

EARLY WARNING REPORT ROMANIA

UNDP - ROMANIAN ACADEMIC SOCIETY (SAR)

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EVOLUTION OF SELECTED INDICATORS

INDICATORS	General trend	Latest month	Aug 2001	Jul 2001
GDP growth (quarterly, annualized), %	↗			
Devaluation of the Leu, %	↘	↘	1.42	1.58
Inflation, %	↘	↘		1.3
Industrial output, % change	↗	↘		
Trade deficit, FOB/CIF (million USD)	↗	↘		272
Unemployment rate, %	↘	↘		8.4
Employed (,000)	↗	↗		
Net salary, % change (Jan 2001 = 104 USD)	-	↗		2.6
Foreign companies increasing their business in Romania (KPMG quarterly poll), %	↗		65*	
Trust in government (BOP poll), %	↘			
The current government can improve things (CURS poll), %	↘		48**	
Pessimism, % (Country heading in the wrong direction)	-		44**	54
Subjective welfare, % (Better off than last year)	-		18.7**	

* forecast

** urban population only

ABSTRACT

The Romanian economy looks poised to grow impressively in 2001, if measured against the dismal performance of the last years. Inflation is decreasing, while the business confidence, both among domestic entrepreneurs and foreign investors, is on the rise. The largest Romanian company, Sidex Galati, has just been privatized. So, should the government relax and enjoy the good times?

Not exactly, says this issue of the Early Warning Report. In the *Economy* section, Daniel Daianu highlights that the trade deficit continues to grow as the economy recovers, which threatens the country's financial position and signals that significant structural adjustments in industry still need to be done. The rest of the section shows that the foreign trade structure is improving, but slowly, and argues that the recent calls for state intervention in food prices are misplaced.

How likely is it that the "Resita effect" will spread across the state-owned industry? More generally, are Romanians anti-capitalistic? After surveying a representative sample of the urban population, we conclude, in the *Social* section, that conflict proneness in people is not necessarily determined by their 'objective' situation, but rather by their subjective welfare. The most worrisome feature revealed by this model is the combination of ethnic hostility with social resentment, at the level of urban lower middle classes.

Jun 2001	May 2001	Apr 2001	Mar 2001	Feb 2001	Jan 2001
5.1			4.8		
1.41	1.84	2.02	2.26	2.05	2.26
1.6	1.7	2.7	2	2.3	3.7
-1.2	7.6	-3.4	11.4	4.1	4.9
294	484	447	228	334	260
8.8	9.3	9.9	10.4	10.8	10.8
4,530	4,521	4,485	4,467	4,448	4,414
0.6	-5.7	5.1	6.7	-7.2	
60			55		
	44	51		52	50
46			57		
	52			54	53
	19	16		18	17

As for the reliance on the state and the reluctance to embrace capitalism, they are primarily a by-product of the delayed economic reforms and are, therefore, in a way state sponsored. It is up to the government to give the signal that living on state wages in the loss making industry is simply not an option anymore. Until now, the government has been the great absent from the necessary effort to resocialize Romanians in order to give them a fair chance in a market economy.

There is also a perceived conflict between the citizens and the political establishment. The quality of governance is a disappointment for most people, and they are looking for an alternative. What can be done to improve the transparency and accountability of governance in Romania? These, and more, in the **Politics** section.

ECONOMY

THE MOOD IS POSITIVE AND GROWTH CONTINUES –BUT DEFICITS AND FINANCIAL INDISCIPLINE ARE STILL A PROBLEM

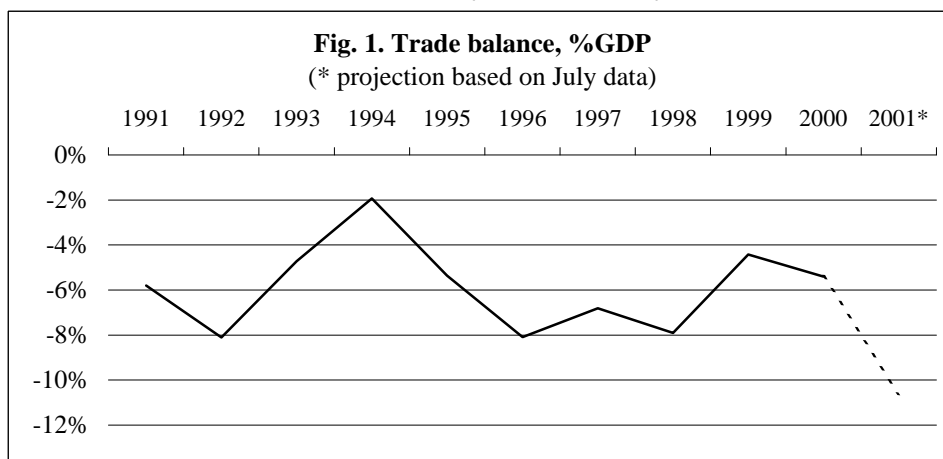
How Threatening is the Trade Deficit?

by *Daniel Daianu*

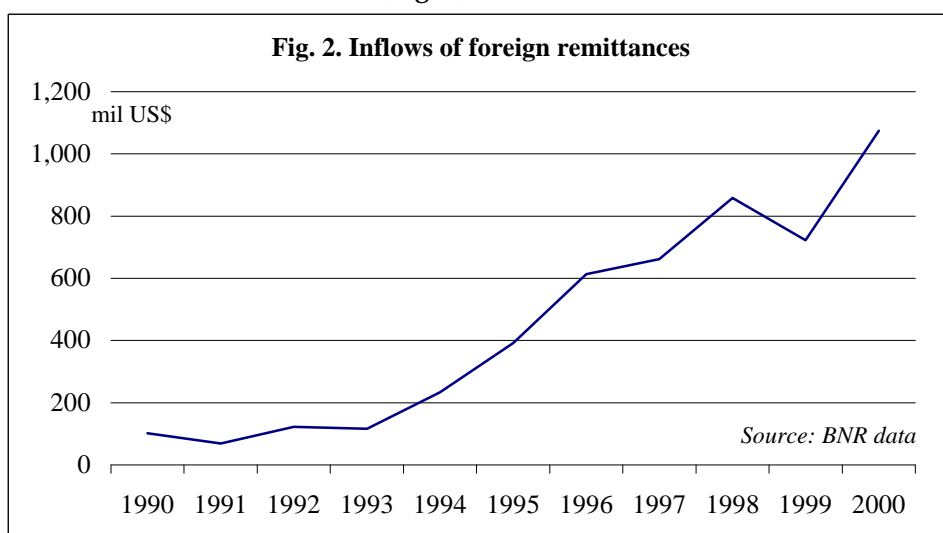
As it was expected, economic recovery accelerated. After a rise of 1.6% in 2000, the GDP is likely to grow by over 4.5% this year. Exports continued their buoyancy under the spell of a special tax incentive introduced at the end of 1999. This is part of the good story. But there is a less rosy part of it as well. In the first half of this year imports literally “exploded”; they grew much more rapidly than imports and brought the trade deficit to over US\$ 2 billion. While exports rose by around 18% against the corresponding period of last year, imports moved up by about 35%. If this tendency continues unchecked, the trade deficit could surpass US\$ 4 billion in 2001, which represents around 11% of GDP.

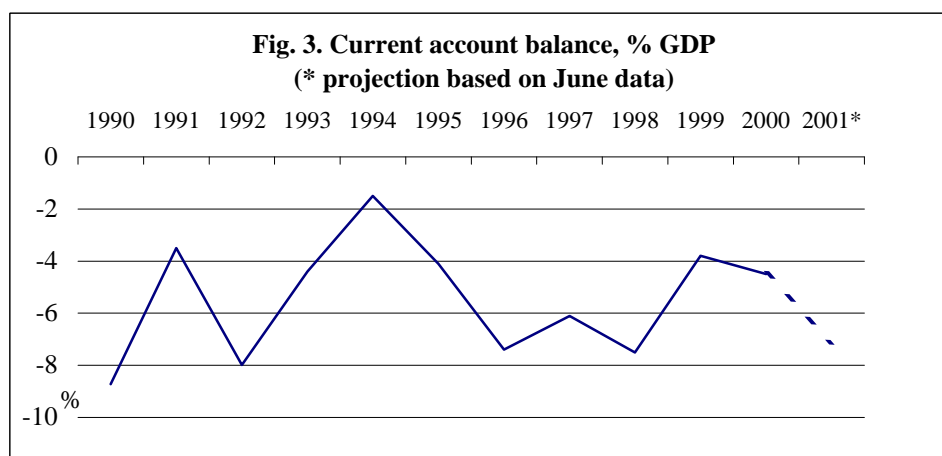
Is this looming trade deficit a real cause of worry? On one hand, Romania is, arguably, a transition country, which needs to catch up economically. Consequently, importing foreign savings for raising domestic investment should not come as a surprise. And this may last for quite a number of years. As a matter of fact, Romania has been running a relatively large trade deficit for the whole past decade (Fig. 1); only in 1994 was the trade deficit lower, at

2% of GDP. On the other hand, a persistent large structural trade deficit would, in the absence of resilient offsetting flows, have to be dealt with, sooner or later. This structural deficit is mirrored by the external debt of Romania which, although rather low (around 30% of GDP) by world standards, has been growing rapidly in the last decade. In addition, a rapid increase of the trade deficit could easily cause liquidity problems.



Nonetheless, as aforementioned, a country may have sources for financing a large trade deficit outside the capital account -- such as tourism revenues and remittances. Whereas tourism, unfortunately, plays an insignificant role in this respect in Romania, remittances have contributed increasingly to financing its balance of payments (Fig. 2). Romania is increasingly a supplier of both highly skilled (IT/software) and less skilled (construction) labor. It is noteworthy that remittances were close to US\$ 1 billion, in each of the last two years -- almost as large as FDI inflows. Consequently, attention needs to be focused on the current account deficit. (Fig. 3)

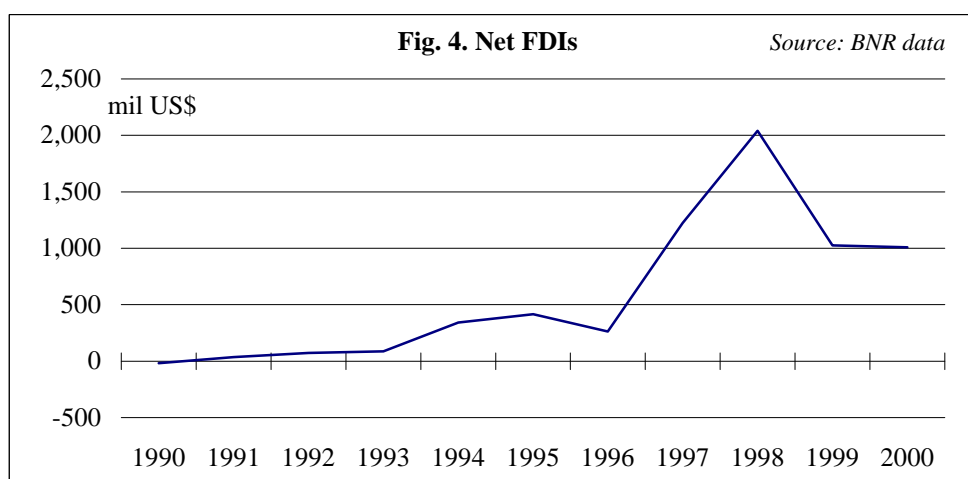




The current account deficit, itself, shows a stunning rise this year; up to US\$ 1.197 billion for the period January-May, as compared to US\$ 538 million during the same period of last year. Apparently, the financing of the current account deficit poses no major problem. The National Bank of Romania (BNR) has continued to be a net buyer of foreign exchange, which contributed to increase its foreign reserves (at the end of June, they reached a record high of US\$ 4.4 billion, including gold), and autonomous (non-debt creating) inflows have been quite substantial. But complacency would be a grave mistake in judging the magnitude of the increase of the external deficit. There are several reasons why the government and the central bank should pay careful attention to the evolution of the current account deficit:

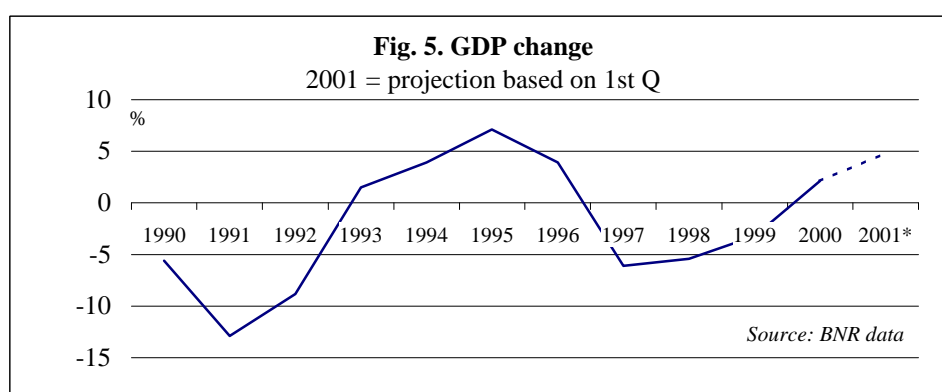
- Romania has experienced critical moments in the management of its external deficits, which suggest a nuance in assessing the composition of external financing. One such moment was the balance of payments adjustment in 1999, when the current account deficit was halved from over 7% to 3.8% of GDP. At that time autonomous flows proved their volatility (their share in GDP declined to 3.19%, as compared to 8.77% in 1997), and the financing of public debt had to be covered internally, with heavy repercussions on domestic interest rates.
- Most Foreign Direct Investment (FDI) in the Romanian economy is not greenfield; it is due primarily to privatization deals, which are a sort of “compensatory flows in disguise”; in 1998 FDI receipts, which were of over US\$ 2 billion (Fig. 4), helped to finance a current account deficit that exceeded 7% of GDP. As opposed to greenfield investment, FDI in the form of equity capital is reversible. In each of the last couple of years FDI inflows were just above US\$ 1 billion and the situation does not look better in 2001.
- The dramatic rise in autonomous outflows, which did occur in particular years (mainly due to large outflows of speculative money), together with the net negative compensatory flows, in 1998 and 1999, show the fragility of current account financing.

- The highly unstable flows (portfolio; errors and omissions¹) represent a non-negligible share of autonomous flows. During the first five months of 2001, “errors and omissions” made up 729 million USD, almost 60% of the current account deficit!
- Romania still needs substantial compensatory flows, including from multilateral organizations. Private capital markets play an equally important role. This year, the government borrowed around 600 million Euro through a bond issue in order to finance the budget deficit (which is estimated at 3.5% of GDP after an intended rectification in September). It goes without saying that financial markets would look more than cautiously to a ballooning current account deficit. This cautious attitude may be reinforced by recurrent crises in emerging markets (Argentina, Turkey, etc).



The remarks made above show that a stance of benign neglect regarding the trade and the current account deficits is unwarranted, and that corrective measures would have to be taken in due course in order to keep things under control. Otherwise, the specter of the boom and bust cycle, which has been plaguing the Romanian transition economy in the last decade, would show no sign of fading away (Fig. 5).

¹ The last item (residual) in the official balance of payments published by BNR. It basically represents inflows for which BNR has not identified the source.



What should be done to limit the external deficits?

Firstly, one has to look at the causes of the rapidly increasing trade deficit. There is no doubt that economic recovery is taking its toll; the rise in domestic absorption is illustrated by the sharp increase of consumption and production related imports. The rise in food industry imports (foodstuffs) is glaring; the deficit at this category of imports almost doubled, to around US\$ 350 million during the period January-May 2001. Imports were also favored by the trade facilities introduced at the start of this year, which were the equivalent of a real appreciation of the national currency. In a way, it is ironic that a country which does have difficulties in financing its external deficits encourages imports via trade facilities. The reasoning behind this policy move may have been that this is a means to bring in more capital goods and enable, thereby, technological renewal. But such a policy can easily backfire. A proof is that the rise in capital goods imports (as compared to last year) was of less than US\$ 100 million for the first five months of the year, out of a rise in total imports of US\$ 835 million! Another factor that contributed to increase domestic expenditure was the attempt to resuscitate big loss-making state owned companies; this measure enhanced both financial indiscipline (the growth of arrears which, purportedly, reached 40% of GDP in the first half of this year) and imports. It is telling that the trade deficit of energy carriers and mineral products grew to US\$ 684 million for the first five months of this year (as compared to US\$ 378 million for the same interval of last year). And finally, the real appreciation of the ROL (the Romanian leu) did not help the trade balance either.

In order to contain the trade deficit, the government and the central bank need to adopt a classical combination of expenditure reduction and switching policies –but within a policy framework which relies on furthering structural reforms and disinflation. The budget deficit should be reduced together with the imposition of much harder budget constraints on loss-making companies (state utilities and other *regies autonome*), import facilities should be rescinded, wage policy in the state sector should be closely linked to productivity as indicated by sales (and not output/inventory levels), and exchange rate policy should not allow a real appreciation of the ROL. Such a set of measures will likely reduce the GDP growth rate for next year below the targeted level of

5.2%, but it would represent a necessary corrective stage in order to secure sustainable growth in the future.

As for the exchange rate policy, a crawling band, which should preserve the attractiveness of ROL and help discourage “hot money”, would be better suited for sustainable growth and steady disinflation. For, under the current circumstances and the rapidly rising trade deficit, a real appreciation of ROL may help reduce inflation a while, but at the cost of future new bouts of rising prices –when, presumably, an adjustment would be necessary via a real depreciation as well. It is advisable for the government and BNR to target a current account deficit not larger than 5.5-6% next year and the set of policy guidelines sketched above would work for such a purpose.

Fig. 6. Macroeconomic indicators, 1990-2000

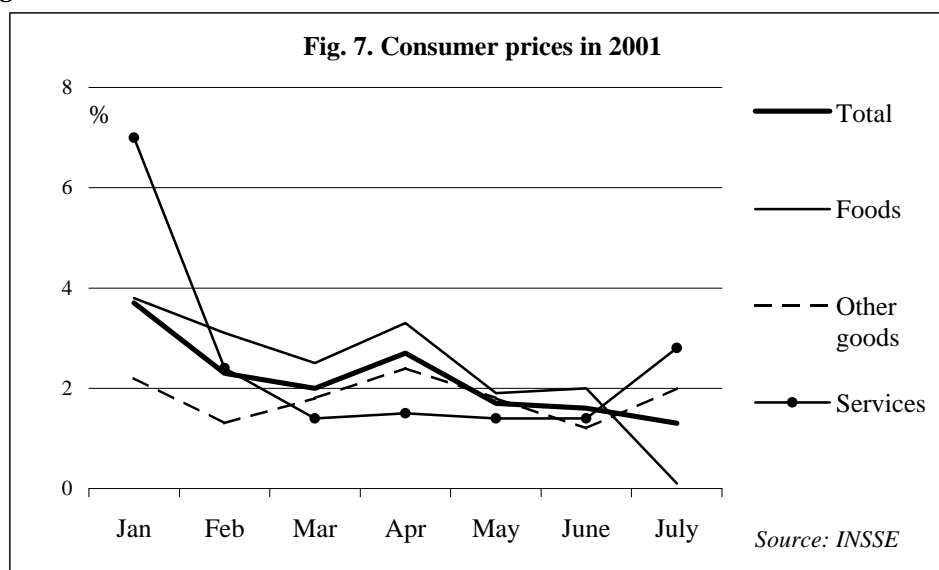
Indicators	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP (annual trend), %	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.6	-5.4	-3.2	1.6
Inflation, % Dec / Dec	37.7	222.8	199.2	295.5	61.7	27.8	56.9	151.4	40.6	51.4	40.7
Nominal devaluation, % Average Dec / Dec.	50.3 140.4	240.5 444.5	303.1 143.3	146.8 177.4	117.8 38.4	22.8 45.9	51.6 56.5	132.5 98.8	23.8 36.5	72.7 66.6	41.4 42.0
Consolidated budget deficit, % GDP (including privatization income)	1.0	3.3	-4.6	-0.4	-1.9	-2.6	-3.9	-3.7	-3.5	-2.2	-3.5
Current account deficit, % GDP	-8.5	-3.5	-8	-4.5	-1.4	-5	-7.2	-6.7	-7.5	-3.8	-4

Source: BNR data

Warning: Food Prices are the Wrong Target for Government's Intervention

These days the prevalent opinion in government circles and part of the public opinion is that food prices are going up and something should be done about it quickly, not only for social protection, but also in order to achieve the broader goal of keeping the inflation under control. Cooking oil and sugar are specially mentioned in government officials' statements, as a rise in prices is expected when the plants start to process the new harvest and the demand traditionally increases at the beginning of the autumn.

However, a simple analysis of data provided by INSSE reveals that there is nothing new concerning food: their prices have moved slightly above the general inflation rate for most of 2001 and dropped significantly in July (Fig. 7). Moreover, the cooking oil has lagged behind everything else in the first seven months of this year (Fig. 8), with sugar around the average. By contrast, the prices of services were much more erratic, most of them being government-controlled.

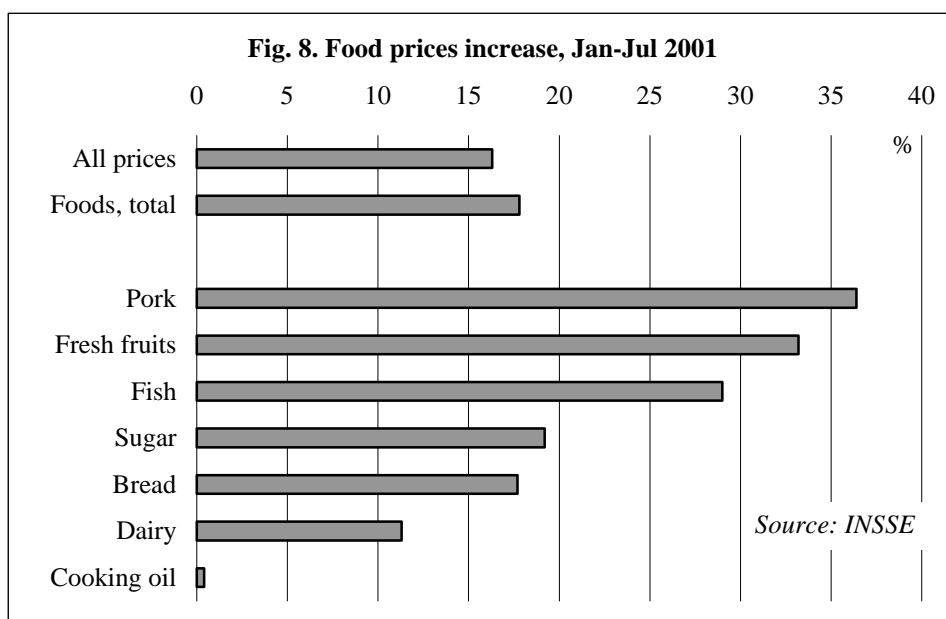


When prices rise on such a fragmented and competitive market like that of foods, this is a clear sign that the move is demand-driven. A conspiracy of all the producers, invoked recently by the minister of agriculture, is very unlikely. Furthermore, the tariffs aimed at 'protecting the domestic sugar industry' mentioned in the very same statement are completely at odds with the first goal –if anything, they will determine a rise in the price of sugar. As a consequence, the government should:

- Refrain from imposing price caps (directly or indirectly, through controls aiming at 'curbing speculative activities') on goods produced by a competitive industry and whose price behavior does not show

any concerning trend –anyway, not for the two products targeted by the government. As the increase in prices is clearly demand-driven, the caps could only create shortages –if they are enforced, which in practice is almost impossible.

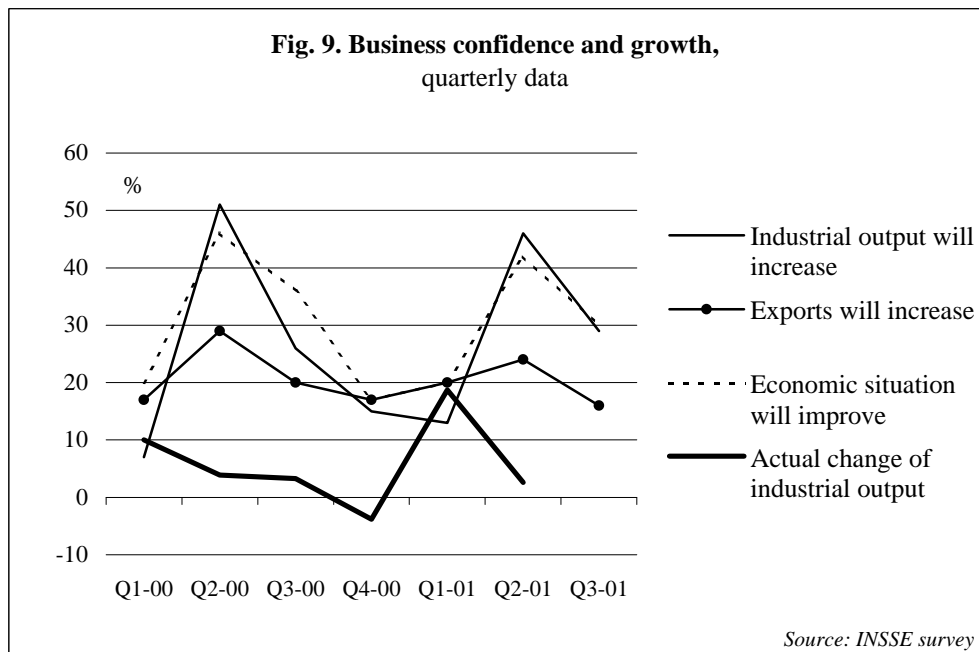
- Co-ordinate sectorial interventions with its general economic policy. For example, if the goal is to keep domestic prices low, this cannot be achieved through higher import tariffs.
- Focus its intervention on areas where it can be effective –for example, in dealing with monopoly service providers.
- Tighten the salary policy in the public sector and state-owned utilities. The rises of salaries in these sectors explain at least in part the surge in domestic demand that the government deems ‘artificial’, and they are also to blame for the alleged ‘overheating’ of the Romanian economy mentioned recently by the prime minister. Getting things out of control in the state sector represents the real threat for the anti-inflationary program initiated by the government and the central bank, as well as for the prospective agreement with the IMF.



Business Confidence Rises in Spite of the World Slowdown

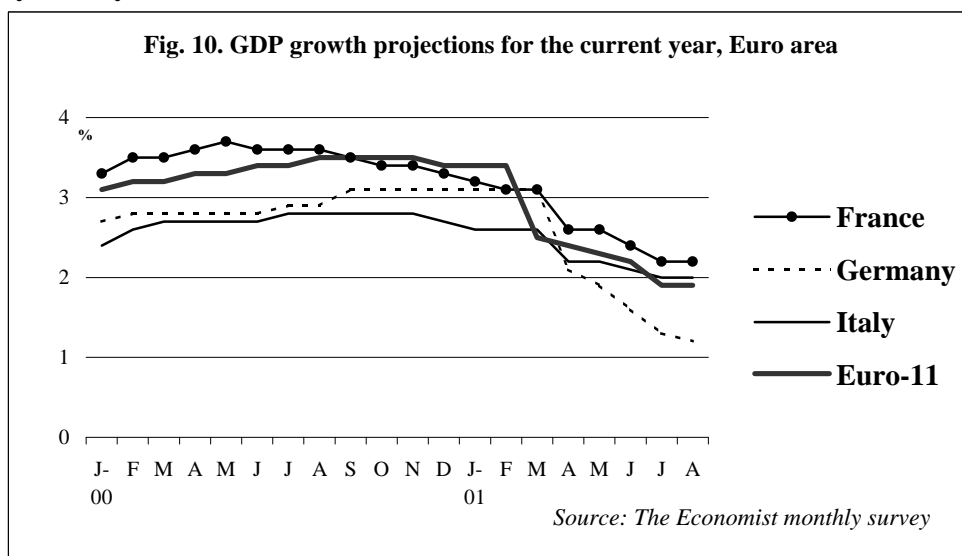
The National Institute for Statistics and Economic Studies (INSSE) runs a quarterly survey of domestic firms in order to assess the business confidence and make projections for the following quarter. Fig. 9 shows that most domestic business leaders believe that the positive trends we have seen lately will continue.

- For three important indicators (industrial growth, exports and the general economic situation) those who think that things are going on well are a majority, but the margin of optimism is decreasing.
- This optimism should, therefore, be interpreted with a pinch of salt: if we compare the fluctuations in opinion with the actual change of industrial output, we find that the domestic business confidence is not a predictor for growth. Instead, it is the other way around: business-people adjust their opinions to the actual evolution of the economy – with a lag.
- Nevertheless, KPMG’s survey of foreign companies operating in Romania confirms the upward trend of the domestic economy –see the table of indicators on the first page –as the percentage of those who forecast an increase in their business on the third quarter went up to 65%.



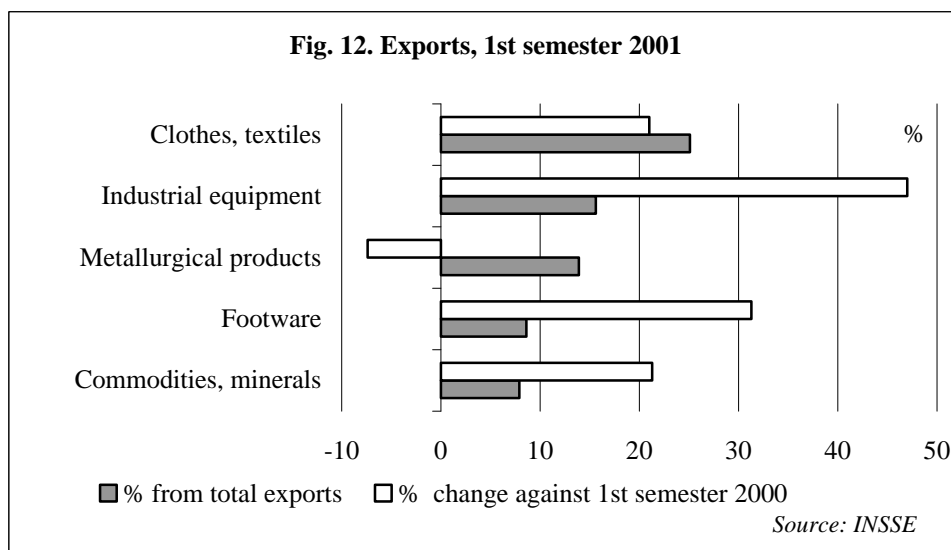
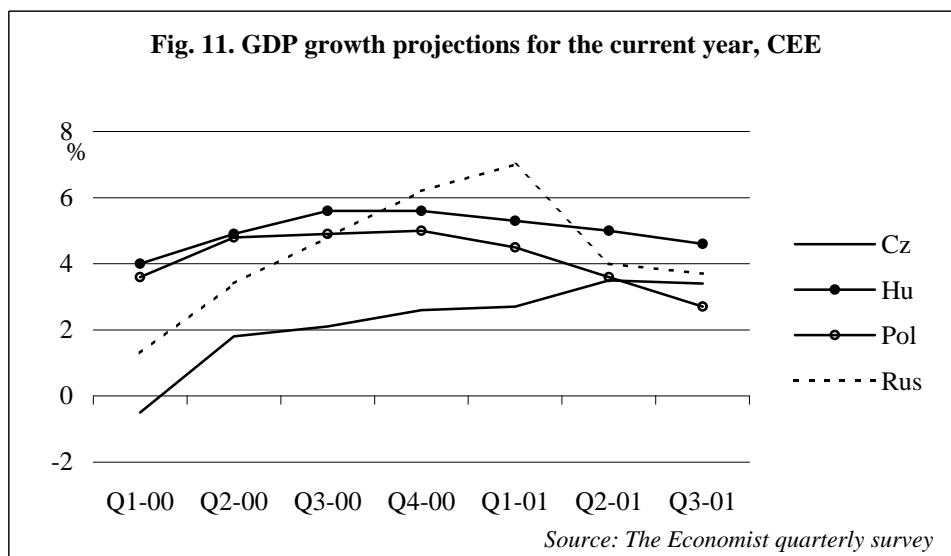
International Environment and Trade: Romania is Slowly Improving Its Position

The growth projections in the European Union have been constantly revised downwards over the last months. Romania's main trading partners, Italy, Germany and France, absorbing roughly half of Romania's exports, will have GDP growth around or below 2% (Fig. 10); Germany's GDP will grow this year only half as much as in 2000.

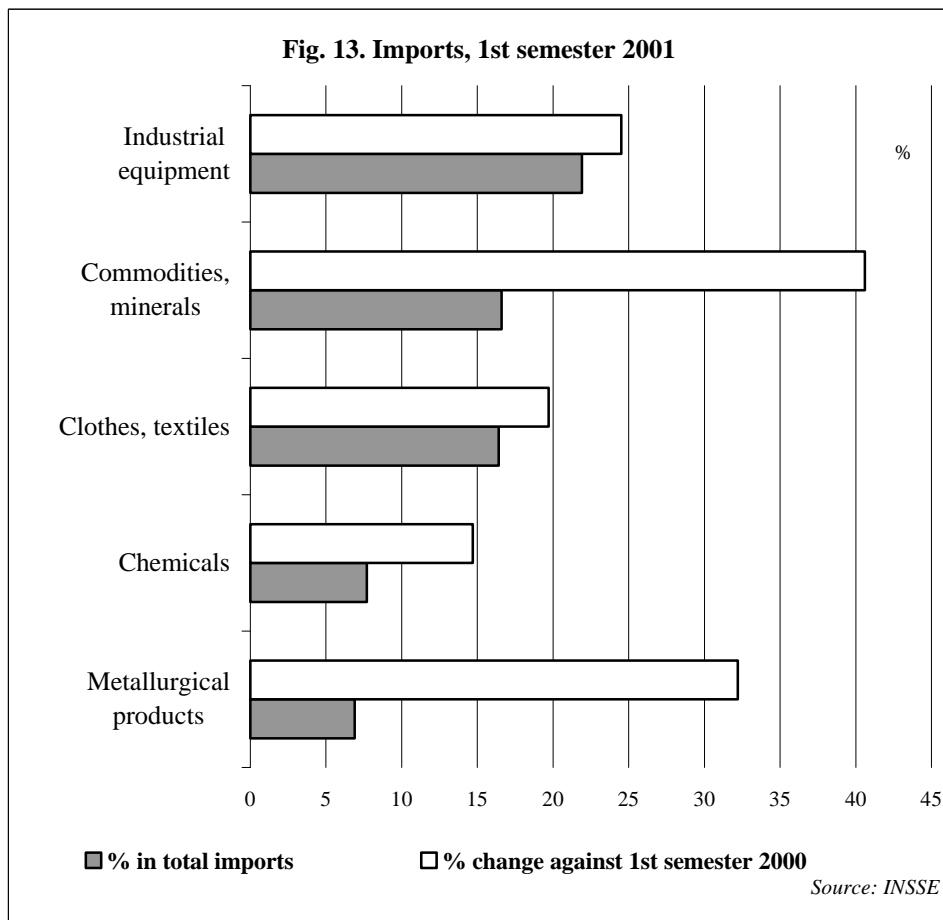


The EU slowdown will also inevitably affect Central and Eastern Europe (Fig. 11). The first wave of accession countries will most likely have a GDP growth below 4% in 2001 (except Hungary). Even the Russian economy will lose steam, in spite of the still high level of prices of oil and natural gas, which are its main exports.

In this context, a GDP growth of more than 4% would make Romania one of the best performers in the region, after many years. The government has just revised upwards its projection from 4.1 to 4.5%. This would be a very good achievement indeed. However, even if the Romanian economy starts feeling the influence of the world economic slowdown in the second semester of 2001, and growth falls back towards 4%, the government should proceed with caution and abstain from injecting resources in the economy just in order to meet the target. Any artificial stimulus could widen the trade deficit and derail the anti-inflation program.



The slight change in the structure of Romania's foreign trade is also encouraging. The increase in exports of industrial equipment, electric and electronic devices over the last year have surpassed by far those of other, more traditional Romanian products such as apparel, textiles or metallurgical goods (Fig. 12). This development suggests that the Romanian economy is slowly moving up on the value-adding scale. On the other hand, the industrial revitalization has caused a disproportionate increase in demand for imported minerals and fuels (Fig. 13), which shows that the industry remains energy-intensive and inefficient, and that structural adjustments are still needed.



SOCIAL

FRUSTRATED LOWER MIDDLE CLASSES COMBINE SOCIAL AND ETHNIC RESENTMENTS. THE STATE IS THE MAIN SPONSOR OF STATE-RELIANCE

The Roots of Social Conflict

Despite the social pact concluded between the government and the trade unions earlier this year, social life in Romania seems pregnant with conflict. Seldom can one find a newscast without some strike, legal or illegal, being mentioned, and many go unreported precisely because they are so common that even blocking a public road to get a raise or the overdue salary has lost any newsvalue.

Are these protests rooted in practices of abuse of the workers by managements? Are they fostered by extreme poverty? Are they rooted in an anti-capitalistic mentality that Romanians acquired during the long and deeply penetrating communist regime? And if so, is there anything that the government can do to reduce social conflict and foster social cohesion?

To answer these questions SAR surveyed for this EWR issue the urban Romania². There are practically no factories in the countryside: hence there is no point in inquiring on labor conflicts at the level of peasants. Peasants are quiet, but passive supporters of the government: no peasants will ever mobilize, in spite of their support for the government, to stop the miners

² The survey is representative for urban Romania. The sampling and measuring were done by the Center for Urban and Regional Sociology (CURS). The sample is representative for all Romanians of 18 years and older residing in 'towns'. 'Towns' do not start under the classification of Romanian Commission of Statistics from a certain number of inhabitants: at similar numbers we can have a 'commune' or a 'town', so that there are towns under 30 000 inhabitants. Many 'communes' were arbitrarily turned into towns during Communism as part of the aggressive modernization program. However, after their formal classification some industry was eventually built and some 'systematization' to create an urban landscape was undertaken in most cases, so the classification is nowadays somehow supported by reality.

marching on Bucharest. We therefore considered we should focus on urban Romania in order to understand the roots of social conflict.

At first sight, the Romanian workers are not inclined towards protest at all, not to speak of violent riots. About 5% declare they would join some protest meeting, of which only 1.8% would consider protesting in front of the town hall or the Government.

Fig. 1. If we suppose that the company you work for would encounter financial difficulties and would have to fire you, what would you do?

Variable	%
I would look for another workplace in the same profession	30.0
I would protest in front of the company building	3.0
I would protest in front of the Government or Parliament building	1.8
I would take a re-qualification course	13.6
I would look for work in another country	24.8
Another opinion	2.6
Not applicable	42.5
No answer	4.5
Total	100.0

This small number is consistent with every other survey so far, since social conflict was always underreported, never predicted by a survey so far and very likely a poor choice for a direct question. People can hardly imagine being in difficult situations, and it is even harder for them to give a reliable estimate of what would they do in circumstances which do not exist, and in a context one can only guess. Protest is also seen as socially undesirable behavior, another reason for misreporting it. Therefore, we tried to disconnect the conflict potential from any personal involvement and we simply inquired on perceptions of existing conflicts.

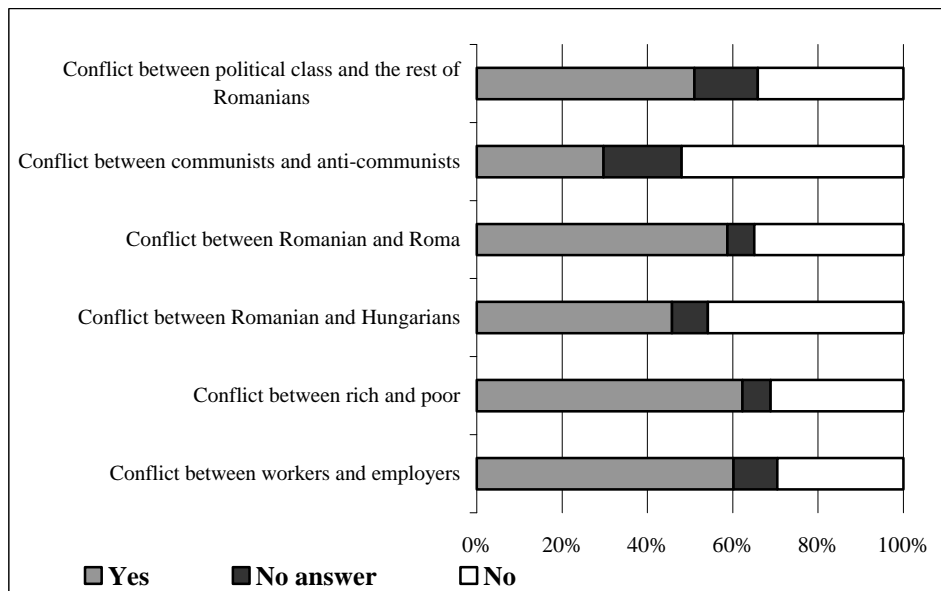
The results are strikingly closer to the image presented by newscasts. About 60 % of the Romanians believe there is a conflict going on between workers and employers and between the rich and the poor. 59% believe in a conflict going on between Romanians and the Roma population, 51% declare a conflict opposes the 'political class' to the rest of Romanians, 46% think there are tensions between Hungarians and Romanians and 30% believe the conflict is between communists and anti-communists. The widest perceived conflicts –workers and employers, rich and poor, ethnic, especially with Roma, but also with Hungarian are strongly correlated. That means it is likely that someone who believes there is a conflict between the rich and the poor, also believes in a conflict with the Roma. We have a 'conflict-prone' majority, which is more likely to experience the feeling as such regardless of the subject matter. Before addressing our main topic, which is social conflict only, we investigated the causes of this peculiar drive in the Romanian population by aggregating all the conflict variables above into a simple conflict 'Proneness' indicator and explaining it via a multiple regression model.³

³ Created by principal component analysis, KMO=0.737

'Conflict-proneness' is therefore determined by:

- **Subjective material well being of one's family** ('Would you say your family is well off'). The more people perceive they are not doing well, the more inclined they are to perceive 'conflicts' going on around.⁴ The reason of one's perception of doing materially well or poorly usually lies in the comparison with other people's economic performance, as we found no association between property, income and conflict proneness.
- **Social trauma in the family's history.** There is one objective element playing an important role: negative experience with the transition economy. People who had lost a job, either themselves or someone from their family, tend to perceive more conflict regardless of their current status.

Fig. 2. Perceptions of social, political and ethnic conflict



- **General pessimistic outlook.** Again, a subjective element proves a powerful predictor. Here people are keener on perceiving conflicts when they are more pessimistic in general (the country is 'headed in the wrong direction').
- **Education.** The least educated the people are, the more likely it is they will perceive a conflict.
- **Size of town.** Conflict is perceived stronger in larger cities. This is due probably to the greater diversity and possibility to compare oneself with others, be it the rich or the most disadvantaged, such as the Roma. The city is the ideal cradle for social envy: the small town, with its homogeneity and feeling of kinship, is less likely to create segments of the society in conflict with each other.

⁴ The negative association is highly significant only in bivariate models.

- **Collectivism.** The more people endorse equality (defined as 'Some people should not be better off than others') against freedom⁵, the more likely they are to report an array of conflicts dividing the Romanian society.

In conclusion, the inclination to perceive conflicts is a characteristic of the 'frustrated' living in urban areas. It is strongly based on collectivism and social envy, fostered by insufficient education and a history of encounters with social trauma.

Fig. 3. Explanatory model of conflict proneness

Independent variables	Association and Significance
Subjective well-being	+** (in bivariate models)
Country headed in the wrong direction	+ **
Equality	+ **
Age	N/S
Size town	+ ***
Education	- *
Wealth	N/S
Social Trauma	+ *

a. Dependent Variable: CONFLICT PRONENESS; Adjusted R square 0.04

Legend: + signifies a positive correlation, - a negative one; * predictor significant at $p < 0.1$; ** $p < 0.05$; *** $p < 0.001$ (***=strongest association); N/S means that the variable did not turn out to be a predictor

⁵ The choice between freedom and equality was adjusted following the World Values Survey.

Fig. 4. Explanatory models of subjective social conflict

Independent variables	Conflict between employers and employees	Conflict between rich and poor	Social conflict index⁶
State dependency ⁷	N/S	N/S	N/S
Equality	N/S	+ **	+ **
Reads newspapers	- **	N/S	N/S
Watches public TV	N/S	N/S	N/S
Watches private TV	N/S	N/S	N/S
Relies on friends for information	N/S	N/S	N/S
State employee	N/S	N/S	N/S
Private sector employee	N/S	N/S	N/S
Privatizing sector employee	N/S	N/S	N/S
State reliance ⁸	+ *	N/S	N/S
Conflict between Romanians and Roma	+ ***	+ ***	+ ***
Town size over 100000 residents	+ **	N/S	N/S
Education	N/S	N/S	N/S
Age	N/S	+ bivariate models only	N/S
Wealth	N/S	N/S	N/S

Legend: + signifies a positive correlation, - a negative one; * predictor significant at $p < 0.1$; ** $p < 0.05$; *** $p < 0.001$ (***=strongest association); N/S means that the variable did not turn out a predictor

When separating the social conflicts from the rest, however, the picture changes somehow. We constructed an index of social conflict from the two social conflict variables, but in the same time we explained them separately as well, as a minority did not endorse both the perceived conflict between employers and employees and the rich and the poor.

The models of social conflict give shape to a pattern of conflict again confined more to large cities compared to medium sized and small towns. As expected, the propensity for perceiving an ethnic conflict (the conflict with the Roma) turns out to be a predictor for social conflict. Subjective social

⁶ Three steps cumulative scale, with people agreeing to both conflict between rich and poor and conflict between employers and employees on the top of the scale, people agreeing to only one assertion in the middle, and people rejecting both assertions at the bottom of the scale

⁷ Variable taking into account the respondent's household employment composition as follows: 1) either all active members are working in the state sector, 2) at least one person is employed in the private sector, 3) all members of the household are retired or not employed

⁸ Agreement with the statement "The state should provide enough jobs and fair payment to everybody" as opposed to "Each person is responsible for his or her own well-being"

conflict is more prevalent in older⁹ and more collectivistic-minded people. *Both social and ethnic resentment are characteristics of this group.* The analysis of conflict between private employers and employees also reveals that the least informed people tend to overestimate conflict. People who turn to newspapers for their economic and social life information are at the bottom of the scale of subjective social conflict, while those who rely more on chat with friends and colleagues than the individual use of media are at the top, with TV watchers in the middle. The small groups of chatting colleagues and friends seem to be the nuclei where the feelings of social envy and ethnic resentment develop.

Warning: Low Social Cohesion

The extent to which such feelings are shared is nevertheless a serious reason for concern. Social conflict need not be objective: it is how people perceive they stand in comparison with others and the possibilities they enjoy to change their status that shape the social relationships. And the prominent feature of the Romanian social landscape after a decade of transition is the absence of social cohesion. For practical purposes, the Romanian rich and private employers are a handful. However, we found that a majority feels they are at odds with the rest of the population. The ostensible symbols of prosperity such as luxurious cars or villas bother most of the urban-dwellers. The rich should try to make themselves accepted by becoming involved in their communities as benefactors and displaying less offensive behavior in public. It is their right to be better off than other people, only that in difficult times ostensible prosperity feeds social envy, and social envy leads directly to votes for radical anti-system parties.

Perhaps the most worrisome finding here is the combination of ethnic hostility with social resentment, at the level of urban lower middle classes.

In a capitalist environment this would make the profile of a fascist constituency: in a post-Communist one, strongly associated with collectivism, it gives the profile of radical populism.

Reluctant capitalists

As we have seen, social conflict is also founded on a 'core-value'¹⁰ - equality- or, in alternative models, on people's choice for state reliance versus self-reliance¹¹. To understand social conflict fully we also have to go deeper at the bottom of the social representations of state and self and their mutual relationship¹². The picture here is characteristic for a post-communist country:

⁹ The positive association between age and conflict is significant only bivariate.

¹⁰ The syntagm belongs to Milton Rokeach and has since its first use made a long career in social psychology.

¹¹ This predictor being nevertheless weaker than 'equality'

¹² By 'social representations' here we mean more than just widespread beliefs, organizing principles that provide common reference points for individuals and communities at a given point in time, thus enabling communication among members of a community by providing a

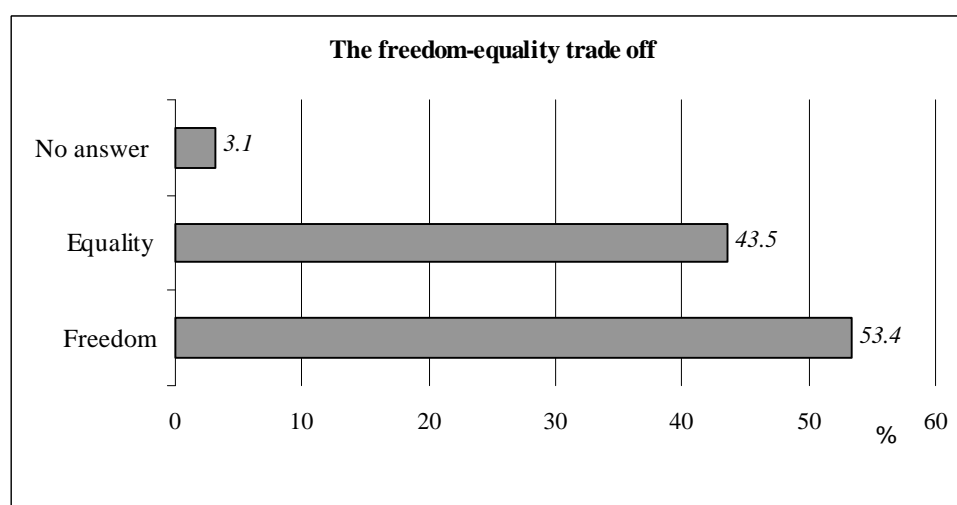
a large majority (57%) endorses state reliance, while 36% are individualistic and self-reliant.

Fig. 5. When considering job and payment, would you rather agree that...

	%
Each person is responsible for his or her own well-being (SELF RELIANCE)	36.1
The state should provide enough jobs and fair payment to everybody (STATE RELIANCE)	57.5
Other	2.9
No answer	3.5
Total	100.0

When inquiring on a choice between freedom and equality we have, however, a slight majority in favor of freedom. This proves that Romanian political culture is dominated more by statism than by collectivism, although both are defining features of the public opinion.

Fig. 6. I know both freedom and equality are important. However, would you have to choose, which one is more important for you personally?



Getting into details, the picture unfolded shows a remarkable ambivalence towards market economy. Romanians only half-heartedly support privatization, agree that private businesses are better managed than the public ones, but seem to believe that this superior quality of management is achieved at the expense of the workers, so given a preference they would still work in the state sector. In other words, they are reluctant capitalists. Realism seems to have overridden preconceptions, as people do believe that privatization is necessary and even the solution when everything else fails, while private management is clearly seen as superior to state management; but as long as there is a state sector out there, even poorly managed, offering security and

code for naming and classifying the various aspects of their world and their individual and group history.

benefits for less effort than in the private sector, workers will eventually prefer these jobs and postpone any form of entrepreneurial labor seeking, in the private sector or as self-employed.

Fig. 7. Subjective perceptions of state versus private sectors (%)

	Management of private versus state businesses	Treatment of workers in private versus state sector
Worse	15.1	40.1
Same	16.8	20.4
Much better	55.2	28.2
No answer	12.9	11.3
Total	100.0	100.0

Fig. 8. Subjective preference for a workplace

Where would you rather work?	%
Romanian employer	10.7
Foreign employer	18.4
State owned company	38.4
Privatized company	3.5
Indifferent	17.1
Other	2.4
No answer	9.5
Total	100.0

Fig. 9. Assessment of the effects of privatization upon the economy

Did privatization help the Romanian economy?	%
Privatization hurt more than helped	32
Neither helped, nor hurt	28.7
Rather helped or helped a great deal	28.5
No answer	11.6
Total	100.0

The same ambivalence is present when people are asked about the fate of loss-making industries. Only 3.4 % openly support covering bad debts from the state budget, and 26% would rather endorse granting more time to those companies to pay their debts. The majority would favor privatization, and even a fast one, but then we see that privatization is understood in quite limited terms, as most Romanians (57% against 40%) believe the state should continue to have a say in how companies are run after being privatized. Finally, 27 % of the urban population, mostly those working in the private sector, would favor closing the loss making state sector.

Fig. 10. The most serious problem of the Romanian economy and its solution

	%
Debts should be covered from the State Budget	3.4
Debt payment should be rescheduled	26.4
State companies should be forced to pay or declared bankrupt	26.8
State companies should be sold/privatized as soon as possible	34.9
Other	1.9
No answer	6.6
Total	100.0

Fig. 11. How far should privatization go

Which of the following is closer to your views?	%
Owners should run their business as they see fit	39.2
The state should have a say even after privatization	57.5
No answer	3.3
Total	100.0

Fig. 12. Acceptance of state interference in managing a business

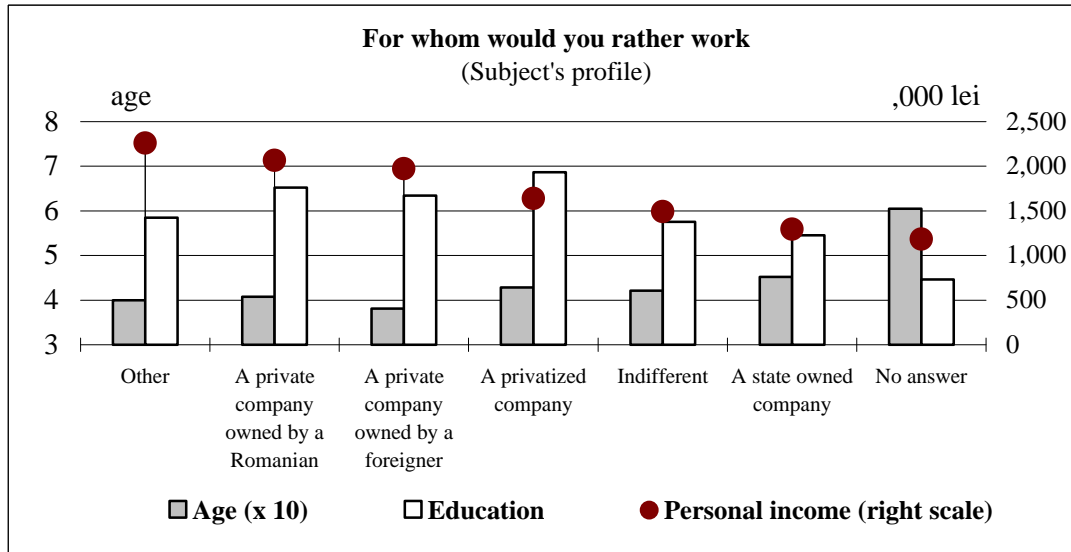
**“The company you are working for is a state owned, private or privatizing?”
(1) / “Which situation do you consider to be better: only the owners should manage or the state should have a say” (2)**

	%	(2)		
		Owners should manage	The state should have something to say	No answer
State owned		40.1	54.9	2.9
Private		43.6	54.5	1.8
(1) Privatizing		42.4	56.1	1.5
Other		28.6	71.4	0
No answer		28.9	64.0	7.0
Average		39.2	57.5	3.3

The attitudes towards these core issues of capitalism need a closer scrutiny. People who prefer to work in the state sector are, on average, significantly poorer, older and less educated¹³.

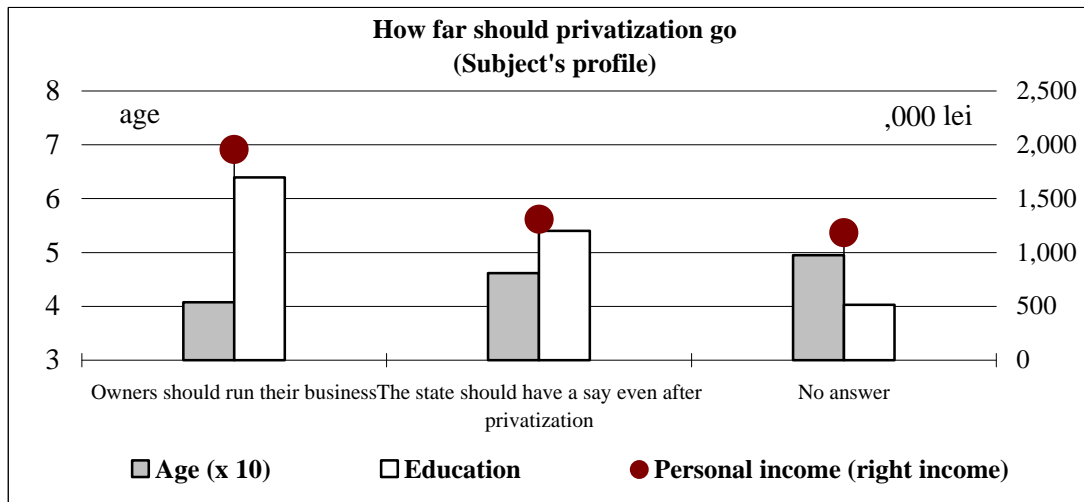
¹³ We compared the average of age, years of schooling and income of each category of respondents by one-way ANOVA analysis

Fig. 13. Job preference



People who endorse the state continuing to have an important say in the management of privatized businesses are also the older and the less educated.

Fig. 14. Acceptance of state interference



Younger people support privatization significantly more. The more people are educated, the less they tolerate soft budgetary constraints, and the more they support radical restructuring of state companies and privatization.

Fig.15. Opinions about firms that do not pay back debts

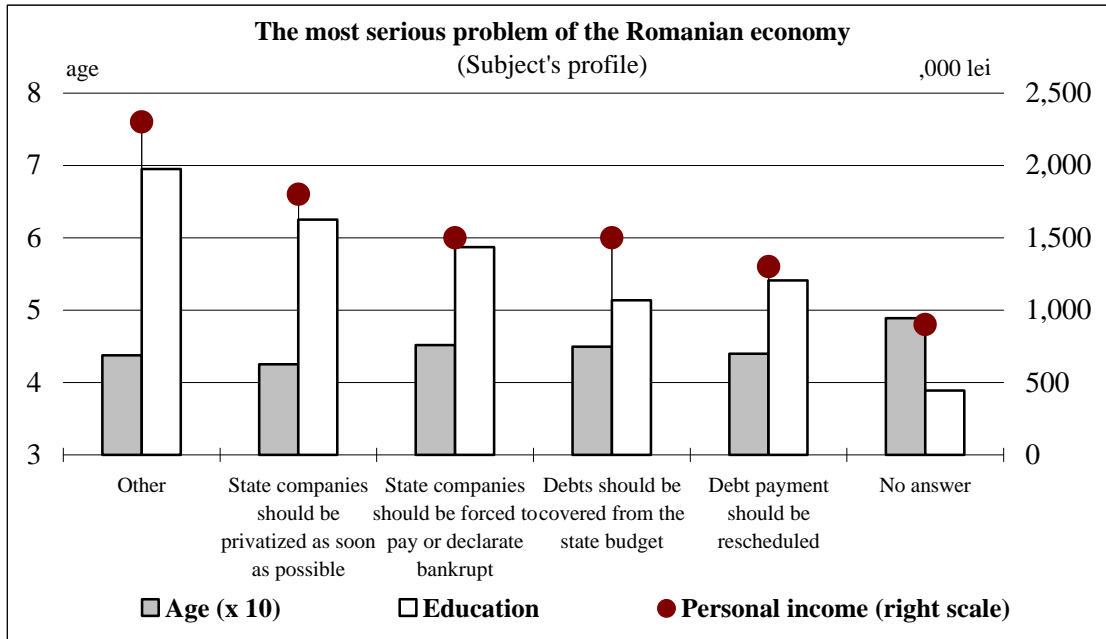


Fig.16. Explanatory model of support for privatization

Independent variables	Association and Significance
Reads newspapers	+ *
Watches public TV	- N/S
Watches private Tv	- N/S
Age	- **
Size town	- N/S
Education	+ ***
Wealth	+ ***

Dependent Variable: Would you say that privatization was beneficial for the Romanian economy?; Adjusted R square = .07 Legend: + signifies a positive correlation, - a negative one; * predictor significant at $p < 0.1$; ** $p < 0.05$; *** $p < 0.001$ (***)=strongest association); N/S means that the variable did not turn out a predictor

Support for privatization in general is determined by the following factors:

- **Superior social status.** People who are better educated and well off endorse the privatization significantly more than the poor and the uneducated. As education and income are strongly correlated in Romania, we are basically dealing with only one group here. Education is the main key to a prosperous life where no other capital is at hand, and only people enjoying some welfare seem inclined to see privatization and market economy in general as beneficial¹⁴.
- **Socialization factors.** The older people are and the less they read newspapers to keep in touch with economic and social news, the

¹⁴ These findings confirm the pattern described for the whole region by Szelenyi et al. 'Capitalism without capitalists?'

more anti-capitalistic they are. People who rely on television only and read no newspapers are likely to support privatization less. This is not to say that newspapers are more pro-capitalistic than TV stations. Rather, what we notice here is that higher intellectual sophistication associated with reading newspapers as opposed to the more superficial television watching predicts a favorable opinion about privatization.

Returning to the more general attitude towards the choice of one's reliance in life, on the state or on oneself, we can notice the following features of state reliance versus self-reliance:

1. **The state-reliant are poorer and less educated than the self-reliant.** Unlike in the conflict models, personal wealth turns out a powerful determinant. People who are more educated and consequentially better off believe each person is responsible for his or her own welfare. People who watch television as opposed to those reading newspapers – another more refined measurement of education – are also more state reliant.
2. **Social and economic environment matters.** The self-reliant live in the large cities, the state reliant in smaller towns. The mobility of labor and the opportunities of larger cities make people feel they can make their own choice; the limited range of choices in small towns makes one more state reliant. In fact this is indirect evidence that the forced urbanization promoted by the communist regime as a long-term policy only gave birth to unviable towns, to places deprived of opportunities for development.
3. **The work environment matters.** People who work in state enterprises are more state reliant than those working in the private sector or even the privatizing companies.

Fig. 17: Explanatory model of State reliance

Independent variables	Association and Significance
Equality	+ ***
Blame political class	- *
State employee	+ **
Private sector employee	N/S
Privatizing sector employee	- *
Reads newspapers	N/S
Watches public TV	+ **
Watches private TV	+ **
Relies on friends for information	N/S
Age	N/S
Size town under 100 000 residents	+ **
Size town over 100 000 residents	- **
Education	- *
Wealth	- ***

Legend: + signifies a positive correlation, - a negative one; * predictor significant at $p < 0.1$; ** $p < 0.05$; *** $p < 0.001$ (***=strongest association); N/S means that the variable did not turn out a predictor

The obvious conclusion of our models is that state reliance and reluctant capitalism are a by-product of the delayed economic reform in Romania, favoured by the persistence of a large state sector. People have enough experience now to judge that the management in private firms is better, and that privatization is the solution for the economy. However, if the distorted incentives are still in place, they will hang on the state sector because it is so much simpler to carry on one's habits instead of embarking upon new and innovative behavior. The state reliance of Romanians is a dominant feature of our social life, but it is state sponsored. Only the government can improve and encourage the opportunities in small, artificially created towns; and the government only can give a signal than living on state wages and security in the loss making industry is simply not an option anymore. Resources for a more entrepreneurial approach to one's employment are there; but they have to be fostered by a deliberate policy to encourage self-reliance while creating a larger field of opportunities.

A Test Case: Resita

Romanians side with the workers, but disapprove the government's handling of the crisis

This general conflict potential and the overall attitude towards capitalism and one's place in the market society are telling, but the best test is the one from the immediate reality. Our attitudes towards the state and its role are tested daily. The most important test case, due to its potential of reoccurrence, was the case of the Resita steel plant, covered in our two previous EWR issues. A few other surveys tried to measure the approval or disapproval of the population towards the management of the Resita crisis. We went further and we tried to decipher the causes of support or lack of it for the government's handling of the Resita crisis.

In the first instance, we inquired whether people were aware of what happened at Resita, as measuring people's opinions on something they have no idea about is both methodologically and ethically flawed. The awareness of this intensely publicized case was reduced to just 33% of our sample. 40% 'have heard something' and 25 % had no idea at all. The majority had an opinion, regardless their information, and so they sided with the Romanian workers and the unions, 4.4% sided with the foreign buyer of Resita, an American company, about 16% considered both sides were right and 5 % considered both were to blame for the conflict.

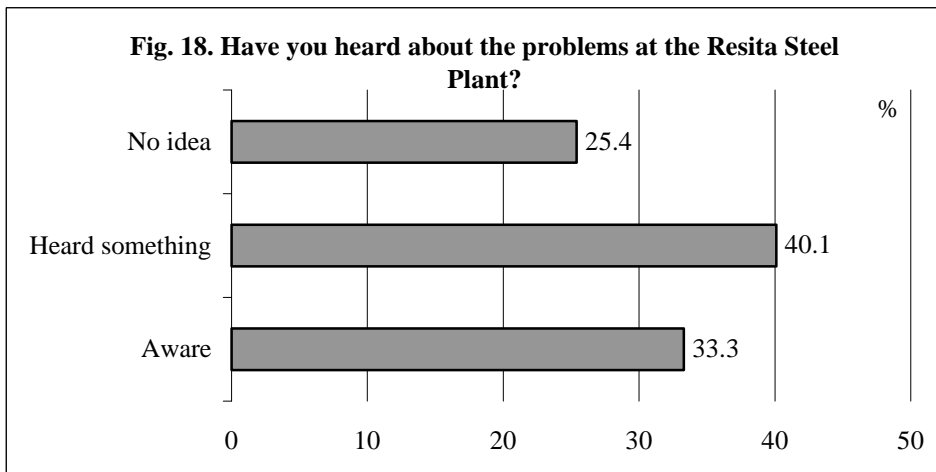
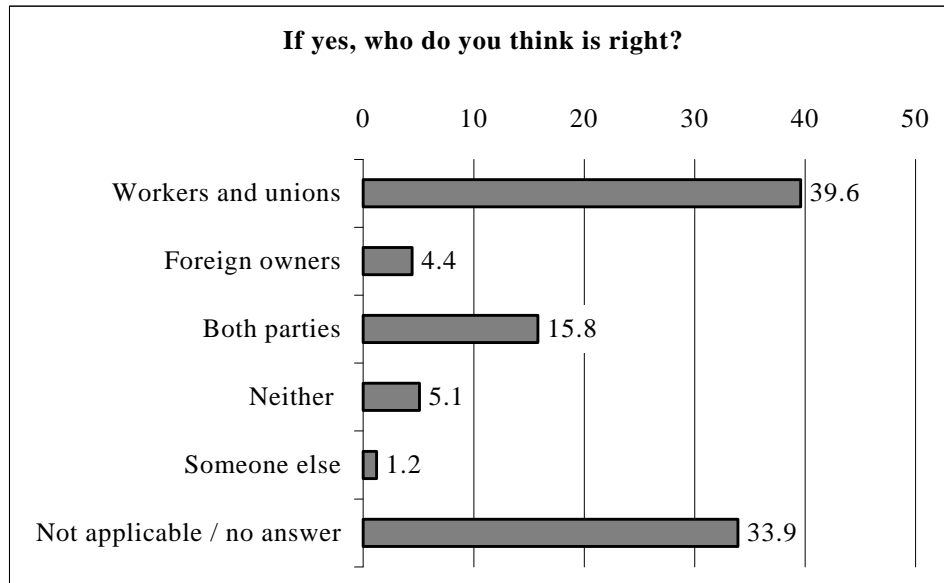


Fig. 19. Opinion about the Resita crisis

The approval of the government was more moderate than in the surveys which forced a choice between a plain approval and a plain disapproval. Only about 11% of the sample approved the government's handling of Resita with no reservations, while 37% believe the government tried to do something, but did not succeed, while 19 % disapproved the government with no reservations. On all counts the number of those disapproving the government is larger than of those approving it.

What are the grounds for this approval or disapproval? We tested a few hypotheses:

1. **POLITICAL PARTISANSHIP.** Approval of government is based on political partisanship; supporters of the current government will endorse it more than opponents or neutrals.
2. **SOCIAL PARTISANSHIP.** Approval of the government is based on preexisting siding with the workers against the foreign owner. In this case we should find a positive association between the two variables in our model.
3. **MEDIA FRAMING.** Approval or disapproval of government depends on the way the media reports the case. People are influenced by the way events are framed in the media, and they tend to buy the interpretation media put before them. In this case, all other things being equal (at similar levels of education and wealth) the TV channels or newspapers one reads should make a difference.
4. **STATE DEPENDENCY.** People are socialized in certain environments and they tend to adopt the dominant view in their environment or social group. We would expect therefore people working in the private sector to have a different opinion than those working in the public sector.
5. **XENOPHOBIA.** The fact that the owner contested by workers and unions was a foreign company might have played some role here.

To test these hypotheses we built a new explanatory model using as a dependent variable a scale ranging from disapproval to approval of the government. Results validated some of our guesses and invalidated others.

1. **Partisanship matters.** People either approving of the government in general or siding with the workers were more inclined to approve the government handling of the crisis, while neutrals and opponents were rather disapproving. Most of our judgment in crisis situations is based purely and simply on the preconceptions we have and which provide us with clues to reach a fast opinion.
2. **But xenophobia matters as well...** People who blamed the failed transition of Romania on the West are more likely to approve the government's handling of Resita.
3. **And so does media framing.** People watching private TV versus state TV tend to disapprove the government more. Unlike the public media or the newspapers, private television offered some lively debates on Resita where people had the opportunity to listen to strong, unmediated opinions and form their own. This seems to have played against the government.
4. **State dependency matters again.** People who are employed either themselves or most members of their families in the state sector tend to be less critical towards the government.

Only the government can improve the opportunities in small, artificially created towns; and the government only can give a signal that living on state wages and social security in the loss making industry is simply not an option anymore (Fig. 20, 21).

Romanian employees do not get along well with their managements in any event. Most of them distrust the management and union leaders, with a slight preference for the latter, though. As social cohesion is missing from the larger society, it seems to be missing in many companies as well. Since most companies were perceived by our respondents as doing 'neither good, not managers are not respected. In fact the people's opinion on the status of these companies relates to their opinion on the national economy in general (the two are indeed very correlated): they are painfully muddling through (Fig 22-25).

Fig. 20 Approval of the government's handling of Resita

Independent variables	Association
Aware about Resita	N/S
Support for current government	+ ***
Siding with the workers	+ **
Siding with employers	N/S
Siding with both workers and employers	+ *
Reads newspapers	- **
Watches public TV	N/S
Watches private Tv	N/S
Relies on friends for information	N/S
All household members employed in state sector	+ **
At least one household member is a private sector employee	N/S
Blame communist heritage	N/S
Blame political class	N/S
Blame people	N/S
Blame west	+ **
Town size	N/S
Education	N/S
Age	N/S
Wealth	N/S

Legend: + signifies a positive correlation, - a negative one; * predictor significant at $p < 0.1$; ** $p < 0.05$; *** $p < 0.001$ (***)=strongest association); N/S means that the variable did not turn out a predictor

Fig. 21. Opinions about the Resita case, by occupation

	%	Do you believe that the Romanian government has taken all necessary steps in order to solve the crisis at Resita		
		Certainly not	Not really, despite trying something	Certainly yes
Retired		27.6	53.6	18.8
Student		34.5	58.6	6.9
Unemployed		30.0	42.5	27.5
Housewife		58.6	37.9	3.4
Worker		27.6	52.9	19.4
White collar/technician		22.1	60.2	17.7
University Graduate		20.5	67.0	12.5
Self-employed		46.9	53.1	
Other		50.0	37.5	12.5
Occupation				
Total		28.4	55.3	16.2

Fig. 22. Did the government do its best to solve the Resita crisis?

	%
Certainly YES	10.8
Not really, despite trying something	36.8
Certainly NOT	18.9
Do not know/ No answer	33.5
Total	100.0

Fig. 23. Thinking about your material situation. How would you rate your personal and your household status?

	%
Very bad	9.7
Bad	23.0
Neither good nor bad	48.1
Good	17.9
Very good	0.7
No answer	0.7
Total	100.0

Fig. 24. How would you rate the current trend of the Romanian economy?

	%
Economy very bad or bad	68.9
Economy dragging between bad and well	24.0
Economy going well	6.2
No answer	0.8
Total	100.0

Fig. 25. Thinking about a company/ firm that you are familiar with, would you say that this company/firm is stable or rather weak?

	%
Very weak	25.3
Stable	35.9
Flourishing	18.0
No answer	20.8
Total	100.0

Fig. 26. Subjective assessment of the performances of union leaders vs. Owners in taking care of the employees (%)

	Unions and their leaderships are helpful	The owner/ management of the company is helping employees
Not at all	29.0	30.2
Yes	16.8	22.7
Very much	11.8	15.8
No answer	42.5	25.4
Total	100.0	100.0

Public awareness of the social welfare

Politicians and journalists alike are often driven to believe that what they do or write is very well known and the judgments people express in opinion polls must therefore be related to something they said or done. In fact, things are quite different in real life: most people are too busy or too inattentive to mainstream political or social events even when they are directly concerned. When asked to give an opinion, they either rely on their preconceptions (specially when the matter touches them deeply) or respond with a non-attitude, in other words, with a survey response which is random and does not reflect their real position on the issue, because they simply do not have one. Public awareness of government policies should therefore be a matter of concern whenever the participation of the population is needed to make a policy work.

In order to test the awareness of the population surveyed, we used three different measurements. Besides asking people if they were aware about the Resita scandal, which made headlines throughout the summer, we also introduced less specific items, but touching more closely upon one's own interests. Therefore we asked first if respondents were concerned with the state of the national economy. Second, we inquired if people were aware of the situation of the labor market in their profession, and third we asked if they were aware of changes currently under way in the pensions system. Finally, we built a scale of 'policy awareness' out of these three variables, and we tried to explain what makes people more or less likely to be aware of social and economic events relevant to them¹⁵.

The results confirmed the initial presumption: people are not very interested or well informed. Their lack of information does not prevent them from being skeptical: we have a majority of people ignoring the changes in the pension system, but at the same time doubting these changes will benefit people. On the other hand, people are very worried about the state of the economy but quite uninformed about the job market. Few people use reliable and comprehensive sources of information, relying instead on TV or chats with friends and colleagues.

Fig. 27. Are you personally concerned by the state of the national economy

	%
Not at all or very little	18.1
Somehow concerned	27.8
Concerned or very concerned	53.3
No answer	0.8
Total	100.0

¹⁵ The scale ranked respondents from the least aware/least concerned to the most aware/most concerned. We used in principal component analysis with KMO=0.52

Fig. 28. Are you familiar with the changes in the pensions system?

	%
Yes, I am familiar	31.3
Yes, I heard something	41.8
Not applicable	26.3
No answer	0.7
Total	100.0

Fig. 29. If yes, do you think that these changes are for the better?

	%
Rather yes	17.8
Rather not	47.5
Not applicable	26.8
No answer	7.8
Total	100.0

Fig. 30. In general, would you say that you are familiar with the job offerings on the market, so that in case you lose your job you could find another one?

	%
Not at all	13.5
Not really familiar	17.2
Somewhat familiar	18.6
Familiar enough	11.2
Very well informed	4.3
Not applicable	33.9
No answer	1.2
Total	100.0

Fig. 31. Which is your main source of information regarding the economical life, the pensions system and the job offerings?

	%
Local Newspaper	6.9
Central media	12.1
Public TV	26.2
Other TV	36.8
Radio	4.1
Discussions with friends	7.7
Workforce Office	1.3
Other source	0.9
Not applicable	3.9
Total	100.0

When building the awareness scale we came up with results that were quite predictable. The most policy-aware are the individuals who are more self-

reliant, better informed and well off. The rest, which make precisely the people who would be most in need to be aware of the welfare reform, have little or no idea what the reform means for them. Private TV stations, which give very superficial coverage to social and economic events, being more entertainment-oriented, are nevertheless the main source of information about developments in economy and society, followed by the state television and the newspapers.

Fig. 32. Explanatory model of policy awareness

Independent variables	Association and Significance
Town size	- N/S
Education	+ ***
Wealth	+ N/S
Age	+ ***
Reads newspapers	+ **
Watches private TV	+ *
Watches public TV	+ *
Relies on friends for information	+ **
Self reliance	+ **
Private sector employee	+ **
State employee	+ N/S
Privatizing sector employee	+ N/S

Legend: + signifies a positive correlation, - a negative one; * predictor significant at $p < 0.1$; ** $p < 0.05$; *** $p < 0.001$ (***=strongest association); N/S means that the variable did not turn out a predictor

Conclusions: Policy options

The main conclusion of this survey is that the government is the great absent from the necessary effort to resocialize Romanians in order to give them a fair chance in a market economy. Not only are people not aware of the new rules of the game, but they are constantly fed with illusions due to the persistence of a large and bankrupt state sector. People perceive correctly that the economy is doing poorly and stronger pro-market actions are needed, but at the same time they believe, based on a decade of experience, that such a transformation can be endlessly delayed. The more a family is dependent upon the state, the less self-reliant and entrepreneurial its members become, reinforcing the vicious circle of state dependency. This deepens in turn the social frustration of the poor state-reliant individuals and the general skepticism and mistrust in the welfare reform, considered doomed even before people find out what it is about.

Socialization is a continuous process that runs throughout the adult life. Having worked in the socialist economy does not doom one to an existence of poverty, marginalization and anti-capitalistic resentment. But if the individual receives only the signal that dependency can go on –as people follow what the leaders do, not what they say, that privatization is something doubtful and property rights flexible, this will only reinforce the attitudes

inherited from the past regime. Except for the short electoral campaigns, the Romanian transition lacked a large scale awareness campaign of the new rules of the game (as the Polish government ran at the beginning of its privatization program). During the Resita crisis, the messages coming from the political leaders were mixed and confusing at the best. People learn more from one case such as Resita, and the government's attitude towards it, than from years of lecturing on the benefits of privatization. If the government seeks allies in its effort to re-launch the economy, this type of signals must stop and an extended campaign to increase awareness of, and participation to, the main phases of the economic and welfare reform should start at once. It is eleven years late already.

ANNEXES

In the following tables + stands for positive correlation, - for negative; * predictor significant at <0.1 ; ** $p<0.05$; *** $p<0.001$ (***=strongest association); N/S means the variable is not a predictor.

Fig. 33. Explanatory model of conflict proneness

Independent variables	Regression coefficient (Standard Error)
Subjective well-being	0.024 (0.042)
Country heading in the wrong direction	0.169 (0.067) **
Equality	0.160 (0.060) **
Age	0.002 (0.020)
Town size	0.158 (0.031) ***
Education	-0.027 (0.016) *
Wealth	0.003 (0.038)
Social Trauma	0.0131 (0.069) *

Fig. 34. Explanatory model of policy awareness

Independent variables	Regression coefficient (Standard error)
Size town	-0.014 (0.035)
Education	0.097 (0.019) ***
Wealth	0.027 (0.039)
Age	0.020 (0.003) ***
Reads newspapers	0.706 (0.282) **
Watches private TV	0.534 (0.278) *
Watches public TV	0.373 (0.282)
Relies on friends for information	0.763 (0.285) **
Self reliance	0.178 (0.076) **
Private sector employee	0.284 (0.142) **
State employee	0.207 (0.145)
Privatizing sector employee	0.027 (0.194)

Fig. 35. Explanatory models of subjective social conflict

Independent variables	Conflict between employers and employees: Regression coefficient (Standard error)
State dependency	-0.124 (0.128)
Equality	0.205 (0.170)
Reads newspapers	-0.493 (0.169) **
Watches public TV	0.018 (0.156)
Watches private TV	0.036 (0.143)
Relies on friends for information	0.310 (0.191)
State employee	0.091 (0.151)
Private sector employee	0.215 (0.143)
Privatizing sector employee	0.014 (0.237)
State reliance	0.298 (0.163) *
Conflict between Romanians and Roma	1.324 (0.153) ***
Town size over 100000 residents	0.332 (0.126) **
Education	-0.009 (0.039)
Age	0.001 (0.006)
Wealth	-0.105 (0.084)

Fig. 36. Explanatory models of subjective social conflict

Independent variables	Conflict between rich and poor Regression coefficient (Standard error)
State dependency	-0.012 (0.125)
Equality	0.417 (0.165) **
Reads newspapers	-0.104 (0.161)
Watches public TV	0.264 (0.151) **
Watches private TV	-0.007 (0.135)
Relies on friends for information	0.281 (0.183)
State employee	0.169 (0.142)
Private sector employee	0.126 (0.138)
Privatizing sector employee	-0.153 (0.222)
State reliance	0.255 (0.158)
Conflict between Romanians and Roma	1.045 (0.147) ***
Town size over 100000 residents	0.104 (0.120)
Education	-0.009 (0.038)
Age	0.007 (0.006), + bivariate models only
Wealth	-0.128 (0.081)

Fig. 37. Explanatory models of subjective social conflict

Independent variables	Social conflict index Regression coefficient (Standard error)
State dependency	-0.090 (0.092)
Equality	0.172 (0.054) **
Reads newspapers	-0.094 (0.157)
Watches public TV	0.105 (0.150)
Watches private TV	0.045 (0.150)
Relies on friends for information	0.146 (0.159)
State employee	0.115 (0.085)
Private sector employee	0.132 (0.083)
Privatizing sector employee	0.031 (0.122)
State reliance	0.009 (0.092)
Conflict between Romanians and Romany	0.531 (0.052) ***
Town size over 100000 residents	0.021 (0.024)
Education	0.004 (0.013)
Age	0.001 (0.002)
Wealth	-0.048 (0.029)

Fig. 38. Explanatory model of state reliance

Independent variables	State reliance Regression coefficient (Standard error)
Equality	1.450 (0.151) ***
Blame political class	-0.248 (0.147) *
State employee	0.310 (0.131) **
Private sector employee	-0.104 (0.122)
Privatizing sector employee	-0.364 (0.216) *
Reads newspapers	-0.011 (0.157)
Watches public TV	0.383 (0.142) **
Watches private TV	0.254 (0.130) **
Relies on friends for information	0.052 (0.171)
Age	0.004 (0.005)
Size town under 100 000 residents	0.312 (0.119) **
Size town over 100 000 residents	-0.257 (0.135) **
Education	-0.069 (0.037) *
Wealth	-0.330 (0.094) ***

Fig. 39. Approval of the government's handling of Resita

Independent variables	Regression coefficient (Standard Error)
Aware about Resita	-0.044 (0.043)
Support for current government	0.387 (0.047) ***
Siding with the workers	0.127 (0.066) **
Siding with employers	0.076 (0.110)
Siding with both workers and employers	0.148 (0.075) *
Reads newspapers	- 0.200 (0.145) **
Watches public TV	-0.227 (0.141)
Watches private Tv	-0.334 (0.142)
Relies on friends for information	-0.148 (0.151)
All household members employed in state sector	0.186 (0.079) **
At least one household member is a private sector employee	0.075 (0.076)
Blame communist heritage	0.218 (0.136)
Blame political class	0.005 (0.097)
Blame people	0.165 (0.109)
Blame west	0.346 (0.130) **
Town size	-0.003 (0.023)
Education	0.001 (0.012)
Age	0.002 (0.002)
Wealth	0.018 (0.029)

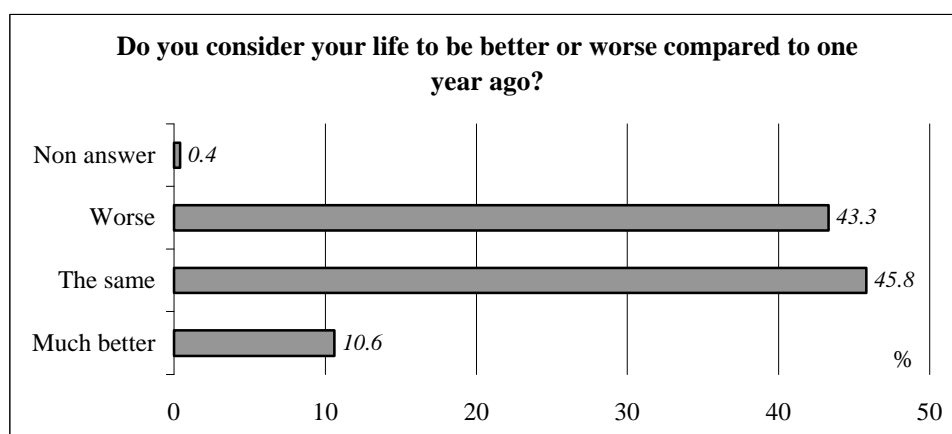
POLITICS

MOST ROMANIANS BELIEVE THERE IS A CONFLICT BETWEEN CITIZENS AND THE POLITICAL ESTABLISHMENT¹⁶

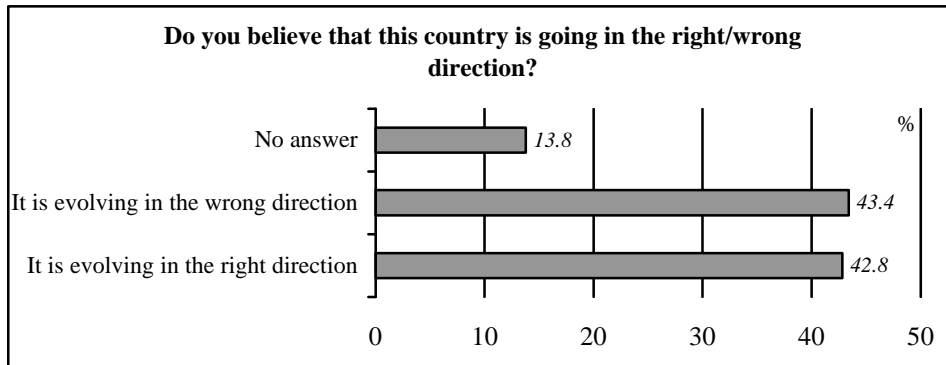
A New Political Elite Badly Wanted

The pattern set in the first half of 2001 seems set to continue in the second half of the year. The government has no challenge from the political opposition, which is divided and confused, but has to face a growing popular discontent, as living standards are stagnant or declining. The urban population reports a decline in their living standards compared to the previous year (33% being worse off, only 10 % better off and 46% the same). The trend of the last months shows an increased skepticism towards the direction the country is heading: the number of skeptics is now slightly surpassing the number of optimists.

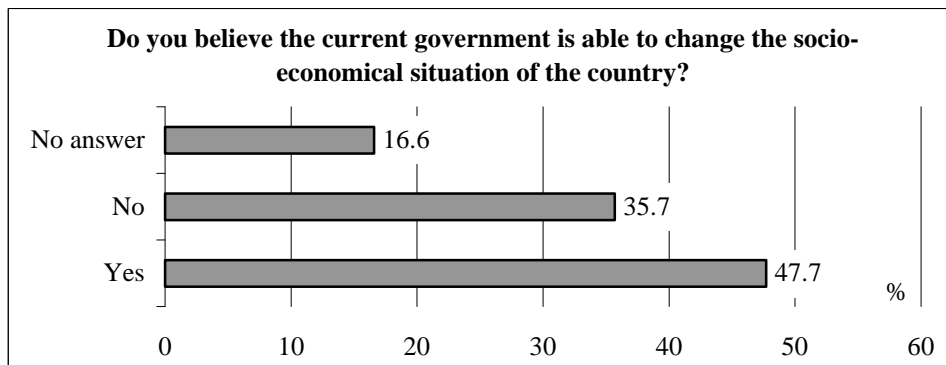
Fig. 1. Subjective welfare



¹⁶ Based on the same survey -see footnote 2 on page 16.

Fig. 2. Optimism

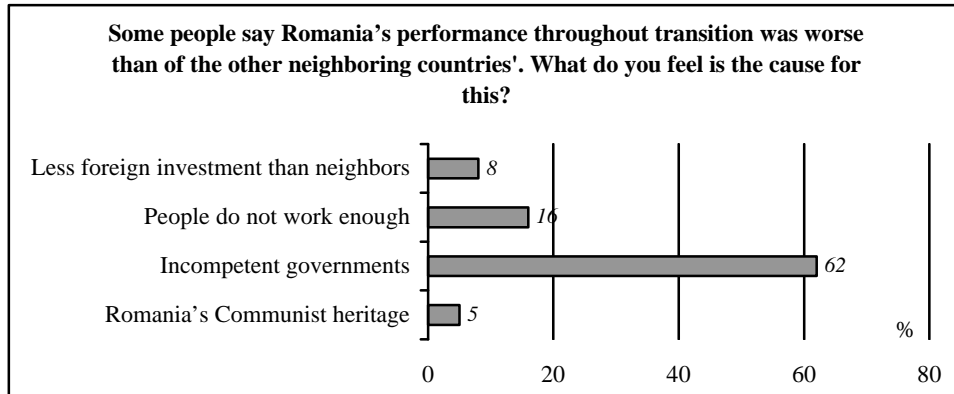
The government still rests upon a majority of voters who trust it to solve Romania's social and economic problems (48%), but with a growing body of skeptics (37%). It is also for the first time since the last elections that in urban areas the government falls short of an absolute majority to endorsing it.

Fig. 3. Trust in the government's ability to improve things

The mechanism of this discontent has older roots. Romanians expect a different quality of governance from their politicians, a different approach to government. Anything, which is not a radical break with the perceived arrogant and corrupt practices of the 'political class', is quickly turning conformist approval into either radical disappointment (feeding the popularity of extremist parties), or political parochialism (expanding the growing body of those not interested in politics and who declare they would not vote next time). Except these two directions, neither being encouraging, it seems that the political public opinion has little resources for anything else for the time being.

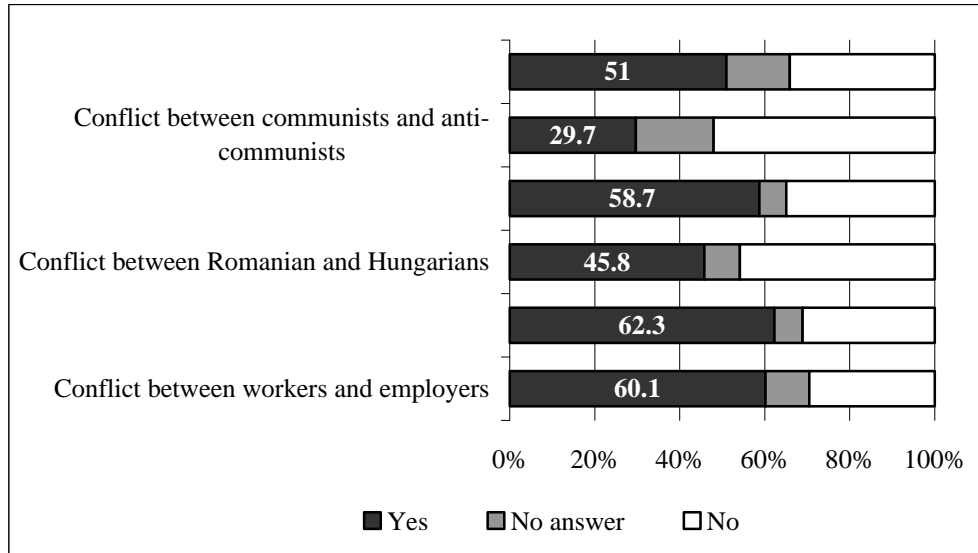
Despite their traditional reputation of believers in conspiracy theories, this time the Romanians blame overwhelmingly the unsuccessful transition on domestic factors (78%), compared to only 5% on the difficult heritage of communism and 8% on the West for not helping Romania enough. Most of this blame is laid on the governments which have run Romania in the last decade.

Fig. 4. Blame the failed transition on...



Medium size cities inhabitants (population ranging from 30 000 to 200 000), the worst hit by recession, blame the political class significantly more than those from smaller towns and big cities. There is a significant association between the economic performance of the region and the anger with the political class. However, on average this anger reaches impressive levels: the absolute majority of Romanians (51%) consider that in Romania ‘there is a conflict between the political class and the rest of the population’, and 19.3% single this out as the one most important underlying conflict within the Romanian society

Fig. 5. Perception of conflicts



Fortunately, this discontent draws upon various partisanships and ideologies, ranging from the far left to the far right. The most unhappy with the political class is the constituency of ApR (“Alliance for Romania”), confirming previous analyses (see EWR, 1/2001-Politics section) that a similar type of constituency is shared by two anti-system parties, one moderate (ApR), and one radical (PRM –“Greater Romania”), but otherwise all constituencies contribute to this strong group asking for another political elite.

Fig. 6. Perception of conflicts and political affiliation

What political party would you trust for being able to solve this issue	Believes there is a conflict between political class and the rest of the Romanians			Total %
	Yes %	No %	No Answer %	
PSD	51.0	37.4	11.6	100.0
PRM	62.0	25.5	12.4	100.0
PD	61.1	31.1	7.8	100.0
PNL	56.7	41.7	1.7	100.0
UDMR	50.0	40.0	10.0	100.0
PNTCD	66.7	16.7	16.7	100.0
ApR	60.0	20.0	20.0	100.0
Other	37.5	62.5	0	100.0
None	44.7	33.8	21.5	100.0
Total	51.0	34.1	14.9	100.0

However, is it realistic to imagine that Romania could have a new political class overnight? The radical desire to get rid of a political class perceived as unaccountable can feed anti-system parties at any moment. Teodor Melescanu (ApR) was limited in his pledge to offer a new quality of leadership by the much more radical offer of Vadim Tudor (PRM); Tudor was limited by the strong media mobilization against him. A leader stronger than Melescanu and less dangerous for the freedom of the media than Vadim Tudor would have, however, a huge potential constituency. Traian Basescu, despite being the most popular leader in the urban areas, has not stepped into this role yet. But the need for something else is so pressing that even the reputedly anti-monarchist Romanians start to believe that a 'Bulgarian way' is possible for the next elections.

Fig. 7. Do you believe something similar to what happened in Bulgaria (elections won by new party headed by former king) could arrive at the next Romanian elections?

Our Bulgarian neighbors gave a negative vote to the entire political class, by electing a new party led by the former King, Simeon. Do you think that a similar situation could take place in Romania?	%
Strongly believe	13.6
Believe it possible	24.9
Believe it unlikely	43.9
No answer	17.6
Total	100.0

Unlike the Bulgarian ex-King Simeon, the Romanian King Michael is old, less active politically and less popular. Having such large numbers agreeing that such an unlikely development could happen does not reveal a recent pro-monarchist drive of Romanians, but rather the despair of voters seeking any solution to shake the whole political system and its corrupt ways. Urban

Romania shows a balanced preference for leaders, with Nastase and Basescu as the most popular (both under 20 %, though), followed by Vadim Tudor and Teodor Stolojan. In the absence of villages from our sample, Ion Iliescu ranks only the fifth in the trust of urban-dwellers. PSD is confirmed, however, despite Iliescu's low popularity, as the only strong party even in the urban areas, with PRM coming second.

Fig. 8. Trust in leaders

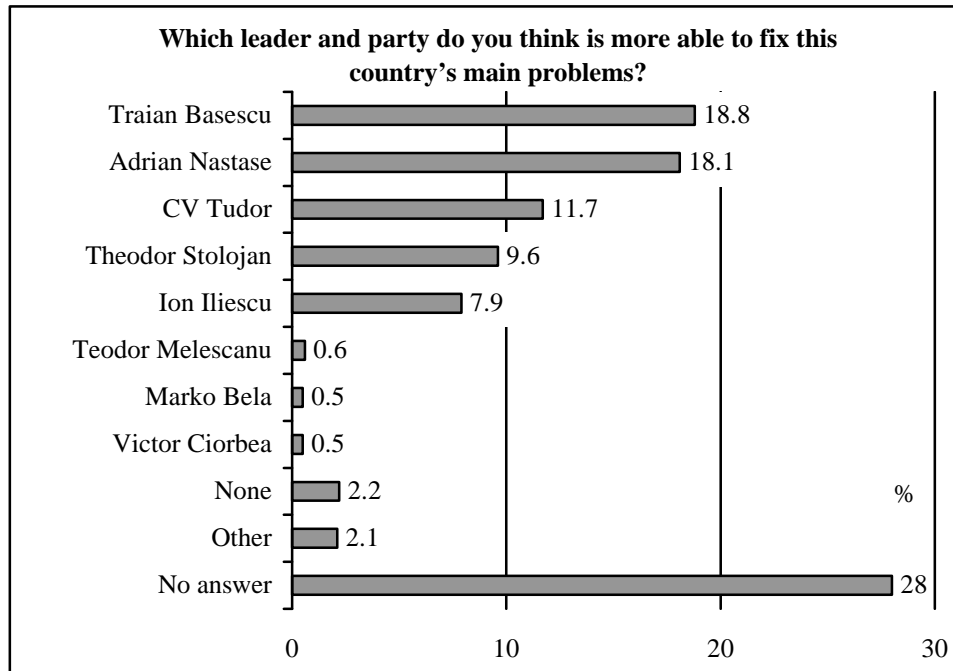
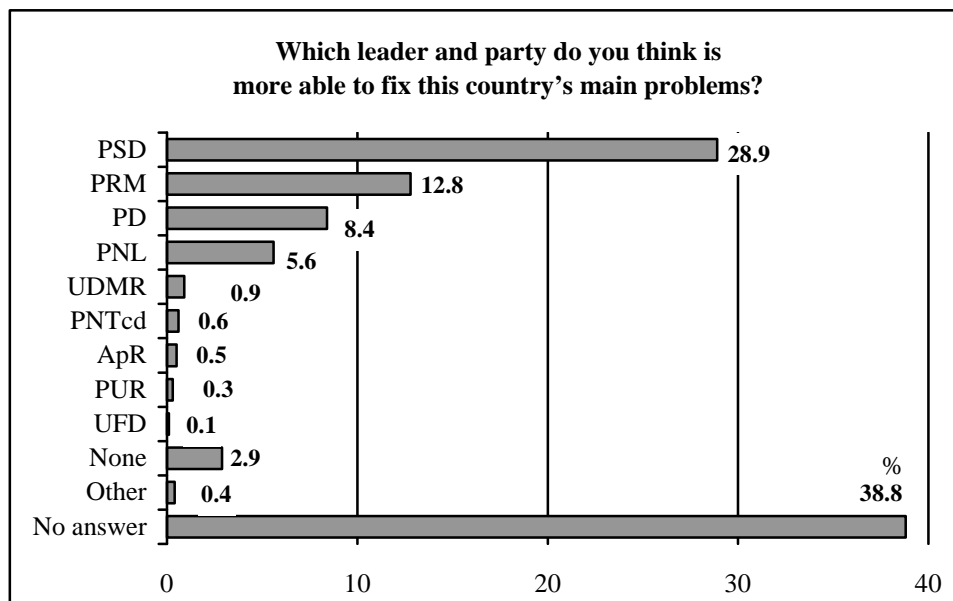


Fig. 9. Trust in parties



Policy options

More transparency of the vote in Parliament is needed

Despite the temporary rise in political trust at the beginning of the year, the Romanians' patience with the political class looks every day more exhausted. Trust has declined on all accounts, and both people who are politically partisan and those who are not, blame the political class in general, and the MPs in particular, for the situation of the country. This situation may not look dangerous in the short run, given the absence of any solid political alternative to the Nastase government at the moment, but it is certainly menacing in the long run, as people may be driven towards more populist political alternatives. The recently started debate on the constitutional reform should address openly the dislike of their representatives by the Romanian voters. The radical solutions proposed so far, such as abolishing a Chamber of the Parliament or giving up the direct election of the President are, first, unlikely to be adopted and, second, would prove unable to solve the problem even when adopted. Romanians would very likely never endorse in a referendum a change of the semi-presidential system, as they perceive the direct election of the President to be the main gain of the Romanian democracy. Voters would very likely agree to any cut of the Parliament's size or of one chamber, but one should not expect the MPs to vote for their own downsizing. One should identify a solution with the potential to be passed by the Parliament, to be endorsed by voters and to be able to succeed in establishing a more accountable system while easing the popular anger against the political class. Three proposals come closer to this ideal:

- 1) Giving up the political immunity for anything else than political acts. This would give the public the impression that the political class is more accountable and would stop the drive of tax evaders and embezzlers to seek refuge in the Parliament.
- 2) Giving up both the practice and the regulation which makes secret practically every important vote of a representative. The main reason why constituents do not trust their representatives is that they cannot find out how they vote in the Parliament. The emphasis on the secret vote was due in the early nineties to reminiscences from authoritarian times of communist takeover. Anti-communist parties feared that they would be held accountable for their voting against the government, and the authors of the 1991 Constitution agreed on this point. These fears are now overcome as Romania is a consolidated democracy. The main goal the voting procedure must achieve now is the accountability towards the voters.
- 3) Automatic dismissal from the Parliament of representatives who swing parties. They should be replaced with the next ones on the party list. Our party system needs stabilization: the parties need internal discipline, and voters must know that MPs stand for what they were elected for, not their own interests. Besides, Romania is a proportional system and the vote is entrusted to party lists.

Defections may occur in older democracies, such as in the American Senate earlier this year, but in the context of a consolidated two party system and single unit constituencies.

Many proposals put forward these days require, to various extents, the modification of the Constitution. However, the transparency of the vote can be enacted without any constitutional modification if an agreement to this effect is reached among political parties. Strange enough, while the media is ravaged by the passion for majority systems and uninominal vote, this much simpler, down-to-the earth proposal has never been seriously considered.

The Romanian Academic Society (SAR) is a think tank running research and advocacy programs in the areas of democratic governance and public sector reform, with the aim of promoting in Romania the ideas of sound government and Euro-Atlantic integration.

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