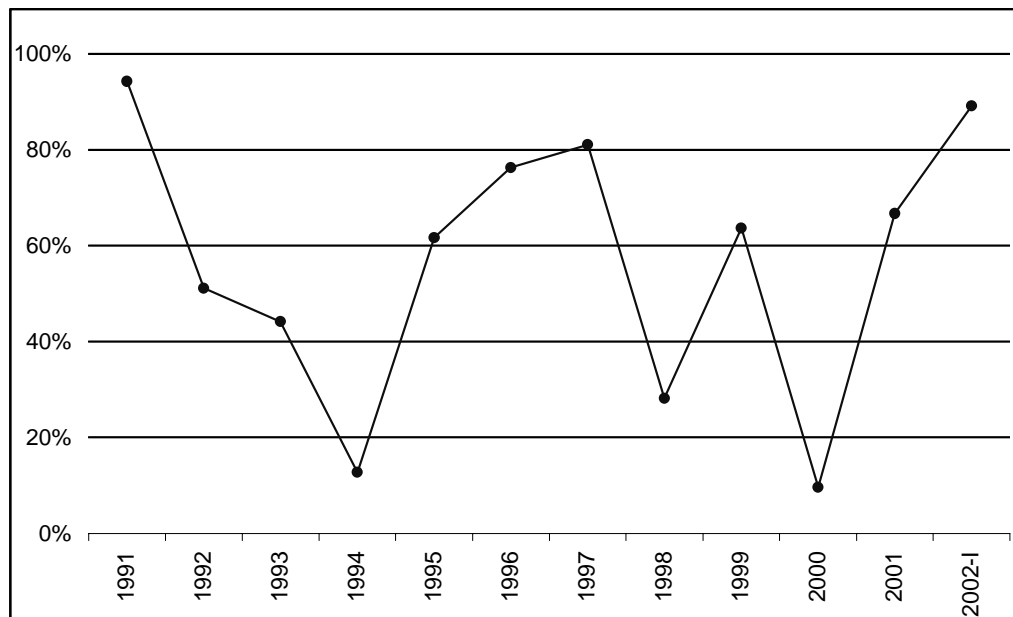
Fig. 8. Exchange rate volatility



The above can provide a hint on the policy options in the near future. The recent international financial crises (Mexico 1994, Asia 1997, Argentina 2001) validate the theoretical remark of the "impossible trilemma", which states that the concurrent existence of a fixed exchange rate, autonomous monetary policy and free capital flows is unsustainable in the medium and long run. If the National Bank is tempted to make the apparent stability of the exchange rate more official, in the form of a fluctuation band or a peg, then pressures will appear either towards giving up the monetary autonomy (through Euroisation), or towards slowing down the process of capital account liberalization.

Returning to the issue of foreign financing, an indicator of volatility and reversibility is the ratio of short term to medium and long term foreign capital flows; it indicates large oscillations, and a recent upward evolution.

Fig. 9. Ratio of short-term to medium and long term gross foreign capital flows



Note: *short-term flows = portfolio + short-term foreign debt + errors and omissions; medium and long term flows = FDI + medium and long term foreign debt; source: author*

This should be considered together with the predominance of short-term (less than one year) financing in Romania's international bank credit – 40% of total, ranked third in the region after Czech Republic and Latvia – and in international debt securities – 28.3% of total, ranked first in the region¹⁵.

Based on all the indicators above, our warning is that the economy is more volatile than one might think at a first sight; moreover, with respect to capital flows and short term financing, Romania seems to feature volatility amongst the highest in EU candidate countries. Capital outflows are not at all unlikely during and following the process of capital account liberalization, and the financing of the current account is not without risks, in view of such high level of volatility.

¹⁵ IMF and BIS data for year 2000 (quoted in Buch, op.cit).

Will Brasov be the next to erupt?

Brasov is not likely to be the next social hot spot in Romania. It lacks the deadly mix of raw force and political incitement of Jiu Valley. The industrial giants of the city have slimmed down to manageable proportions, and the social protection system looks able to cushion the adjustment shocks. The development of the city is however kept hostage by the large industrial companies of the communist era. They show little sign of turning around any time soon. On the other hand the local economy is not buoyant and diversified enough to cope with any of them collapsing.

Brasov – a cradle of social unrest

Brasov is one of Romania's most industrialized regions, and thus the economic reform has already affected and will continue to strongly affect the social structure of both the county and the city. With large industrial mammoths – over 20,000 workers at Tractorul and Roman each – Brasov has been slow to reform and has been depending upon state financing, either directly or by low prices for state facilities (e.g. credits, utilities etc.). The reduction of these side-payments starting with 1997 has generated many conflicts between unions and local or central authorities. Roman's workers were the first who implemented the so-called 'spontaneous strikes' which blocked important roads with nobody claiming (or being forced to bear) responsibility. The first ever such strike, in the fall of 1997, forced the government to break up the negotiations with the international financial institutions on reform and privatization in the industrial sector. The 'spontaneous' strike became very popular all over the country when people realized that nobody was ever charged for causing public disorder. Violent protests accompanied during the late '90s every attempt (or just rumor) to reorganize the main local factories. As a matter of fact no reasonable and serious privatization offer has been ever registered until now for Roman, Tractorul, Rulmentul or Metrom – to mention just the main local factories.

There is also a strong union tradition in the main factories as Roman or Tractorul, starting before 1989, and there is a strategy set up after 1997 to work together on the main local issues. This last element can be the reason why the last protests – organized on a national level in June – were a success in Brasov, from the union leaders point of view, with more than 20,000 participating, whilst they were a failure in Bucharest.

With Brasov factories bearing heavily on the national economy, reform might be unavoidable. The aim of this piece is to analyze how can this be brought about, and what the social reaction is likely to be.¹⁶

Is Brasov really so poor?

Starting with 2002, the income support tries to bridge the gap between the guaranteed minimum income and the actual income of the families (including other social benefits) (Law 416/2001). Comparing to other urban areas, Brasov city is paying only a small tribute to this policy. Just 475 families receive income support (253 million ROL in total from the local budget)¹⁷. At the beginning of 2002 over 1,300 families requested this allowance but by a case-by-case investigation (“ancheta sociala”) just 475 passed the hard requirements – the research can show whether a member of the family is receiving some income on the black market or has other additional income possibilities form various activities.

There was a huge number of families receiving heating allowance from the local budget this winter: 55,389 families for public utility heating, 9,375 families for own heating systems based on natural gas, and 35 families in other situations. Every family with less than 1,800,000 ROL (about \$55) monthly per family member could benefit from this allowance, but just for the heating bill. There was no background check on these families in order to assess the eligibility for this allowance, which means that they just had to declare their official income.

The large number of families receiving the heating allowance and the small number of minimum income receivers illustrate the following aspects:

- A large proportion of people earn officially between 750,000 ROL (about \$24 - the guaranteed minimum income) and 1,800,000 ROL per family member.
- The 65,000 families in this category include over 120,000 people (about 40% of the population). They are exposed to poverty during next winter, due to the increase in the cost of heating.
- Many of the people with low official incomes seem to have other, unreported sources of income.

Jobs and unemployment

According to a union leader evaluation, over the last ten years, Brasov has lost more than 60,000 jobs, all of them in the machinery industry. Half of this number is accounted for by the total of current job seekers. Brasov has also recorded a substantial decrease of population, and is believed to have dropped below 300,000 inhabitants. One has to wait

¹⁶ For this overview a SAR fact-finding team traveled to Brasov and interviewed local authorities, local union leaders and managers.

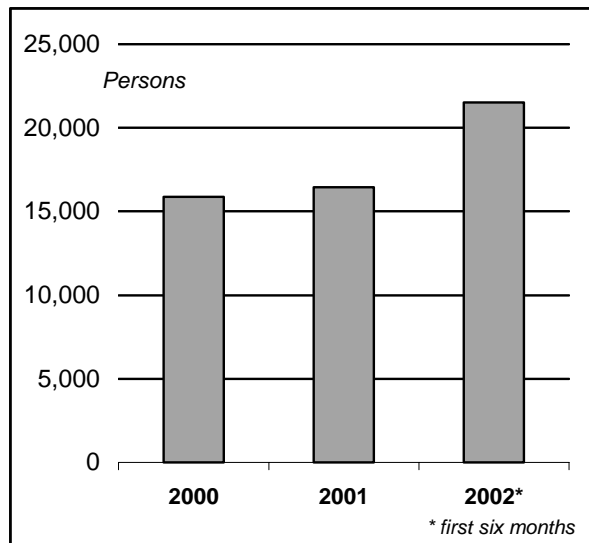
¹⁷ For comparison, the number of income support recipients in Brasov is similar to the number in the nearby small town of Zarnesti, which represents just one tenth of the population of Brasov city.

for the final results of the recent census, due later this year, in order to certify this assertion.

The official estimate of unemployment was 21,511 at July 1st, 2002 (11.67%). The unemployment is much higher compared to the last two years (6.8% in 2000 and 7.5% in 2001) because of the several redundancy programs (based on compensatory payments) that involved Tractorul, Roman, and companies from the defense industry. The people were highly motivated to be on the redundancy list because of the high severance compensation of 6-12 monthly salaries, calculated at the level received during last 1-2 years. This situation begs the question on what will these people do when their redundancy payments end. The experience so far in the Brasov county suggests that social conflicts (on similar lines with those in the Jiu Valley) are unlikely, either because the local economy will be able to integrate them, or because many will choose to relocate to other parts of the country. The Employment Agency has launched a new program to support those willing to relocate – 7 monthly wages for those who have found a job in another part of the country.

Another reason for the surge in unemployment has been the minimum income guarantee law that came into effect in 2002. Many people registered as unemployed in order to qualify for the income support, but the strict implementation of the law has discouraged many of them, and after about three months they started to let themselves drop from the records.

Fig. 1. Unemployment in Brasov has been increasing over the last six months



to qualify for the income support, but the strict implementation of the law has discouraged many of them, and after about three months they started to let themselves drop from the records.

The good news is that until now the city has had the capacity to generate new jobs. The majority of the workforce is already employed in the private sector. There were 9,779 enterprises in Brasov with 109,531 employees at the beginning of 2002. But just 38,199 of them are still working in state or mainly state sector, and 59,232 are working already in the private (or predominantly private) sector¹⁸. It is a good rate for a city known for its strong state sector.

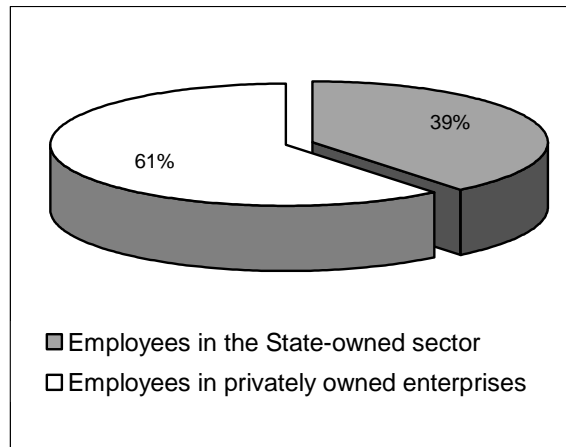
A skeptical note is however due. Many of the private jobs are in the same industries as the large state companies, and in many cases are directly dependant on these state companies. This makes the private sector less of an alternative to the state sector, and means that it is exposed to the same risks – i.e. if the state sector is hit by a crisis, the private sector is also affected.

¹⁸ We have reached these figures by adding up to the private sector employees the workers from the mixed sector, where the private owner has more than 50% of shares, and to the figure of public sector employees, the number of employees in the mixed companies in which the state owns more than 50%.

There is also a good contact between the local Agency for Employment (AJOFM) and the local enterprises, which allows the agency to find new opportunities on the market for the job seekers. The Agency considers an initiative for facilitating the functioning of the daily jobs market.

Most of the training available is provided on jobs, for which there is proven market demand. There is also training provided at the request of an economic agent. The impact of the training programs is relatively good – 70% of people graduate them, and most of them find jobs. This is opposed to the ‘normal’ situation: on average only one third of the unemployed find a job in the first year of unemployment. Active measures represent however just 15% of the Agency’s budget, and their coverage is rather limited: 355 participants since the beginning of 2002.

Fig. 2. The majority of the workforce is already in the private sector



There are a few conclusions that can be drawn:

- The city appears to have the capacity to generate new jobs on a moderate scale. However, a sharp increase in the number of the unemployed would be almost impossible to cope with.
- The compensatory payments are very popular, but there are already many job seekers with such payments that will be out of the program during 2002. This situation represents a social risk.
- There is both need and demand for daily jobs, and the local authorities can bring into open and improve this activity by organizing and controlling it.

Development plans

Brasov town hall works on a strategy for city development. There is a large consensus that the city needs a new road to divert traffic round the city, an airport, and has to develop the tourist infrastructure. However, this consensus is revived with each electoral campaign, but fades away soon after. The communication between the main stakeholders (town hall, county council, central government representative – prefect, members of parliament, trade unions, main employers) is rather poor.

Brasov County receives development grants through the development agency system. Brasov is part of the Development Region Center, together with some less developed counties. This means that most of the development funds do not reach Brasov, and their impact is rather modest. For example, in the first half of the current year Brasov County

received over 1 million Euros for human resources development. These funds are expected to lead to 120 new jobs, and will support the training for 575 people. These data refer to the whole county; the impact in Brasov city proper will be even more limited. Better news come from the RICOP Program. For 2002, grants worth 4.2 million Euro have been awarded for Brasov and Covasna counties.

Trade Unions – the key stakeholder

Brasov trade unions do not have the fearsome reputation of the Jiu Valley miners. Brasov is nevertheless one of the key strongholds of trade union activism. A strong manufacturing base and the tradition of resistance that draws its mythical roots from the 1987 anti-communist demonstrations have secured this position. As already mentioned, Brasov trade unions are credited with introducing in Romania the tactic of road blockage that has brought to their knees successive governments. The 1997 assault on the prefecture office has shattered the confidence of the reformist center-right government.

Therefore, both the government and the management have been careful not to antagonize the unions. The pressure of trade unions is mainly responsible for the management's tendency to prioritize the payment of wages, whilst allowing mounting back-payments of taxes and social contributions. One can only speculate about the impact that the powerful trade unions might have had on potential investors.

Trade union leaders have generally resisted change; they viewed with skepticism all restructuring efforts as veiled attempts at closure and leading unavoidably to redundancies. Perhaps not surprisingly, their efforts were directed to cushioning the redundancy process: slow it down, restrict it to voluntary redundancy and provide the people made redundant with consistent severance packages. However, once people went out of company employment, they were no longer in the range of concern for trade unions: there was no consideration given to the plight of the unemployed, or to the efforts to create jobs.

There are certain encouraging signs that a new generation of trade union leaders is emerging: rather suspicious of the political connections of the former leaders with the governing party, and more open to looking for solutions that, while providing cover for the employees, are consistent with the economic survival of the company. However, this new vision does not go as far as looking beyond the narrow constituency of the current employees, to partnerships in a broader development effort.

Roman – the truck maker. A case study

After the privatization of the huge steel mill SIDEX Galati to ISPA, Brasov is host to two of the largest black holes of the Romanian economy: the truck maker ROMAN and the farming equipment producer TRACTORUL. Both are in a distress situation, and have undergone a slow but deep cut in the workforce. Tractorul has the advantage of a potentially large domestic market and has recently re-opened export markets. Amongst these two, therefore, Roman seems to be in a more difficult situation.

Roman is a showcase for the problems facing, and brought about by, the large communist industrial plants. It presents all the customary problems:

1. powerful trade unions that resist change
2. weak management, dominated by the unions, and short-sighted
3. low capacity utilization, cash-flow problems and back-payments
4. legal and bureaucratic hurdles caused by the relationship with the major shareholder – the central government.

Fading glory

ROMAN draws its roots from an interwar producer of railway carriages. After nationalization, it became a communist industrial flagship (re-baptized as Steagul Rosu – the Red Flag, and placed in the Stalin city, as Brasov was then called). After the communist takeover, the company shifted its main focus on truck production, and in 1971 started to work under license from the German producer MAN (ROMAN = Romanian MAN). It covers 110 ha, and at its peak employed over 20,000 workers. It had its own education, health and sports facilities.

1989 brought this situation to a sharp end. The company lost its external markets, largely due to the collapse of COMECON – the trade block of the socialist countries. The domestic market shrunk due to the economic crisis of the transition, and was invaded by foreign competitors. The company has been recording chronic losses ever since.

In spite of the lack of investment, sections of the plant remain competitive. The company has managed to develop its own Euro 2 compatible engine. It faces an uphill struggle nevertheless: it had to cease the production of large road haulage carriers (TIR) because it is unable to provide international service; its truck division works at only 35% of capacity; and the truck industry as a whole is facing global overcapacity. Most of the revenues come now from spare parts.

Government hurdles

The close relationship with the owner, the government, did not bring many advantages. The development of any new product has to pass through the vetting of the bureaucrats in the Industry Ministry. The company complains heavily about the de-capitalization: the lack of working capital prevents it to honor whatever contracts it might receive.

Public procurement orders have been meager, and the payment slow. In addition, Roman is in a sort of catch 22 situation: its debts (mainly tax back-payments) prevent it to bid in public tenders, which means there is no way it could re-pay the debts.

The custom system did not work in the favor of Roman either. In a sort of reversed protectionism, until last year, Roman had to pay VAT and custom duties for the components that it imported; on the other hand, foreign producers could use ‘external leasing’ to avoid paying custom duties for most of the value of the truck.

The willingness of the Romanian government to accept whatever requirements of the EU negotiators also hurt the company. The introduction of the Euro 3 standard as early as

2004 has caught the management unprepared. It is impossible for Roman to develop a compatible engine, which will force the company to import it.

Finally, not well thought out legal provisions create problems. The newly passed privatization law allows state-owned companies to transfer away social facilities (e.g. heating systems, or kindergartens etc.), but only in the limit of the state's share. Since the state property agency (APAPS) owns 93.72% of ROMAN, the company cannot wholly transfer the property rights over facilities of social use to the local council.

Labor force and relations with the unions

From a peak of over 20,000 employees, at the beginning of 2002 the company employed only 8,600. Going even lower however is hardly possible, since the current staff is essential for maintaining the plant ready to operate¹⁹.

The company is facing human resources problems. On one hand, it has difficulties in recruiting well-qualified technical staff (e.g. engineers). In addition, the very in-demand sections have to cope with brain drain: once qualified, the computer designers leave the company, and in most cases the country.

The main cause of the human resource crisis however has been the downsizing policy. All the huge personnel restructuring has been achieved by voluntary redundancy, induced by large severance payments – 15 monthly wages, 12 paid from public funds, and 3 by the company. This method resulted in many good people, who had other opportunities, and did not fear the competition on the labor market, leaving.

The unions have a fearsome reputation at Roman. Their most important leader, Marius Stinghe, is credited with masterminding the storming of the prefecture office in 1997. Trade unions were rather suspicious of any restructuring plans, and resisted anything but voluntary measures. It is a tribute to their force that the company has always paid the wages on time, while accumulating piles of unpaid taxes, and being starved of working capital.

Restructuring and privatization - glare of hope?

Restructuring has not progressed very far with Roman. As a trade union leader accepted, it has been based on social rather than on economic concerns. In an effort to deal with mounting losses, the workforce has been drastically reduced. Little has been achieved however in re-thinking the company and making it viable.

Unlike Tractorul, Roman is still one integrated unit. There are plans to restructure the company, by focusing it on truck manufacturing, and spinning-off the other 9 divisions. These plans have recently been defeated in an employee referendum, but both management and trade union leaders believe this splitting up is unavoidable.

There has been practically no privatization at Roman for the past 12 years. The management complains about the quality of privatization consultants hired by the government. On the other hand, there seem to have been no effort from the management

¹⁹ For example, the 'hot sections' require round the clock staffing.

to identify potential privatization partners. Recently there has been an expression of interest in the 'hot sections' from an American producer, which has already made similar investments in Romania. The 'hot sections' have caused the most headaches (high wages, expensive inputs, high rate of failed outputs), so if the deal goes through the fate of Roman will look less bleak.

Conclusions and recommendations

Look for an integrated development strategy

As long as there will be public funds for social protection, the current status quo might resist, and a social explosion can be averted. The implementation of the minimum income guarantee has shown that Brasov city is not poverty stricken (at least by comparison with other Romanian areas).

On the other hand, buying time and waiting for the problem to wither away is not realistic. It is quite unlikely for huge industrial complexes like Roman or Tractorul to be able to survive in their present form. Restructuring is unavoidable in the medium term, and this will unavoidably include redundancies.

In order to deal with this situation, the local economy has to be able to absorb the labor force made redundant. This is not the case for the time being. All available resources are spent for 'social protection' – i.e. maintaining the status quo, bare survival. The situation can be changed if more resources are spent on active measures (e.g. by the Employment Agency), and if more emphasis is given to Brasov in the allocation of development grants.

Brasov stakeholders badly need to come together and agree on a development strategy for the city, and come out with realistic, bankable projects that may attract domestic or foreign financing. Whether such a development plan should include an airport or the re-located Dracula Park remains to be seen. Large public works may also be a solution for giving a boost to the local economy and create the capacity to absorb the workforce made redundant by the restructuring of the communist leftovers. With its consistent tradition of trade union activism, Brasov may have more leverage on the central government in getting state budget funds for such public works, than what its relatively manageable level of poverty would normally permit.

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