



Ca' Foscari
University
of Venice

Second Cycle Degree Programme
International Relations

D.M. 207/2004

Final thesis

ROMANIA IN THE 1980S BETWEEN FOREIGN DEBT
CRISIS AND AUSTERITY POLICY

Supervisor

Ch. Prof. Duccio Basosi

Assistant supervisor

Ch. Prof. Francesca Coin

Graduand

Ana-Maria Casvean

Matriculation Number 837149

Academic Year

2016 / 2017

Contents

ABSTRACT	3
INTRODUCTION	9
CHAPTER ONE: THE RISE OF COMMUNISM.	11
1.1 THE HISTORY OF THE ROMANIAN COMMUNIST PARTY	11
1.2 THE COMMUNIST TAKEOVER	15
1.3 EVOLUTION OF THE PARTY AND THE COUNTRY.	20
1.4 THE ROAD TOWARDS AUTONOMY.	24
1.5 “THE DECLARATION OF INDEPENDENCE”.	31
1.6 THE RISE OF NICOLAE CEAUSESCU.	34
CHAPTER ONE: THE RISE OF DEBT	35
2.1 INTRODUCTION	37
2.2 FOREIGN POLICY	39
2.3 ECONOMIC GROWTH AND RAISE OF DEBT	45
CHAPTER THREE: FROM DEBT CRISIS TO AUSTERITY POLICIES	63
3.1. INTRODUCTION	63

3.2 INTERNAL FACTORS	65
3.3 INTERNATIONAL ENVIRONMENT	71
3.4 AUSTERITY MEASURES	75
3.5 OUT OF OPTIONS	80
CONCLUSION	86
BIBLIOGRAPHY	88

ABSTRACT

La storia del comunismo in Romania non è necessariamente unica, tuttavia la cosa impressionante è la longevità di questo regime e come sono variate le opinioni considerando il modo in cui i comunisti sono arrivati a governare il paese. Da quando è nato nel 1921 il Partito Comunista non è stato molto popolare, infatti i suoi membri erano circa 1000 – la maggior parte di loro di etnie diversa da quella rumena. Nel 1924 il PCR diventa illegale e i suoi membri vengono arrestati o emigrano nell'URSS.

Alla fine della seconda guerra mondiale, il pericolo di perdere altri territori, la presenza delle truppe sovietiche e le pressioni fatte da Mosca per includere i comunisti nel governo, aprono la strada al PCR. Nel 1946 falsificano le elezioni, per poi abolire la monarchia il 30 dicembre 1947 e proclamare la Repubblica Popolare Rumena. I primi anni sono caratterizzati dalla dipendenza politica ed economica dall'URSS; le direttive da Mosca sono le linee guida seguite dal PCR. Alla fine degli anni '50, grazie anche alla destalinizzazione dell'URSS, il PCR fa i primi passi verso l'indipendenza. Politicamente compaiono le prime tendenze nazionalistiche con una progressiva rinuncia al comunismo internazionale a favore di uno specifico ad ogni stato. L'obiettivo principale di questo allontanamento dall'Unione Sovietica è stato quello di essere indipendenti per poter fare le proprie decisioni e scelte; infatti, sin dall'inizio del regime comunista il PCR è stato subordinato alle direttive di Mosca sia dal punto di vista politico che economico. Il contrasto più evidente tra i desideri sovietici e quelli dei romeni si manifesta in campo economico: secondo i piani dell'URSS, all'interno di COMECON la Romania avrebbe dovuto restare un paese agricolo, tuttavia il leader comunista romeno Gheorghe Gheorgiu-Dej rifiuta

questo “ordine” avviando un processo di industrializzazione forzata, concentrato sull’industria pesante. Questo è stato il primo passo verso l’indipendenza, però era tuttavia troppo presto per parlare di un concreto successo di questa politica.

Nel 1965, in seguito alla morte di Gheroghiu-Dej, attraverso astute manipolazioni e neutralizzando i suoi potenziali rivali, Nicolae Ceausescu ottiene la leadership del PCR. Continua le politiche del suo predecessore – accelerazione forzata dell’industria pesante e indipendenza da Mosca; inoltre promuove una politica estera di convivenza pacifica fra tutti gli stati, con un’apertura progressiva verso i paesi occidentali e del Terzo Mondo. Il culmine di questa politica è l’anno 1968 quando Ceausescu condanna pubblicamente l’invasione della Cecoslovacchia da parte dei paesi membri del Patto di Varsavia; diventando così il famoso oppositore dell’URSS. Questo è stato anche uno dei principali fatti concreti che hanno convinto i paesi occidentali che la Romania mirava effettivamente ad una indipendenza da Mosca.

Tuttavia, non possiamo ignorare che il motivo principale di queste politiche è di natura economica, infatti per poter raggiungere l’obiettivo di trasformare la Romania da un paese prevalentemente agricolo ad uno industriale era necessario avere fondi ed accesso alla tecnologia avanzata dei paesi occidentali. Questo non poteva essere raggiunto senza una continua apertura verso questi paesi, apertura che era impossibile se ancora completamente dipendenti dall’Unione Sovietica. Una volta deciso questo corso di azione ed applicate le politiche necessarie per favorire l’allontanamento dall’URSS e l’avvicinamento all’Occidente, i benefici economici si sono manifestati attraverso nuovi crediti ed una aumento considerevole del commercio con questi paesi. Allo stesso c’è stata anche una progressiva apertura verso i paesi in via di sviluppo, che diventarono particolarmente importanti verso la metà degli anni ’70 e durante gli anni ’80 per il loro ruolo di principali fornitori di materie prime come il petrolio ma anche nuovi mercati per i prodotti nazionali.

Grazie ai finanziamenti e la tecnologia importata dai paesi più avanzati del mondo Occidentale, l'industria conosce anni di sviluppo considerevole ed in relativamente pochi anni la Romania diventa un paese semi-industrializzato con un buon tasso di sviluppo. Tuttavia, con la creazione di colossi dell'industria petrochimica, dell'acciaio e del carbone, per quanto siano migliorate le condizioni economiche del paese e della popolazione, allo stesso tempo questi enormi cluster industriali divorano le risorse naturali del paese, specialmente quelle di petrolio e carbone. Questo significa che alla fine degli anni '70 il fabbisogno di materie prime per mantenere lo stesso livello di sviluppo e produzione richiede un notevole aumento delle importazioni. Soltanto che nel frattempo alcuni eventi concorrono e mettono in difficoltà il paese: il crollo degli accordi di Bretton Woods, la seconda crisi del petrolio e il raggiungimento del livello massimo di produzione di petrolio nazionale, portano maggiori costi di importazione delle materie prime necessarie all'industria, particolarmente il costo del petrolio. La mancanza di fondi nazionali significa indebitarsi all'estero a tassi d'interesse alti per poter coprire i costi di queste materie prime, in primis petrolio, ma anche per coprire il deficit nella bilancia dei pagamenti. Inoltre, non si possono dimenticare i debiti acquisiti per la costruzioni di diversi obiettivi industriali e di infrastruttura che pur essendo finanziati in parte dal Fondo Monetario Internazionale e dalla Banca Internazionale per la ricostruzione e lo sviluppo, per lo più sono stati finanziati con prestiti da banche commerciali e private – sono proprio questi ultimi ad applicare i tassi d'interesse più alti.

A partire dal 1981, la Romania si trova in una profonda crisi di indebitamento causata dalla mancanza di valuta forte, valuta usata per il pagamento dei servizi finanziari e la restituzione dei debiti in scadenza. La stessa mancanza di valuta è stata causata da un progressivo aumento del deficit nella bilancia dei pagamenti in seguito alla seconda crisi del petrolio a fine anni '70. Non avendo un'altra possibilità, Ceausescu decide di negoziare con

le istituzioni finanziarie la ristrutturazione di una parte dei debiti – la negoziazione va a buon fine, tuttavia alla Romania vengono imposte alcune condizioni, quali l'adeguamento dei prezzi e dei salari ai valori di mercato, una riduzione delle importazioni e uno tasso di cambio prestabilito; non avendo altra scelta la Romania deve implementare queste condizioni.

Purtroppo, a pochi anni dopo questo evento ci si ritrova nella stessa situazione, e cioè per scarsità di valuta forte la Romania è nuovamente in impossibilità di onorare i suoi debiti. Tuttavia, questa volta invece di richiedere una nuova ristrutturazione del debito, cosciente del fatto che i piani di aggiustamento richiesti dalle istituzioni finanziarie saranno molto più severi, la leadership comunista decide di negoziare la completa restituzione di tutti i debiti esteri. Per poter ottenere la valuta necessaria per questa manovra finanziaria, la strategia applicata è quella di minimizzare le importazioni e massimizzare le esportazioni – dunque una vera e propria politica di austerità per la popolazione.

Questa politica di austerità riduce drasticamente la disponibilità di alimenti per il consumo interno, energia e riscaldamento privato vengono offerti solo in certi orari, il tutto per dare di più all'industria. A questo scopo vengono razionalizzati i combustibili, ma ancora più importante gli alimenti – ad ogni famiglia viene consegnata una tessera con le quantità di cibo che gli è permesso acquistare. Per giustificare la mancanza di alimenti, alla popolazione viene proposto un programma di alimentazione “razionale e scientifica” che oltre a consigliare un consumo ridotto di calorie (da 3300 a 2800 al giorno), consiglia anche di aumentare il consumo di verdure e pesce – infatti, mentre tutti gli altri prodotti sono introvabili nei negozi, gli scaffali sono pieni di diverse preparazioni di verdure e il pesce è la carne che si trova più spesso.

L'applicazione di questa politica che riduce drasticamente lo standard di vita della popolazione, allo stesso tempo la continua privazione di buona parte dei diritti dell'uomo

porta i paesi occidentali ad avere seri dubbi sulle reali intenzioni di Ceausescu. Per questo motivo di propria iniziativa cercano di convincere la leadership di cambiare atteggiamento e di rispettare almeno le principali libertà come quella di religione, emigrazione e delle minoranze etniche. Queste pressioni ovviamente vengono spesso fatte utilizzandole come leva benefici economici, per esempio gli Stati Uniti minacciarono di ritirare lo statuto di nazione più favorita se la Romania non cominciava a rispettare di più questi diritti. Per facilitare l'emigrazione dei propri cittadini residenti sul territorio romeno, la Repubblica Federale Tedesca ed Israele hanno promesso migliori scambi commerciali e crediti. Inoltre, sia il Fondo Monetario Internazionale che la Banca Mondiale utilizzarono la concessione di finanziamenti per poter influenzare le politiche economiche – come ad esempio diminuire le importazioni, aggiustare i prezzi ed i salari, ecc.

Nicolae Ceausescu a sua volta non è più disposto ad accettare queste imposizioni e progressivamente comincia a vedere i debiti esteri come lo strumento attraverso il quale gli altri stati cercano di interferire con gli affari interni del suo paese. Per risolvere questo problema decide che la migliore soluzione sia quella di restituire tutti i debiti esteri accumulati e applica la politica di austerità di cui sopra – la cifra da restituire era di oltre 10 miliardi di dollari; tutti questi debiti vengono restituiti addirittura un mese prima della scadenza prestabilita dai negoziati, e dunque a fine marzo 1989 la Romania diventa l'unico paese al mondo che ha saldato tutti i suoi debiti esteri.

Questo lavoro si propone di analizzare le cause della politica di austerità, la sua implementazione e le relative conseguenze. Per poter fare questo è in ogni caso importante capire come i comunisti sono arrivati al potere, quali sono state le loro politiche interne ma anche internazionali, qual è stato l'andamento dell'economia romena ed anche come il mondo internazionale abbia influito su di esso. L'obiettivo è quello di dimostrare come la posizione della società internazionale degli anni '80 e gli eventi che hanno colpito quasi

tutto il mondo assieme a fattori interni (sia politiche applicate che ideologia e catastrofi naturali) e alla situazione dell'economia hanno limitato le opzioni di risoluzione della crisi del debito. Per mantenere il regime esattamente com'era, Ceausescu poteva solamente restituire tutti i debiti esteri; e considerando le condizioni in cui si trovava l'economia romena in quelli anni, l'unico modo per fare questo era attraverso una drastica politica di austerità e riduzione dei consumi.

INTRODUCTION

In the first years of the 1980s, Romania, as other countries of the Soviet Bloc and the Third World, went through a severe debt crisis. Rescheduling of the debt temporarily solved the problem; however, a few years afterwards, the problem represented itself. This time instead of renegotiating a new rescheduling and accepting external advice on how to avoid such issues in the future, the Romanian leadership with Nicolae Ceausescu as Secretary General of the Romanian Communist Party (RCP) and President of the Socialist Republic of Romania decided to repay all foreign debt by the end of the decade. The means to achieve this goal were mainly that of minimizing imports and maximizing exports – which meant harsh austerity measures that worsened the living standards of the population.

In order to understand how Romania reached this point and why these decisions were made, it is important to analyze different aspects and historical events that shaped Romania's fate. This process begins with the history of how the Communists came to power in the first place, what policies were first implemented and why, the situation in which the country was politically and economically at the time of the takeover. It continues with trying to understand how the country evolved under Communist rule, what position it held within the Soviet Bloc and in the world system. Moreover, it is particularly important to understand how the economy progressed and why the debt situation worsened to such an extent that drastic measures were required to overcome this impasse.

The Communists were in power for almost half a century, but the leadership of the Party changed from one leader to another. For this reason, it is necessary to understand how and if there was any change in vision and goals when the leadership passed from Gheorghe

Gheorghiu-Dej to Nicolae Ceausescu in 1965. The latter being responsible for the evolution of foreign and national policies, the one in charge when the debt crisis hit and the one who endorsed the austerity measures meant to eliminate this issue. Analyzing both periods allows for a better understanding of differences and similarities between the two. At the same time, the international environment changed as well and this affected Romania as well, which is why it is important to understand the country's role and place in the international community and how it interacted with it – thus the foreign policies cannot be ignored.

Many consider that the austerity policy and indeed all economic issues Romania was having in the 1980s were due to Ceausescu's personality cult or his lack of skills in the field of economics, while others put the blame entirely on the faulty economic system of the Communist world. By analyzing all the aspects mentioned above, the objective of this paper is to show how considering the internal issues with the economy, the unlucky reoccurrence of natural disasters together with the ever-changing international environment and key problematic events, there was no other option but the one the leadership chose – that is doing everything possible to repay all foreign debt.

CHAPTER ONE: THE RISE OF COMMUNISM

1.1 THE HISTORY OF THE ROMANIAN COMMUNIST PARTY

When I first arrived in Romania as a Russian refugee, not even the word “socialism” was known [there]. (Constantin Dobrogeanu-Gherea, 1894)

Not even the greatest optimist would dare entertain hopes that modern socialist ideas could take root [there]. (Pavel Axelrod, 1880)¹

Little did Constantin Dobrogeanu-Gherea and Pavel Axelrod know about what would happen in Romania less than 50 years following their predictions. While they were both right in assuming this country was not a crib of communism, extenuating circumstances and external interference made it so that communists indeed took control of the government and stayed in power for almost half a century.

It could be argued that Romania’s adventure with Communism is not unique, considering that most countries in Eastern Europe had more or less the same fate. What makes Romania different, its experience with Communism impressive, is the longevity of the regime itself together with the back and forth changes it went through. If we take into consideration how the RCP (Romanian Communist Party) came into power, the social

¹ Shafir M., *Romania: Politics, Economics and Society – Political Stagnation and Simulated Change*, London, Frances Pinter (Publishers), 1985, p. 12. **Constantin Dobrogeanu-Gherea** was a Ukrainian Marxist, one of the founders of the RSDWP (Romanian Social-Democratic Workers’ Party) established in 1893. He went to Romania in 1875, running from the tsarist *Okhrana*. **Pavel Axelrod** was a Russian Menshevik, member of the first Russian Social-Democratic Workers’ Party)

structure of the country and the level of participation to the political life, we can see how almost 50 years of Communist regime are indeed a miracle. The Communists took control of the country starting 1944 and their regime lasted until December 1989.

One of the reasons why the Communists' takeover was so miraculous is the fact that in the beginning Communists were rather unpopular. One of the reasons behind their unpopularity is the structure of the Romanian society. There was virtually no proletariat class to speak of at the time because the country was predominantly agrarian, with around 78% of the population living in the countryside and dealing mostly in subsistence farming. While many of the peasants were not educated in politics or interested in it, it is also true that many were more attracted to the ring-wing parties, especially the Iron Guard. Moreover, after the difficult time they had gaining their own land, be it small or large, they were not about to accept the same fate as their Russian neighbours and be expropriated of it in the name of communism. In addition, Romanian peasants were rather religious and close to the Orthodox Church, thus the atheism displayed by Communist activists further alienated them from this ideology.²

*Less than 10% of the active population was engaged in industry, and most of that group worked in small shops rather than in the large enterprises that were more appropriate for trade union activity and the development of a militant class consciousness open to communist influence.*³ At a closer look, it is possible to observe how most of the shops were in the hands of non-Romanian ethnics, which explains why the majority of party members belonged to the national minorities. On the other hand, the small elite and the intellectuals were particularly close to the Western "allies", be it the UK, Germany or France, which in

² Crowther W.E., *The Political Economy of Romanian Socialism*, New York, Praeger Publisher, 1988, p. 48

³ Fischer M.E., *Nicolae Ceausescu: A study in Political Leadership*, Boulder & London, Lynne Rienner Publishers, 1989, p. 15

turn meant that politically speaking they were drawn towards the historical parties like the National Peasants' Party or the National Liberal Party; with a few more oriented towards the far right Iron Guard.

Secondly, the Communist Party was a rather young party, its birth dating back to 1921. Originally members of the RSDWP (Romanian Social Democratic Workers' Party), those with more Bolshevik tendencies voted for the adherence to the COMINTERN; following the adherence to the COMINTERN, the moderates left the party and the name of the party eventually became the Communist Party of Romania. The fact that it was not called "Romanian" but rather "of Romania" is not accidental – the party was following Moscow's directives in all aspects of party life, ideology and policies, merely another branch of the COMINTERN. For instance, they started lobbying for the rights of national minorities to self-determination according to which, Romania was supposed to return the territories of Bessarabia and Northern Bukovina to the Soviet Union, that of Northern Transylvania to Hungary and part of Dobrogea to Bulgaria. Many left the party immediately afterwards, others refused to join because they saw the party as a Soviet spy working against their national interests.

The ethnic composition of the party itself speaks volumes regarding the easiness with which the CPR demanded the territorial disintegration of Romania at a time when territorial integrity was a sore spot for Romanians. In fact, most of its members were not of Romanian ethnicity: 28% were Hungarians, 18% were Jews, 10% were Russians and Ukrainians, 10% were Bulgarians, while Romanians were around 23%.⁴

Furthermore, internal divisions inside the party itself caused many infights and ultimately resulted in fracturing of the party. Internally the party was divided into 3 main

⁴ Burakowski A., *Dictatura lui Nicolae Ceausescu 1965-1989 – Geniul Carpatilor*, Editia II, Iasi, Polirom, 2016, pp. 39-40

groups: “centrists”, “maximalists” and “minimalists”. Maximalists were for an immediate and radical change of the political system, simulating the Bolshevik Revolution; minimalists on the other hand, were more cautious and wanted a progressive change without any affiliation; finally, centrists supported the affiliation to the COMINTERN only if it would not jeopardize Romania’s independence. Once the party voted for the affiliation, minimalists left the party; a year later under pressure from Moscow, centrists were also removed from the party – consequently in 1922 the Romanian Communist Party had about 2000 members left.⁵

Barely 3 years after its birth, the party was outlawed because of these “anti-national” tendencies and many of its members were imprisoned. The COMINTERN demanded that the CPR act like any other true Communist party, therefore they continued to operate in illegality; however, they were forced to hold their congresses outside the country: the third was held in Vienna in 1924, the fourth was in Kharkiv in 1928 and the last before the WWII was in Moscow in 1931.⁶ Nevertheless, their numbers dropped to roughly 1000 members, most of which were either imprisoned or exiled in the USSR. They tried to work through proxies, but never got any real power until 1944 when they were pulled out of illegality with foreign help and interference.

⁵ Deletant D., *Romania sub regimul comunist*, Bucuresti, Editura Academia Civica, 2012, pp. 14-15

⁶ *Ibid.*, p. 16

1.2 THE COMMUNIST TAKEOVER

The eve of WWII brought significant changes to Romania. After Hitler's invasion of Czechoslovakia on 15 March 1939, the international situation began degrading; thus, a few days later when the Reich's troops reached Romania's northern borders, the government signed an economic treaty with the Germans. However, once the war officially started, the Crown Council decided Romania's neutrality; this lasted for only 2 years after which Romania was forced by two specific events to enter the war on Hitler's side.

On 26 June 1940, the USSR demanded the return of Bessarabia and concession of northern Bukovina; following the refusal of the Romanian government, the Russians gave their ultimatum a day later and then the Red Army occupied said territories.

Despite different attempts on the part of King Carol II to appease Hitler by accepting a legionary government, promoting antisemitism and signing new disadvantageous economic agreements, a few months later, Romania's territorial integrity was once again jeopardized with the Vienna Dictate, according to which Northern Transylvania went to Hungary and the Cadrilater (southern Dobrogea) to Bulgaria.

Nevertheless, at the same time Hitler was willing to guarantee for the integrity of the smaller Romanian State, while the USSR did not offer any such assurance. Thus, the only possible choice the government had was that of entering the war on Hitler's side because of that assurance, which general Ion Antonescu did as soon as word came that the Axis was declaring war on the USSR in 1941. The fight was bitter, however, the Red Army was

eventually pushed back towards the original borders between the two countries and the eastern territories recovered.⁷

When it became apparent that Hitler was not going to win the war, Marshal Antonescu tried once again to save Romania and charged the Minister of Foreign Affairs Mihai Antonescu with negotiating peace agreements with each one of the Allies. At the same time, the leader of the National Peasants' Party contacted London for the same purpose. However, neither was successful because the Allied Powers demanded the unconditional surrender of all Axis allies. Apparently, the final say on Romania's fate belonged to the USSR; in March 1944, the Red Army crossed the Dniester River and entered Northern Moldova. A month later, after considerable human loss, the USSR communicated their conditions for Romania's surrender: turn the arms against the Germans, release war prisoners and pay war reparations to the USSR; Marshal Antonescu refused to sign the agreement, hoping to negotiate better terms for the capitulation – he never got the chance.⁸

On 23 August 1944, Marshal Ion Antonescu was overthrown in a coup orchestrated by the new king Mihai I and an alliance between exponents of the historical parties and some Communists (despite their illegal status being still in place). Immediately after Marshal Antonescu was removed from office, the King announced the end of the dictatorship and invited his people to accept the Allied forces open-heartedly; on the other hand, the army was ordered to turn their arms against the German troops. While the people rejoiced at the news, there was one catastrophic misunderstanding: no official agreement had been signed yet, therefore in the eyes of the Allied Powers Romania was still the enemy; this in turn

⁷ Scurtu I., *Istoria contemporana a Romaniei (1918-2005)*, Bucuresti, Editura Fundatiei Romania de Maine, 2005, p. 93

⁸ Scurtu I., 2005: 96

translated into the Red Army occupying the country. Eventually the armistice was signed, but the Soviet troops did not leave the country.⁹

The end of WWII did not bring as much success to Romania as the first one had brought; the huge war effort and human loss in the fight against Germany were not enough to be granted the status of co-belligerence. Romania had to pay war retributions to the winners, particularly the USSR (300 million dollars in goods), at the same time it got nothing for the reconstruction; on the other hand, while the Vienna Dictate was cancelled and Northern Transylvania was recovered, the territories occupied by the USSR and the Cadrilater never were. With the benefit of hindsight, the most negative effects of the armistice was that the Red Army had a “legitimate” reason to be in Romania followed by the fact that it remained there for quite some time. Moreover, according to the understanding between Churchill and Stalin regarding the division of interests in Central Europe and the Balkans Romania was placed under the Soviet sphere of influence – which made it easier for the Russians to influence the future of the country without much interference from the West.¹⁰

With the Red Army in the country, the Communists had the backup they needed in order to take over the government. *“Moscow used the same strategy used in each of the other conquered countries: at first a coalition government in which the Communists had control of the Internal Affairs; then, the coalition was reduced through the arrest of opposition members; eventually the Communists would control everything and proceed towards a revolution from below.”* This is exactly what happened in Romania at the end of WWII. Despite not being officially rehabilitated yet, Communists were part of the coalition that formed the first temporary post-coup government, the DNF (Democratic National

⁹ Ibid., pp. 97-105

¹⁰ Bachman R., *Romania: A country Study*, Washington, GPO for Liberty of Congress, 1989, pp. 42-44

Front). In rapid succession, they promoted a witch-hunt to purge all “fascists” from the Securitate (the secret police), followed by the reduction of the armed forces the USSR demanded – that many of the so-called “fascists” were members of the opposition was apparently a fortunate “coincidence”.¹¹

On the other hand, with a little push from Communist activists (i.e. workers threatened to lose their jobs or they food cards), people started protesting and peasants demanded agrarian reforms. Having the Ministry of Justice and a few others under Communist control was not enough, thus the Soviets pressured for more Communist control of the government. On 27 February Andrey Vyshinski, the Soviet Deputy Foreign Minister went to Bucharest and demanded a change of government with more Communist involvement – “*Romania might otherwise cease to exist as an independent nation*”.¹² Thus, on 6 March 1945, a new government was formed and Petru Groza was appointed Prime Minister; the reward for this was USSR’s recognition of Romania’s sovereignty over Northern Transylvania.

At first, King Mihai I refused to acknowledge the Groza government; in fact, he went on a “royal strike” and refused to sign anything coming from Petru Groza. Moreover, he also tried enlisting the help of the British and the Americans, to no avail however; while protesting against the government and lobbying for free democratic elections, neither was willing or interested in clashing with the Soviet Union; which meant that in the end, the king had no other choice but to acknowledge Groza’s government.¹³

The new government continued promoting the purge of “fascists” from all institutions, particularly from the justice system, the police forces and Securitate – in fact,

¹¹ Burakowski A., 2016: 44

¹² Shafir M., 1985: 37

¹³ Scurtu I., *Politica si viata cotidiana in Romania in secolul al xx-lea si inceputul celui de-al xxi-lea*, Bucuresti, Editura Mica Valahie, 2012, p. 266

the last would become the most effective organism of oppression once opposition was eliminated from its ranks. For appearances sake, on 19 November 1946, “free elections” were held; while the opposition was theoretically allowed to participate, “hooligans” frequently interrupted their meetings and any political campaign attempts. The results, under the vigilant gaze of the Soviet troops, were boldly manipulated – the Communists had won with 84% of votes. The opposition contested these clearly manipulated results, the American and British representatives in the country protested, however, the Western Allies offered no real help; the Communists argued that the elections reflected the Soviet way of “free elections”, therefore the case was closed.¹⁴

The following months after the elections, the coalition that had brought Communists back onto the political arena in 1944 was forsaken, on the contrary most party members of the opposition were arrested; by the end of the summer of 1947, opposition leaders were joining their fellow party members in prison and both the NPP and NLP were dismantled. The last obstacle, albeit a rather fragile one, to having complete control of the country was the king; the solution to this problem came on 30 December 1947 when Petru Groza handed King Mihai I his abdication and “convinced” him to sign. Under the threat of a civil war, the king abdicated; immediately after, the Communists proclaimed the birth of the People’s Republic of Romania.¹⁵

¹⁴ Deletant D., 2012: 75

¹⁵ Ibid., p. 85

1.3 EVOLUTION OF THE PARTY AND THE COUNTRY

In February 1948, the CPR joined forces again with their old “friends” the Social Democrats, together they formed the Romanian Workers’ Party (RWP); by then between the CPR and the SDP their membership reached around a million members. At the same time, they openly declared military affiliation to the Soviet Bloc by signing *the treaty of friendship, co-operation and mutual assistance* with the USSR on 4 February.¹⁶ This treaty meant not only that Romania was officially one of the Soviet satellites but also that the Soviet Union had the final say over Romania’s foreign policies.

The reality was that the treaty of friendship was not the only form of Soviet control in the country. Starting 1945, together with the spreading of Communists in most state institutions, Soviet “advisors” started making their way to Romania – such was their power that virtually every aspect of the decision-making process had to be approved by them. On the other hand, through an agreement between the USSR and Romania signed on 8 May 1945 different Soviet-Romanian enterprises were created – their official role was that of facilitating the repayment of Romania’s debts towards the Soviet Union, in reality they drained the country of its resources while at the same time exerting control over the Romanian economy.¹⁷

The Party followed the soviet model in all aspects of political and economic life. Starting mid-1948, they promoted the nationalization of all industrial enterprises, banks and insurance companies – radically changing the existing economic system of the country. Simultaneously, they started the process of forced collectivization, which allowed them to

¹⁶ Scurtu I., 2005: 127

¹⁷ Burakowski A., 2016: 45

annihilate what was left of the old class of landowners and the small number of *chiaburi* (the Romanian equivalent of kulaks). Nobody conceded their lands passively and peacefully, quite the contrary many refused to cooperate – however, the high level of brutality the Securitate showed when dealing with unwilling peasants eventually brought results. Those daring to oppose the system were often beaten, other times they were killed; many peasants were imprisoned or in case of those particularly influential, they were forcibly transferred to another region; others yet were sent to working camps where they were “re-educated through hard work”.¹⁸ This treatment was not exclusively reserved for peasants; it was used against all potential rivals of the new order. In any case, between 1949 and 1962, all cultivable land had fallen victim to the collectivization process – the land was distributed between GAC (Collective Agricultural Institutions) and GAS (State Agricultural Institutions), in reality however, all land was under state control.

Opposition to collectivization was not the only reason why people were persecuted. As mentioned above, many opposition party members had already been purged either because they were labeled as fascists or because they were labeled “class-enemies”. In addition, a new wave of violence was about to begin due to the cleansing of the party itself. It was well known that not all new members of the RWP had joined because of their shared ideology with the Communists, far from it; one of the effects of the repression was that many joined the party in order to be protected from too repressive measures. The corruption on which the new system was based made it so that many others joined the Communist ranks for economic purposes and other material gains.

Therefore, between 1948 and 1950, a process of screening and verification was initiated in order to check all members and analyze their real motives for being in the party – at the end

¹⁸ Deletant D., 2012: 91

of this trial about 200.0000 party members were removed for being *exploiting elements and enemies*.¹⁹ Other sources (e.g. Burakowski and Mary Ellen Fischer) suggest that the number was much higher – somewhere between 300.000 and 400.000 *opportunists and careerists* were removed.²⁰ In any case, relevant at this point is that this process further spread terror among the people – effectively controlling them at the same time.

Members of the lower and middle ranks of the Party were not the only ones targeted for purge – some leaders of the party were eliminated too. Controlling the country meant that in-fights could no longer be avoided. There is no doubt that the RWP followed Moscow’s directives and implemented the Soviet model in everything, however, the friction between the leaders of the party was becoming more prominent. The two main factions inside the Party were the “Moscow faction” and the “prison faction”. Members who had been in exile in the USSR until 1944 formed the first faction; they had strong ties to Stalin and followed his orders accordingly; Ana Pauker, Teohari Georgescu (born Burach Tescovici) and Vasile Luca (born László Luka) were the main leaders. Those who had been imprisoned after the party was outlawed and every other time they were caught before 1944 formed the second faction; they too were devoted to Stalin and followed his directives, however their links with Stalin were more indirect. The main difference between the two is that the second wanted more control for the Romanian nationals rather than outsiders; the main exponents were Gheorghe Gheorghiu-Dej, Alexandru Draghici, Chivu Stoica and Gheorghe Apostol (Nicolae Ceausescu will also be part of this faction later on).²¹

Appearances might suggest that the second group was particularly nationalist in nature, even if this clashed with the core ideology of Communism; however, the nationalist elements of

¹⁹ Deletant D., 2012: 89

²⁰ Burakowski A., 2016: 46; Fischer M.E., 1989: 45

²¹ Fischer M.E., 1989: 41-42

their ideology was more related to power grabbing than anything else; nevertheless, when the time was right to do so, these nationalist tendencies were appropriately used to remove “foreigners” from leadership.

1.4 THE ROAD TOWARDS AUTONOMY

The purge of the inner circle of the party was a few years in the making. Gheorghe Gheorghiu-Dej was elected Secretary General of the party in 1945; however, his position was in name only, the control of the Party being in the hands of the “Moscow faction” mentioned previously – apparently, the only reason for his election was his Romanian nationality. Dissatisfied with foreigners leading the party, he started collecting evidence of the actual leaders’ corruption while he laid in wait of the perfect opportunity to unmask them. This opportunity presented itself in 1952 with the growing antisemitism promoted by Stalin. Taking advantage of the weakened ties between Stalin and the Jewish components of the leadership (especially Ana Pauker and Teohari Georgescu), Dej denounced their excesses and accused them of right deviationism. These accusations served a double purpose, that of undermining their loyalty in Stalin’s eyes and of promoting his own devotion to the Soviet model. He used the same strategy for the other non-Romanian ethnics, like the Hungarian Vasile Luca, accusing his closest collaborators of sabotage or traitorous activities.²²

Domestically, in the never-ending search for legitimacy and people’s approval, he portrayed them all as traitors and accused them of being responsible for the forced collectivization and repression of the previous years. By the end of 1952, he had removed all “Moscovites” from the leadership and most of their subordinates – all their positions being filled by faithful workers, obviously Romanian ethnics. None of the former leaders of

²² Burakowski A., 2016: 46-47

the Moscow faction was ever allowed to have any other position in the party, all of them being expelled and imprisoned.²³

Before all was said and done, there was left but one more obstacle and potential threat to Dej's complete control of the party – Lucretiu Patrascanu, one of the few Communists neither imprisoned nor exiled during the years of illegality of the party. Lucretiu Patrascanu had been imprisoned since 1948 when both the Moscow faction and the prison faction worked against him and accused him of sympathizing with the bourgeoisie and of national deviationism. Following Stalin's death, Dej realized that the new leadership in Moscow might see Patrascanu as an alternative; therefore, he had him secretly tried and executed in 1954. With this last obstacle eliminated, Dej had control of the Party.²⁴

Taking control of the party did not immediately translate into independence from Moscow, far from it. In fact, the new leadership in Moscow pressured for collective leadership of the party and the separation between the top positions in the Party and State; in order to appease the Soviet demands, *the Secretariat would henceforth consist of four secretaries (including a first secretary) who would not hold state positions*. Complying with this decision, Dej resigned as Secretary General but remained president of the Council of Ministers; people loyal to him, among which we find Nicolae Ceausescu, filled the other positions. This change of position would be temporary and soon be forsaken.²⁵

The removal of the Soviets from the leadership of the Party was but the first step Gheorghe Gheorghiu-Dej took towards a certain autonomy and freedom to follow national-oriented policies instead of those dictated by Moscow. Starting the second half of the 1950s, he actively sought to weaken Moscow's control of the country through any means possible.

²³ Ibid., p. 47

²⁴ Scurtu I., 2005: 132-133

²⁵ Fischer M.E., 1989: 49

As early as February 1953, he had already started negotiations with the Soviet Union regarding the possible liquidation of the SOVROMs; the Soviets agreed and Romanians bought the Soviets portions of the companies – the last acquisition of Soviet quotas was finalized only in 1956.²⁶

Gheorghiu-Dej's ability to turn a situation in his favour helped him earn Khrushchev's partial trust – while the whole world was horrified by Stalin's atrocities and the de-Stalinization process was underway, Dej argued that in Romania such a process had already happened in 1952. He was of course blaming the Moscow faction for being the hard-core Stalinists and proving his innocence with the prompt action he had taken in order to punish all those responsible. His appearance as a capable leader was to gain even more from the effective way in which he handled and stopped any revolutionary outbursts following the 1956 Revolution in Hungary. This last characteristic of the Romanian leader would serve him greatly two years later when he steps a little further towards autonomy.

The Geneva Conference of 1955 was another fortunate external event that was used yet again to Gheorghiu-Dej's full advantage. If in 1949 he had asked the Soviet Union to send military experts into the country (which the USSR would have sent regardless of Romanian acceptance)²⁷, a few years later he was trying to convince Moscow to withdraw the Soviet troops from Romania. Gheorghiu-Dej, encouraged by the goals of the Conference to reduce international tensions together with Khrushchev's belief in peaceful competition and the superiority of socialism, took advantage of the situation and entrusted Emil Bodnaras, a Soviet agent loyal to Dej, to propose the withdrawal of the Soviet troops. The first approach was not particularly successful, however once the Revolution in Hungary was

²⁶ Burakowski A., 2016: 48

²⁷ Watts L.L., *Fereste-ma, doamne, de prieteni – Razboiul clandestin al blocului sovietic cu Romania*, Bucuresti, Editura RAO, 2012, p. 178

quelled and Dej earned more of Khrushchev's approval, the latter accepted and in the summer of 1958 the Red Army began the process of withdrawing from Romania. A few years later, remaining Soviet experts also left the country, leaving the new leadership free to make their own decisions. The people were expecting a new wave of liberalization now that the threatening Russians were no longer in control; however, such liberalization was not to come – in fact, the exact opposite happened, with new waves of repressive measures this time aimed particularly at intellectuals.²⁸

The process of moving away from the USSR was progressing slowly in almost all directions. From a political standpoint, while not abandoning Stalinist ideology, this new path meant reshaping it with national aspects – the idea that each state should be allowed to have its own form of socialism was starting to emerge as an alternative to internationalism.

The military aspects also took a rather independent road, while it is true that Romania joined the Warsaw Pact in 1955, it is also true that it strongly opposed any form of hegemonic Soviet control and decision-making, or any attempt to make it a supranational organization. Moreover, starting 1961 Romanian military and intelligence officers were no longer sent for training and instruction in the USSR. The gap became even bigger after the Cuban Missile Crisis – it would seem that Romanian leaders were not informed about the deployment of missiles to Cuba. For a second time, the RWP was unaware that the Romanian Armed Forces had been alerted of a possible Western retaliation directly by the Soviets; the first time it happened was during the Berlin crisis when Romanian troops had been mobilized without Dej's knowledge and against his specific opposition to the construction of the Berlin Wall. The risk of having to go to war without even knowing it

²⁸ Burakowski A., 2016: 48-50

together with the Soviet disregard for Romanian authority fuelled Gheorghiu-Dej's desire to move away from the Russians.

Starting 1961 any cooperation between Romanian intelligence services and that of the USSR or other Warsaw Pact allies weakened. In addition to not sending their own officers for training in the USSR, Romanian leadership did not allow any military exercises on the territory; moreover, another wave of cleansing began – all potential Soviet agents infiltrated within the military ranks or amongst intelligence officers were targeted. Romanian officers were no longer allowed to marry Soviet citizens; those who were already married had to choose between divorce and resignation. The aim of this purge was that of cutting off any Soviet means of controlling the armed forces in order to avoid another incident like the Berlin and Cuban crises.²⁹

As for the economic sector, the Soviet model of centralized economy and state control over the production means did not disappear nor were there any intentions of changing this system; however, at the same time, the Romanian leadership was more inclined towards following their own path rather than blindly accommodating Soviet requests. They were particularly interested in reopening negotiations and trade relations with the Western countries and tried in different occasions to approach British or American representatives; however, the West was mostly skeptical about the Romanian motives therefore more often than not dismissed such requests without second thoughts.³⁰

Moreover, inside CMEA (the Council for Mutual Economic Assistance), Romania once again fought against any Soviet attempt at creating a supranational institution; more so once rumors of the so-called “Valev Plan” started circulating. According to this plan, a new economic order was designed for the Soviet bloc, dividing it into two spheres of

²⁹ Watts L.L., *Romania Security Policy and the Cuban Missiles Crisis*, CWHIP e-Dossier No. 38, 2013

³⁰ *Ibid.*

specialization – one was that of mainly industrial development and the other was to remain agricultural; Romania was apparently supposed to belong to the latter category. This potential solution did not sit well with Romanian leadership in the slightest, in fact, quite the opposite happened – on the contrary, their defiant reaction was manifested through the first wave of forced industrialization starting at the end of the 1950s. The main reason for this rebellion was the fact that Dej firmly believed that development could only be achieved through industrialization – especially based on heavy industry; however, *the Soviet leaders themselves ironically opposed Romanian emulation of the Soviet path under Stalin.*³¹

Nevertheless, notwithstanding any real or imagined Soviet plans to divide the bloc into industrial areas and agricultural ones, the reality was that the Romanian economy was predominantly agrarian. It would take a few decades before the balance would be in favour of industry, the industrial development coming at great sacrifice and huge monetary costs. Statistics show that in 1950 74.1% of the active population was working in agriculture, while only 12% in the industrial sector; between 1950 and 1960 there is a slight movement of workforce, 65.4 % in agriculture and 15.1% in the industry. By 1990, the people employed in industry would reach 38.1% and agriculture would decrease to 27.5% of the total of workers.³²

Despite the last wave of repression following the withdrawal of the Soviet troops, starting 1962 a new partial thaw begins – coherent with the new policy of moving away from the USSR there are several changes that directly affect the population. Previously banned books, poets, music or anything related to culture or that was considered dangerous to the regime are no longer forbidden. Reception of radio stations like Radio Free Europe or Voice of America is no longer jammed. The Russian language is no longer a compulsory subject

³¹ Fischer M.E., 1989: 61

³² Comisia Nationala de Statistica, *Anuarul Statistic al Romaniei 1990*, p. 102

in school; Russian street names are changed back to their original ones, the same with city names (e.g. Stalin City returns to its historical name Brasov). All these new liberties have the benefit of dismantling all forms of Soviet dominance over the country while at the same time contributing to grow the RWP's popularity.³³

³³ Fischer M.E., 1989: 62

1.5 “THE DECLARATION OF INDEPENDENCE”³⁴

The RWP went a step further in their quest for autonomy from Moscow; in April 1964 a statement of purpose was officially published, the *Declaration regarding the position of the Romanian Workers' Party on the problems concerning the international communist and workers' movement* – or better known as the “Declaration of Independence”. This declaration was published at a time when the Sino-Soviet relations were in shambles, with both the CPSU and the CPC accusing each other in public debates – a conflict which the RWP tried to mediate but failed to resolve. Nonetheless, this failed attempt did not deter Romanian leaders from trying to mediate other conflicts in the future and vociferate for the importance of peaceful negotiations and resolution of any conflict.

While the document presents different points related to the Sino-Soviet dispute, it also contains many other points that emphasize the new Romanian foreign policy of independence. Interestingly enough, such demands for autonomy clearly meant for the USSR, are mixed with praises of the USSR's successes (regardless of their existence); in addition, a clear statement about Romania's position on peace, armed conflicts and nuclear weapons was included.

These are some of the most important statements presented in the declaration.

It is every party's duty to do everything in its power to remove this danger (division in the communist bloc) – thus, on 14 February 1964, the Politburo of RWP addressed both the CPSU and CPC a proposal for them to cease with the polemics.

³⁴ C.C. al PMR, *Declaratie cu privire la pozitia Partidului Muncitoresc Roman in problemele miscarii comuniste si muncitoresti international*, 1964. Personal translation from the original document.

Our delegation proposed that both parties abstain from publishing further polemic materials. This proposal was not accepted, the Chinese comrades reaffirmed that negotiations could be held while continuing with the polemics.

The Great Powers, especially those with nuclear weapons, have a special responsibility towards strengthening peace. However, no state, big or small, can be exempted from the responsibility of assuring peace. It is every state's sacred duty to actively advocate for, tirelessly contribute to the weakening of international tensions and [the peaceful] resolution of interstate conflicts through negotiation.

An important goal in the fight for peace is general and complete disarmament. We support the dismantling of any military bloc, and as a transition measure in this direction, we suggest an agreement of non-aggression between the Warsaw Pact members and NATO. Our country is in favour of creating nuclear-weapons-free zones as a means to reducing the threat of war.

The People's Republic of Romania promotes a policy of developing relationships of friendship and fraternal collaboration between all Socialist countries, strengthening the unity of the socialist bloc [...]; developing relations of collaboration with countries of different socio-political order based on the principles of peaceful coexistence.

[...] international socialist work division cannot mean isolating socialist countries from the rest of world economic relations.

[Interference in domestic affairs] seriously damaged our party's policies in relation with internal organization, work organization and party ties with the public. [...] There is no and there cannot be a party "father" and another "son"; "superior" parties and "subordinate" parties, what exists is the big family of equal communist and workers' parties.

After publishing this declaration, the popularity of the RWP and Dej in particular grew even more; however, he did not live long enough to see his plans come to life – almost a year after the declaration, Gheorghe Gheorghiu-Dej passed away.

1.6 THE RISE OF NICOLAE CEAUSESCU

The death of Gheorghe Gheorghiu-Dej brought uncertainty inside the party and in the country with everyone wondering who would succeed to the leadership. There were different members of the inner circle and high-ranked party members to choose from; every potential candidate had either enough experience as part of the inner circle or a high rank party member with enough power over the others to guarantee their ascension in Dej's position. Nicolae Ceausescu was not one of them; while he had been part of Dej's closest friends and they had both served time in prison together, he was not as popular with other "barons" of the party, nor was he a high-ranked member wielding enough power to encourage support from his colleagues. He was however responsible for cadres promoting and organization, which gave him the opportunity to gain the loyalty of lower-ranked party members.

Nicolae Ceausescu did not have experience nor any special skills that is why so many still wonder why he was elected to take Dej's place. Some say he cleverly manipulated his colleagues in order to be chosen, others say he was chosen because there was too much competition among the older members, others still sustain that he was chosen because the older party members thought he would be easily manipulated so that in the end they would have control of the party. Lack of irrefutable evidence makes any of these theories possible; nevertheless, I would compromise and say that while he did not have power over other high-ranked party members, he did have enough secondary qualities that would have helped maintain the popularity of the RWP among the citizens, thus the much-sought legitimacy.

Ceausescu was younger than the other potential candidates, only 47 years old; he was a Romanian ethnic of peasant origins; he had no affiliation to Moscow, therefore his

nationalistic strike was authentic rather than convenient. Moreover, as far as the public was concerned, he had not been involved in the repressions of the previous regime – although he had been involved in a few repressive episodes related to the collectivization process, these events were not known nationally.³⁵ With an overwhelming population made of peasants, what could have been more appealing than one of their own? His limited education and humble origins could have appeared as first-hand experience of the harsh reality in which the majority of the population lived. His age would have been reason of hope for a better future with reforms and more freedom. A homegrown peasant with no ties to Moscow worked perfectly well with the nationalistic-independent road the RWP was taking. In addition, he always talked about the importance of the Party and often hinted at the importance of collective leadership – this is probably why some sustain he was seen as a potential puppet by older members. Ceausescu's beliefs in relation to the party could be observe for instance during Dej's funeral: while every speaker praised Dej's qualities, Ceausescu referred to *the leading role of the Party and to the Central Committee and the Party organizations*.³⁶

Once elected as Secretary General he kept all appearances of collective leadership, in fact, until 1967, the leadership was indeed collective with Ceausescu as Secretary General of the soon to be renamed Romanian Communist Party (RCP), Gheorghe Maurer as president of the Council of Minister and Chivu Stoica as president of the Council of State.³⁷ In the following years however, Ceausescu continuously changed the structure of the Party and its institution in such a way that all his potential rivals were eventually removed from office, replaced by loyalists and often by family members. The promised reforms would

³⁵ Related by surviving victims of said events in *Memorial durerii – Episodul 18: Colectivizarea din Vrancea*, documentary series by Lucia Hossu-Longin, 2009.

³⁶ Fischer M.E., 1989:71

³⁷ *Ibid.*, pp. 69-70

become myths and by mid 1970s, the regime would take a step back and return to a perfect replica of Marxist-Leninist regimes – *a political system in which the party is sovereign, acting as chief arbiter of values, authority relations, institutional arrangements, political practice and policy.*³⁸

Nevertheless, Ceausescu paid close attention to other socialist countries and learnt from their “mistakes”. For instance, while he might have supported Dubcek’s ideas,³⁹ he never really attempted to apply them in Romania, especially not after what happened in Czechoslovakia in 1968; the same can be said about what happened in Poland with “Solidarity”, he made sure that nothing of the sort could happen in Romania.

Thus, while appearances might have suggested a collective leadership, reforms and autonomy to workers and factories, the reality was that the Party was controlling every aspect of political, economic and social life of the country. At the same time, the dynastic organization of the Party and its institutions reflected the prominent position of the Ceausescu family, therefore, their power over every decision – as some would say, this meant that ultimately Nicolae Ceausescu had complete control of the Party and the country.

³⁸ Shafir M., 1986:40

³⁹ Burakowski A., 2016:136

CHAPTER TWO: THE RISE OF DEBT

2.1 INTRODUCTION

Once in power, Nicolae Ceausescu did everything he could to obtain full control of both party and country – which he eventually obtained, with apparently the year 1974 as the start of his “dictatorship”. He changed the system as much as he could, he used everything he had learnt from Dej to obtain absolute power – but at the same time, he continued to follow his predecessor’s paths in terms of foreign policy and economic strategy. What changed with Ceausescu was the intensity and pace at which the goals were to be achieved – rapid economic development and independence were the ultimate objectives and ideally, they were to be achieved in the shortest time possible.

However, it would soon become clear that his notions of independence were not referring only to the Soviet Union, but also to the rest of the world. On the other hand, development was seen as achievable only through a rapid industrialization of the country; at the same time, besides offering better living conditions for the population, development was to offer a progressively stronger independent position, based on self-sufficiency.

In the following years, both economic policies and foreign policy would be directed towards the achievement of said goals; both becoming the main focus of the regime, while at the same time each one manipulated and transformed based on the requirements of the other. The reason behind the interdependence is simple: in order to reach the levels of development the leadership hoped for, Romania needed access to Western technology and funds, especially because the other Socialist countries either refused to share or did not

possess such assets themselves. Reaching the West was impossible without the right foreign policy; moreover, adopting such a “deviant” foreign policy could be done only if the leadership was independent and free to implement it. At the same time, a good development would eventually allow for a greater independence and freedom of action for the leadership – thus independence and progress were symbiotic and interdependent.

The achievement of the goals was successful in some areas and to a certain extent, however the population carried the burden; the price paid became particularly high when the whole system reached its breaking point by mid 1980s.

2.2 FOREIGN POLICY

Acting in the spirit of peaceful coexistence, Romania is in favour of cooperation with all countries, whichever their socio-political system.

*The pillars of our country's foreign policy are the principles of sovereignty and national independence, equal rights, non-interference in internal affairs and mutual advantage.*⁴⁰

Nicolae Ceausescu expressed these ideas at the ninth Congress of the Romanian Communist Party back in 1965; they will be used again whenever considered necessary to explain and justify the path Romania is taking – these ideas became the mantra of the regime.

In accordance with the principles cited above, the foreign policy was focused mostly on three different paths: reconnecting with the Western countries, particularly the United States; trying to maintain relations with the Warsaw Pact countries while at the same time blocking any attempt that could diminish national sovereignty; and finally, a greater involvement in the Third World.⁴¹

The reconnection with the Western countries was already underway when the change in leadership happened, however at the time, there was very little concrete action or tangible proof that Romania was indeed taking its distances from the Soviet Union and trying to mend fences with the Western countries. While the “Declaration of Independence” in 1964 changed the perception a little, an even more tangible proof of the new course of action was the reopening of diplomatic relations with the Federal Republic of Germany in 1967.

⁴⁰ Ceausescu N., *Raport C.C. al P.C.R. la Congresul al IX-lea al partidului in Romania pe drumul dezvoltarii constructiei socialiste, vol 1.*, Bucuresti, Editura Politica, 1968, pp. 100-101

⁴¹ *Third World* refers to the countries that remained non-aligned during the Cold War.

The FRG was trying to get the soviet bloc to recognize its existence; Romania on the other hand was looking for an access to the West; therefore, starting 1964 there have been progressively more trade exchanges between the two countries. Negotiations for the official recognition of the FRG were finalized only in 1967 – on 31 January, the Romanian Minister for Foreign Affairs, Corneliu Manescu, visited Bonn signalling the opening of diplomatic relations between the two countries. Because the FRG's attempts to negotiate the same with Czechoslovakia and Hungary failed, Romania became the only country in the Warsaw Pact to have recognized the FRG and have diplomatic relations with it. Romania benefitted twice from this decision – on the one hand, it symbolized concrete proof that Romania was going against Moscow's wishes, of which the West took notice; on the other, economically speaking FRG became one of Romania's main trade partners and creditors. By the end of the 1970s, 10% of Romania's exports were towards the FRG and 24% of its imports arrived from there.⁴²

The same year, another event would deepen the gap between Romania's foreign policy and those of the Soviet Union and other Warsaw Pact countries – the Six Day War in the Middle East. Romania was the only country in the Warsaw Pact that did not break relations with Israel. Not only that, but on 9 June 1967, when the others signed a declaration denouncing Israel's aggression, the Romanian delegation refused to sign it; two days later it issued its own declaration for the UN Security Council emphasizing the need for a “peaceful” solution to the conflict. This opposition once again served two purposes that of emphasizing again the different path Romania wanted to undertake in the Soviet Bloc and at the same time, and that of improving economic exchanges with Israel.⁴³

⁴² Burakowski A., *Dictatura lui Nicolae Ceausescu 1965-1989 – Geniul Carpatilor*, Editia II, Iasi, Polirom, 2016, pp. 110-111; and Comisia Nationala de Statistica, *Anuarul Statistic al Romaniei 1990*, p. 623

⁴³ Burakowski A., 2016: 112-113.

As far as relations with the United States, Romania had been trying unsuccessfully to obtain the status of MFN (most favourite nation) since Dej's time – it always remained a distant promise. During Lyndon Johnson's presidency, convinced by the results of the Miller Committee investigation in the East-West trade, the American president was willing to “build bridges” to Eastern Europe – it basically meant offering economic incentives to gain political changes, however the Congress was not willing to grant any trade liberalizations to Eastern Europe. At the time, the main problem was the Vietnam War – the Congress feared transshipments could reach North Vietnam through Eastern Europe therefore they killed any bill promoting such relations. In the meantime, however, Romania was building its own bridges with the US – they offered to mediate between Washington and Hanoi. The results were disappointing, nevertheless, the image of Romania as independent and seeking peace was starting to take shape.⁴⁴

Nevertheless, not having the MFN did not mean that American-Romanian relations were dismissed; on the contrary, by the end of the 60s the volume of trade had increased over 900% and a new agreement was signed on 8 July 1968 to exchange industrial knowledge and technology.⁴⁵ The relations between the US and Romania continued to improve in the following years and the MFN status was eventually granted in 1975; however, the very first important step in this direction was President Nixon's visit in 1969. On the American side, the visit was a retribution for the refusal of the USSR to help end the Vietnam War while at the same time, Romania was a possible channel towards China – the latter however failed. For Romania, the visit ended with renewal of previous cultural agreements, visa fees

⁴⁴ Harrington J.F., Courtney B.J., *Tweaking the nose of the Russians: fifty years of American-Romanian relations, 1940-1990*, New York, Columbia University Press, 1991, pp. 255-269

⁴⁵ Harrington J.F., Courtney B.J., 1991: 272

reductions and scientific exchanges, the promise for future cooperation and direct investments.⁴⁶

Improved relations developed also with France, by the end of the 1960s scientific and cultural agreements had been signed, through which some Romanian engineers could apply for traineeships in France; in both countries, a national library of the other party was built to promote cultural exchange. The peak however was Charles de Gaulle's visit in May 1968. During his visit, de Gaulle showed his support for Romania's foreign policy and the authority of the leadership, even if he refrained from jeopardizing his relations with the Soviet Union. Nevertheless, the visit was an image booster for Ceausescu; after all, de Gaulle was a rather well known leader and he was one of the firsts to actually visit Romania and recognize its autonomy from Moscow.⁴⁷

While the previous events were important messages and proof of the true desire of Romania to be independent and seek its own policies, the crucial event that changed the image of Romania and Ceausescu in particular was the invasion of Czechoslovakia in 1968. When Warsaw Pact troops crossed the borders into Czechoslovakia on 20-21 August to quench the reformist attempts, Romanian troops were not among the invaders. The West was shocked by the event; however, the next day they had another surprize: Nicolae Ceausescu publicly condemned the invasion. ⁴⁸ [...] *the invasion of Czechoslovakia by the five socialist countries constitutes a big mistake and a great danger to peace in Europe and to the fate of socialism in the world. It is unconceivable that in this day and time, when people are rising to fight for their national independence and equal rights, that a socialist state, that socialist states would violate the freedom and independence of another State.*

⁴⁶ Ibid., pp. 292 - 296

⁴⁷ Burakowski A., 2016: 132-133

⁴⁸ Copilas E., *Imposibila independenta: Aspecte ale politicii externe romanesti in perioada comunista*, p. 270

*There is no justification and there cannot be any acceptable reason to accept even for a moment the idea of military invasion in the internal affairs of a brother Socialist State.*⁴⁹

From this moment on, until a few years later, Ceausescu became popular both at home and abroad for his “courage” and defiance.

Even the relations with the People’s Republic of China became yet another defiance of Moscow wishes – when the USSR adopted the policy of isolation, Romania did not comply. While it could be argued that the PRC did not completely trust any country still in the Warsaw Pact, at the same time we cannot ignore that there were trade exchanges with Romania, military collaboration, financial help offered when needed and high-ranked official visits. Moreover, after Ceausescu’s visit in 1971, he was most impressed by what he had seen in China, he would praise the Chinese for their abilities and organization.⁵⁰

*Everything is made by us, they told us [the Chinese comrades][...]. I have visited a shipyard, they were building five big submarines and five other ships, all made by them not imported. [...] They have everything – electrical engineering, electronics, air conditioning and so on – and is all made by them. They have not imported anything, and their goods are very good.*⁵¹

This last part emphasized how much weight Ceausescu puts on self-sufficiency and this visit in a way confirmed his own ideas and beliefs regarding development and progress.

Finally, there was a progressive opening towards countries of the Third World as well, especially when Romania’s needs for raw materials (particularly crude oil) started growing and the competitiveness of Romanian products on Western market started diminishing; the exchange with these countries was indeed profitable up until mid-1970s. The strategy used by the leadership to achieve this closeness was that of claiming that

⁴⁹ Personal translation from video *TVR 60: Discursul lui Nicolae Ceausescu dupa invazia Cehoslovaciei*

⁵⁰ Burakowski A., 2016: 178-179

⁵¹ Personal translation

Romania too was a developing country, at the same time Romania could sell its industrial products these country needed at lower prices than the West. By mid-1970s, the trade with Third World countries reached about 25% of total trade.⁵² In the latter part of the 1970s, however, the imports surpassed the exports and Romania registered a trade deficit; moreover, because many of the agreements were barters, the much-needed hard currency Romania required to pay for its foreign debt services could not be obtained from these economic transactions.

These are but a few examples of active foreign policy Romania actively practiced throughout the 1970s and 1980s in order to open its horizons to as many countries as possible regardless of their political system. The driving force of these policies was the potential economic and financial benefits such actions could offer. This strategy was for the most part successful, although at times it also generated some problems for the leadership.

⁵² Shafir M., *Romania: Politics, Economics and Society*, London, Frances Pinter, 1985, pp. 111-112

2.3 ECONOMIC GROWTH AND RAISE OF DEBT

When the Communists came to power in Romania, the country's economy was predominantly agrarian, with over 74% of the population living in the countryside and working as farmers or raising animals. Progressively, the new leadership started changing the structure of the economy – the ideology itself suggested that development could only be reached through industrialization, especially heavy industry. At the same time, following the Soviet model meant not only heavy industry, but also collective property, central planning of the entire economy, full occupation and little regard for services or consumer goods.⁵³

The first phase of the industrialization process was achieved through mobilization of national resources in terms of both capital and labour force. In order to sustain this process the state started investing heavily into the industry. Over 43% of national investments were reserved for the industry; but the distribution among the various sectors was greatly unbalanced. In fact, most of the funds were reserved for the main sectors of heavy industry, such as ferrous and non-ferrous metallurgy, extractive industry, machine building and chemical industry; there was very little left for consumer-oriented industries such as food industry, textile industry or leather processing.⁵⁴ This was because of the general idea that through heavy industry it would be possible to achieve the means of production necessary for the development of other areas.

In addition, Romania had enough natural resources to sustain a rapid development of the extractive industry; consequently, over 50% of the investments went into this sector.

⁵³ Gokay B., *L'Europa orientale dal 1970 a oggi*, Bologna, Il Mulino, 2005, pp. 84-86

⁵⁴ Muresan M., Muresan D., *Istoria Economiei*, Bucuresti, Editura Economica, 1998, p. 329

This was particularly important because what was extracted was needed to fuel enough energy to sustain the development plans for the whole industry; moreover, any extra production could be used as a bargaining chip on the markets in exchange for technology and other industrial products Romania could not produce.⁵⁵

The second important factor in the process of industrialization was labour. At first, the labour force was rather easy to obtain because of the massive migration of peasants from the countryside to the city. Living conditions in the countryside were mostly poor especially after the collectivization was complete; therefore, once the process of industrialization started, many preferred to move into the city to find work and gain access to “modern” commodities that were missing from their homes – such as plumbing, central heating, electricity and hot water. Between 1950 and 1965, the industrial labour force increased from 12% to almost 20%, while the agriculture decreased to 56%. Eventually, by the end of the fourth decade of communist rule, the majority of labour force was employed mainly in industry.⁵⁶

The success of this first phase was mostly due to the mobilization of the resources available; however, it would soon become evident that the finite nature of labour and bad distribution of investments could and did jeopardize the entire economic system. For example when the rate of transferring labour force from agriculture to industry started slowing down, the continuation of the process was ensured through a raise of capital formation – between 1960 and 1965 the income dedicated to accumulation rose from 16% to 24.3%; the results meant a reduced productivity of the capital invested – thus no actual growth was achieved.⁵⁷

⁵⁵ Murgescu B., *Romania si Europa – Acumularea decalajelor economice*, Bucuresti, Polirom, 2010, pp. 343-344

⁵⁶ Crowther W.E., *The Political Economy of Romanian Socialism*, New York, Praeger Publishers, 1988, p. 63

⁵⁷ *Ibid.*, pp. 69-75

Another problem was agriculture. The collectivization process had been too fast, while they had tried to promote a system of shared machines, the general level of mechanisation of this sector was very low and the technology employed was not up-to-date. For example, in 1960, only 2% of the arable land had a proper irrigation system, and the quantity of fertilizers used was rather small compared to other countries and the quantities exported.⁵⁸ Moreover, the amount of investments dedicated to this sector was not sufficient to compensate, thus this sector was often unable to complete the plan enough to feed the population, never mind produce a surplus for exports. Such problems would reappear throughout the years, despite some significant progress.

Too many such difficulties in the agriculture sector, coupled with the diminished productivity of the capital invested to ensure a continued growth of the development rate managed to convince the leadership that some reforms might be needed. Between 1963 and 1965, the rate of investments in industry was lowered. Nevertheless, Romania was able to achieve some positive results and move from a predominantly agrarian country towards a more industrial one.

The change in leadership in 1965 did not change much the path of the country, however it did change the pace and dimension of the development project. The new society envisioned by Nicolae Ceausescu was one “multilaterally” developed – *achievement of a modern, multifaceted, industrially based economy, no longer confined to the second-class status of producer of primary materials*;⁵⁹ thus, heavy industry became the engine of progress. While he believed that Romania had all necessary resources to produce everything it needed to sustain the economic progress envisioned, at the same time, the reality was that

⁵⁸ Constantinescu N.N., *Istoria economica a Romaniei – Vol. II 1939-1989*, Bucuresti, Editura Economica, 2000, p. 195

⁵⁹ Linden R.H., *Socialist patrimonialism and the global economy: the case of Romania*, in *International Organization Vol. 40 No.2*, Spring 1986, p. 353

an opening towards developed countries was needed to gain access to the knowledge and technology.

Starting 1967, new economic directives were theorized – reforms aimed at improving the discrepancies between heavy industry and consumer goods through a more balanced distribution of investments. Improved planning indicators and collective decision-making through autonomous industrial associations would have improved productivity incentives; a decentralization of the supply system, which would have guaranteed new incentives of production; and finally an improvement of wages and the banking system were promised. However, the implementation of such reforms would have meant lessening the Party's control over the economy, therefore, the exact opposite happened.⁶⁰

By 1969, these “problem-solving committees” instead of signs of autonomy, became effective ways of party control over every aspect of economic life – activists at a local level eased the transfer of information from the periphery to the centre and at the same time, ensured that instructions from the centre were followed accordingly. The following year, the situation did not improve, especially after floods in the first few months of 1970 offset agricultural production with a fall in production by 5% and an overall completion of the plan of only 80%. While the leadership was confident the loss could be covered with a surplus from industry, the food industry and basic industrial production could not complete the plan either, therefore, a deficit in exports was registered. However, instead of reforming the system as promised, Ceausescu called for an acceleration of the pace of industrialization.⁶¹

The rhythm of industrialization imposed by Ceausescu with every five-year plan was particularly ambitious and costly. In order to achieve it, it became more and more obvious

⁶⁰ Crowther W.E., 1988: 83-84

⁶¹ Burakowski A., 2016: 173-177

that access to Western technology and capital was imperative, especially when neither was attainable from the East (in 1956, the more industrialized countries in CMEA refused to share parts of their industries; in 1969, Romania asked for a loan from the USSR, it was denied).⁶² Therefore, the foreign policy was directed to promote opening towards other countries, especially Western ones. The improved image of the country and its leadership translated into acceptance of Romania in the GATT (General Agreement on Tariffs and Trade) in 1971, followed by Romania joining the IMF (International Monetary Fund) and the IBRD (International Bank for Reconstruction and Development) in 1972.

Romania's acceptance into these financial institutions was influenced by: firstly, the United States' support of the candidacy even if domestically the policy was opposite (Romania had yet to receive the MFN status)⁶³; secondly, in the early 1970s Romania was indeed developing fast and its future was rather promising; and lastly, Romania's foreign debt was low, about 1.5 billion dollars in 1971, which appealed to potential creditors world-wide.⁶⁴

Good relations with Western countries ensured that Romania had access to the much-needed technology for development. The transfer of knowledge was made through different channels from scientific-technological exchange programs to direct investments in the country through joint ventures. In fact, to facilitate the collaboration with as many developed countries as possible, in 1971 a law was passed to allow the opening of foreign joint ventures in Romania while at the same time, allowing Romania to operate abroad through its own joint ventures. In addition, the same law allowed the creation of free trade zones – *such zones allowed import storage, processing and assembling without full custom formalities. Also goods reexported abroad from such zones would not be subject to Romanian custom duties, and those*

⁶² Tiu I., *Negocierile si derularea acordurilor de imprumut cu Fondul Monetar International si Banca Internationala pentru Constructie si Dezvoltare in perioada 1965-1989*, Bucuresti, Institutul de Economie Mondiala, 2015, pp.10-14

⁶³ Harrington J.F., Courtney B.J., 1991: 315

⁶⁴ Tiu I., 2015: 20

*destined for Romanian markets could be assessed only the lowest duties.*⁶⁵ In the following years, different joint ventures were created – in 1974, RomControl Data was created in a joint venture with US ControlData Corporation for the production of peripheral and data processing equipment, computer hardware manufacturing and sale; General Tire also opened a radial tire factory, one of the conditions of this deal was the use of updated technology.⁶⁶

The technology obtained through these channels allowed the production of different goods – automobiles, aircrafts, ships, chemicals, machine building and steel. In fact, *while the rest of the Soviet bloc depended heavily on outdated local designs, Romania was churning out more updated versions of – among other sophisticated products – French and German-designed cars, trucks, helicopters, jets and turbines.*⁶⁷ In exchange, Romania was able to trade agriculture products, raw materials and fuel. The sector that most benefitted from the good relations with the Western world and the exchange of technology, was that of machine building. This became the most dynamic sector of the industry while at the same time the most important for the leadership because it offered the machines necessary for the economy as a whole. Between 1971 and 1975, the investments in this sector reached 20% and the range of diversification of the production facilitated an increase of the number of factories, which in turn made it possible for some underdeveloped regions of the country to be involved with the industrialization process. The overall weight of this sector in the national economy eventually increased to over 30%.⁶⁸ Because of technology imported from the most developed countries, national production of machinery needed in agriculture,

⁶⁵ Harrington J.F., Courtney B.J., 1991: 313

⁶⁶ Ibid., p. 349

⁶⁷ Ban C., *Sovereign Debt, Austerity and Regime Change: The Case of Nicolae Ceausescu's Romania*, 2012, p. 751

⁶⁸ Murgescu B., 2010: 345

cars, trucks, tractors, ships and other means of transportation grew progressively, thus limiting the need for further imports in this sector.

On the other hand, the problem in Romania was that national availability of iron ore was limited; therefore, it was necessary to import it in order to fuel the industry. This however did not deter from developing the production capabilities of the country by modernizing old plants (Resita and Hunedoara) and creating new huge steel plants in other regions of the country like Galati, Targoviste and Calarasi. Some of these projects were financed with loans from the IBRD. The idea was that the final production would be big enough to cover both national needs and exports – the revenues from the latter supposedly would have been enough to cover the costs of input resources imports. These plants reached such levels of output that in the 1980s Romania's steel production per capita was one of the highest in the world, surpassing both the US and the USSR – with no regard to the fact that worldwide energy costs were skyrocketing, ecological worries were rising and a progressive substitution of steel with other materials was happening.⁶⁹

The revolution of transports in terms of vehicles was greatly improved by the cooperation with developed countries; simultaneously however, there was a need for improvements of infrastructure to allow for easier circulation between industrial points. Therefore, some investments were made into the railway system – by 1989, there were 11.343 km of railway line (26% double lined, 32% electric). National roads were modernized and progressively more roads were made of tar; in addition, new bridges were built. Ports were also included in this revolution, with Constanta and Galati the first to be modernized; at the same time, developments in shipbuilding and engineering offered an important fleet to use for both cargo shipment and fishing.⁷⁰

⁶⁹ Ibid., pp. 344-345

⁷⁰ Ibid., p. 380

However, as important as such improvements of the infrastructure were, we cannot ignore that under pretended excuses of modernization and development, other project with dubious benefits have been built. Two in particular come to mind: the Transfagarasan road and the Danube-Black Sea Channel with its correlated Poarta Alba Channel (this one smaller). The Transfagarasan is a paved mountain road across the southern Carpathians; built in the first part of the 1970s, this road presented technical difficulties because it basically cuts through the mountains, working conditions were harsh, labour force was limited and included the army in order to compensate, costs were too high. Its purpose was apparently strategic, although more for Ceausescu's interests than anything else – it was supposed to be an escape route in case of a Russian invasion.

The second project was even more problematic because it awakened bad memories from the past; in fact, it was a legacy from Dej's time, where prisoners and members of the opposition were sent for "rehabilitation through hard work". The purpose of the channel was that of cutting by 400 km the travel along the Danube River without passing through the Delta. The channel would have connected the Black Sea with Central Europe; from there, through the Rhine-Maine-Danube channel, large ships (up to 5000 tons) could have reached the Northern Sea. The costs of the construction were about 2 billion dollars, a small part was financed by an IBRD loan the rest through commercial banks; lack of labour force, materials and delays in deliveries were so frequent that the deadline was continuously postponed. In the end, the whole project was inefficient because the amount of ships using the channel was never enough to cover the costs.⁷¹

Extractive and energy industries represented another important sector of the economy. Initially, national resources ensured that both extractive industry and electric

⁷¹ Murgescu B., 2010: 381-382

power development produced more than enough energy to sustain the other sectors. During the first part of the 1970s Romania was able to more than double the quantities extracted: 13 million tons of crude oil (as opposed to 5 in 1950), 8.1 million tons of pit coal (vs 2.7 in 1950), 14 million tons of lignite (0.8 in 1950) and natural about 20 billion m³ (2.1 in 1950).⁷² Confident with these results, the government invested massively in the petrochemical industry – the Romanian industry would eventually be able to refine 33 million tons of crude a year. The difference of resources needed to reach full productive capacity was imported particularly from Iran – at the end of the 1960s, Romania had signed agreements with the Shah of Iran, which guaranteed enough oil supply to sustain the production.⁷³ On the other hand, the refined products obtained represented 40% of exports to the Western markets, which should have been more than enough to pay for the imports of crude. However, between 1975 and 1977 the national oil peak was reached at 15 million tons, from there it went progressively down each year, thus more imports were needed to cover the loss, with disastrous consequences particularly after the second oil shock.⁷⁴

On the other hand, as many investments were destined to the spreading of hydroelectric and thermal power plants. Many of these projects had a production capacity big enough to cover national needs and allow some exports; in fact, in the first part of the 1970s Romania could export about 7% of its electric power production. With the oil peak in national production, alternative sources of fuel had to be found, unfortunately, nuclear energy was not available to Romania because negotiations took too long. The agreement with Atomic Energy of Canada Ltd. was signed only in 1979, the construction of the first reactor began a few years later but was never completed – by 1989, only 45% was built.

⁷² Ibid., p. 344

⁷³ Scurtu I., *Politica si viata cotidiana in Romania in secolul al xx-lea si inceputul celui de-al xxi-lea*, Bucuresti, Editura Mica Valahie, 2012, p. 324

⁷⁴ Bachman R., 1989: 168-169

Thus, the only less expensive available alternative was lignite – this inferior coal was particularly polluting and inefficient, nevertheless extraction increased.⁷⁵ Simultaneously, with loans from the IBRD Romania was able to design one of the biggest lignite-fired thermal power plants in Europe, the Turceni thermal power station. The objective was that of building eight units of 330 MW each by 1982; however by 1981, the fifth had yet to be built and the first three already required repairs, which in turn delayed the completion of the project.⁷⁶ In the meantime, the energy consumption would overcome the production and by 1989, 9% of its needs would be covered by electric power imports.

The chemical industry also flourished alongside petroleum refining. Initially, the results were particularly good due to technology imports from the developed countries, which in a way guaranteed that Romanian products were competitive and of a good quality. However, once the crisis erupted in the 1980s, the imports were diminished and scientists were no longer allowed to participate to conferences or studies, effectively cutting them off from the outside world; left on their own they were unable to keep up with the innovations. Eventually, national products became of a mediocre quality and were no longer competitive on Western markets – thus, Romania started losing a share of its exports and potential source for convertible currency.

The amount of investments into the industry were massive, however not everything was financed through national means; in fact, it was because of the accelerated industry that Romania's foreign debt started growing. Despite any other critics to Ceausescu's leadership, he was well aware that he would need extra funds and help from abroad, particularly the West, to reach the level of development he was dreaming of. It would seem that even before joining the IMF and IBRD, Ceausescu was trying to understand how these institutions

⁷⁵ Murgescu B., 2010: 395

⁷⁶ Tiu I., 2015: 60

worked and whether it would have been possible for Romania to ask for loans without becoming a member.⁷⁷ Once he realized borrowing was dependent on membership, negotiations started.

From the beginning of negotiations with both the IMF and the IBRD, the Romanian delegation tried to obtain the status of developing country – this had different advantages among which lower interest rates and longer terms for the loans. The request was justified with the fact that per capita income was around 500 dollars and over 50% of the population was still leaving in the countryside. On the other hand, national statistics of development promoted high rates of success, which was why the strongest opposition to this demand came from the French who had been dealing with Romania for some time and had an inkling about the real economic position of the country; neither the IMF nor the IBRD accepted the Romanian request.

In addition, also from the beginning Romania refused to send more data regarding its economic situation other than the indicators and statistics published in the press or offered to Eximbank and for the GATT – it did not want to give details about its gold and currency reserves, the national production of gold or the balance of payments in general. In this case, concessions were made: Romania was not required to give any detailed report about its currency and gold reserves (a global situation was enough); no exact information about the current foreign debt situation was required (the total amount without a list of principal debtors was enough); confidentiality about the debt situation was granted; IBRD loans could be used to purchase materials and goods on the national market.⁷⁸ After months of negotiations, on November 1972, Romania was officially accepted into the IMF and the IBRD.

⁷⁷ Ibid., p. 18

⁷⁸ Tiu I., 2015: 18-20

Between 1974 and 1982, Romania was able to borrow 2.182,8 million dollars from the IBRD, which were used in about 33 projects divided in three sectors: agriculture (1.071,5 million dollars), industry (886,3 million dollars) and transports (225 million dollars). The loans were not always enough to cover expenses, therefore, the difference could only be covered by governmental loans or borrowing from commercial banks. The latter were initially rather easy to obtain once the IBRD financed a project; in accordance with the IBRD policies, its experts would evaluate and assess every project in order to understand if the project was feasible, advantageous and efficient, a positive evaluation was seen by private creditors as symbolic guarantee the projects were trustworthy.⁷⁹

While the symbolic gesture was successful and Romania indeed managed to borrow from private creditors, behind the scenes there were some clashes of opinions whenever IBRD experts had to visit the sites of the projects, especially those included into the five-year plans. Usually the visits were broader in nature, assessing the object of the project while at the same time assessing the economy as a whole; this did not sit well with Ceausescu, who strongly opposed any such attempts and demanded the bank stop trying to control the development of the country. On the other hand, another problem over which there were clashes was that of the parity between the national currency (leu/lei) and the US dollar when evaluating the projects. Romania practiced different types of exchange rates: official rate 16 lei / 1 dollar, national income rate 20 lei / 1 dollar, tourist rate 12 lei / 1 dollar, population 4 lei / 1 dollar, which made it difficult to evaluate the projects in terms of costs and potential revenues – more than once the rate had to be negotiated.⁸⁰

The first agreement was signed in 1974 for a total of 190 million dollars for three industrial projects: the first phase of the Turceni thermal power station (60 million), the

⁷⁹ Ibid., pp. 41-43

⁸⁰ Tiu I., 2015: pp. 20-21

Otelinox steel plant for the manufacture of stainless steel and high alloy steels (70 million) and the Tecuci chemical enterprise (60 million), all three at 7.25% interest rate. Romania tried to obtain a longer-term period for these loans, however, the only concession was the one for the thermal power station 25 years, while the other two loans were 15 years. Other big projects were also financed, such as in 1976 the construction of hydroelectric plant Raul Mare-Retezat for 50 million dollars at 8.5% interest rate for 20 years, or a second loan for the Turceni thermal power station of 70 million in 1979. In-between, loans were granted for chemical plants, synthetic fibres and tire factories or even metal parts manufacturing. In all projects, Romanian firms were allowed to participate at the auction for the construction and both machinery and materials would have been covered by the loans.

The exception to the rule of using the loans for imports was eventually abused; the Romanian leadership used different strategies to avoid importing more than the minimum amount of machinery or materials on the international market, choosing instead to buy materials on the internal market, thus saving the dollars for other purposes like covering balance of payment deficits. The easiest way to do it was through barter agreements with other states, for example in 1980, a 28 million dollars agreement was signed with the Japanese company Mitsubishi for the supply of equipment to be used in the tire factory project; the payment was either in chemical products, governmental contracts or transfer of import credits from the Philippines.⁸¹

In addition, starting 1979, because Romania was inclined to continue borrowing for the metal and chemical industry, new loans for these purposes were denied. On the one hand, investing further in metallurgy would have produced more metals than the machine building industry could process; the bank advised instead on improving the quality of the materials

⁸¹ Ibid., pp. 44-50

already in production and offer assistance and additional services. On the other hand, the world demand for industrial chemical products was falling, there was already enough stock from the European Common Market, the US and Japan and OPEC countries were beginning to develop their own chemical industries. Thus being said, in the 1980s the only loans offered were exclusively for energetic purposes; one for developing hydroelectric plants, the other for the exploiting secondary oil fields.⁸²

The loans received for projects in agriculture provoked even more controversy between the bank and the Romanian leadership mainly because the latter sustained that interest rates were far too high for such long-term loans especially when agricultural products prices were low. Moreover, return on investments would have been possible only with a consistent price raise of such products, but that would have meant popular uprisings. Despite the critique, the leadership eventually accepted the loans for agricultural projects because these loans had a considerably lower interest rate than those directly from the financial market, at the same time, there were no obligations to buy imported materials with them, or if there were, they were limited. The money borrowed was used for irrigation projects, pig farms and meat processing, livestock projects and orchards; however, other loans were granted for flood reconstruction or following the 1977 earthquake. For instance, the 1975 loan for reconstruction after floods was one of the few that had limitations; there was no other alternative but to buy some warning equipment on the international market as stipulated in the contract.⁸³ Had it been possible, Romania would have asked for additional loans because it became obvious that after all, the loans for agricultural projects were cheaper than borrowing from private markets; however, the bank could not grant more.

⁸² Tiu I., 2015: 52

⁸³ Ibid., pp. 54-55

As for transports, the two projects financed by the IBRD were the Danube-Black Sea channel and another project for improvements in railway infrastructure. Of the two, the first was the most problematic and negotiations lasted for over four years before the agreement was signed. The first problems were related to Ceausescu's refusal to provide data to IBRD experts so that they could correctly evaluate the efficiency of the project; in fact, IBRD wanted estimates of the number of ships that would use the channel. On the other hand, once again the exchange rate became an issue because it was very hard to evaluate the project when everything was estimated in national currency. Lastly, Romania asked for a 250 million dollar loan, which was about 8% of the total value of the project, the IBRD on the other hand was willing to finance only imports, estimated at 2% of the total; Ceausescu however, argued that the project included indirect imports of cement and steel, therefore his requirement was justified. In the end, the loan agreement was signed in April 1980 and the offer was 100 million dollars; additional 200 million dollar were borrowed from private markets (Bank of Tokyo, National Westminster Bank, Nippon Credit Bank and Commerzbank).⁸⁴

These are but a few of the projects financed by the IBRD in Romania, all of them had a repayment grace period of 3 to 5 years. Besides the disagreements already mentioned with the interest rates, exchange rate or intentional withholding of data, more pressing problems arose. Because the limitations on buying materials from abroad were either too low or agilely avoided, none of the projects was ready on time. This fact was of uttermost importance because when Romania started borrowing, the optimistic idea was that by the time the grace period passed the project would have been finished and operational; thus, the loans would have been paid with the revenues. However, the insistence of the leadership on buying everything from the national market meant that the national economy had to carry a

⁸⁴ Tiu I., 2015: 58

heavy burden and its inefficiency was proven. Most of the time the suppliers could not deliver because they did not have raw materials to manufacture the needed pieces; other times there was not enough labour force to finish the projects; sometimes national enterprises themselves were subjected to importing inputs, because there were delays or cuts, they often could not deliver what was contracted for the projects. Ultimately, all projects produced huge losses in addition to the burden of the loans.⁸⁵

Between 1973 and 1984, Romania borrowed from the IMF 1.667, 3 million dollars in order to aid the balance of payments. The first arrangement was negotiated a few months after Romania joined the fund, obtaining the loan was rather easy because this one was the equivalent of Romania's quota in gold reserves (57,3 million dollars for 5 years); however, from the beginning of negotiations Romania tried to convince the board to grant it the status of developing country. The request was denied because while agriculture represented 50% of the GDP, the rate of economic growth and trade habits positioned Romania closer to developed countries. As soon as the first loan was granted, Romania started negotiating again for another line of credit of the same amount. According to the IMF policies, members could obtain credits only to aid the balance of payments; Romania claimed that agriculture production had been affected by floods and therefore, agricultural products exports were cut by 30%. This credit was granted as well for 5 years at 3.5% interest rate. However, both credits were used to repay outstanding financial and commercial loans close to maturity.⁸⁶

The following year once again negotiations for the second line of credit began, however because Romania had refused to disclose relevant data the IMF was not entirely convinced the leadership was taking appropriate steps to overcome the deficit in the balance of payments. Thus, the IMF offered the first stand-by arrangement, this type of loan came

⁸⁵ Ibid., pp. 61-63

⁸⁶ Tiu I., 2015: 28

with conditions to adopt real solutions (modification of exchange rates, adjustment of prices, improved economic policies); at the same time, through this agreement it was possible to obtain a larger loan, so Romania got 114 million dollars for 5 years with 4.5% interest rate.

Between 1975 and 1982, Romania continued borrowing from the IMF for different reasons; the money was obtained through other stand-by arrangements but also through compensatory facilities. While the promise had been that of using the loans to aid the balance of payments, all the money was employed to repay outstanding medium and short-term loans taken from private creditors and commercial banks. The last arrangement with the IMF was in 1982, this time the amount negotiated was huge compared to the other arrangements – 1.323 million dollars; the IMF agreed to another stand-by arrangement for 7 years and a 5% interest rate, delivered in three tranches over the following 12 months. This time there were specific policies Romania had to implement in order to receive each quota: allow for private enterprises, eliminate any subsidies for consumer goods, adjust prices to the international market value, implement a real wage and employment policy, offer a real evaluation of GDP and adjust exchange rates. While some of these measures like a more stable exchange rate and a price raise were implemented, the development of a private sector went against communist ideology. The fact that Romania was pushed more than once to adopt “capitalist measures” became a problem in 1984, thus, Ceausescu decided to interrupt the stand-by arrangement and started criticizing the IMF policies.⁸⁷

During the negotiations for IMF and IBRD loans, Romania had progressively borrowed more from the private market in order to sustain its development plan. As mentioned, the membership in these international institutions was one of the reasons why private creditors were willing to lend money to Romania. However, the new credits were

⁸⁷ Ibid., pp. 35 – 38

mostly short to medium-term loans with high interest rates, which once coupled with a struggling economy made for a deadly combination. Nevertheless, Romania needed the money to finance the massive investment plans, therefore it continued borrowing heavily regardless of conditions. Between 1976 and 1981, Romania's foreign debt grew rapidly, especially from 1978; in fact, if in 1976 the debt was 2.876 million dollars, in 1978 it reached 5.170 million dollars, in 1979 9.810 million dollar and by 1981 it was over 10 billion dollars.⁸⁸ International and national issues would worsen the situation to such an extent that by 1982 Romania will enter a debt crisis and will have to negotiate the rescheduling of its debt in order to avoid total collapse.

⁸⁸ Constantinescu N.N., 2000: 376

CHAPTER THREE: FROM DEBT CRISIS TO AUSTERITY

POLICIES

3.1 INTRODUCTION

The last decade of communist rule in Romania did not begin as the leadership expected or wanted; it began with a foreign debt crisis so deep that eventually the government was forced to negotiate with its creditors for a rescheduling of the debt. While it is true that Romania's debt ratio was not among the highest in Eastern Europe, nevertheless at the beginning of the 1980s Romania was no longer able to pay its debt services or any outstanding debts because of scarcity of hard currency. Confronted with this situation, Nicolae Ceausescu was forced by circumstances to ask creditors for a rescheduling – in 1982, Romania started negotiations with a group of commercial banks represented by Barclays Bank London and separately with the IMF, the IBRD and various governments. About half of Romania's debt was towards commercial banks, which eventually agreed to reschedule the debt for a period of 6 years with a grace period of 3 years.⁸⁹

The rescheduling was subjected to different conditions among which adjustment of prices in order to bring them closer to international markets value, a reduction of imports with particular emphasis on reducing energy-related imports, establishing a concrete exchange rate, reducing investments in heavy industry, concentrating more on consumer goods and allowing for a private sector to develop. The always present conflict regarding reliable data once again resurfaced, however not even the crisis convinced Ceausescu to

⁸⁹ Tiu I., 2015:77

grant this request; on the contrary, he specifically requested that no official announcement be made regarding Romania's difficult situation and started harshly criticizing the international financial institutions. Nevertheless, some measures were indeed implemented, for instance an increase in prices, an agreed-upon exchange rate and a reduction of imports – these measures made it possible to reverse the deficit in the balance of payments and gained the approval of the IMF and other creditors.⁹⁰

However, what happened next was not something anyone would have thought possible; frustrated with the conditions imposed by the international financial institutions Nicolae Ceausescu started referring to their demands as meddling with the internal affairs of a sovereign state – thus, forbade by law to contract any further foreign loans. Starting 1983, the only loans still allowed were the remaining tranches from the last standby agreement with the IMF; and even in this case the last payments were interrupted in 1984 when Ceausescu refused to accept the adjustment conditions that came with this type of loan agreement. Moreover, he not only promised never to borrow from abroad, he also decided that Romania would be better off repaying all its foreign debt by the end of the 1980s. The latter idea was first mentioned in 1983 – but he was even more convinced of it by 1986 when Romania once again faced difficulties in paying its outstanding debts, again because of shortage of hard currency.⁹¹

Thus, a few years had passed until the rest of the world realized he was serious and indeed wanted to repay all Romania's debt. As ludicrous as it might have seemed at the time, especially when other East-European countries facing similar problems decided to accept adjustment plans and reforms in order to obtain more credits and help their economies,

⁹⁰ Romania Economic Memorandum, Report No. 4667-RO, Document of the World Bank, March 1984

⁹¹ Tiu I., 2015: 79-80

Nicolae Ceausescu kept his promise and did not indebt Romania any further. On the contrary, through harsh austerity policies, forcing exports and drastically reducing imports, all Romania's debt was repaid by March 1989. It is not easy to understand what convinced Ceausescu that this would have been the best solution to the problem; however, considering the economic issues together with Ceausescu's national policies and the international environment, he had no other option but to repay all foreign debt.

3.2 INTERNAL FACTORS

By the end of the 1970s and the first years of the 1980s, it became clearer that the Romanian economy was struggling. There were several industrial sites still unfinished and therefore unable to be productive and sustain the costs for their construction, while at the same time requiring an increasing amount of resources and weighing more and more on the economy; not the mention that the efficiency of some of them was increasingly doubtful.

Not surprisingly, the sector always lagging behind was agriculture; as already mentioned, some investments had been made to improve the level of mechanization of this sector and the use of chemical fertilizers increased. However, the productivity was still below other European standards, especially because by the end of the 1970s, the majority of workers in agriculture were either elder people or women; the latter expected to be both workers and mothers. In addition, natural disasters, particularly repeated floods have made it impossible for this sector to complete its five-year plans; thus, by the end of the 1970s, the first waves of food shortages happened – sugar, oil, meat, milk, bread, dairy products and fruits were usually the first to disappear from shops and markets.⁹²

Moreover, the lack of working force was beginning to affect other sectors of the economy other than agriculture. While in the first decades of communist rule the leadership had relied on transferring peasants into the urban areas around the new factories, now there was no reserve left in the countryside that could leave their land and move to the cities. The leadership tried different tactics to overcome this issue, from moving workers from one sector to another where they were lacking to demanding that everyone able to work should do so both young and old and regardless of whether parents or relatives could financially

⁹² Burakowski, 2016: 233

support them at home. To migrants who had not been abroad more than 2 years, they granted permission to return without fear of prosecution; this had the double benefits of bringing new workers into the country and also hard currency as many of these migrants had been working abroad.⁹³ Perhaps most difficult for the population to accept were the laws that forbade abortion and divorce – this was a clear sign that the leadership was trying to avoid a similar situation in the future; although dating back to 1966, they had been repeatedly enforced and promoted throughout the years.

On the other hand, between 1975 and 1977 the national production of oil reached its peak at about 15 million barrels and started sharply declining in the following years – by 1989, national oil fields yielded little over 9 million barrels. The depletion of national oil fields meant that Romania had to increase its imports of oil in order to allow the enormous refining capacity to be functioning – by 1989, the imports of oil amounted to almost 22 million barrels⁹⁴. With the Revolution in Iran the previous contracts were no longer valid therefore the leadership had to seek oil elsewhere – it turned to Iraq as a substitute for Iran, but this source too was lost with the beginning of the war between Iran and Iraq; thus, for the first time ever Romania was forced to import oil from the USSR.⁹⁵

Another catastrophe that caused substantial loss in both economic terms and human lives was the earthquake of 1977. In the aftermath of the earthquake the damage was estimated at over 2 billion dollars, with over 750 industrial sites destroyed or disabled during the quake; over 1500 people died while 11000 were injured and around 35000 families more were left homeless. In order to cover the damages caused by this earthquake, Romania turned to the IMF and other institutions to borrow money; humanitarian aid and volunteers arrived

⁹³ Burakowski A., 2016: 235

⁹⁴ Comisia Nationala de Statistica, *Anuarul Statistic al Romaniei 1990*, p. 627

⁹⁵ Bachman R., 1989:169

in the following days despite Ceausescu's desire to deal with the situation internally and without further help from abroad.⁹⁶ He not only wanted to deal with the situation internally, but also personally supervised rescue missions in the capital and coordinated the teams in Bucharest.

Perhaps the most worrisome aspect of the Romanian economic life was the fact that the quality of the products was not particularly good and most of the products were no longer competitive on Western Markets. National products were no longer competitive because the technology used was already outdated – when the leadership decided to cut back on imports it started by cutting back technology imports (both in terms of products and know-how), confident that by then the country was developed enough to use what they had learnt to further improve and innovate. However, it soon became clear that it was just an illusion and with no inputs of new technologies, many of the Romanian products started losing quality and therefore were no longer competitive on Western markets.⁹⁷ The lack of competitiveness of national products was a double-edged sword because on the one hand it diminished exports, on the other, as a direct consequence of fewer exports to Western countries, the amount of hard currency needed to pay the debt services diminished as well.

However, exports to Western countries diminished also because these countries were experiencing a recession; therefore, they were trying to protect their own economies and markets. Moreover, more advanced countries were progressively transforming their economies towards a model increasingly dedicated to high-tech and services as the main sectors – thus they did not need obsolete products. On the other hand, the only alternative products left to trade were agricultural ones, but the prices were too low to make much of a

⁹⁶ Burakowski A., 2016: 254-255

⁹⁷ Ibid.

difference.⁹⁸ Despite managing to enter markets in some developing countries and having a fair share of exports towards those markets, the problem of hard currency did not improve because many of these contracts were barter of industrial products in exchange for natural resources.

Finally, another important aspect of the national situation in Romania at the time, were the policies and measures that the leadership and Ceausescu in particular, decided to implement. For instance, in an attempt to project “democratic ways” to its Western trade partners and allies, a new economic “mechanism” was introduced according to which wages could potentially be raised enough to satisfy workers’ demands for better pay. However, in order for such raise to happen production plan was to be not only fulfilled, but the plan was to be exceeded either because of more products or because finished before the deadline.⁹⁹ As more often than not the plan was becoming harder and harder to meet because of too optimistic objectives or lack of inputs, the promised pay raise never happened in reality; quite the opposite in fact, at some point they started cutting workers’ pay because the plan was not completed. The latter is one of the reasons behind the workers’ strike of 1987 at the truck and bus factory *Steagul Roșu Brașov* – not only had their pay been delayed, but also many workers had their pay cut.¹⁰⁰

Another “reform” in name only was the one granting a certain level of autonomy to factories to “self-manage” and “self-finance” according to capacity, market demand and resources. While in the West this policy would have meant deciding locally what and how much to produce, in Romania, it was nothing more than micromanaging at a local level the

⁹⁸ Berend Ivan T., *From the Soviet Bloc to the European Union*, New York, Cambridge University Press, 2009, pp. 7-22

⁹⁹ Crowther W.E., 1988: 107

¹⁰⁰ Video Dor de adevăr – Revolta de la Brașov, 15 Noiembrie 1987

implementation of the centralized plan. In addition, this meant that local party leaders made sure that everything was going according to orders coming from the centre.

They also introduced the possibility of sharing 2% of the dividends with the workers while allowing the factory the possibility to invest the rest in something of their own choosing. However, this never happened either, because the plan was always designed at the centre with no regard to local needs or issues; and the objectives were established in such a way that all inputs would have been used to complete the plan, therefore it was impossible to exceed the plan.¹⁰¹

The almost obsessive refusal of the leadership to stop investing in heavy industry and start giving more to agriculture and consumer goods production was in itself a great internal issue. No matter how hard it was becoming to fulfil the plans, how low the quality of the products was and how costly it became sustaining this type of economy, the leadership would not accept any other changes. To do so would have meant admitting defeat, which was not a word taken lightly by the leadership, especially not by Ceausescu whose optimism about Romania's greatness and potential was close to utopic. He never accepted that his ideas and the planned economy he sustained could fail him, in fact, for every issue arising he would soon find a scapegoat – be it someone at a local level not following orders properly, foreign agents trying to unbalance the country, the capitalist imperialists or the USSR.

¹⁰¹ Crother W. E., 1988: 107-108

3.3 INTERNATIONAL ENVIRONMENT

During the 1980s, Romania was not the only country experiencing issues, especially those related to the economy; in fact, economic recession was spreading in the Western world, debt crisis was becoming an every-day occurrence in the Communist bloc and in the Third World, and the new arms' race did not help the situation at all. To the Romanian leadership's frustration, some international events influenced the situation the country was in, without allowing it any measure of control over the direction and ways it would be influenced. Moreover, the measures they adopted to overcome these obstacles made the public opinion distrust Ceausescu even more, especially in Western countries – this in turn would have the effect of isolating Romania.

One of the first events to influence the situation, especially the economic one, was what came to be known as the second oil shock. The safety net Romania had relied upon during the first oil shock at the beginning of the 1970s, which at the time had been enough national extractions and a favourable contract with the Shah of Iran, was no longer available at the end of the decade. The imports of resources needed to sustain the enormous productive capacity became a heavy burden, both in terms of costs and pride. Not only was the price much higher than before, but the transactions were to be made in hard currency, which Romania desperately needed to pay its debt services; moreover, the independent stand regarding the USSR was curbed by the need to import, for the first time ever, oil from the Soviet Union. The latter not only hurt the “pride” of the Romanian leadership, but worsened the economic situation because the USSR was not willing to grant Romania any favours,

therefore the prices were not only high but the payment was to be made in hard currency or *goods of high economic value, mainly food products*.¹⁰²

The second international event to worsen the situation in Romania was closely related to the “oil shock” – the crisis had influenced the financial markets, therefore, the first years of the 1980s were years of particularly high interest rates, which worsened the debt situation of many countries, Romania included. *Debt service consumed 40-75% of the hard currency income of these countries; [...] cheap credits were no longer available and interest rates rose to 14-16%*.¹⁰³ Compared to other countries, Romania’s foreign debt was not particularly high; however, a good part of it was made of short-term loans from commercial banks and private creditors with high interest rates and in hard currency, which meant high debt services that after the “shock” became impossible to sustain. This situation might not have been an issue for Romania had it not become impossible to obtain new loans.

The crisis in Poland was another event that affected Romania because with the worsening of the situation in this country it became clearer, especially to Western creditors, that Communist countries were not as stable as they pretended to be and their economies were unreliable. Thus, they were no longer willing to lend money to any of the countries if they did not see any adjustments in their policies and economic decisions.¹⁰⁴ This left Romania barehanded at a time when it depended more and more on financial support from abroad – as the leadership had made a habit out of borrowing from one place to repay outstanding loans in another, it is quite understandable how badly this decision affected the country. At the same time, it was increasingly obvious for the leadership that indebtedness meant depending on outside forces and being influenced by them while not having any

¹⁰² Shafir M., 1985: 116-117

¹⁰³ Berend Ivan T., *An Economic History of the Twentieth-Century Europe*, New York, Cambridge University Press, 2006, p. 185

¹⁰⁴ Fischer M.E., 1989: 250

control over the matter, therefore the law that forbade further borrowing from abroad was promoted in order to protect the country from such a fate in the future.

Finally, the other event that influenced the situation was the election of Mikhail Gorbachev as Secretary General of the Communist Party of the Soviet Union in 1985. Gorbachev's policies of *perestroika* and *glasnost* had consequences for Romania and the leadership both nationally and abroad. The most pressing issue nationally was related to the willingness of the new Russian Secretary General to reform the system and improve it. On the one hand, this meant that the ever-present Russian threat was no longer a reality because under Gorbachev the USSR was not interested in acquiring new territories or interfering with other countries' policies – this meant eliminating one of the scapegoats the regime often used to manipulate the population. On the other hand, the young Secretary General was reforming the Soviet Union while a much older Ceausescu was more set than ever in his Stalinist ways and rejection of reforms, and despite the lack of a significant number of dissidents, some Romanians started questioning Ceausescu's methods.

Abroad the position of Romania changed with the election of Gorbachev because here too the USSR was no longer seen as the enemy it once was; slowly the perception of the USSR improved and for Romania was no longer needed as an opening to the Soviet bloc or an intermediary between East and West – in was now Gorbachev's foreign policy. Moreover, the public opinion in the West was no longer willing to ignore Ceausescu's reluctance towards reforms or his apparent disregard for human rights, doubts and protests by human rights organization and US senators and congressmen became more frequent. The accusations were mostly related to lack of religious freedom, bad treatment of minorities (especially Hungarian ethnics, to which Hungary contributed the most) and basic individual freedoms in general. The US insisted on demanding that Romania adhere to the Jackson-Vanik amendment and respect other human rights in order for the MFN status to be approved

for the annual renewal, Ceausescu however was no longer willing to be subjected to these conditions and in 1988 unilaterally reject the MFN status. The reason why this decision was so easy to make was probably the fact that at the time, trade exchanges with the US under the MFN status were not indispensable for the Romanian economy, besides Ceausescu did not sever all commercial ties with the US.¹⁰⁵

¹⁰⁵ Harrington J.F., Courtney B.J., 1991: 549-583

3.4 AUSTERITY MEASURES

Faced with an economy on the brink of collapse because it could no longer sustain the rapid rhythm of industrialization, a growing amount of arrears mostly caused by overdue debt services and an impossibility of borrowing more in order to obtain new hard currency to pay outstanding debts, Ceausescu was forced to accept temporary defeat and negotiate a rescheduling of the debt. He managed to recover the debt situation mainly by reducing to a minimum imports and doing the impossible to maximize exports in order to obtain the much need hard currency to cover the arrears.

Between 1985 and 1986 however, Romania was once again in a similar situation, this time though instead of negotiating a new rescheduling of the debt, the leadership decided to negotiate a full repayment of all foreign debt. The results of the negotiations were: seven separate payments to be made by 30 June 1989, over 30 days' delay would have cancelled the agreement; no penalties required for repaying ahead of schedule; partial reduction of interest was granted; credits in currency other than dollars were to be repaid at the rate exchange at the time of payment.¹⁰⁶ The bold decision left many perplexed because they did not approve of such a drastic reaction, however Ceausescu was set on the idea that he wanted to be independent from both the USSR and the West – thus being heavily indebted towards foreign creditors was not a sign of independence.

The association between foreign debt and dependence was obviously made once the leadership realized that any international event could influence directly or indirectly Romania, which in turn meant that there was nothing they could do to control such a phenomenon. Moreover, despite not having to adhere to every IMF or IBRD condition, the

¹⁰⁶ Tiu I., 2015: 80-83

few that were non-negotiable in order to be granted funds were enough to convince the leadership to label them as interference with internal affairs of a sovereign state. International financial institutions were not the only ones to condition their loans to specific requirements, trade partners such as the United States, Israel and the FRG attached certain conditions to the possibility of loans or trading exchanges. For instance, in a desperate move to obtain hard currency in 1982 the Council of State made a decree according to which whoever wanted to emigrate from Romania had to pay the government back for the education they had received until that moment in hard currency. As many of the emigrants were actually members of the minorities, mostly Germans and Jews, it is no wonder that these countries pressured the Romanian leadership to reconsider this decision; which Ceausescu conceded to.¹⁰⁷

Another decision that strained the relationship between Romania and the outside world was the decision according to which tourists who travelled by car to pay for gasoline with hard currency if they wanted to leave the country. As these tourists were mostly citizens of other Warsaw Pact countries, they obviously did not have hard currency; therefore, if they were unlucky enough to run out of gas inside Romania's borders they had no way of leaving the country. This situation worsened the relations between Romania and the country of origin of the tourists, eventually the situation was solved only through diplomatic negotiations – the government conceded to allow them to buy enough gas to leave the country, and others received help from their own governments. Connected to this decision was another decision that affected Romanian citizens – the objective was that of limiting national consumption of gasoline; it was achieved through a simultaneous increase of gasoline price and a limited quota of gasoline car owners were allowed to buy in a month –

¹⁰⁷ Crowther W.E., 1988: 144

the amount varied between 15 to 30 litres from region to region.¹⁰⁸ As harsh as the measure seemed, it is worth mentioning that not many Romanians owned cars, in fact an even more effective limitation was the number of cars sold nationally – in order to buy a car you had submit a request and wait, sometimes it would be years before your request was granted.

Gasoline was not the only resource rationalized or expensive. Electricity and central heating were restricted as well. During the busiest hours of the day, private homes were left without electricity, the same happened at night as well. As far as heating was concerned, as it was mostly centralized it was easy to control the amount of hours the citizens would have access to hot water and heating – it was irrelevant whether it was summertime or in the middle of a harsh winter. *General illumination will be reduced by 50% and local illumination will be introduced. By 15 December 1982, 14, 20 and 40w (lightbulbs) will replace all high voltage fluorescent tubes. It is likewise forbidden the use of any electric heating appliance, with the exception of places where there are activities outside normal hours of central heating system working hours. A schedule of hours in which to use lights and electric outlets. Room temperature must be strictly followed and hot water will not be higher than 50-60 degrees.*¹⁰⁹ The blackouts in private homes were the norm; in fact, people remember well how their children would do their homework by candlelight.

Even harder than frequent blackouts and reduced heating, were the first signs of scarcity of certain foods like sugar, bread, sunflower oil, meat and milk. In fact, when the first shortages of food happened everyone panicked and started buying food compulsively to fill their cupboards and put away some for the near future – in order to stop this, the government introduced measures that forbade people to buy food outside their hometowns and in big quantities. The leadership also entrusted the provision of food to local

¹⁰⁸ Burakowski A., 2016: 280

¹⁰⁹ Program de măsură Ministerul de Interne, 22.11.1982, p. 2 (D 360_002 fila 086-087)

representatives, however they did not consider that every region was different, therefore some might lack certain products while having too much of others. Despite clear discrepancies between regions, it was forbidden to transfer goods from one place to another or exchange any extra samples; all food left after providing for the assigned areas was to go to state centres especially created for the redistribution to poorer regions.

The final drop was the reintroduction of “food cards” as the only way people could buy food – the main problem with this system was that not only were there limits on the amount of food one could buy, but even that meagre amount was not guaranteed. Thus, queues were becoming a habit and fights would often erupt because there were not enough products to satisfy everyone.¹¹⁰

The main reason food supplies were so scarce was the fact that the government started pushing for maximizing exports and reducing to a minimum imports – most of the production of meat and other food products was destined for exportation, with little left for the population. In a way to justify the absence of food from the stands the government promoted a new nutrition programme – they called it “rational and scientific nutrition”. According to this programme, Romanians were eating too much; therefore, they had to reduce their calories intake to about 2800 calories a day (instead of the over 3300 they were apparently consuming at the time). In addition, they were heartedly encouraged to consume more fish and vegetables – for this reason in the 1980s the only available food at any given time would be fish and canned vegetables.¹¹¹

It was the population at large that suffered the austerity measures implemented by the leadership, however at the same time the objective for which they had been implemented

¹¹⁰ Interviews with different people about the living conditions of the last years of Communist rule, conducted personally.

¹¹¹ Stanciu C., 2012: 372-385

in the first place was reached – as of 31 March 1989, Romania had no foreign debt. *The days of 12-14 April 1989 mark, it could be said, a complete economic and political independence of Romania! For the first time in its long history, Romania has no foreign debt, it no longer pays tributes to anyone and it truly is independent both economically and politically.*¹¹²

While this was Ceausescu's speech for his fellow party members, it is safe to say that very few people outside of the party knew or understood why the austerity measures had been implemented to begin with.

Even now, after almost 30 years, very few know the reason was the repayment of Romania's foreign debts; even less would agree that it was a good idea. With the benefit of hindsight, in my opinion, the idea of repaying all foreign debt was not a bad one; nevertheless, the instruments and the consequences of such policies should have been thought through and managed better.

¹¹² Personal translation of Nicolae Ceaușescu's speech at the C.C. Plenum of the CPR on 14 April 1989

3.5 OUT OF OPTIONS

Almost everyone criticized the decision to fully repay the foreign debt in the 1980s, and many consider that the only reason why this decision was made was the personality cult or Ceausescu's "limited" capabilities especially with regard to economics. However, what I would like to suggest is that at the time, there was no other option available to Ceausescu. The combination of internal economic issues, natural disasters and the changes in the international environment was problematic enough to cut out any other potential solution. Nevertheless, following I would like to demonstrate that through a few potential solution to the problem and the reasons why I consider such solutions were unavailable.

One potential solution could have been borrowing more money to pay outstanding debt services; more than likely with a few concessions on Romania's part creditors would have been willing to extend their credits or even offer new ones, after all Romania's debt ratio was not one of the highest. However, this was not an option because not only were financial institutions requiring access to more economic data and they were also progressively more insistent in their requests of adjustments plans, reforms and liberalization. Such demands were against the core ideas of the planned economic system and seen by the Romanian leadership as interference with the internal affairs of a sovereign state. Moreover, once the arrears started accumulating, it became necessary to cut investments, thus slowing down the development, in order to pay for the outstanding debt services – therefore, no debt meant no need to allocate the limited resources to pay for debt services, no risk of outstanding debts and especially no need to answer to anyone for one's decision. In other words, no debt meant more independence.

Another potential option would have been following Western countries' example and begin the process of switching from an economy based on extensive growth to one based on intensive growth. This would have meant improving the quality of national products, improving productivity and work efficiency – products that are more competitive, incentivized workers, thus overall a potentially more productive economy that might have attracted foreign direct investments and other means of financing that did not require further indebtedness. However, this too would have gone against the core beliefs of the leadership, as it would have meant lessening the control of the party over all aspects of the economy, changing the economic model and admitting defeat – this was non-negotiable with most high-ranked party members. Moreover, by the 1980s, the population was too disappointed by the government's decisions and the workers could have not been further from incentivized even if they tried to. In fact, in order to get by, a corrupt system based on bribery and favours developed alongside a black market, especially when it came to food and other unavailable goods. One of the reasons the Communist Party reached 4 million members was the fact that they had certain benefits non-members did not have, like obtaining a bigger apartment or house from your place of work. It would have been close to impossible to change these tendencies to such an extent to achieve immediate results.

Maybe the heaviest weight on the economy was the oil bill. Choosing to develop the petrochemical industries and machine building one was the way to transform Romania from an agrarian state into an industrial one, at the time the only possible way. At the same time however, when the second oil crisis happened Romania did not have any backup plan and it was hit particularly hard – in fact, it had no other choice but to import oil even if it was too expensive, not doing so would have meant halting a great part of the economy. Moreover, part of the foreign debt was made in order to pay for the imports of oil necessary to keep the industry going – thus the Romanian economy was dependent on imports of oil from abroad

while at the same time was dependent on credits from abroad to pay the bill of said imports. In addition, with the change in Iran and the war with Iraq, Romania came full circle and once again found itself dependent on the Soviet Union – this tricky situation was a bitter pill to swallow for the leadership.

The vicious circle was formed: to pay debts Romania had to sell its products on the international markets, as most of them were from the petrochemical sector and machine building it was imperative to have inputs, inputs were mostly imported from abroad, which in the 1980s meant borrowing to cover costs. Reducing the oil bill too much would have been impossible without blocking the economy; searching for alternative energy sources failed because the only national resource left was lignite and its low quality made it inefficient. The only variable manageable was reducing or eliminating foreign debt. Not having to pay any outstanding debt or debt services would have meant no need for hard currency, which in turn would have facilitated barter exchanges – for instance those with Third World countries through which Romania delivered industrial products in exchange for natural resources. With no need for large amounts of hard currency, the required natural resources to keep the industry functional would have been ensured.

Another measure that could have solved the problems even prior to the debt crisis would have been taking the advice of the IBRD to buy at least part of the materials needed to complete the project financed by the bank on the open market and allow foreign companies to bid for the projects. While it is true that there was no guarantee this would have completed the projects in time to be integrated in the production system and be efficient enough to pay for the debt acquired to build them, chances are good they would have been able to do it. More importantly, the signs of struggle the Romanian economy was displaying should have been taken seriously, as it was obvious that national suppliers would not be able to deliver and finish the projects in time. Unfortunately, this too was never considered a real

option because it would have meant depending on foreign elements and allowing them access to the sites; besides, the leadership was confident that the national industry would be able to easily work on these projects and supply everything needed for their construction.

Even before the economic struggle and the debt crisis, another potential solution or in this case pre-emptive solution would have been moderating the ambitious programme of industrialization. It is true that industrialization is associated with development and progress, but the gigantism the Communist regime manifested on the long-term it created more problems than it solved. In fact, had the refining capacities of the country not been by far superior to the actual availability of natural resources, when the oil crises hit Romania would have not had so many issues because the oil bill would have been cheaper and also because the investments could have been used for other industries or even agriculture. Moreover, steel industry was enormous as well, yet most of the iron ore was imported. It is a paradox if not entirely ironic that after all the speeches on independence and all the steps taken to be outside Moscow's control, when it came to this sector of the economy the leadership had no problems with depending on someone else's resources. Alas, the decision was that of massive industrialization and investing in heavy industry – it was the ideology that demanded it and it would have not been possible to go against it without profoundly changing the system.

Despite these potential solutions or pre-emptive actions, the most important factor that prompted the leadership to choose to repay all foreign debt was the realization of how utopic independence really was; and the insistence on trying to reach this goal anyway. Why was this such a utopic goal? First of all the growing dependence on credits to either cover balance of payment deficits or finance new industrial sites. On the one hand, credits were accepted as unavoidable for progress, on the other however, the conditions on these loans were problematic because they were often in contradiction with the characteristics of the

centralized economy; and also because someone else had control over them and could use them as leverage for other purposes, for instance political gains.

Second, the dependence on someone else's natural resources became a big issue with the oil crises because when combined with the financial dependence on foreign loans, the control over the engine of progress slipped towards foreign hands. Yes physically the production capacity was under the control of the Romanian leadership, however the costs of acquiring both financial support and imports of natural resources outweighed the benefits – and soon instead of progress and development, Romania was driven to near collapse, which eventually happened anyway.

Third, Romania worked hard to assert its independence from the Soviet Union; at the same time, it opened its arm towards the Western countries but also those of the Third World. Now, if we consider all attempted mediations of conflicts between West and East, the USSR and PRC or those in the Middle East, it is obvious that Romania was striving to become an altogether independent country on every front possible. Yet in the 1980s, it was far from independent because it depended on Western countries for financial support, on the USSR and the Third World for natural resources and markets for national products, on China for its moral support against the USSR.

Finally, Romania was part of the world economy therefore it was subjected to the same risks as every other country and could not function on the long-term as a separate entity – thus every international issue could affect the economy leaving the leadership without any control over the issue. Indeed this is what happened – from 1973 onwards international events like the oil crises, the collapse of Bretton Woods and the Volcker Shock with the following skyrocketing of interest rates, the debt crisis and recession of the late 1970s and 1980s – these were all outside of the Romanian leadership's control, yet affected the country

nonetheless. For a leadership that wanted to be in control of everything that had to do with Romania it was hardly easy to accept such predictions.

CONCLUSION

In this context of isolation, with an economy in shambles, a growing foreign debt and no one to turn to because of the loss of popularity, it did make sense to repay foreign debt, as it would have eliminated one of the pillars of dependence on others. However, it would have been virtually impossible to cut all dependence links with the outside world. Romania no longer possessed enough natural resources to be autonomous, nor did it have the capacity to operate separately from the world economy – the failure to supply materials and equipment to complete the projects financed through the IBRD is in itself proof of this. Moreover, as part of the Soviet Bloc it could not cut all ties with these countries – not without being incorporated into the USSR.

However, what might have happened had the regime not fallen and Ceausescu killed, was that with no foreign debt Romania could have been in a better position and on equal footing with its trade partners, therefore, less prone to conditions and impositions from abroad. Not needing to worry about outstanding debts would have permitted for a larger space of manoeuvring, more independent and free. Ultimately, this might have been Ceausescu's objective all along, seeking to become one of the active and important states in the world – visible and friendly towards everyone regardless of their political system and ideology. This would have ensured good economic relations but also a certain level of security from outside interference as no other state would have felt threatened by this friendly approach.

Whether this is close to the truth or not it is impossible to verify, and too late to make any difference, suffice is to say that the decision to repay all debt was made because of this desire

to be independent and free to make any decision without conditions and external interference. It was a good decision because as much as it is true that without debt it is hard to have enough capital to progress, it is also true that countries that could not repay their debts are still having problems because of them; and are subjected to adjustment plans and external interference into internal affairs regardless of their governments wishes or the consequences on their population. These adjustment plans were back then, and still are nowadays, the image of what the Western economies believed in – effectively undermining the centralized planned economy; this was the main reason why they were not seen in good light by Communists, especially those like Ceausescu who firmly believed in the righteousness of their own path.

Regardless of whether Ceausescu was too paranoid as some sustain or not, what is known is that access to Western market or funds was granted exactly because it was a “subtle” way of influencing dissent into the Soviet Bloc and lure them to the Western sphere of influence. The US practiced this with the MFN status and other commercial agreements and other Western countries followed the example. Therefore, once problems started and they introduced the adjustment plans it cannot be denied they were means to an end – that of interfering with the internal affairs of a sovereign state. Exactly what Nicolae Ceausescu did not want for Romania and sought to avoid at all costs. As these adjustment plans were always linked to loan agreements, once again it is clear why this was the main reason behind the repayment of all foreign debt and it had nothing to do with paranoia.

BIBLIOGRAPHY

BACHMAN Ronald D., *Romania: A country Study*, Washington, GPO for Liberty of Congress, 1989

BEREND Ivan T.,

From the Soviet Bloc to the European Union, New York, Cambridge University Press, 2009

An Economic History of the Twentieth-Century Europe, New York, Cambridge University Press, 2006

BURAKOWSKI Adam, *Dictatura lui Nicolae Ceausescu 1965-1989 – Geniul Carpatilor*, Editia II, Iasi, Polirom, 2016

CEAUSESCU NICOLAE, *Raport C.C. al P.C.R. la Congresul al IX-lea al partidului in Romania pe drumul dezvoltarii constructiei socialiste, vol 1.*, Bucuresti, Editura Politica, 1968

CONSTATINESCU Nicolae N., *Istoria economica a Romaniei - Vol. II 1939-1989*, Bucuresti, Editura Economica, 2000

CROWTHER William E., *The Political Economy of Romanian Socialism*, New York, Praeger Publishers, 1988

DELETANT Dennis, *Romania sub regimul comunist*, Bucuresti, Fundatia Academia Civica, 2012

FISCHER Mary Ellen, *Nicolae Ceausescu – A study in Political Leadership*, Boulder & London, Lynne Rienner Publishers, 1989

HARRINGTON Joseph F., COURTENY Bruce J., *Tweaking the nose of the Russians: Fifty Years of American-Romanian Relations 1940-1990*, New York, Columbia University Press, 1991

GOKAY Bulent, *L'Europa orientale dal 1970 a oggi*, Bologna, Il Mulino, 2005

MURESAN Maria, MURESAN Dumitru, *Istoria Economiei*, Bucuresti, Editura Economica, 1998

MURGESCU Bogdan, *Romania si europa - Acumularea decalajelor economice (1500-2000)*, Bucuresti, Polirom, 2010

SCURTU Ioan,

Politica si viata cotidiana in Romania in secolul al xx-lea si inceputul celui de-al xxi-lea, Bucuresti, Editura Mica Valahie, 2012

Istoria contemporana a Romaniei (1918-2005), Bucuresti, Editura Fundatiei Romania de Maine, 2005

SHAFIR Michael, *Romania: Politics, Economics and Society – Political Stagnation and Simulated Change*, London, Frances Pinter (Publishers), 1985

STANCIU Cezar, *Documente Fundamentale ale regimului comunist din Romania*, Targoviste, Editura Cetatea de Scaun, 2012

TIU Ilarion, *Negocierile si derularea acordurilor de imprumut cu Fondul Monetar International si Banca Internationala pentru Constructie si Dezvoltare in perioada 1965-1989*, Bucuresti, Institutul de Economie Mondiala, 2015

WATTS Larry L., *Fereste-ma, doamne, de prieteni – Razboiul clandestine al blocului sovietic cu Romania*, Bucuresti, Editura RAO, 2012

VIDEOS:

Memorial durerii – Episodul 18: Colectivizarea din Vrancea, documentary series by Lucia Hossu-Longin, 2009. http://www.dailymotion.com/video/xrqwpu_memorialul-durerii-episodul-18-colectivizarea-din-vrancea_shortfilms

TVR 60: *Discursul lui Nicolae Ceausescu dupa invazia Cehoslovaciei*
<https://www.youtube.com/watch?v=zztLZnrQ43Y>

Dor de adevăr – Revolta de la Braşov, 15 Noiembrie 1987
<https://www.youtube.com/watch?v=rSi6bZuSwdk>

DOCUMENTS AND ARTICLES

1. BAN Cornel, *Sovereign debt, austerity and regime change: The case of Nicolae Ceausescu's Romania*, in *East European Politics and Societies and Cultures* Volume 26 Number 4 November 2012
2. C.C. al P.M.R., *Declaratie cu privire la pozitia Partidului Muncitoresc Roman in problemele miscarii comuniste si muncitoresti international*, 1964
3. COMISIA NATIONALA DE STATISTICA, *Anuarul statistic al Romaniei 1990* (Yearbook 1990)
4. COPILAS Emanuel, *Imposibila independenta: Aspecte ale politicii externe romanesti in perioada comunista*, in *Anuarul Institutului de Istorie George Baritiu*, Cluj Napoca, LII, Supliment, 2013
5. LINDEN Ronald H, *Socialist Patrimonialism and the global economy: the case of Romania* in *International Organization* Vol. 40 No.2, Spring 1986
6. Program de măsuri Ministerul de Interne, 22.11.1982
7. Romania Economic Memorandum, Report No. 4667-RO, Document of the World Bank, March 1984

8. WATTS Larry L., *Romania Security Policy and the Cuban Missiles Crisis*, CWIHP
e-Dossier No. 38, 2013