

# **Romania and the Struggle for New Directions and Coping with Foreign Advice and Advisors**

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The end of the 1980s was a decisive period of tumultuous changes taking place in Russia and Eastern Europe. With Mikhail Gorbachev coming to power in 1985, policies of glasnost and perestroika were instituted. These policies, combined with the cutting of Russia's military budget, allowed greater freedom of speech and self determination for Russia and her satellite countries. The end result was a series of events that brought an end to the Cold War by the disintegration of the USSR and the Soviet Block. In 1989, Poland had her first free elections since the Communist takeover. /1/ Also in that same year, Hungary, East Germany, Czechoslovakia, Bulgaria and Romania cast off the yoke of authoritarian rule and demanded democracy.

It was a time of optimism and euphoria in both East and West. Democracy, capitalism, private ownership and free market were perceived as panaceas for the poor standard of living being experienced by Eastern Block countries.

The momentous changes were not generally predicted; and, those who foresaw the disintegration of the USSR and her satellites were ignored./2/ Events happened so fast that policy makers and planners did not know how to respond. A year later Jeffrey Sachs, the Harvard Economist "who is probably the most important economist in the world," (Passell 1993: 52) stated that "the book on development has to be written as we go along" (World Net 1990). Lack of knowledge did not prevent western experts on economic, political and social development from arguing their theories and dogmatically deriving their solutions. At first glance, the situation of the Eastern Block countries seemed unique in modern history. In the East and West, there was general agreement with intellectuals like Sachs, who argued that the experiment with communism had failed and the solution was to develop a free market with private ownership.

Immediately plans and policies were developed to convert Eastern Block countries from a centralized political and economic system to one emphasizing democracy, free market and private ownership. The World Bank, International Monetary Fund and aid policies of western

countries like Germany, Britain, France and the United States were not only geared to promote the principles of democracy, free market and privatization, but to do it suddenly. Jeffrey Sachs advocated "shock therapy," arguing that the change must be immediate because public and private enterprise cannot coexist. The Shatalin Plan was proposed in Russia which outlined a complete shift from communism to capitalism and private ownership in 500 days.

Now in 1993, the euphoria is over, the ideology of the West is being tried. How the results are interpreted depends on who is doing the evaluation and data used. Those who use broad economic statistics concerning GNP and currency stability on the international market point to successes in countries like Russia and Poland, as they did in the earlier years of economies like Brazil, which are now failing. However, the people in almost all the Eastern Block countries, including Russia, feel their quality of life has declined since 1989 (Soloman). The casual observer in cities like Bucharest will see an increase in available food in the summer and more foreign luxury products in the stores; but, a closer examination shows that productivity is dropping, the middle class is declining, the gap between the rich and poor is increasing and people feel their quality of life has declined.

It is time to evaluate policies imposed on Eastern Europe and the countries of the former Soviet Union. To understand what is happening, I will briefly focus on the international context, evaluation of the free market and privatization programs, and Romania as a case in point. The data on Romania focuses on social processes and perceptions rather than statistics because, 1) statistical indicators do not always indicate the quality of life of the average populace, 2) development programs often fail because the culture and perceptions of the people involved are different from that of the implementers, and 3) peoples perceptions are what people respond to, not necessarily what is actually happening. Also, the manner in which an outsider interprets a situation may differ markedly from the perceptions of the local populace. And, the local populace behave according to their impressions.

My analysis of Romania is based upon a year of intensive research while living in that country during 1991/92 and subsequent visits in 1993. Although my focus is on Romania. It must be kept in mind that the countries and regions under discussion vary tremendously. Thus, further research will be needed to determine the degree of relevance of the Rumanian situation to other nations.

## **International Context**

Events since the Second World War impacted on Western response to the balkanization of the East. Shortly after World War Two, the United States became the dominant world power in the West. Under the strong influence of US Secretary of State John Foster Dullas, the States promoted an ideology at home and abroad that communism was a threat to the world and it must be contained. Often, the propaganda, especially during the Reagan Presidency, took the form of communist countries being evil and wanting to take over the world to subjugate all people to their devilish design. The ideology was prominent in rationalizing the formation of alliances like NATO and SEATO. It was partly responsible for justifying the successful Marshal Plan that was instrumental in rebuilding Western Europe after the Second World War.

United States ideology argued that there were universal ethical economic, political and social systems that should be employed by all nations; and, those who were not adhering to the capitalist/free market/private property position were not only against it, but were evil. It took the form of religious fervor, a "civil religion."<sup>3/</sup> The issues were political, social and economic, but the behavior was similar to a religious movement, working to not only convert others to its cause, but resorting to force to bring others into its ideological realm, as was paramount during the crusades and various holy wars throughout history. It was not conversion to a religious view that people were advocating, although in some groups democracy and Christianity seemed synonymous; but, the world was divided into two ideological camps such as nations advocating democracy/free market/ private ownership versus communist/centralized planning/public ownership. What is interesting is that alliance and identification was based on what governments claimed to be, not what they actually practiced. Some of the most oppressive and authoritarian regimes of South America and East Asia, such as South Vietnam, claimed to be anti-Communist and democratic. And, they were considered free democracies.

From the American perspective, there was no neutrality, a nation was in one camp, that is pro West, democratic and good; or, communist, anti West and evil. Countries like India, who took a neutralist policy, were classified as communist. Russia and China, at least up to the time of President Nixon, were perceived as one in the same in that they were both communist and part of the international conspiracy to promote and conquer societies emphasizing democracy, even

though they often had armed conflict on their borders. From the ideological view of the United States, there was no compromise or differentiation.

In the Eastern Block countries, a similar situation was going on in that propaganda was being waged concerning the debilitating results of capitalism and the superiority of communism. State controlled movies, television and radio in countries like Russia, Romania, and Bulgaria emphasized the unemployment and violence of American society. Children in school were taught communist ideology and social programs were instituted to eliminate hierarchy based on wealth, heritage and knowledge.

Thus, with the collapse of the Soviet Union, it seemed to both sides of the Iron Curtain that the capitalism, democracy and emphasis on private ownership of the West was superior. Thus, reformers in the East and West set out to bring about a reformation to conform to Western ideas.

### **Transition from Communism to Capitalism-- Some Thoughts**

The most recognized authority on economic development is Jeffrey Sachs, who advocates "shock therapy"/4/ to jolt economies of the former Eastern Block countries to stability and viability. He argues that public and private sectors cannot coexist. Thus, public sector enterprises must be immediately shifted over to the private sector, which must also operate on a free market system. He uses the analogy of a country shifting from a right hand drive traffic system to a left hand drive traffic system. It has to be done suddenly. You cannot have trucks change one day and cars the next. But, what has experience taught about free market and private enterprise systems? Also, is the traffic analogy valid? Can a sudden shift be implemented?

### **The Free Market**

In theory, Sachs's argument is very logical; but, does it work? Human behavior is not always rationale, at least according to Western thinking. The first question to ask is, "Has Sachs's view been tested?" The answer is "yes." In general an unregulated free market:

- 1) "... responds to the tastes of those who can pay, the privileged minority. ... Left to its own devices, the market simply mirrors inequalities in wealth and income... We must not delude ourselves into thinking that it registers the needs and wishes of all people."
- 2) "...the market is...blind to the social and resource costs of the production engine it is supposed to drive."
- 3) "It leads to the concentration of economic power." (Lappl and Collins 1986:77-84).

There are many case studies to support the above. One of the more prominent is Brazil. According to Francis Moore Lappl,<sup>5/</sup> a development economist, Brazil did everything right. They followed the economic thinking of Milton Freedman of the University of Chicago. They borrowed heavily, developed industrially and shortly had excellent economic indicators. Yet, in spite of having some of the highest paid executives in the world, their tuberculosis rate, poverty level and rate of sickness is among the highest in the world. Now, Brazil's economy is on the verge of collapse. The situation of Brazil is not unique, there are many instances that parallel Brazil's experience.

Is Sachs correct in saying that private and public ownership cannot exist side by side? The answer is "No." The United States, one of the biggest advocates of free market, is a case in point. When companies like Chrysler Corporation were about to go bankrupt, the United States Government awarded them massive loans. Companies like McDonald Douglas are kept viable by being awarded defense contracts, a form of public assistance. And many institutions, like the American farmer, although private enterprises, are heavily subsidized and regulated by the United States Government.

In actuality, one should look at the United States to determine what did happen when a totally free market was instituted. During the turn of the century, when there was little or no regulation of enterprise, the rich got richer and poor got poorer. Once an individual or company got an advantage, they used their power to exploit others. A good example is Standard Oil. It became so big and powerful that any business starting to compete was immediately crushed. Generally Standard Oil sold gas next to a competitor at a loss, as other parts of the corporation countered the loss by their profits. In this way, a competitor was immediately crushed and

Standard Oil raised prices to recover losses. General Motors was so powerful it bought or crushed the competition to maintain a monopoly. In some cases, GM bought entire companies or inventions. In other cases, GM pressured governments to pass laws that limited public transportation, so people would buy automobiles.

As social injustices became apparent, laws were passed to regulate the market so that competition would be fair. Companies like Standard Oil had to relinquish their monopoly by divesting their holdings. Laws were implemented to regulate the market so access would be fair. Next, an infrastructure was instituted to enforce regulations.<sup>/6/</sup> The United States Interstate Commerce Commission (ICC) is a case in point. It is an administrative body charged to enforce the federal laws regulating trade and communications between states within the country. A cursory knowledge of American History at the turn of the Century reveals that the free market system did not even work in the United States until sufficient regulations and an adequate infrastructures were in place to insure that the market worked for the benefit of the society as a whole. In actuality, the United States and Western Europe are trying to impose an economic system on the Eastern Block countries that even they do not adhere to.

### **Criteria for a Free Market**

Sachs argues that for free market with private ownership, five conditions have to be meant.

- 1) It must be realized that there is no third way, private and public ownership cannot coexist.
- 2) A legitimate government with political and social stability must be in place.
- 3) Market experience with the West is crucial.
- 4) There must be skilled managers in the system.
- 5) A sufficient infrastructure, with banks, lawyers and accountants must be in place.

1. Coexisting of Public and Private Enterprise: Governments like India have had private and government owned industries compete. There is disagreement as to whether that was the best

policy for India. But, industrial conglomerates headed by families like the Tatas and Birlas; and, hotel chains like the Taj and Oberoi groups have not only survived, but are international competitors.

However, the bigger issue has to do with government control and interference in industrial development. Japan, and the Minidragons of Asia, namely Malaysia, Singapore, South Korea, Thailand, Taiwan and Hong Kong, have heavy government involvement and investment in private enterprises. Central control and investment are often essential for economic growth. The famous Air Bus developed by England and France is competitive and successful because of government investment in the project. In fact, it may be coming to the point that even enormous companies like Boeing do not have sufficient resources to compete in research and development with subsidized projects like the Air Bus. The point is, however, that developing economies cannot compete without substantial central and/or foreign investment and centralized direction and administrative support.

Second, many essential services may be needed which are not profitable for private enterprise to enter. These can range from unprofitable air line routes to enterprises like the Tennessee Valley Authority (TVA) built during the depression. There is time when the center has to step in and become involved, either in doing the endeavor or providing sufficient stimulus for private enterprise to accomplish the task. Either option is a central government controlled enterprise.

2. Legitimacy: Institutions that demand loyalty is something based on the perception of a society. Majority rule and freedom of expression do not necessarily create legitimacy, it is based on tradition. The United States had several hundred years to establish a system that the population considers legitimate. It was tradition that kept President Nixon, as Commander and Chief, from having the military arrest Congress when he was being threatened with impeachment. It is tradition that enables Britain to function based on the Magna Charta, a small general document. These countries have taken several hundred years of isolation from foreign involvement to establish these traditions. In countries like Romania, the meaning of democracy has not been established; and, minority groups such as the Hungarians, Gypsies or Germans perceived of majority rule as a tyranny of the majority. The end result may be social upheaval. Majority or democratic rule does not insure legitimacy for any community. To some, democracy

may mean anarchy, others it may be more centralized control. The meaning of democracy and freedom varies from culture to culture and nation to nation.

Also, an economic system cannot develop unless there is a degree of political and economic stability. A viable economic system cannot exist if the society is continually interrupted by revolutions. A money based economy is senseless if the inflation rate is so high that the people have no faith in the currency. A business cannot operate if it is continually being robbed due to lawlessness. There must be political, social and economic stability for the country to progress.

3. Experience with the West: Since the West is the primary supplier of capital, customers and aid to Eastern Block societies, it is imperative for those societies wanting to develop a free market to know the culture, banking, legal, accounting, marketing, and business practices of the West. They have to market and gain capital from the West. They have to be able to negotiate, sell, analyze and deal with the West. Experience in business and cultural processes are crucial for this. Such knowledge was essential for the development of Japan and the Minidragons, it is essential for the former Eastern Block countries also. At present, due to the isolation imposed during the Cold War, people in Eastern Europe with Western experience are limited.

4. Skilled Managers: Competent managers are crucial. There has to be a segment of the population that are skilled in leading and motivating employees to work, organizing economic activity, and marketing on the local and international levels. Some societies obtain such a cadre from the educational system where there are programs to train students in business, management and manufacturing. Others have a traditional segment of the population composed of families, ethnic groups or classes, that have been doing these activities for generations. However it is obtained, there must be a managerial class skilled in business and manufacturing who can take the leadership in developing these segments of the economy.

5. Infrastructure: Infrastructure is a broad term which stands for supporting structures and talents necessary for economic development to take place. Sachs emphasizes banks, lawyers and accountants. But it is, of course, much broader. Markets cannot operate unless there are means to get goods to them. Thus roads and vehicles may be part of the infrastructure needed for a free market to exist. One cannot compete equally with another business if one has a telephone and the other does not. Thus, having a viable telephone system may be crucial for having a free market



to operate. Infrastructure can also include a banking system, government regulations, laws to allow the importation of spare parts and many other items.

A free market cannot be free unless all have equal access and the rights of all are protected. Infrastructure such as laws, regulations, and enforcement systems have to also be in place for a free market to operate so that there is freedom for all. Components for an infrastructure that enables a free market to operate are enormous; but, the country that does not have a sufficient infrastructure cannot have a free and equitable market.

6. Motivated Work Force: Besides the criteria set forth Sachs, I would add one more, "motivation." People in the society have to have a reason to work. They most want to do a good job. They have to be motivated. Money is not a sufficient motivator. People have to feel there is purpose and meaning in what they do. Unless there is a cultural framework that provides a context for participants to see meaning and purpose in what they do, they will not do the task well. Force and money are not enough.

The questions still remains. Can a sudden change to a free market, with emphasis on privatization, bring about positive change in the former Eastern Block countries? Should such a change even take place? Looking at the Rumanian case can give indications toward an answer.

### **Romania: A Case Study**

Located on the Black Sea in Southeastern Europe, Romania has a population of 23,397,000 (1991 estimate). Ethnically, it consists of Rumanians, 89%; Hungarians, 7.9%; Germans, 1.9% and Gypsies./8/ The Geographic area is 91,.699 square miles, slightly smaller than New York and Pennsylvania combined. Its population density is 225 people per square mile, but 53% of her population is urban. Romania claims a 96% literacy rate and an economy that produces steel, metals, machinery, oil products, chemicals, textiles, and shoes. Romania also claims a thriving tourism industry.

Historically, Rumanians claim the geographical regions of Bukovina, Moldova (which includes Besserabia), Wallachia, Transylvania, Banat, Oltenia, and Dobrudja as their homeland. But, under Russian domination, some of these are were divided and given to other countries, or in the case of Moldova, divided and from part of the region a separate country, The Republic of Moldavia was created.

Today, Romania, like other countries, is trying to forge a direction; but, there are conflicts as to what they can and want to do and what western countries are expecting or imposing on them.

Since the 1989 Revolution, Romania, like many other nations in Europe, is going through the process of nation building. The process involves the development of political and economic institutions to insure national security and social stability.<sup>9/</sup> To do this, they are being pressured by the West to form a democratic political structure with an economic emphasis on free market and privatization. However, they are also being pressured to make these radical changes suddenly. Can this work? And, if it does work, is it good for the country or society. First of all, let us apply the criteria for a free market based on privatization to work to Romania.

1. Privatization: Countries like Romania are being told by Western advisors that there is no third way, public and private ownership cannot coexist. This advice is almost impossible for them to follow. Factories, refining companies, farmland and equipment, were under state control. How is this all divested equitably in the hands of the people. In the case of Romania, and generally throughout Eastern Europe, several processes are going on to privatize. Vouchers are issued to the citizens which equally divide up the assets. But, the redemption of these vouchers is confusing to the citizens. Should they retain them as an investment or should they redeem them for cash as soon as possible. And, with the high inflation rate, are they really worth anything. Many of the citizens, including college educated, are so confused by the voucher system that they consider it worthless.

Second comes the actual disposition of property. Should it be awarded to those who owned it before the revolution, or should it be sold to the highest bidder. Yet again, for example, is it right for the people who have been living in a house or farming the land for the past forty years, thinking it was theirs, to be immediately dispossessed, especially if the claim on the real estate is by a person who now lives in an urban area and will probably never return to that property. If urbanites are granted agricultural land, productivity is sure to decrease for the new owners will not have the knowledge to maximize agricultural production.

Those who feel they are treated unjustly can go to court; but, legal fees and the credibility of the legal profession make such endeavors questionable, even if the judge is honest, which is an issue to be doubted. As can be seen, just the divestiture of public assets may be a time consuming process, especially if no one has the money to buy government run enterprise. Often

foreign companies are not interested because the technology is outmoded and inefficient. Thus, selling off the enterprise itself poses problems.

Local people do not have the capital to invest, even to buy shares in a company where they work. Under the former communist system, it was difficult, if not impossible, for a person who was not a high ranking party member to accumulate investment capital. One may rise and obtain perks, power and influence; but, money was only for those who did things illegally or who were high party officials. Thus, unless foreign investors are interested, and they are not interested in inefficient obsolete technology, no one will invest so an enterprise can privatize.

Thus, to privatize, Romania may have to either give away what others do not want, or sell it to foreigners or former communist officials. Either solution may not be the best; in selling to foreigner enterprises, Romania loses control of her most profitable enterprises to foreigners, or economic power goes into the hands of the former high communist officials. It is the second process that is happening in the former Eastern Block countries--former Communist Party officials have the money and contacts to gain or maintain positions of authority and control in the new democratic system.

2. Legitimacy: Romania does not have a democratic tradition. A type of feudal society has dominated its history, with an aristocratic elite and merchant class governing over a peasant subservient strata. In the later 19th and early 20th century, there was a monarchy. The idea of a democratically elected Parliament is recent. Thus, the country has not had time to develop a tradition to determine legitimacy. Some feel that if they did not vote for the ruling party, it is not legitimate. Minorities such as the Hungarians feel that they have no chance since they are not in a majority. Democracy is the tyranny of the majority, minorities can never achieve their goals unless by the consent of the majority. Thus, for minority communities, the present government is not legitimate for them.

Also, with the casting off of Soviet power, other minorities feel it is time for them to have independence. Thus the Gagauz of Moldavia, a region of only twelve villages, declared themselves an independent nation. They argue that they are now "grown up" and no longer should be subservient to the government in Kishinev. Who has the right for self determination? What the Gagauz did was consistent with Woodrow Wilson's Fourteen Points setting for the right of a people to have self determination (Moynihan 1993). Whose vote should be considered in the majority? What or who decides if the government is a legitimate? These are all questions

that take years for countries like the United States and Britain to answer and they are being asked in countries like Romania and other Eastern Block countries. However these countries have neither the tradition or yet the opportunity to work out an answer for themselves, one that suites their cultural, social and historical framework.

3. Experience with the West: It is difficult to understand how a people think differently from us, who have not had experience in the western style market economy. Those indoctrinated in a Western market system think primarily in terms of efficiency and maximizing profits. Organization, hiring of personnel, acquisition of technology, marketing, and managing are all done with the idea of either improving efficiency or maximizing profit.

Under the centralized communist system, a different thought pattern developed. Managers were political appointments. Thus, a manager of an enterprise, which usually was state owned, thought in terms of rising in the party apparatus. Thus, a manager thought in terms of creating jobs, implementing job security, and providing benefits for his workers, such as housing. The position was used to obtain patronage from those below and to obtain contacts and give patronage to those above. Also, production was not according to need or market, but to have good statistics so that one could boast about production levels, whether the items produced were sold or used or not was often immaterial. It was the productivity statistics that were important. With the revolution in 1989, the managerial segment of most industries did not change. Thus, even today, those in high managerial positions in industry, as well as workers, do not fully comprehend the way they can fit into the competitive world market. For too long, their market was assured, being the Soviet Union and Easter Block countries. Thus, having to operate in a competitive atmosphere is alien to them.

In 1991, while interviewing plant managers, often of outdated inefficient operations, they assumed a western company would come and buy the concern and it would become profitable. They had no concept of the enterprise not being wanted, or if it was purchased, making it profitable would entail updating technology or firing workers. By 1993, however, some of these misperceptions were changing.

Workers also do not comprehend a system where they may have to lose their job. For forty years, employment has been assured by the state. Many now are at an age where they realize that new employment is not a viable option if they are terminated. But, instead of working

harder to make the operation efficient, they often think in terms of sabotaging the operation so that the state will reclaim it.

4. Skilled Managers: A managerial segment of the population, whether it be in business, finance or industry was actively attacked and virtually eliminated under the communist regime. When the communist took over in Romania, the homes and enterprises of business people were quickly confiscated and the people turned out. Often, the children of the intelligentsia were inhibited from going to the university.

The system was one of social engineering where those in positions of authority, whether business or manufacturing, were deprived of their position and/or assets; and, their children were also prevented from taking the place of their parents in the economic sector. The goal of the Communist leaders was to glorify the workers and make the society less hierarchical, except for Communist Party members.

Before the Second World War, Romania had a strong economy. Bucharest, the capital city, was known as the Paris of the East. With the advent of the authoritarian communist government, which turned out to be one of the most oppressive ones in Eastern Europe, the aristocratic, business and managerial segments of the population were actively attacked and deprived of their assets and the ability to use their knowledge in the development of Romania's economy. What in the past were positions based on ability, class, and assets were turned into political appointments.

While the business and managerial class were being actively eliminated, contact with the West was cut off. Literature concerning the behavioral and social sciences and business management were not allowed into the country. Thus, even for those who wanted to read or learn about personal management and economic theory could not do so. Teaching in the universities was dominated by Communist Party propaganda. Students were not taught according to the state of knowledge, but what the Communist Party perceived as Marxist and Leninist doctrine. The result was not only the elimination of a whole class of business and managerial people, but this class was prohibited from rising again and any knowledge in these fields was actively fought or not allowed to enter the country. The new leadership were peasants and workers who were loyal party members. People of the uneducated class were elevated. They intuitively realized the importance of serving politically strong people and gaining the support of a populace by granting favors. The goal was to gain power and use it to personal advantage. And, since the economy

was tied to the Soviet Block, efficiency and market mentality were not the means by which one gained power, it was by political maneuvering in the Communist Party apparatus.

The problem of lack of contact with the west and a market economy is most notable in the governmental bureaucracy. When companies come to look at the economic opportunities in Romania, the members of the bureaucracy, do not know how to talk with them, what they are interested in, or what information they need. They often cannot obtain the reliable information needed, and do not know how to negotiate. Initially, the feeling was that western investors would come in and buy anything and everything for any price. The common feeling, fueled by Radio Free Europe and other propaganda, was that the United States would bring in a lot of capital and make everything right. Little or no effort would be needed on the part of the Rumanians. By 1993, that feeling was no longer present.

With the 1989 Revolution, there was no business, industrial or entrepreneurial class to step in and help the economy to start developing. There were exceptions; but, for the country as a whole, these segments of the population did not exist. This was a strong inhibitor to the economic and political stability of the country.

5. Infrastructure: Without the business, industrial, and managerial experience, the creation of an infrastructures is almost impossible. Banks are needed, but they cannot develop because they are state controlled and the people in positions of authority do not know the needs of business and industry nor how to serve them. For example, the National Bank of Romania in 1993 was happy that they had a surplus. But, instead of using that surplus to give easier and cheaper credit, they used the profits to repair streets in Bucharest. Because of the high and unpredictable inflation rate, they charged a 70 per cent interest rate to off set the high inflation. No starting business could pay such charges.

Like bureaucrats, they think in terms of the survival and maximization of the power of their institution rather than the purpose it should serve. Related to the above, competent lawyers, accountants and managers were absent, both in the private and public sector. Under the Communist system professions dealing with business and finance were scorned. Students were encouraged and socialized to major in engineering or the hard sciences. If subjects concerning finance and business were offered, they were taught in a manner that promoted the Communist Party propaganda.

However, infrastructure is more than just skilled people. It is institutions such as proper schools, it is facilities such as roads and telephones, it is a governmental and economic bureaucracy that supports and regulates. However, one thing a revolution does is tear down existing structures. Romania did not have them well before the revolution and at the moment, development has stopped because people do not know how to proceed or the rules governing political and economic behavior. The revolution initially eliminated old rules and the new are not yet developed.

Last, there has to be a moneyed class in the population that has capital to invest. Knowledge and capital are both necessary. The traditional families and people performing such functions were eliminated under communist rule. The only money segment of the population after the 1989 Revolution were former communist party officials and illegal entrepreneurs. The former communist party members have the capital and contacts to use their money to advantage. Thus, in Romania, like many other countries of the Easter Bloc, former Communist Party officials now have a stronger hold on economic and political power than ever before -- all under the guise of capitalism and democracy.

6. Motivated Work Force: There has to be a motivated work force. Western reports evaluate Eastern Block workers as lazy and not motivated. However, very little is said as to why workers do not seem to have the "ethic" found in the West. Sachs said that the process the Eastern Block countries are going through now is unlike anything experienced in recent history. I see two parallels, one is the experience of colonized people when they achieved independence and the other is the description set forth in George Orwell's 1984.

Postcolonial societies had to contend with their community, culture and self determination, on both the group and individual level, being destroyed. Like in colonial societies, or the creation of plantation economies, people were forced or enticed to leave their rural communities to settle in urban areas. This was the case in Romania. The country industrialized fast, agriculture was collectivized and people, especially the younger generation, were enticed or forced to move into urban apartment houses, which were built in the pattern of what I term "prison modern" architecture. The apartment buildings, by design, did not facilitate interaction of the inhabitants. That factor, combined with the threat of the Securitate, (Secret Police) having the reputation of having informants everywhere, inhabited people from developing communities of support and cohesion. Thus the social groups needed to have a community and culture did not

develop. What happened was the creation of a group of suspicious and autonomous individuals who were paranoid and anomic.

Without community development, the enculturation of a value system that would provide a way for a people to achieve meaning and purpose in life was not possible. Thus, things like having pride in your work, or doing a good job for god, country and society, were not present. People thought only in terms of themselves. What else was there to live for?

Also, the social structure had been destroyed. The managerial, business, professional and intelligentsia had been systematically demoted into unskilled professions and their children placed at a disadvantage for getting a university education. People doing menial tasks, such as unskilled factory work and street sweeping, were paid better than doctors and accountants. Thus, when independence came, and international companies entered into Romania, there was a lot of worker discontent when professions and financial people were paid better.

There was little or no relationship between working hard and being rewarded. Even Marx and Engels in the Communist Manifesto argue that there has to be a relationship between work and reward. Under the Rumanian communist system, that did not exist. A person could work very hard on their job, but generally that had little to do with promotion. Promotions and authority were political. Job security was assured, no one was fired, and the values of loyalty to the community had been destroyed. Thus, people never had their heart in their work. What arose was a whole population that emphasized doing as little as possible in their job. The only criteria was that they show up for work. Once they were there, they wanted to "beat the system" and anyone who worked hard was pressured to conform to the behavior of others, that is, do as little as possible and pilfer.

Thus, it is not surprising that one multinational had numerous problems when they bought two local companies to establish operations. First, the workers were disappointed because the company did not repaint and clean up the buildings immediately and second did not raise their salary by a third, although many foreign companies have done that. The company was upset when they found out they could not fire people. Later they discovered a loophole where they could terminate workers. When this was communicated to the employers, they immediately started to sabotage the manufacturing of the product. The employees reasoning was that if the operation was not profitable, the state would buy the enterprise and they would again have job security.



When the company started paying accountants and financial experts higher salaries, the workers in the manufacturing section were dissatisfied because they had been the higher paid, and, paying others who had usually been paid lower, to them this was wrong. Employees had no concept of market determination. And when the one company, that had not been computerized and less efficient, found out that they were paid less than the computerized more efficient operation, they began having strikes for they felt that they were doing the same job and should be paid the same wage.

Pilfering was also a big problem for the company. It had been common practice and it was difficult to stop. Also, since analysts were not familiar with Western companies, they did not know how to provide information in a manageable, meaningful way to the Americans who were running the operation. Older workers resented and sabotaged the efforts of younger workers who were more easily indoctrinated into the new philosophy.

Of course, problems were not just in the factories. The younger population who left the villages may be unemployed in the cities but they did not want to return to their villages. Thus the agricultural population is now dominated by old people who will soon be dying off without knowledgeable people to replace them. This may hurt agricultural production severely.

## **Implications**

In this cursory treatment of the situation in Romania, implications are numerous. However, I would like to focus on a few. First, the free market coupled with privatization in and of itself can not solve the problems in the former Eastern Block countries. Every successful economy to date, whether it be the United States, Japan, Korea or Malaysia has had a high degree of governmental involvement in the economic development of the country. Malaysia did it by attracting foreign investment, Korea by giving favored treatment to a cartel, Japan, with the Ministry of International Trade and Industry (MITI), by creating an environment for Japanese industry to develop and expand at home and abroad. Thus, the involvement of the central government is crucial, the issue is how. But, one thing is sure, an unregulated free market with privatization is not enough. It hasn't been the case anywhere in the world yet, nor will it be so in Eastern Europe.

Second, a whole new infrastructure has to be created. Everything from roads to an educational system that creates managers and people sufficiently educated in the social and behavioral sciences so that people can be understood, communities can develop and workers can be motivated. The communist system tore down the society, now it has to be rebuilt.

Third, more is involved than just monetary investment and technology. The crucial factor is people issues. Societies like Germany, Korea and Japan were able to retool and develop very rapidly, in part, because the people had a vision of a society, a culture that had not been destroyed. Romania, and many other Eastern Block communities, have never had this or it was destroyed under communist rule. Thus, emphasis has to be on training people, educating the governmental bureaucracy, and informing the public about issues like democracy, privatization and free market. The public needs to be informed as to what these things are, how to deal with them and what to expect.

Fourth, foreign advisors, whether economists, political scientists, business people, or technicians must know the totality of the problems being faced by former Soviet Block countries. They must know how and what the local people think, how they behave, and why they do what they do. Advisors must think in terms of a package, not in isolated solutions such as privatization and free market. Societies and cultures are systems, but market and privatization are not the all pervasive prime movers.

I will never forget my third month in Romania. I was living in a dwelling, as most Rumanians at the time, without heat and hot water. I was chilled to the inner most parts of my body. The weather had been below freezing for several weeks, the warmest place I had been was in the subway. Like many around me, I had only eaten bread, potatoes and pork, which was all that was available on the market.

One day I went to interview a member of USAID. As I walked into his clean warm office, I felt like I had gone to heaven. However, my view of "heaven" was shattered when the first sentence shot from his lips saying, "These Rumanians must realize that if they are going to develop, they are going to have to make some sacrifices." What came immediately to my mind was, "I wonder if he would say that if he lived like I was living now, or was living like the average Rumanian was living now, or if he had sacrificed for the last 40 years for his children, only to now hear an American advisor say that they must sacrifice more." Would that advisor have such an attitude if he really knew what the Rumanians had and were going through?

## Notes

1. The term "communist" as used here is not the pure form advocated by Marx and Engels in the Communist Manifesto, but an authoritarian system implemented by Russia and her satellite countries. It was not pure communism.
2. For scholars who perceived these events, see Moynihan (1993) and Gellner (1980, 1988).
3. The term "civil religion" stems from the phenomenon of political and economic ideology taking the fervor of a religious crusade; people, communities and nations work to convert or win others to their particular belief. Often proponents expound an ideal rather than a real application of their point of view. It is ethnocentrism in its most extreme form.
4. His views are set forth on the Public Broadcasting (PBS) program World Net, aired on September 25, 1990. See also Sachs (1989, 1991).
5. The Politics of Food, a television program produced by the Public Broadcasting System (PBS) in the United States. For a more detailed but critical evaluation of a free trade and free market system, see Frances Moore Lappé and Joseph Collins "The Free Market Can End Hunger" and "Free Trade is the Answer," World Hunger: Twelve Myths.
6. "Infrastructure" refers to the supporting mechanisms needed for a program to succeed. Making television available is of little value if people are not trained to repair them and spare parts are not available. The training of repair people and making spare parts available are examples of infrastructure. Infrastructure can be both a regulatory and a supporting mechanism. Having the means to prevent a company from exploiting workers is a regulatory function. Having schools to train repair technicians is a support system, both are considered infrastructure.
7. To date, Japan has not been a major investor in the former Eastern Block countries.
8. Although Gypsies are few in numbers, animosity against them is very strong.
9. Although national security and social stability are general goals, what these mean and the addition of other criteria vary from country to country.

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