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# STRATEGIC DECISIONS ON INDUSTRIALIZATION: CASE OF GALATI STEEL WORKS

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**Abstract:** *The industrialization under a communist regime has some particularities generated by the state ownership, centralized administrative planning and, last but not least, by the communist leaders' visions on the roles of industries. During the reign of Josef Stalin, who considered that major role in the economy had to be played by the heavy industries, in the Soviet Union there were built large industrial complexes where the former peasants were transformed in industrial workers. His successor, Nikita Khrushchev, who had a different vision on industrialization, assigned increasing roles to the consumer-oriented industries and agriculture. He promoted also the specialization among the economies of Soviet Union and its Eastern European satellites. This new orientation met the opposition of Gheorghe Gheorghiu - Dej, the Romanian communist leader who initiated, since the late 1950s, a gradually emancipation from the Soviet tutelage. An episode of confrontation between the Romanian and Soviet communists on the industrial policies was the 1960 decision of building a gigantic steel mill at Galati, a town from the South – East of Romania where Gheorghiu - Dej spent his youth. Despite the De – Stalinization process launched in the Soviet Union in 1956, the Romanian communists' initiative followed a Stalinist type of industrialization. Moreover, when the Soviet Government proposed, in the spirit of the division of labor within the socialist camp promoted by Khrushchev, that the new plant should transform in steel the pig iron produced by their industrial complexes, Romanian communists viewed this plan as a threat to the country's economic development and they rejected it. This paper explores some circumstances of the decision on building of the new steel mill which dramatically changed the economic and social profile of Galati.*

**Keywords:** *Industrialization under communist regimes; Economic development; Galati steel works.*

**JEL classification:** N60, O14, O25, P20, P23.

## INTRODUCTION

From the perspectives of the economic development theory, the industrialization is regarded as a stage of the economies evolutions, in which the industrial sector achieves the supremacy over the agrarian one (e.g. O'Brien, 2001). Usually, this process has substantial social consequences such as the urbanization, the rising of the working class or a new women's role in the society (e.g. Blumer, 1990). Very often, the industrialization has a significant impact on the environment by increasing the pollution (e.g. Baumol and Oates, 1988).

There are significant particularities of the industrialization process in the Eastern Europe. Since the Late Middle Ages, the Western Europe developed much faster than the Eastern Europe. While in the Western Europe the Industrial Revolution started in the second half of the XVIIIth century, in the countries of the Eastern Europe it occurred much later and it was affected by establishing the communist regimes (e.g. Brenner, 1991).

For Marx (1867) the communism could triumph only after the industrialization had consolidated the proletariat. However, the first country which experienced a communist regime was Russia, where the agrarian sector was still predominant. In 1917 the Bolsheviks conquered the power and, five years later, established the Soviet Union. In the economic activity of the new country they imposed the principles of the state ownership and centralized administrative planning (e.g. Davies, 1998). The industrialization was accelerated by discretionary measures specific to an authoritarian regime. After the Second World War, the Eastern Europe countries occupied by the Red Army became Soviet Union's satellites. For a long period of time, the puppet communist regimes from these countries had to follow the principles of industrialization applied in Soviet Union (e.g. Berend, 2003).

In this paper we approach an episode of the socialist industrialization in Eastern Europe: the choice of Galati, a town from the South – East of Romania, as a location for a gigantic steel works. This decision provided a turning point for the history of Galati with substantial economic, social and environmental consequences. The building of the new steel mill, named "Combinatul Siderurgic Galati" (CSG), began in 1961 and it lasted for more than two decades (although the production started in 1965). In the 1980s CSG was the largest industrial complex from Romania, responsible for more than a half of the national crude steel production.

The rest of this paper is organized as it follows: the second part presents some particularities of the industrialization in countries with communist regimes, the third part approaches the role of Gheorghe Gheorghiu – Dej (the leader of the Romanian Communists when the decision was made), the fourth part describes the circumstances of choosing the location for the steel works, the fifth part presents the Soviet Union's position about CSG, the sixth part approaches the consequences of the decision and the seventh part concludes.

## **INDUSTRIALIZATION UNDER COMMUNIST REGIMES**

In the countries with communist regimes the industrialization was marked by the absolute control of the governments. The visions of the communist leaders on the role of the industrialization had a significant impact on this process.

In 1920, when Russia was still affected by the civil war ended, the Bolsheviks launched GOELRO, a plan intended to introduce the electrification of the whole country. For Lenin (1920) the electrification of Soviet Russia was a necessary stage for the Communism triumph since “the industry couldn’t develop without electrification”.

After Lenin’s death in 1924, the Bolsheviks leaders were involved in a power struggle which ended with Josef Stalin’s victory. He implemented an accelerated industrialization which, however, was more moderate comparing to those proposed by the “Left Opposition” led by Leon Trotsky. The investments were directed with priority to the heavy industry and large industrial complexes. The new plants efficiency was affected by the fact that their workers were, in large proportions, ex-peasants who lacked an industrial experience. Very often, unrealistic quotas were imposed and those who failed to fulfill them were accused by sabotage.

At the end of the Second World War, Stalin established a strict control over the communist regimes imposed to the Eastern Europe countries occupied by the Red Army. Their leaders were asked to introduce the same type of industrialization that he had implemented in Soviet Union.

The death of Josef Stalin, in 1953, brought significant changes in the prospects of the socialist countries industrialization. In August 1953, Georgy Malenkov, the new prime minister of Soviet Union (who was considered then Stalin’s successor), proposed a new economic policy with more investments for the light industry than for the heavy one. This new orientation of industrialization came under attack from the First Secretary of the Central Committee of Soviet Union Communist Party, Nikita Khrushchev, who compared it with Nikolai Bukharin and Aleksey Rykov “right deviation”. Against Malenkov new industrial policy, Khrushchev gained the support of the military that worried about the consequences on the arms production. However, after Khrushchev had defeated Malenkov he adopted some of his rival’s policies including those on industrialization (e.g. Tompson, 1997).

Khrushchev wasn’t able to keep the strict control that Stalin applied on the Eastern European communist regimes. Instead, he intended to influence their economic policies by strengthening the role of COMECON (Council for Mutual Economic Assistance which reunited the Soviet Union and its satellites from Eastern Europe).

In the early 1960s Khrushchev supported the idea of a specialization among the members of COMECON. In this vision the economies of already industrialized countries such as East Germany or Czechoslovakia had to be oriented mainly toward the industrial production, while the economies of the less industrialized countries, such as Bulgaria and Romania, had to focus mainly on the agriculture. This initiative was received with hostility by the Romanian communists who had already launched ambitious projects of industrialization.

## THE ROLE OF GHEORGHE GHEORGHU-DEJ

Gheorghe Gheorghiu-Dej spent most of his youth in Galati. In the 1930s he joined the Communist Party of Romania, becoming its General Secretary in 1944. A cunning and merciless politician, under an appearance of blandness, he could show patience and tenacity in fulfilling his objectives.

In 1944, when the Red Army occupied their country, the Romanian communists were insignificant as popularity. However, with the massive support of Soviet Union, they managed, step by step, to take over the power. In 1948, Romanian Communist Party merged with Romanian Social Democratic Party and took the name of Romanian Workers' Party (Partidul Muncitoresc Roman - PMR). In the same year, a communist regime, controlled strictly by Soviet Union, was established in Romania. At the beginning, although Gheorghiu – Dej was the nominal leader of PMR, he had to share the power with other rivals, especially with those from the so-called "muscovite faction", which reunited Romanian communists who had found a refuge in Soviet Union during the war.

Soon after he had imposed Soviet Union's puppet regimes in the occupied countries, Stalin urged their leaders to implement accelerated industrializations. In Romania there were some particularities induced by the different economical evolutions of its regions. Two regions, Transylvania and Banat, which had belonged to the former *Austro-Hungarian Empire*, were more developed and industrialized than the others. For some Romanian communist leaders the new industrialization could be an opportunity to attenuate such differences. According to Gheorghe Apostol (1998), one of his most trusted collaborators, in the latest 1940s Gheorghiu – Dej proposed to develop the *South-East of Romania*, which was then a mainly agrarian region, by building of a steel mill at Galati. However, Ana Pauker, the leader of the muscovite faction, opposed to this proposal accusing Gheorghiu – Dej of "local patriotism" (through this expression she insinuated that the General Secretary intended to favor the town of his youth). In this period of time Gheorghiu – Dej hadn't enough influence to impose his idea and he had to abandon it. However, soon, the balance of power was modified in his favor. The anti-Zionism campaign initiated by Stalin in the early 1950s undermined the position of the muscovite faction (Ana Pauker had Jews origins) which was annihilated in 1952-1953. In June 1952 Gheorghiu – Dej became Romania's prime minister.

After the death of Stalin, in 1953, the Romanian communists had to watch carefully the evolution from the Soviet Union leadership. In the context of the new industrial policy promoted by Malenkov a decision on building a new steel mill could be too risky. In fact, in this period of time, the Romanian Government relaxed its objectives on the heavy industry, assigning instead more important roles to the light industry and to agriculture.

Between April 1954 and October 1955, following the recommendations from Moscow regarding the separation among the Party and Government functions, Gheorghiu – Dej renounced to the position of PMR's General Secretary in favor of his loyal aid, Gheorghe Apostol. It was just a movement to induce the appearance of a collective leadership; in fact Gheorghiu – Dej kept the real power on PMR. In 1956, soon after

gaining the predominant position in the “collective leadership” of the Communist Party of Soviet Union, Nikita Khrushchev delivered, at the 20<sup>th</sup> Congress, the secret speech “On the Cult of Personality and its Consequences” criticizing Stalin’s methods. The so-called “De – Stalinization” process represented a threat for the leaders of Eastern European communist regimes, since they had been highly involved in Stalin’s Cult of Personality. In Romania, two of the former Gheorghiu – Dej’s collaborators, Iosif Chisinevschi and Miron Constantinescu, saw the De – Stalinization as an opportunity to overthrow him. However, the majority of the PMR leaders remained loyal to Gheorghiu – Dej, criticizing the so-called “Chisinevschi - Constantinescu factionalist group” (Tudor and Catanus, 2001). After this episode there was no contestation of Gheorghiu – Dej’s leadership of PMR until his death in 1964. However, although he enjoyed an almost absolute power he was very cautious to keep the appearance of a collective leadership on PMR.

The PMR’s position in its relations with Soviet leaders has strengthened after the Hungarian Revolution of 1956, when the Romanian communists provided a consistent help on the reorganization of Hungarian Working People’s Party (Imre Nagy and his collaborators were detained in Romania for a short period of time). In 1958, Gheorghiu – Dej convinced Khrushchev to withdraw the Red Army from Romania. This achievement was followed by a gradual emancipation from Soviet Union’s tutelage (dissimulated by numerous statements of loyalty), while the commercial relations with capitalist countries were intensified (Stanciu, 2009).

At the end of 1950s Gheorghiu – Dej was able to determine the building of a steel mill at Galati. However, he acted cautionary in order to avoid suspicions that he favored the town of his youth.

## **CHOOSING THE LOCATION FOR THE NEW STEEL WORKS**

The circumstances of choosing Galati as location for the new steel works can be described by three aspects:

- a. the role of the technical constraints;
- b. the economic development of the two towns selected for the location;
- c. the choice between Braila and Galati.

**a. The role of the technical constraints.** In his cautionary style, Gheorghiu – Dej started by initiating discussions in technical commissions about the building of a new steel mill in the South-East of Romania. During these discussions there were revealed some technical constraints used in the location selection (e.g. Apostol, 1998). First, the technologies used in the steel production consumed large quantities of water, so the new industrial complex had to be placed near significant rivers. Second, in the initial plan, it was supposed that steel works would be supplied by iron ore from Krivoi Rog (in Soviet Union) and by coal and metallurgical coke from Donbas (also in Soviet Union). Therefore, the location had to be directly linked by railways to Soviet Union. Third, to facilitate the

transport of other raw materials and the steel production, the new industrial complex should be near a port. Analyzing these conditions, the specialists came to the conclusion that only two towns from the South – East of Romania could fulfill them: Galati and Braila (another port town to Danube).

**b. The economic development of the two towns selected for the location.**

Galati and Braila are closely located and their histories have some similarities. Historical sources from the Late Middle Ages mentioned both of them as important harbors of the two principalities from the actual territory of Romania: Galati for Moldavia and Braila for Walachia. Their development was affected by the expansion of the Ottoman Empire which imposed, in the XVth century, its suzerainty over the two principalities. In 1484, after the sultan Bayezid II captured the two important fortresses of Kilia and Cetatea Alba, Galati remained the single Moldavian port. In the XVIth century the Ottoman Empire annexed Braila transforming it in a kaza. The Ottomans strengthened their domination over Moldavia and Walachia increasing their economic spoliation, so the two principalities became the Turkish Empire's granaries (a quasi monopoly on the commerce of the two countries was established). As Danubian ports, Galati and Braila were largely involved in the shipment of grain and cattle from the two principalities to the Constantinople and other Ottoman towns. In this context, many Levantine merchants came to the two ports giving them a cosmopolite profile.

Beginning with the XVIIIth century the rise of Russia and the decline of the Ottoman Empire changed the balance of power in the South-Eastern Europe. Victorious in wars against Turkey, Russia aimed to extend its influence over the Danubian Principalities (Moldavia and Walachia). In 1774, the Treaty of Küçük Kaynarca allowed Russia to act on behalf of Eastern Orthodox communities from the Ottoman Empire. After another victorious war against the Turkey, Russia received, from the 1829 Treaty of Adrianople, the protectorate over the Danubian Principalities, in fact an almost absolute control over the two countries despite the nominal suzerainty of the Ottoman Empire (this protectorate had been stipulated in the 1826 Russo – Turkish Akkerman Convention which wasn't ratified by the Sultan Mahmud II). Turkey's monopoly over the Danubian Principalities commerce was abolished and Braila was reincorporated in Walachia. Russia also gained the mouths of the Danube and free passage for merchant ships through the Dardanelles. In the occupied Danubian Principalities, Russia initiated economic and political reforms that opened a road of modernization and westernization for Romania.

The abolishment of Turkey's commercial monopoly was a catalyst for a spectacular development of the two ports. The imports of various industrial goods and the exports of cereals, most of them to Western European market, flourished. In 1831 almost a half of Moldavia's imports occurred through Galati (e.g. Buse, 1976). The free port status gain, in 1836 for Braila and in 1837 for Galati, accelerated the economic growth of the two towns. The promising economic perspectives attracted many Western European entrepreneurs and consular missions. In this period of time Braila and Galati were important bridgeheads for the modernization and westernization of the Danubian Principalities (e.g. Zeletin, 1925).

In 1856, a coalition formed by France, the British Empire, the Kingdom of Piedmont-Sardinia, and the Ottoman Empire defeated Russia in the Crimean War. In the same year, at the Treaty of Paris, the Russian protectorate over the Danubian Principalities was replaced by the tutelage of Turkey and the Great European Powers. Russia also lost the mouths of the Danube, returned to the Ottoman Empire, and the south of Bessarabia, returned to Moldavia. It was decided the internationalization of the Danube under the supervision of some European commissions (the most important of them, European Commission of the Danube, was seated at Galati). In 1859, Moldavia and Walachia united under the name United Principalities of Moldavia and Walachia, changed in Romania after 1862.

In 1878, after another war in which had fought with Russia against Turkey, Romania gained its independence confirmed by the Treaty of Berlin. Romania also received the Northern Dobruja (in exchange for the south of Bessarabia taken by Russia), a province which granted the access to the Black Sea. There, after the Crimean War, a British Company started the building of a modern harbor at Kustenjie (renamed Constanta by the Romanian authorities), which accompanied the Ottoman government's efforts to modernize the Danubian Vilayet which included Dobruja. The Romanian government continued the building of Constanta's port, investing substantial resources in its modernization. At the end of the XIXth century, the competition from Constanta affected the Danubian ports' activity (Kontogeorgis, 2016). Moreover, in 1883, Braila and Galati lost their free port status. However, the two towns continued to develop in the XXth century and their industries diversified (e.g. Ardeleanu, C., 2008).

Since the end of World War II when Romania fell in the Soviet Union's sphere of influence, Braila and Galati couldn't serve as cereals exports outlets for Western markets. Added to the ravages of the war (in 1944, many of buildings from Galati were destroyed by air raids and by the retreating German Army), this fact led to a significant decline of their industries.

**c. Choice between Braila and Galati.** The most important episode of the decision about the new steel works location was a meeting of three representatives of the Political Bureau of PMR Central Committee and a group of specialists in industrial buildings, led by Professor Aurel A. Beles. From the Political Bureau of Central Committee of PMR participated:

- Gheorghe Gheorghiu – Dej, the General Secretary of PMR;
- Chivu Stoica, the Prime Minister of Romania;
- Gheorghe Apostol, the Chairman of the Trade Unions Central Council.

Chivu Stoica owed his political career to the unconditional obedience to Gheorghiu – Dej, while Gheorghe Apostol was one of the most trusted collaborators of the General Secretary of PMR (like Gheorghiu – Dej, he spent his youth in Galati). In these circumstances, the choice of Galati could be considered as sure. However, according to Apostol (1998), there was a moment when the discussion evaluated in favor of Braila. Some specialists warned that the ground loess from Galati could put in danger the industrial buildings and the Prime Minister Stoica seemed to supports their arguments. At



this point, Gheorghiu – Dej interfered in discussions. At his demand, Aurel Beles proposed, for surpassing the problem of the ground loess, the expensive and complex solution of the indirect foundation on load-bearing piles (e.g. Beles et al., 1977). This ended, practically, the discussions and a consensus between the specialists and the representatives of PMR's leadership seemed to be achieved. In the later stages of the decision making the solution of Galati as the location for the steel works met no opposition. It was presented in the Political Bureau of Central Committee of PMR and then approved in a plenary session of Central Committee of PMR. After that, at the Third Congress of PMR, from 20 – 28 June 1960, Gheorghiu Dej announced, accompanied by the participants' ovations, the plan for building the new steel works in Galati. Finally, the Romanian Government issued a decree on. It was planned that the building of CSG should last ten years (although the partial production had to start in about five years) and, after that, the steel production should reach 4 million metric tons.

### **THE SOVIET UNION'S PERSPECTIVE ON CSG**

At the Third Congress of PMR, Gheorghiu – Dej (1961) expressed the Romanian leaders' gratitude "to comrade Khrushchev and Soviet Government for their fraternal support in building the new steel works". In his speech, he announced that for the phase of execution the Romanian specialists would cooperate with their Soviet colleagues and the Soviet Union would deliver two units of metallurgical rolling. For the phase of exploitation, Soviet Union would supply CSG with large quantities of iron ore, coal and metallurgical coke. In fact, the decision about CSG contradicted the vision on industrialization of the Soviet Union's leaders from these times and Khrushchev's plans for economic integration of COMECON countries materialized in the so called "division of labor within the socialist camp". As a result, the support from Soviet Union was not as consistent as it was expected.

According to the former Minister of Metallurgy, Gaston Marin (2000), he had to ask the approval of the Comecon Steel Commission and to get the cooperation of Gosplan, the institution responsible for the central planning of Soviet Union economy. While the approval of the Comecon Steel Commission was an easy task, he failed to obtain the planned supply of raw materials from Soviet Union. The president of Gosplan, Alexei Kosygin (who became, in 1964, the premier of the Soviet Union) warned Marin that the result would be "another Magnitogorsk" (Magnitogorsk is a Russian town where Stalin built, in 1930s, a gigantic steel works; Kosygin's comment shows how the vision on industrialization of Stalin's successors was changed). He refused the supply of iron ore and coal in the quantities asked by Romanian Government proposing, instead, to deliver pig iron which could be transformed in steel on the new plant.

Kosygin's proposal was in line with the division of labor within the socialist camp promoted by Khrushchev, but the Romanian communists regarded that as a threat on their development plans and refused it. They had to find new sources for raw materials, some of them from capitalist countries (India, Australia, Brazil etc.).

Only a small proportion of industrial installations were provided by the Soviet Union (a unit of metallurgical rolling in the 1960s and, in the 1970s, some installations for metallurgical coke production). Most of the equipments were imported from Western countries thanks to the commercial relations with capitalist countries that Gheorghiu – Dej had initiated.

## CONSEQUENCES OF THE DECISION

The building of CSG substantially changed Galati. The consequence of the strategic decision could be dissociated in three categories:

- a. economic consequences;
- b. social consequences;
- c. environmental consequences.

**a. Economic consequences.** In the analysis of the economic results of a strategic decision on industrialization should be taken into consideration three stages of CSG's evolution:

- i. the stage of the communist regime;
- ii. the pre-privatization stage;
- iii. the post-privatization stage.

**i. CSG during the communist regime.** In 1950s, the most important segment of the Galati economy still consisted in the port activities. CSG dramatically changed the structure of the town economy which became dominated by the steel production. In 1965 Gheorghe Gheorghiu – Dej died (for few years after his death CSG took his name) and he was succeeded by Nicolae Ceausescu who ruled Romania until 1989. Ceausescu launched ambitious strategies for the national economy development, including the steel industry. The steel production grew from 4.1 million metric tons in 1967 to 13.2 million metric tons in 1980 (Table 1).

**Tab. 1.** Steel production of Romania from 1967 to 2014

	- million metric tons -					
Year	1967	1980	1990	2000	2010	2014
Steel production	4.1	13.2	9.754	4.672	3.9	3.16

**Source of data:** World Steel Association

The plans on CSG's building were modified by increasing its production capacity. In 1973 it was finalized an installation for producing metallurgical coke and, in 1978, it was build the fifth blast furnace of CSG with a capacity of 2700 cubic metres. In a speech from 1985, Ceausescu appreciated that until then Romania had invested in CSG about 60 billions lei ("leu" is Romania's national currency; in those times in Romania there were

applied multiple exchange rates that varied from 15 to 30 lei per an US dollar) and this huge amount “should return to Romanian people”.

**Tab. 2.** Indicators of CSG production between 1970 and 1988

Year	1970	1975	1980	1985	1988
Steel production	1.885	3.715	5.875	6.830	7.700
Iron pig production	1.600	3.169	5.379	6.009	6.450
Metallurgical coke production	x	1.189	1.913	3.171	3.400

**Source of data:** Combinatul Siderurgic Galati, 1988. CSG pe coordonatele dezvoltarii.

The Table 2 presents the evolution of some indicators of CSG's production as offered by a book issued in 1988 by the firm's management. Although this data has to be taken with precautions since in those times the economic results were often mystified for propagandistic reasons, it is a reality that the production growth was spectacular. A large part of it was assigned to be exported.

It is hard to analyze the enterprises efficiency in a socialist economy where the prices are arbitrary established. Moreover, the mystification of the economic results made difficult the comparisons between costs and prices. Even so, official reports admitted that the electric energy consume was too high comparing to the western still mills. In the assessment of CSG's economic performances it has to be mentioned its contribution to the commercial balance in a period when Romania's government needed resources of strong currencies to finance its investments. CSG had large exports but also large imports.

In 1981, facing the external debt crisis, Nicolae Ceausescu decided drastic measures, to increase exports and to reduce imports, that affected Romanian enterprises. The exporters were favored in comparison with other firms regarding the delivery of electricity or raw materials. Many plants were forced to replace the imports with raw materials produced in Romania. CSG was a special case, being a big importer but also a big exporter. Moreover, many other Romanian exporters depended on its steel production. Technically, it was impossible for CSG to renounce at the imports of iron ore and coal. However, it became very difficult to import new technologies. The local and central authorities applied pressure on CSG's management to increase the exports. In 1980s Romania was often accused by dumping the prices of its exported steel production.

**ii. SIDEX during the pre-privatization stage.** After the fall of Nicolae Ceausescu's regime, in 1989, Romania passed in a long period of transition to the market economy. Formally, CSG was transformed in a shares company (SIDEX S.A.) but it remained, for a long time, a state-owned enterprise. The entities that coordinated and controlled the industry during the communist regimes were eliminated or replaced by inefficient institutions. As a result, the management of the state-owned enterprise was poor, exposed to political intervention and to political corruption. It was a typical phenomenon for the Eastern European countries in transition (e.g. Aghion et al., 1994).

In the 1990s, as many other Romanian companies that couldn't adapt to the market economy, SIDEX S.A. accumulated huge losses. There were accusations (in general not proved in justice) that these losses were caused in large proportions by some "parasite" firms who bought the steel cheap from SIDEX. These firms were controlled by local politicians or even by managers of SIDEX (e.g. Culcer, 2007). Despite the growing losses, the Romanian Governments that succeeded in the 1990s didn't privatize or restructure the steel mill from Galati, justifying their hesitation by its strategic importance for the national economy. In those years, SIDEX accumulated huge debts to its suppliers and to the national system of social securities (there were also numerous Romanian enterprises which didn't pay for the steel supplied by SIDEX). The managers of Galati steel works didn't act to pay these debts, considering them as subsidies their enterprise were entitled to receive. In these years, they viewed SIDEX as "too big to fail" and didn't act to stop the losses. However, at the end of 1990s the negative results of SIDEX reached unbearable levels. In 1998 and 1999 the payment of the workers' wages had to be delayed to the fury of the employees. In order to avoid social conflicts, the Government asked a large state-owned bank (Banca Comerciala Romana - BCR) to offer a substantial loan to Galati steel works. Other debts accumulated and instead of paying them, SIDEX managers proposed debt/equity swaps. At the beginning of 2000s it was obvious that the Romanian authorities had two solutions for SIDEX: a radical reorganization or the privatization.

**iii. ArcelorMittal Galati during the post-privatization stage.** In 2001, the shares detained by the state at SIDEX S.A. were sold to LNM Holdings NV, one of the world's largest steel producers, registered in the Dutch Antilles and controlled by the Indian magnate Lakshmi Niwas Mittal and his family. It is still a controversial decision since it is very difficult to quantify the real value of SIDEX SA in these times when the huge values of the assets were accompanied by huge debts (e.g. Brittain - Catlin, 2005). In 2004, LNM Holdings NV was bought by Ispat International N.V. (another company controlled by Lakshmi Mittal) which changed its name to Mittal Steel Company N.V. Then, in 2006, Mittal Steel merged with other big steel producer, Arcelor S.A., forming a new company, ArcelorMittal S.A. In 2006, SIDEX S.A. name was changed to ArcelorMittal Galati. The new owner restructured SIDEX SA by closing a large part of the industrial installations, reducing the personnel and introducing some new technologies. However, the efforts to obtain efficiency were hampered by the 2007 – 2009 Great Recession that reduced the demand of steel. Moreover, in the last years, European steel producers are affected by the competition of China's cheap production.

**b. Social consequences.** The building of CSG was one from the main factors of the spectacular growth of Galati population in the second half of the XXth century. The accelerated industrialization generated a significant ascendant trend of the Romanian towns' population evolutions. However, for Galati, the number of people grew with a rhythm that surpassed the medium level for Romania. For comparison, the population of Braila also increased but more slowly than the one of Galati (Table 3).

**Tab. 3.** Evolutions of populations of Galati and Braila from 1948 to 2011

Year	1948	1956	1966	1977	1992	2002	2011
Galati	80411	95646	151415	238292	326141	298861	249732
Braila	95514	102500	138802	194633	234110	216292	180302

**Source of data:** National Institute of Statistics, Romania

New neighborhoods were built for the workers of CSG and many connected entities were established (a company assigned to build industrial facilities, a *metallurgical industrial planning* and research *institute*, a port specialized for raw materials etc.). The heating of the town was provided by the industrial installations of CSG. As it happened quite often in the industrialization under a communist regime, important resources supplied by the central administration for the building of CSG were assigned, from the decisions of local communist leaders, to finance various social objectives: schools, pocket parks, recreation centers, a skater etc. (e.g. Sageata, 2013).

In the 1980s CSG employed about 35000 workers, while the connected enterprises employed about 15000 workers. Most of them came from the rural area and their adaptation to urban life proved to be long and very difficult, to dissatisfaction of the older inhabitants. A large part of CSG's workers were commuters from the South of Moldavia's counties. The conditions of work in CSG were hard but the employees were rewarded with wages that surpassed the average level.

The relations between CSG's management and the local structures of the Romanian Communist Party were complex. Formally, the leadership of a local organization of the Communist Party had authority over the enterprises on its territory. However, the importance of CSG in the national economy gave a significant power to its manager. In the 1980s, the Managing Director of CSG was also the deputy of the ministry of metallurgy and member of the Central Committee of the Romanian Communist Party. There were situations when CSG's management disobeyed the orders from the Communist Party's organization of Galati County, such as the demand to offer enterprise's workers for agriculture tasks. In fact, the building of CSG created in Galati a new center of power able to compete with the Communist Party's local structure.

In the 1980s, the austerity measures applied by Ceausescu, in order to repay the external debt, reduced the Romanians' standard of living. The shortage of consumer goods, especially food, affected the inhabitants of country's towns. In Galati the supply with consumer goods was better than in other towns, perhaps because the authorities considered that the large community of CSG's workers had a significant potential of revolt.

The transition to the market economy generated significant changes for CSG's workers. In the 1990s, Romanian Governments hesitation to restructure SIDEX S.A., spared Galati by the social problems that appeared in other towns where industrial units were closed. In these years population of Galati voted, in majority, for the left-wing political parties that rejected radical economic reforms. Moreover, the workers from SIDEX participated to the so-called "June 1990 Mineriad", when the left-wing Government organized a brutal repression of the opposition (Balanescu, 2015). In fact, in the 1990s, Galati was nicknamed "The Red Town". The community of employees from SIDEX

couldn't be neglected in the electoral processes. From 2000 to 2012, a former Managing Director of SIDEX served three terms as the mayor of Galati.

The corruption that undermined the efficiency of SIDEX was viewed with indulgence by its workers as long as Government financed the losses and their wages weren't affected. It was a typical phenomenon for the transition in former socialist states (Wallace and Latcheva, 2006). In fact, some of the fortunes created by corruption were invested in commercial activities stimulating the economic growth of Galati.

After the privatization, the number of employees of SIDEX dramatically dropped from about 27000 in 2001 to less than 6500 at the end of 2015. In this context, the population of Galati experienced a significant decrease from 2002 to 2011 (Table 3).

**c. Environmental consequences.** The technologies employed in the steel production were air, water and soil pollutant. The coking works and the blast furnaces polluted significantly the air of Galati. The waste water from CSG's production affected two lakes near Galati: Catusa and Malina. The store of slag in inappropriate conditions polluted the soil. The management of CSG and the local authorities weren't very preoccupied with those problems and, as a result, in the 1970s and in the 1980s, Galati was one of the most polluted towns from Romania.

In the recent years, the closing of several industrial installations and the introduction of new technologies reduced substantially the pollution.

## CONCLUSIONS

The decision on building the CSG should be analyzed in the context of industrialization under a communist regime. In these days, when neo-liberal doctrines are largely applied in economic policies, it is difficult to imagine a Romanian Government investing huge financial resources to create a gigantic industrial complex. Moreover, it is unbelievable that a leader of a Party would be able to direct such investment to a town he sympathized. In choosing between Braila and Galati as a location for the new working steels Gheorghe Gheorghiu - Dej's intervention was decisive to neutralize the specialists' warning about the ground loess problem, despite the significant costs implied by the solution of indirect foundation on load-bearing piles.

Some of the changes induced by the building of CSG seem to be irreversible. Galati, which in the XIXth century was a bridgehead for the modernization and westernization of the Danubian Principalities, is today an industrial town with inhabitants that usually vote for left-wing parties. In these circumstances it is hard to resist to the temptation of the counterfactual history in approaching the strategic decision on the steel works. How Galati would look today if the CSG wasn't built? The experience of Braila could help in finding an answer. The neighboring town was also substantially transformed by the socialist industrialization although not so deep as Galati. In both towns the port activities were in decline before the communist regime and had to be replaced by something else.

In the present, uncertainty about the future of ArcelorMittal Galati, in the difficult context for the steel industry, should concern the authorities from Galati. Although the number of employees was drastically reduced in the last years, they and their families still represent a significant segment of the town's population. A future decline of ArcelorMittal Galati couldn't be excluded and it has to be met by adequate solutions.

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