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**POLITICAL PARTIES AND ANTI-CRISIS MEASURES  
IN ROMANIA**

**Paper by**

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The aim of this paper is to analyse the relation that might exist between politics and the financial / economic crisis of 2008 in Romania. Our thesis is that political struggle had negative effects on the Romanian economy which has been faced these last three years to one of the worst recessions in its history. Our demonstration is based on three main assumptions that are generally when analyzing governmental efficiency. First of all, it is legitimate to assume that governmental action is far less efficient when the Government has to face an hostile majority in the Parliament. Political instability can have negative economic externalities since governmental action tends to become slower and more obscure whereas foreign investors tend to get more cautious when it comes to investing in such a country. Secondly, political elections can make politicians behave in an irresponsible manner since winning the elections becomes their main goal. Dealing with the economic crisis can easily become a subject to political demagogy and populism; thus, governmental responses to the economic crisis can be delayed or extremely inefficient since they would not tackle problems that might be highly unpopular among the voters. Lastly, taking into consideration that modern financed is primarily based on confidence, a governmental plan whose goal is to boost the economy is more efficient if the people actually believe in its efficiency. This paper tries to argue that these three main factors can be accounted for Romania's delayed economic recovery.

From this point of view, the Romanian governments had no chance whatsoever of dealing efficiently with the crisis. First of all, no parliamentary party managed to obtain a majority in the Parliament so that it could rule all by itself. Thus, the parties were obliged to form coalitions which turned out to be either short-lived or extremely unstable. The successful adoption of a motion of censure in the autumn of 2009 by the Romanian Parliament reflects the intensity of political conflicts in Romania. We can assume that politicians were generally more concerned with political issues than economic issues, even though the economic situation was critical. Moreover, politicians have had a tendency of manipulating to crisis to political ends, oblivious to the consequences that such a decision might have. For instance, a couple of months before the general elections of 2008, the President Traian Basescu and the Prime-Minister Calin Popescu Tariceanu refused to acknowledge the fact that the economy might soon be affected by what was already happening on the American subprime market. They went so far as accusing the journalists of

needlessly panicking the people even though there were already signs that recession was on the verge of affecting Romania as well.

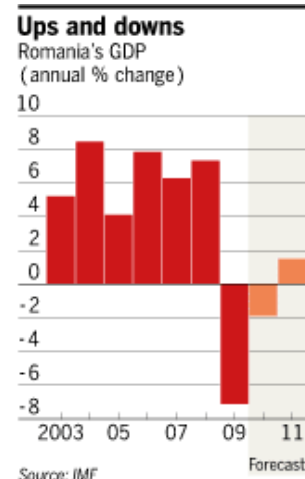
A more secondary aim of this paper is to analyze the way in which the several Governments that were in power in Romania during the last three years have dealt with the economic crisis. In an article published in the *Financial Times*, the economist Cornel Ban of Brown University, USA, warns that Romania's anti-crisis policy represents a "cautionary tale on austerity's charms". In other words, the austerity policy that was adopted by the Romanian Government in May 2010 might represent an economic experiment trying to measure the efficiency of such a policy in fighting recession and public deficits in the same time. However, this paper shows that prior to this decision, the Romanian governments tried to implement policies that were based on public expenses and public investments similar to those adopted by the USA or other western European states. It was the fast deterioration of public finances and the fear of a default that forced the Romanian Government to seek a bail out from the IMF, the World Bank and the European Commission. The draconic measures that this entailed were the desperate solutions of a desperate Government in a desperate situation.

So where does the Romanian economy stand in 2011? If in 2007 the Romanian GDP increased by almost 7.5%, making Romania of the fastest growing countries in Eastern Europe, in 2009 the GDP dropped by 6.2% in the first trimester and by 8.7 in the second trimester. Furthermore, according to a report of the IMF, the Romanian and the Latvian economies would be the only eastern European economies that were likely to remain in recession even in 2010. If we take our analysis to an individual scale, it can be easily assessed that living conditions have worsened these last three years. Public sector wages diminished by 30%, VAT rose by 5%, pensions were taxed and unemployment in the private sector surged. Economic recovery is therefore an extremely slow and painful process. It is therefore not surprising to see that public discontent with the Government and with the politicians in general is extremely high in Romania. A public opinion which is extremely pessimistic with regards to economic development is bound to slow down even more the process of recovery since public consumption and demand of credits, the main sources of growth these last two decades, remain extremely low.

In conclusion, the Romanian economic crisis has been aggravated by a political crisis. Even though it was practically impossible to avoid the recession, the political responses to the economic crisis were insufficient and to this day inefficient.

## Annexes:

**Annexe 1:** The evolution of Romania's GDP in the last 9 years.



**Annexe 2:** Evolution of GDP for Eastern European countries.

	Evolution of GDP				
	2007	2008	2009	2010	2011
Europe	4.0	1.4	-4.6	2.3	2.2
Developed countries of Europe	3.0	0.5	-4.0	1.7	1.6
Emerging countries of Europe	7.0	4.1	-6.0	3.9	3.8
European Union	3.2	0.8	-4.1	1.7	1.7
Emerging countries of the UE	6.0	4.4	-3.0	1.6	2.9
Bulgaria	6.2	6.0	-5.0	0.0	2.0
Estonia	6.9	-5.1	-13.9	1.8	3.5
Hungary	1.0	0.6	-6.3	0.6	2.0
Latvia	10.0	-4.2	-18.0	-1.0	3.3
Lithuania	9.8	2.8	-14.8	1.3	3.1
Poland	6.8	5.0	1.7	3.4	3.7
Romania	6.3	7.3	-7.1	-1.9	1.5

Source : <http://www.imf.org/external/french/np/sec/pr/2010/pr10391f.htm>

**Annexe 3:** General election results of 2008

Political party	Results (percentages)	
	The chamber of deputies	Senate
PSD+PC Alliance	33.09 %	34.16 %
PDL	32.36 %	33.57 %
PNL	18.57 %	18.74 %
UDMR	6.17 %	6.39 %
PRM*	3.15 %	3.57 %
PNG-CD*	2.27 %	2.53 %

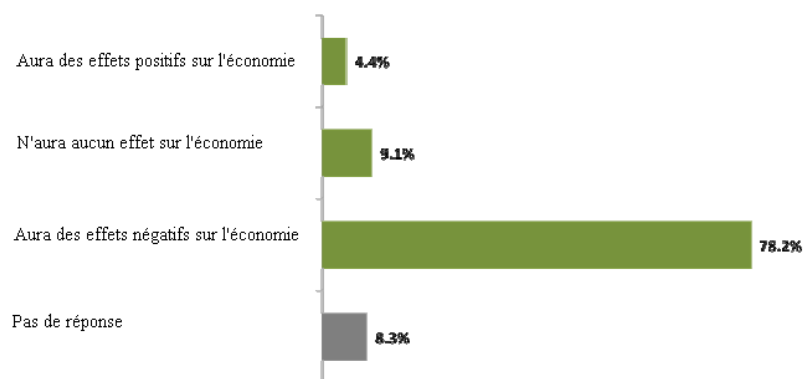
\* Parties that are not represented in the Parliament in the 2008-2012 legislature.

Political Party	Number of mandates	
	The Chamber of deputies	Senate
PDL	115	51
PSD+PC Alliance	114	49
PNL	65	28
UDMR	22	9
PRM*	0	0
PNG-CD*	0	0

Source: <http://www.becparlamentare2008.ro/>

### Annexe 19 : Public perception of anti-crisis

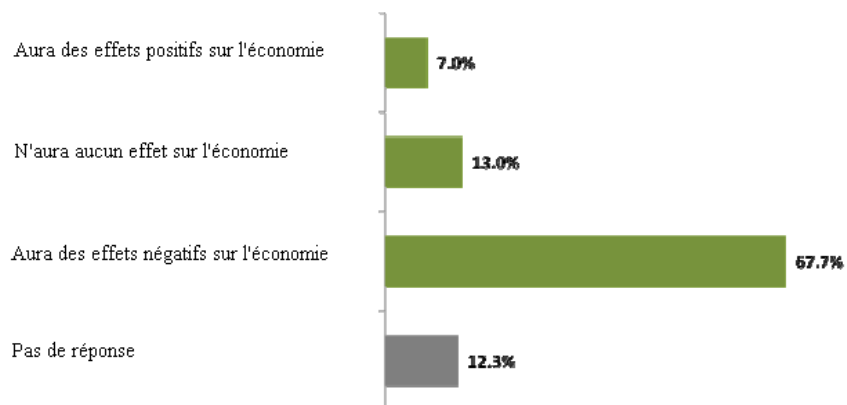
Selon vous, la hausse de la TVA de 19% à 24% est une mesure qui...



mesures

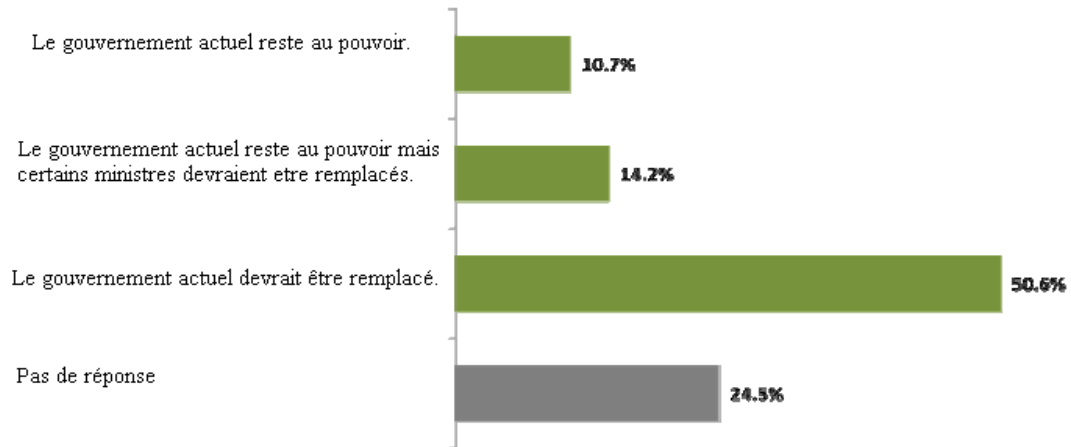
78.2% of the people think that the raise of the VAT will have negative effects on the economy.

Selon vous, la baisse des salaires des budgétaires avec 25% est une mesure qui...



67.7% of the people think that the cut of public sector wages will have negative effects on the economy.

### Quel serait le meilleur scénario pour la Roumanie en ce moment?



50.87% of the population think that the actual government should be replaced.

Source : Sondage d'opinion réalisé par INSOMAR