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Dismantling a weak state

The crisis as a pretext for even more neoliberalism in the Romanian economic policies

Dan Cărmădariu

The paper presents the evolution of Romanian economic policies shortly before and during the financial and economic crisis. It starts by pointing out key data on the Romanian economy in 2008 and focuses on the different action plans the Romanian government has drawn and put into practice in 2009 and 2010. The paper analyzes especially the general cut-off of wages in the public sector, the raise of taxes (2010) and their influence on consumers' demand and the evolution of Romanian GDP in 2010 and 2011. At the same time, it focuses on the evolution of government investments in 2010 and 2011, the tool officially proclaimed as Romania's magical key for getting out of the recession. The paper shows that although such a raise in public investments was a dominant element in the government's economic discourse, in fact public investments decreased in 2011. Based on the fact that the austerity measures, combined with the raise of public investments, were - according to mainstream economists - the best possible policy mix for fighting the crisis, the paper comes to the conclusion that this policy mix has more negative than positive effects for the unreformed Romanian economy, as long as a true raise of public investments cannot be revealed. It shows that the crisis was used as a pretext for implementing Neoliberal principles in Romanian economic thought and policy as well, for pushing forward the dismantling process of the Romanian state.

Keywords: Response to Crisis, Neoliberalism, Fiscal Policy

1. Introduction

In the first two decades after the fall of the communist regime the Romanian economy has known three different phases. I hereby take into account the following phasing (Jivan et al., 2011), which is considered to be of significance:

- (1) 1990 - 1990, the first phase characterised by the convulsions of the transition, respectively by the two major shocks from 1990 - 1992 and 1997 - 1999, as well as by a weak and unhealthy economic growth between 1994 and 1996;
- (2) 2000 - 2008, the second phase, a phase characterised by sustained economic growth, mostly induced by the fact that Romania entered the irreversible track of integration into the Western political, economic and military circle of influence and which corresponds to the end of the transition;
- (3) 2008 – present, the third phase, of the double crisis and, in other words, of the Romanian economic crisis, an internal crisis, triggered and enhanced by external evolutions.

Despite a short period of economic growth and recovery between 1994 and 1996 the Romanian economy in the first post-communist decade was characterised by the successive crisis of the transition to market economy, marked by inflation, unemployment, a slump in production and, in general, by a stark dissolution of the state's authority on all levels. However, during this decade the democratic political regime installed after 1990, which has recorded its first alternance of power only in 1996, managed to adopt laws and regulations which can be criticised from various points of view, but which

outlined the conditions under which a market economy was formed in a country where for the past 60 years there had been exclusively dictatorial regimes which aimed at and succeeded in completely controlling the economy.

Even if the governments which alternated in this period were not capable to meet the deadlines for the transition to market economy suggested in 1990, they applied at least until 1996 a concept rooted in the Romanian belief and economic policy of approaching economic policies in a traditional manner with strong left-wing influences. Nevertheless, after 1997 the obvious stop-and-go character of this policy (Hunya, 1999) having failed, the new centre-right government was forced to resort to a so-called shock therapy, of neoliberalist inspiration, which led to the massive impoverishment of the population. Thus, the disparity between Romania and the European average was yet again increased. This therapy recorded, however, some success such as launching the process of privatisation in the fields of industry, agriculture and in the banking sector and starting the negotiation to join the European Union in 2000.

Afterwards the Romanian economy entered a new phase, a phase of sustained economic growth, the only economic policy which the two governments of that period based on was actually the one imposed by the imminent accession to NATO (2004) and the accession to the European Union (2007). It is obvious that the Romanian governments continued the reforms in economy and society by relating to this sole objective, that is the European Union integration. Thus, the governments made it seem that some conditions and criteria were met, so that the accession to the EU could take place without major hurdles, and they entirely accepted the privatisation of state ownership in economy, be it in the banking sector or in the field of industry, energetics or tourism.

At the same time, despite the existence of the necessary legal framework, they proved to be very resistant when the European Union demanded they should fight against corruption in the legal and administrative system and introduce reforms in the legal system aligned to the principles of the state of law, which all countries members of the European Union have in common, as shown by Gallagher (2010). Moreover, after 2005, when Romania's accession to the European Union on the 1st of January 2007 had become a certainty, the Romanian government promoted a relaxed tax and budget policy, thus leading to an unjustified rise in public expenses, especially after 2006.

Therefore this period is characterised by a dangerous relaxation as the politicians and the society in general forgot the slight coherence and autodiscipline they proved to have in the period before the accession to the European Union. After the 1st of January 2007 the capacity to control of the international financial-banking institutions and that of the European Union dropped significantly.

The unwise tax policy promoted by the Călin Popescu Țăriceanu government in the second part of his mandate (2006 - 2008) led to a sharp rise in consumption and jeopardized Romania's macroeconomic balance. As a result, when the country started to be affected by the international financial and economic crisis, in the last months of the year 2008, "the combination between the deficit of the external balance, the budget deficit and the limitations imposed by the crisis on some of the financial flows became unsustainable", as shown by Murgescu (2010).

There is a heated debate (Voinea, 2009; Fota, 2009; Malița and Georgescu, 2010; Murgescu, 2010; Popescu, 2011; Vasilescu, 2011) regarding the causes underlying the economic crises in Romania in the years 2008 – 2011. On the one hand, some authors believe that the crisis was partly imported, especially by the reduction in external demand, as well as by the reluctance of foreign investors and their limited possibilities. On the other hand, the crisis was due to the setbacks of governmental policies during the years 2007 and 2008. It was also pointed to the fact that the causes of the crisis in

Romania should be looked for exclusively within the country, international events being just the trigger of the situation and nothing more.

I tend towards this second opinion, considering that actually the Romanian crisis is not a temporary economic crisis, but a structural crisis, one related to the lack of vision. It is a crisis of committing to reforms, a management crisis. Beyond this, it is my opinion that for Romania the global economic crisis was and still is used as a pretext to implement neoliberal principles inspired by the Chicago School and the Washington Consensus, both in practice and in Romanian economic thinking, with a view to reach an objective which was not publicly assumed, that is the dismantling of the Romanian state. The reason behind the government's explanation of this course of action is the fact that the state has to cut its costs, turning the target of budget deficit into a primordial objective and imposing on the population and on the enterprises a new set of maximum austerity measures, which are hard to imagine in any other member state of the European Union.

Therefore, this paper attempts to demonstrate that the mixture of economic policies implemented in Romania with a view to combat the effects of the recession are actually intended to implement the principles of neoliberalism in this country, as they were envisaged 40 years ago. Taking into consideration the fact that Romania is and will remain far behind developed Western European countries, having as a fundamental criterion prosperity, in its broad meaning, that is not only the strict economic dimension but also the quality of life and the way in which institutions work, the current policies cannot lead to another outcome but the one of dismantling an already weak state.

2. Romania's economy between 2008 and 2011. Main data

For a better perspective on the evolution of Romanian economy between 2008 and 2011 I will use a series of data briefly shown in Table 1 based on the information offered by the National Institute of Statistics and Economic Studies in Bucharest and by the National Office of the Registry of Commerce under the Ministry of Justice.

I will make short reference to some of the information in Table 1, which I consider to be the most relevant. Firstly, one cannot leave unnoticed the negative dynamics of the Gross Domestic Product in Romania. If in the year 2008 the economic growth recorded a considerably strong start in respect to the European average and even to the Central and Eastern European one, of 7,1 percent, the year 2009 brought a dramatic drop of 7,1 percent, one of the highest in the European Union. Despite some of the severe conditions which continued to exist in 2010 the economy in Romania dropped with only 1,2 percent of the GDP, while in 2011, according to the information at this moment (January 2012) it recorded a modest recovery of maximum 1,5 percent in the first six months of the year. However, in the third trimester, due to external factors, especially to the developments which exceeded expectations in the field of agriculture, Romania's head start rose to 4,4 percent of the GDP thus being one of the highest in the European Union. Despite all this, one has to note that this rise will be severely reduced in the last trimester due to the unfavourable situation in Europe. Thus the forecast for 2012 should be made with extreme caution. The government in Bucharest drew up the state budget for the year 2012 starting from an economic growth of between 1,8 and 2,3 percent of the GDP.

The strenuous development of the inflation rate which decreased in 2009 in comparison to 2008, but increased with over 6 percent in 2010, is also to be noted. This increase was mainly due to the negative impact of the VAT increase with 5 percent, from 19 percent to 24 percent, on the 1st of July 2010. Furthermore, there is also the fact that the public debt doubled, both in nominal and in real value, from

almost 20 percent of the Gross Domestic Product in 2008 to almost 40 percent of the same indicator in the first semester of 2011.

Table 1: Development of some economic indicators in Romania between 2008 and 2011

Indicators	2008	2009	2010	2011 (1st semester)
Public debt (billions RON)	100,6	136,5	182,5	202
Debt % of GDP	19,5	27,8	35,5	39
Economic growth	+ 7,1	- 7,1	- 1,2	+ 1,5 (estimated)
Inflation (%)	7,8	5,6	6,1	4,85
Credit value (billions RON)	184,5	198,9	207,9	217,8
Value of outstanding credit (billions RON)	6,2	5,9	13,9	19,74
Exchange rate RON/€	3,579	4,2282	4,2848	4,2353
Exports (billions Euro)	33,7	29,03	37,4	22,01
Number of unemployed (thousands)	568	731	714	741
Employed population (millions)	9,60	9,02	9,05	9,07
Number of closed companies	18.463	57.041	49.092	13.290
Number of dormant companies	10.901	127.129	139.139	22.062
The price for one gram of gold (RON)	67,68	104,18	145,35	178,65

Source: National Institute of Statistics and Economic Studies, National Office of the Registry of Commerce

I should also emphasise that the amount of outstanding credit of the population as well as those of economic agents of 6,2 billions RON in 2008 tripled in the first part of 2011 reaching 19,74 billion RON. This matter of fact points without doubt to a serious worsening of the solvency in the Romanian economy. The course of the national currency in relation to the common European currency is similar to that of all currencies in Central and Eastern Europe, including that of the more powerful Polish zloty, with the remark that in the last part of the year 2011 the Romanian leu proved to be very stable, its depreciation in relation to the Euro being smaller than the one of the Hungarian forint for example. One can also notice the unfavourable development in the number of unemployed, as it increased by almost 200 thousand people in the context in which the employed population decreased with over 500 thousand, on account of both the natural negative rate of natural increase in Romania's population and of the fact that the emigration phenomenon continued and grew.

I can also mention a positive development in the economy of Romania, that is the favourable dynamics of exports. According to Eurostat¹ data, Romanian exports were rated the best in the European Union in terms of their development. Thus between 2008 and 2011 an increase of 10,8 percent was recorded, from 33,7 billion Euros to 37,4 billion Euros, this head start being remarkable in the context in which export rose in only 8 of the 27 member states of the European Union, while the rest recorded decreases ranging between 0,1 in the Netherlands and 19,3 in Finland. This proves that

¹ <http://epp.eurostat.ec.europa.eu/newxtweb/>, as of 22.12.2011

the Romanian economy has the capacity to overcome the recession, but it also stands proof of its dependency on the Western markets, especially on the German, Italian, and French one as more than two thirds of the Romanian trade is intra-community.

Finally, we emphasise the fact that in the year 2009 and 2010 the number of companies which were closed respectively which became dormant recorded a boom. The underlying explanations are not only the worsening of economic conditions, especially the low demand in some sectors (for example, in constructions, real estate, small trade), but also the worsening of taxation rules in 2009 by the introduction of a lump sum taxation of 500 Euro/trimester for all economic agents and dropping the facilities awarded to micro-enterprises. Moreover, other causes which led to this unfavourable development should be related to the harshening of lending conditions as well as to the continuous postponement of some payments for works done between 2004-2008 by private construction companies whose beneficiaries were the state or the local administrations thus leading to a weakening in the construction sector. This sector had been one of the stars of the economic increase in Romania between the years 2000-2008 along with the automotive industry, textile industry, wood manufacturing, energy industry and others.

3. Fighting the crisis through austerity measures

Although the liberal government which lead Romania until December 2008 set up a plan to fight the recession through measures of fiscal stimulation and measures of support in some important sectors, such as construction sector, through public investments, the coalition government between the Liberal Democratic Party and the Social Democratic Party decided to drop this plan, considering throughout the year 2009 that Romania is not and will not be affected by a crisis, and the recession gradually became worse from one trimester to the next.

The first problem which this government had to face resulted from the exceedingly relaxed taxation and budget policy of the former government. This eventually developed into a state crisis of liquidity solved by an agreement between the Romanian government and the National Bank of Romania on the one hand and nine foreign banks present in Romania, the European Commission and the International Monetary Fund on the other hand. According to this agreement signed in Vienna in March 2009 the foreign banks committed to offering the financing needed by Romania, that is by the state and the economic agents, and to not withdraw their funds from this country despite the liquidity problems existing in their own countries of origin. At the same time, the European Commission, the International Monetary Fund and the World Bank agreed to offer Romania a financial help amounting to approximately 20 billion Euros, in instalments. The government of Romania mainly used the money to pay off its current debt, especially for the payment of salaries in the public sector and of the pensions in the state social insurance system.

Nevertheless, according to the international financial-banking institutions and the European Commission the awarded financial help is conditioned by taking measures regarding cuts in public expenses, strenghtening financial discipline, rendering partially or totally state owned companies efficient and finally by improving the way in which budget revenues are collected. In this respect, there is Law no. 329/2009 regarding the reform of public authorities and institutions, the rationalisation of public expenditure, the support offered to the business environment and the compliance with the frame agreements with the European Commission and the International Monetary Fund. However, this law came too late, although its purposes matched the urgent necessity of the Romanian economy of 2009 and the need for reform by making the state more efficient. These goals,

listed in art. 1 of the above mentioned law, were as follows: reforms within public authorities and institutions, the reduction in staff expenses in the public system, the ban on the cumulative pension system applied to people employed in state institutions, the implementation of various measures regarding the financial and budgetary discipline of public enterprises, organisations and national companies and of trade companies whose sole shareholder or majority shareholder are the state or its administrative-territorial units, in other words measures aimed at sustaining the business environment with a view to overcome financial difficulties and relaunch the trade flow.

These above mentioned measures mainly implied that some fiscal bonus would be awarded in case profit was reinvested, only that according to the law the conditions imposed in order to benefit from this facility were extremely harsh, so that the effect of the law was insignificant. Especially because by modifying fiscal regulations in the spring of 2009 the government introduced a lump sum taxation of 500 Euro/trimester for all trade companies and cancelled a series of facilities regarding fiscal deductability especially regarding the acquisition of vehicles and the fuel consumption, measures which I have already mentioned.

In the same year, by passing Law no. 330/2009, the government applied its vision regarding the uniform remuneration of staff paid from public funds. On the one hand, this normative act abolished any discrepancy in the income of state employees, which had cumulated along the two postcommunist decades, but, on the other hand, the analysis of the text of the law reveals that there has been an unfair levelling off of certain key categories of state employees, such as the professionals employed in the field of education, health and public order.

I also have to mention in the same context the adopting of a new normative act regarding the state social insurance system, i.e. Law no. 263/2010 regarding the uniform public pension system by which the parallel existing pension system for various social and professional categories was dissolved, the pension age for women rose from 60 to 63, while the way in which the pension is calculated was changed in such a manner that the ones who retire in the next years should benefit from at most equal pensions to those calculated for those who retire before this law comes into effect, in some cases smaller.

I would also like to mention here the new healthcare law project according to which the public healthcare system would be considerably reduced by the introduction of private health insurance companies. This measure, which at the moment is in its project phase and has to be overworked, corresponds best to the neoliberalist principles regarding state reforms which the Romanian government is trying to implement. This kind of initiative might have its benefits in respect to avoiding to misspend public funds in the field of healthcare, inadequate remuneration of employees from the healthcare system, the modernisation of the system's infrastructure and the quality of the medical services. It might also bring an end to the continuous exodus of the healthcare professionals from Romania, although at this point the advantages of this law cannot be clearly seen due to the way in which the law project was presented. On the other hand, by dismantling the public healthcare system in this context of poverty of a population in crisis it becomes clear that the access to healthcare of numerous social classes will be considerably reduced.

In the circumstances in which the financial help offered by the international financial-banking institutions and by the European Union was used in the year 2010, as I will further establish, for purposes others than those with multiplying potential in the economy the Romanian government was forced to impose austerity measures without precedent in the European Union. In conformity with Law no. 118/2010 regarding some of the measures necessary to regain the budgetary balance and with

the Emergency Ordinance no. 58/2010 regarding the new Fiscal Code the salaries of all state employees were reduced by 25 percent while the VAT recorded an increase of 5 percents, from 19 to 24 percents, thus becoming one of the highest in the European Union. According to the initial plan, the government also intended to decrease state pensions by 15 percent, however the Constitutional Court of Romania ruled this measure as unconstitutional so that the government was forced to increase the VAT in order to reestablish the budgetary balance.

Subsidiary, the government started the reorganisation of the state system by dismissing staff, especially within the Ministry of Internal Affairs and Administration, by blocking all available vacancies and by not allowing the employment of extra staff as well as through cost reduction achieved after closing some public establishments, especially town and city hospitals, respectively they became care homes for the elderly.

The immediate consequence of the pay cuts and of the VAT increase was the reduction in the final consumption of the population consisting of 1,4 percent as compared to 2009. A slight rebound was registered only in the second half of the year 2011.

There are several points of view regarding the necessity and the timing of these measures. A first opinion was expressed in the sense that the measures would not have been necessary if the Romanian government had taken in 2009 some less drastic measures to reduce and rationalize public expenses. According to another opinion no measure should have been taken, as these measures only worsened the overall economic climate in Romania. I tend towards the first opinion but would like to emphasize that taking such less drastic measures in 2009 would have been enough only if in the same year public expenditure behaviour had not been so irresponsible. This behaviour was due to the presidential elections by committing to useless spending (for example the construction of several sports halls in the rural area) in relation to the urgent needs of the public infrastructure, of the education and health care system, of employment or agriculture. Moreover, I consider that in the studied period, respectively in the years 2009 and 2010, the government could have avoided the pay cuts in the public sector and the VAT rise if it had been able to access more efficiently European funds as throughout this whole period the absorption of these funds was extremely weak. It was only in the second half of the year 2011 that one could notice a slight improvement of this situation.

The measures regarding the reestablishment of the budgetary balance and ensuring a macroeconomic stability include also Law no. 69/2010 regarding fiscal and budgetary responsibility. This law set the legal framework of balanced budgets and determined highly prudent principles for drawing up fiscal and budgetary policies. In spite of this, the Romanian government rooted from a dogmatic point of view in the principles of neoliberalism and those of the Chicago School did not comply with this law when it amended the state budget for the year 2011, there being all prerequisites that the provisions of these law would be breached again during the year 2012, if, despite its promises to the International Monetary Fund and the European Commission, it raises salaries and pensions in the second half of 2012 thus succumbing to electoral pressure.

The new law regarding social assistance (Law no. 292/2011) should be analysed in the same way. By this normative act the entire national social security system was reorganised with a view to substantially reduce the amount of benefit received in Romania and the total number of citizens who receive one or the other type of benefit. This kind of normative act should produce long-term positive effects, but the short-term and medium-term consequence will be that of increasing poverty among specific social categories, especially in the rural area.

These measures have to be supported by state efforts to withdraw from the economy through the privatisation of state shares, for example in the energy industry or in that of air transport, respectively efforts to make the management of state companies more efficient, for example in railroad transport and in the energy industry. Privatisation proves extremely difficult in respect to the Romanian rail system under the circumstances in which the state companies in this field are incurring extremely high losses caused by an inefficient administration but also by the existence of alleged criminal acts in the management of these companies.

The discrepancy between imposing some drastic austerity measures on some large categories of the population and the continuance of the inefficient and poor management of partially or totally state owned companies, which cause high losses, should also be emphasised.

It is my opinion that the drastic austerity measures imposed by the Romanian government on the population in 2009 and especially in 2010 have, beyond the momentary need to reestablish budgetary balance and to ensure macroeconomic stability, a long-term objective comprised by the executive in the phrase *state reform*. This reform is implemented in conformity with some programmes² or principles of the government, of the presidential administration or of the main governing party, the Liberal Democrat Party, in the sense of weakening the state apparatus and its administrative capacities, of withdrawing the state from economy through privatisation, of dismantling a social spiral where, even after 1989, the role of the state was at least very important if not crucial.

The normative acts promoted at the beginning of the financial and economic crisis and until present have in view not only a so-called better organisation of certain important institutions and in some significant fields but they also attempt to remove the state from its position as a major agent in economy and society, however without taking into consideration that the Romanian society was traditionally and will remain one in which the state plays a significant role and is of major importance. This statement may easily be contradicted in the sense that Romania needs less and not more state, because many of the problems faced when departing from socialism to capitalism were caused exactly by the existence of a weak, unreformed, poorly managed and in many situations corrupt state apparatus. The final part of this paper refers to this apparent contradiction.

4. The vision of the Romanian government on the economic stimulation. Public investments in 2011

The government which adopted the measures analysed in the previous chapter considered that, at the same time with imposing this austerity difficult to bear by the population, it also understood to apply a wide programme of economic stimulation based first and foremost on public investments. Therefore, according to official information from the government³, there are no more than 21 programmes through which the economy and the business environment is sustained by the executive, except those of direct public investments in infrastructure. I will not explain them all as they are not all of interest for the purpose of this paper but I will list them:

- (1) the programme *First House*, whereby the state supports housing acquisition for certain categories of people by guaranteeing the loans they might obtain from the bank under the

² E.g. the government programme of Emil Boc's cabinet from December 2009, the various reports of some presidential committees (regarding demography, education, healthcare) or governmental (regarding competitiveness and industrialisation)

³ http://www.guv.ro/programe-guvernamentale__11a115343.html, as of 22.12.2011

condition that it is the person's first housing acquisition. Voinea (2009) suggested that the programme is a partial failure, having nothing to do with Romania's recovery from the recession;

- (2) the programme of thermic rehabilitation of buildings through government guaranteed loans;
- (3) the *Mihail Kogălniceanu* programme for small and medium sized enterprises regarding the subsidisation of maximum 70% of the interest rate of the loan, but no more the 6,5% per year of the sum of money used for the awarded credit line;
- (4) the programme for the support of the set-up and development of microenterprises by young entrepreneurs who are exempted from the tax for setting up a company and who can also easily access a financial help of up to 10,000 Euro for the development of their business and can obtain government guaranteed loans, being afterwards exempted from paying the social contribution for maximum four employees;
- (5) the programme for the development of entrepreneurial skills among young people and the facilitation of access to financing; for this purpose workshops were organised at the end of which some of the business plans drew up by the participants can be selected for financing from public funds;
- (6) the programme regarding the attraction of foreign and local investments by drawing up and implementing state help schemes for certain foreign investments in compliance with the European Union regulations;
- (7) the implementation of the new civil code from the 1st of October 2011, without having made a detailed impact study of this new frame-law, as this new law replaces not only the old civil code of 1864 but also the commercial code of 1887 which led to a delay in the court settlement of litigations;
- (8) the programme for the stimulation of the renewal of the national auto park, through which the acquisition of new vehicles, including tractors, enjoys a support from the state amounting to 3,800 lei for each old squashed vehicles;
- (9) modifications of the fiscal and accounting law without taking into consideration certain increases in fees and taxes throughout 2011;
- (10) the online national electronic payment system of fees and taxes by using the banking card;
- (11) support for the companies which offer jobs to unemployed people and thus create new jobs by according modest fiscal facilities to companies which employ jobless people over the age of 45 or to unemployed people who are single parents in monoparental families or to those with disabilities;
- (12) the support for female entrepreneurship by organising classes throughout some of the major cities;
- (13) the programme *Green House*, by which the state finances the process of fitting solar panels or photovoltaic panels by natural persons on their own homes;
- (14) the new vision of the employment code according to which the number of valid labour agreements should have risen and thus it should lead to reducing work on the black market; nevertheless this did not happen;
- (15) the governmental support programme regarding the award of grants and government guarantees, respectively the award of a modest support for young people who set up farms;
- (16) new regulations in the field of financial support for heating;
- (17) the governmental programme for the support of pensioners *The solidarity basket*;
- (18) the new aspects of Law no. 1/2011 regarding national education; however, despite the fact that Romania is in need of trade and crafts schools, these were not set up again;
- (19) policies and public programmes for the Roma minority;
- (20) the Danube Region strategy – European instrument for macro-regional cooperation;

(21) the project the *Danube Strategy* for the period 2011-2015;

Compared to the stringent development needs of Romania, respectively to the serious recession faced by the Romanian economy during 2009 and 2010, these measures, some of them with a positive character, represent without doubt too little. They can offer a specific support in some fields, some of them with real development potential (such as agriculture, green energy), but they lack overall vision. In my opinion, this package lacks integrating visions regarding ways in which to overcome the recession, to record increases and to bring the economy in Romania back on the development track with a view to reduce the major discrepancy to the European average.

If we were to analyse also the public investments⁴, we would easily notice that beyond the enumeration of billion-Euro projects the actual level of public investments is relatively low and it can under no circumstance strongly stimulate the economy by supporting global demand.

Therefore, according to the ESA 95 methodology of the European Union, public investment have dropped in the first semester of the year 2011 to 1,6 percent of the GDP as compared to 4,3 percent of the first semester of the year 2010 or 5,8 percent for the year 2010. Consequently, the new investments financed and received by the state in the first half of the year 2011, which should have stimulated the economy, actually dropped almost 60 percent as compared to the same period in 2010. This situation demonstrates that mostly the government has done nothing else but pay outstanding bills from the past years related to investment whose contribution to the GDP was not quantified in those years.

Based on all the above we consider that for the time being the Romanian executive does not have in view a real stimulation of the economy through measures of supporting global demand, respectively through efficient public investments, modernizing infrastructure and supporting some sectors of strategic importance for the national economy, its programmes being specific and producing effects which are either modest or hard to quantify without the possibility of multiplication and engaging real economic flows.

5. Conclusions

This paper shows, without going into technical details, that the measures adopted by the Romanian government in the context of and with a view to fight the economic recession from the years 2009 and 2010 had and have also another purpose. The intention behind imposing on the population an austerity package which was hard to bear was that of adopting normative acts which tend to minimise the role of the state in the economy and in the society by reorganising some of the public services (defence, public order, justice, education, health care) and to withdraw the state form the economic market by continuing the privatisation process, previously considered closed.

At the same time, the public investments acclaimed as the key to overcoming the crisis did not record an increase but on the contrary there was a decrease, but the absorption rate of European funds continued to be low.

The governance programme of the Democratic Liberal Party, the various policy documents of the presidential administration and of other institutions form the central public administration make obvious reference to the state reform by which the state would no longer play a significant role in the economy and in the society.

⁴ http://www.guv.ro/masuri-de-stimulare-economica-sinteza__11a109809.html, as of 22.12.2011

From this point of view, it is our opinion that the Romanian economic and political thinking is still behind the development of the Western thinking. If the current world and European economic crisis is caused also by the indisputable victory of neoliberalism, respectively an extreme neoliberalism, then it means that it has to be reconsidered. This, however, does not happen in Romania, a country which in the past 20 years from the fall of the communist regime seems to be more determined than ever to apply the principles of neoliberalism in economy. Budgetary austerity, state withdrawal, decimation of public institutions, privatisation of the health care and education system are neoliberal principles. Nevertheless, Romania applies them at a historic moment when it has no need for such a situation, but when the need for growth and development, of reindustrialisation and strong economic headstart should prevail over the worshipping of nominal objectives integrated in the obsession of a low budget deficit. Certainly in Romania the entrepreneurship, individual responsibility, competitiveness - as inert elements of capitalist order – are extremely underdeveloped. However we are reserved towards the assertion that they might develop extremely well if the public system would be demolished, which in the case of Romania means a conviction to poverty, underdevelopment and emigration. The vicious circle has to be broken without doubt, however the problem has to be solved in different ways. Responsabilisation has to start firstly within the central administration through transparency, efficiency, elimination of useless costs. Secondly, the state should not give up its own tasks, in the context in which the need for development continues to be high. Thirdly, the education has to be reevaluated and the public investment in education should be pushed forward. This paper does not attempt to draw up a catalogue of alternative solutions, its goal is just to point out that at present the economic policies applied in Romania are based on wrong principles, they have unbeneficial medium and long-term effects and Romania's conviction to underdevelopment becomes clearer and clearer.

Romania is not in the same situation as Greece, the level of public debt can be held under control, the risk of certain macroeconomic side slips has been reduced. Therefore, the implementation of certain principles and concepts whose effect is the dismantling of a state already eaten by a strong dissolution of the authority after 1989 is profoundly wrong as it implies that certain much more significant social-economic goals are sacrificed and the price paid is that of continuous poverty which leads to heavy depopulation.

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