
ROMANIA’S DEVELOPMENT. AN INSTITUTIONAL ANALYSIS BETWEEN THE COMMUNIST AND THE POST 1989 REGIMES

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Abstract: *THIS PAPER EXAMINES THE GREAT ECONOMIC DIFFERENCE IN TERMS OF GDP EVOLUTION IN ROMANIA SINCE 1989, WHEN THE COMMUNIST REGIME COLLAPSED, WITH THE AIM TO ANSWER THE RESEARCH QUESTION RELATED TO THIS GREAT ECONOMIC DIFFERENCE. IN 1989 ROMANIA HAD A GDP OF \$41.45 BLN. COMPARED WITH \$301.26 BLN. IN 2022, WHILE THE AIM OF THIS PAPER IS TO ANSWER THE QUESTION OF “WHY IS SUCH A DIFFERENCE?” BASED ON THE THEORETICAL FRAMEWORK PROVIDED BY THE NEW INSTITUTIONAL ECONOMICS, IN THE PERSPECTIVE DELIVERED BY DARON ACEMOGLU AND JAMES A. ROBINSON, MY ANSWER TO THE RESEARCH QUESTION, WHICH REPRESENTS THE PAPER HYPOTHESIS, IS THAT THE POST 1989 DEVELOPMENT OF ROMANIA WAS DRIVEN BY ADOPTING INCLUSIVE ECONOMIC AND POLITICAL INSTITUTIONS.*

Keywords: INSTITUTIONS, ECONOMIC INSTITUTIONS, POLITICAL INSTITUTIONS

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INTRODUCTION

At a first look on the economic data for Romania on the World Bank official website, if a comparison is made between the GDP from 1989 and 2022, it can be noticed that there is a great difference - \$41.45 bln. in 1989 compared with \$301.26 bln. in 2022, with the lowest value in 1992, of \$25.12 bln. (World Bank Website – Romania, 2023). Why there is such a difference? What determined such a rise in Romania’s GDP in 33 years? The aim of this paper is to answer these questions with a brief analysis of the Romanian development, by making a parallel to the years of Communist dictatorship and the next years after the 1989 Revolution, up to 2022. As a theoretical background, I will use the conceptual framework provided by the New Institutional Economics, based on Daron Acemoglu and James A. Robinson perspective. My analysis will be centered on the economic



and political institutions of Romania before and after 1989, with the central claim that the change in the nature of those institutions has driven such an increase in the GDP. The hypothesis of this paper, based on the theoretical framework, is that the post 1989 development of Romania was driven by adopting inclusive economic and political institutions.

In order to test my hypothesis, I will firstly present the New Institutional Economics from the viewpoint of Acemoglu and Robinson as my theoretical framework; second, I will outline the economic and political institutions of Romania before and after 1989; and third, based on the theoretical framework, will follow the analysis. The final part is reserved for the conclusion.

INSTITUTIONAL ECONOMICS

Acemoglu and Robinson argue that there are two types of economic and political institutions: *extractive* and *inclusive* (Acemoglu & Robinson, 2012), while the economic success varies according to the different institutional arrangements within the states, to the rules that affect the economy and to the incentives that motivate people (Acemoglu & Robinson, 2012, p. 57).

The *inclusive economic institutions* allow and encourage the participation to the economic activities of a great mass of people, who can use their talent and abilities. This kind of institutions guarantee the private property, impartial laws and a public services system that offers the framework for exchanges and contracts between people. Also, it allows people to choose their careers and the rise of new businesses. The inclusive economic institutions favor the increase in productivity and the economic prosperity, while the private property is crucial for motivating people to invest and be more productive (Acemoglu & Robinson, 2012, p. 58).

The *extractive economic institutions* do not have the same properties as those mentioned above. The private property is not guaranteed, while the great mass of the population is not able to take its own economic decisions, because of the high level of coercion. The state power is not directed towards providing of public services favorable to prosperity and the laws are one-sided. These institutions are built to extract the wealth and revenues from a part of the society in the benefit of another (Acemoglu & Robinson, 2012, p. 59).

The inclusive economic institutions are engines of prosperity, which lead to inclusive markets that allow people to pursue their way in life according to their talent, in a favorable environment. Moreover, the inclusive markets are free and the inclusive economic institutions favor the technological development and education, completing the sustainable economic growth (Acemoglu & Robinson, 2012, p. 59).

The political institutions are a key component that determine the way of electing a government and what is allowed to do, also influencing the distribution of power in the society and how it can be used (Acemoglu & Robinson, 2012, p. 61). The political institutions are *absolutist* (extractive) when the power distribution is limited to a minority and unconstrained. The absolutist institutions favor those who have the power, allowing them to build extractive institutions that help them to consolidate their position and get rich at the expense of the society (Acemoglu & Robinson, 2012, p. 61).

At the opposite pole there are the *pluralist* (inclusive) political institutions, where the power is constrained and it is found inside a large coalition or in many groups and is not concentrated in the hands of a single individual or a small group (Acemoglu & Robinson, 2012, p. 61).

There is a strong link between pluralism and inclusive economic institutions, but the key to explain why some states have this kind of economic institutions is that there are sufficiently powerful and centralized, the political pluralist institutions not representing the only condition (Acemoglu & Robinson, 2012, p. 61). The inclusive political institutions have to refer to some political institutions that present a sufficient degree of centralization and plurality. At the moment when one of these conditions is not fulfilled, the political institutions are extractive (Acemoglu & Robinson, 2012, p. 62).



ECONOMIC AND POLITICAL INSTITUTIONS BEFORE AND AFTER 1989

Economic and political institutions before 1989

In the economic realm, before 1989 Romania had an economy characterized by nationalization of the means of production, state monopoly on foreign trade, which was directed by a central body. Therefore, the state had the monopoly on economy (Tismăneanu, 2006, p. 413). The economy was nationalized, based on the Soviet model, allowing the Communist Party to introduce the economic centralization and to eliminate the so-called class enemies (Bărbulescu et. al., 1998, p. 493). According to the Law No. 119 from 11th of June 1948, there were nationalized banks, insurance and industrial enterprises, together with the mining and transport systems (Lege Nr. 119, 1948 [2023]). According to the last Communist constitution, from 1965, the economy was “based on the socialist property on the means of production”, while the property was either state or cooperative (Constituția Republicii Socialiste România din 1965, 1986 [2023]).

Since 1951, the Romanian economy has begun to be organized on the basis of the five-year plans, based on centralized heavy industry, with control committees that have come with wrong and overlapping decisions and preferential behavior, determining the issue of false reports to please the most important decision makers (Tismăneanu, 2006, p. 414). This led to coordinating the investments in favor of the heavy industry and diminished the population’s consumption (Tismăneanu, 2006, p. 415). Between 1980 and 1989 the food industry received an average of 5% from the funds allocated for industrial activity, leading to a drop in the overall standard of living. The real income of the population decreased due to the fact that currency has depreciated (Tismăneanu, 2006, p. 420). Because Ceaușescu was determined to pay the \$8 bln. loan, in the 1980s the Romanian economy was characterized by shortage and crisis, accentuated at the end of the decade (Tismăneanu, 2006, p. 423).

1949 is the year when the regime has begun the collectivization process, liquidating the wealthy peasantry, by confiscating their property without compensation (Bărbulescu et al., 1998, p. 493). The process ended in 1962 and was characterized by violent repression driven by the Securitate (state security service, similar to the Soviet KGB), Militia, army and other regime organs (Tismăneanu: 2006, 424). Only 9% of the total surface remained personal property, for the reason that it was hard to reach (Bărbulescu et al., p. 494). By the 1980s this model demonstrated its bankruptcy and led to shortages for the peasantry (Tismăneanu, 2006, p. 440). After 1980 the crisis has become acute, while the regime introduced rations and limited the electricity distribution, the Romanian economy being thus characterized by shortage (Tismăneanu, 2006, p. 442). As a result, in 1989 Romania had a GDP of \$41.45 bln. (World Bank Website – Romania, 2023).

In the realm of political institutions, according to the last Communist constitution from 1965, “the political leading force of all the society is the Romanian Communist Party” (Constituția Republicii Socialiste România din 1965, 1986 [2023]), consolidated as a single party after the suppressing the other parties in 1947 (Bărbulescu et al., 1998, p. 491). The Great National Assembly, the Council of Ministers and other state authorities were under the control of the Party (Bărbulescu et al., 1998, p. 493).

During Ceaușescu’s reign the repressive apparatus of Securitate was used to consolidate and maintain his power by various means as recruitments, surveillance, harassment and imprisonment (Matei, 2007, p. 631). Ceaușescu’s period is characterized by severe repression, an exaggerated cult of personality, corruption and disrespect towards human rights (Matei, 2007, p. 631), together with a poor administration in the internal affairs (Bărbulescu et. al., 1998, p. 540).



Economic and political institutions after 1989

In December 1989 the Communist regime has fallen, with the execution of Ceaușescu couple on the Christmas day. The National Salvation Front took the power on 22nd of December and appointed Ion Iliescu as leader and on 3rd of January 1990 re-established the political parties (Judt, 2005, p. 625). A new constitution was approved by referendum in 1991 (Tanase et al., 2007, p. 751).

The 1991 Constitution was amended in 2003 and stipulates that Romania is a republic, providing the division among state powers, a two-chamber parliament, respect for rule of law and human rights and the principle of governmental responsibility (Tanase et al., 2007, p.751).

According to the current Constitution, the bicameral Parliament (Senate and Deputies' Chamber) “is the supreme representative organ of the Romanian people and the sole legislative authority of the country”, elected by “universal, equal, direct, secret, and free suffrage” (Constituția României, 2003, p. 11). The Parliament shares its position with the executive and citizens by legislative initiative, while the President has his own role in the legislative process, by promulgating the laws or returning them for reexamination (Tanase et al., 2007, p. 752).

The President has the role as a mediator and is elected in the same manner as the Parliament, for maximum two terms, five years each (Constituția României, 2003, p. 15). The President also appoints a candidate and his team for the Prime Minister to form the Government, which is approved by the Parliament (Constituția României, 2003, p. 16). Also, the President can dissolve the Parliament (Constituția României, 2003, p. 16).

The Government is approved by the Parliament and “assures the realization of internal and external policy of the country and exerts the general management of the public administration” (Constituția României, 2003, p. 18) and can be dismissed by the Legislative through a no confidence vote (Constituția României, 2003, p. 19).

The Judicial branch comprises the High Court of Cassation and Justice and other courts (Constituția României, 2003, p. 23). According to the Constitution, “the judges are independent and are subject only to the law”, while “the justice is unique, impartial and equal for all” (Constituția României, 2003, p. 23). Another body, the Constitutional Court, has the role to guarantee that the constitution is respected (Tanase et al., 2007, p. 753).

There are recognized and guaranteed many human rights such as the right to life, freedom of movement, right to work, right to property, elect and be elected, assembly or the freedom to association (Tanase et al., 2007, p. 753).

After 1989, Romania started to build a market economy, “based on free initiative and competition”, while the state must guarantee the “free trade, protection of loyal competition” and create favorable environment in favor of all production factors (Constituția României, 2003, p. 25). The right to property and inheritance are guaranteed, the citizens can be expropriated with reparations and the discriminatory nationalization is not allowed (Tanase et al., 2007, p. 754).

ANALYSIS

As I have mentioned in the introductory part, in 2022 the Romanian GDP was \$301.26 bln., an important evolution compared to 1989 only \$41.45 bln. I argue that this evolution was driven by the change in the nature of the political and economic institutions after the Revolution of 1989.

Before 1989 Romania had extractive economic institutions. The economy was centralized, planned and organized according to the five-year plans. The regime extracted resources which could have been distributed to the light industry, for large consume goods needed by the population and directed them to the heavy industry, diminishing the consumption. I can argue that the extractive character of the economy was given by the emphasis put on the heavy industry and the low attention



paid for consumer goods, as I have mentioned, only an average of 5% from the funds destined to industrial activity was allocated for the food industry between 1980 and 1989.

Another problem was the fact that there was no private property, the enterprises and agriculture being nationalized and collectivized. Therefore, the state did not provide incentives for the people for entrepreneurship and private initiative. As a matter of fact, the state blocked any relevant private economic activity. In fact, the nationalization and collectivization destroyed the private initiative and denied the right to take economic decisions. Therefore, the state did not provide public services that were favorable to prosperity, fact proved by the neglect of the food industry and general supplies of the population, that lead to a lower consume by the end of the 1980s. Some insights about the advantages and privileges enjoyed by the administrative body can be found at Milovan Djilas, who argued that in such a regime this new administrative class has the power of distribution of the goods (Djilas, 1957, p. 45), another aspect of extractive nature. All of these acts were on the expense of the population.

The political institutions before 1989 were absolutist (extractive). The power was in the hands of Ceaușescu and there was only one party allowed, the Romanian Communist Party. Also, the regime exercised the repression through the Securitate, which helped the process of consolidation of the regime, by repressive measures. The condition of pluralism was also unfulfilled because the political parties were suppressed, the country being ruled solely by the Communist Party. Therefore, all of these economic and political arrangements led to the overall low standard of life at the end of the 1980s.

After 1989 Romania has started the road to inclusive economic and political institutions. First of all, the political pluralism was reestablished by The National Salvation Front (NSF), as a first condition for inclusivity. Also, on 30th of December 1989 the Securitate ceased to exist after a decree of the NSF (DECRET nr. 33, 1989 [2023]), therefore its terror on the population came to an end.

Another proof of political inclusiveness is the new Constitution, which guarantees the division of powers, the rule of law, human rights and, very important, governmental responsibility. The design of the three powers and their roles, as presented above, show that the power in the state is constrained and widely distributed, not concentrated as in the Communist regime.

The fact that the 2003 Constitution guarantees private property represents one of the most important conditions of the character of inclusiveness in the realm of the economic institutions, a characteristic which is completed by pluralism and the guarantee of the human rights, aspects that motivated people and offered them incentives to be more productive, according to their talents and abilities. Other characteristics are given by the right to inheritance and the expropriation with reparations. Also, the nondiscriminatory nationalization shows, at least in theory, that the law is one for all and the people are treated equally.

Therefore, adopting the argument of Acemoglu and Robinson, the inclusive economic institutions, as engines of prosperity, backed by inclusive political institutions, are the cause for the superior value of the GDP in 2022 compared to the period before 1989.

CONCLUSION

The main conclusion of this paper is that the hypothesis is valid and the post 1989 development of Romania was driven by adopting inclusive economic and political institutions. Another conclusion is that if a state makes institutional transformations in political and economic realms, it can make the difference between poverty and economic success. Before 1989, under dictatorial Communist regime, Romania had extractive economic and political institutions, which were functioning on the expense of the society and determined the acute crisis from the 1980s. After 1989 Romania started to develop inclusive economic and political institutions by guaranteeing fundamental human rights as the right to property, a political framework based on the separation of powers and governmental responsibility etc.



As a weak point, I believe that my analysis needs more statistical data for the mentioned periods in order to have a more accurate comparison. I also believe that the theory of Milovan Djilas can have a greater importance in this case and be combined with the arguments of Acemoglu and Robinson in order to offer a better explanation.



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