

# The “winners” and the “losers” of Romanian economic transition

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## SUMMARY

*We tried to reveal some relative „winners” and „losers” of the post-socialist transformation process in Romania. The relative „winner” or „loser” positions of the development regions, of the urban and rural areas, of the different population groups and of the activities of Romanian economy are emphasized by statistical databases. The main territorial „winner” in the 90s was the region of Bucharest, the Transylvanian regions, in general, could not improve their relative positions. One of the „losers” is the rural area, mainly the agricultural activity, which became a buffer for hidden unemployment. The majority of employees, peasants, retired people and mainly the unemployed, are net „losers” in economic respect, at least on short-term. We have to mention that about all of Romania’s population, concerning democracy, are winners.*

*Key words: changes in transition, differences in regional competitiveness, urban-rural disparity, poverty groups and comparative advantages of sectors.*

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## INTRODUCTION

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Romania, along with Albania, was the most centralized economy in Central-Eastern Europe before 1990.

The process of transition to market economy, from 1990-2000, could be characterized by stop-go transformation (Hunya, 1998). The quick and successful transition has been hindered by the inherited state of the economy and by the wrong economic measures taken by different governments. The principle of the gradual transformation has been applied in Romania before 1996, which in practice meant that the losses of the huge state-owned enterprises were compensated from the national budget, motivated by social reasons. In 1991, agriculture began a radical transformation, so the agricultural production cooperatives were broken up and the land of the cooperatives, up to 10 hectares, were returned to their rightful owners from 1949, respectively to their heirs. After this cathartic destruction of a system that everyone hated and which had brought few benefits to cooperative members, the moment for reform was lost (Swain and Vincze, 2001). While the partial land restitution took place, the agricultural machines remained in state property until the end of the 90s, and the privatisation of the state sector in the agricultural sector, which represented 20% of Romanian agricultural land, began only after 1997, so the “gradualism” in transformation prevailed in agriculture, too.

The assessment of the situation concerning the winners and

the losers of Romanian economic transition is a very complex task, which surpasses the dimension of this study. The classical partial equilibrium models’ calculations emphasize the differences in impact of an economy policy measure on producers, consumers, and taxpayers and the proportions of these impacts also depend on the elasticity of demand and supply curves. The winners and the losers changed not only according to the economic policy measures taken in different periods, but could be the determining factor of the social-economic position occupied in the past and in the present. In Romania, the relation network of individuals and interest groups has been and remains important, which makes us be confused about the interdependence between the winner or loser position and the impact of the transition process on this.

In the present study we undertake no more than to show the changes in the direction of more or less advantageous position of the territorial regions, of the economic activities, of groups of population, as well as of the group of employment in the 90s on the basis of statistical data. By emphasizing the regional changes in the 90s I tried to emphasize the “winner and the loser regions” in the transition period. The analysis of employment indicators on urban and rural levels allows us to show to which extent the residents of rural areas, where the private property became dominant, could be considered winners. I studied the changes of relative situation between the younger and older

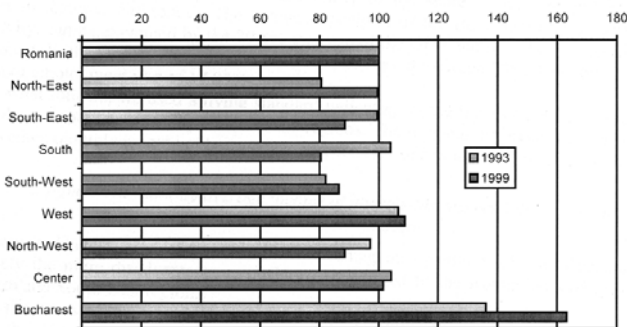
age groups in the transition period as well as the influence of the education levels' evolution on the chance to occupy a winner or a loser position. Finally, I have presented a draft synthesis, based upon scientific reference data, about the changes in the competitiveness of Romanian tradable products in the transition period, thus emphasizing the winning and the losing economic activities. This approach is particularly important for Romania in the phase of pre-accession to the European Union, where competition becomes stronger.

## 1. THE WINNER AND THE LOSER

### TRANSITION REGIONS

Since 1998, a number of 8 NUTS 2 development regions have been established according to the Law 151/1998 on regional development policy. These regions became subject to regional development programmes and statistical analysis during the last years. The Romanian "National Development Plan" contains the issues of cohesion policy and regional development. According to some specialists (Hunya, 1998) "In Romania, there are no significant disparities between regions from the economic point of view, the negative consequences of the actual economic restructuring process affecting, more or less, all country regions". I tried to find if there were "winner", respectively "loser" regions by studying the changes of the following indicators: GDP/capita of population, GDP/employment, and average income per household on regional level between 1993-1999.

The regional differences of the GDP/capita and the changes in the analysed period are represented in figure nr. 1.



Source: [11]: page 142.

1. figure. Regional differences in GDP/capita in 1993 and in 1999

The figures show the great pushing forward of the Bucharest region and the disadvantageous changes for the South region, so we can speak about "winner" and "loser" regions. At the same time, one can notice the growth of the gap between the regions.

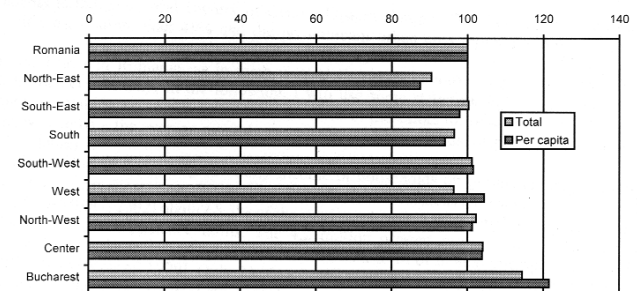
I considered it important to study the changes in the regional level of the GDP/employment, because the dynamics of the labour productivity could forecast the winner or loser position in the future. I made calculations

for the total regional economy, and the main economic activities (agriculture, industry and services) follow the evolution of the labour productivity indicators (Vincze at al., 2003). The main winner of the transition, concerning the growth of productivity relative to national average (83%) is the Bucharest region and the main loser is the South region. If in 1993 the difference between the highest and the lowest regional level of relative productivity was 46.3%, this difference grew to 113% in 1999, so the regional disparity hugely increased.

On the sector level (agriculture, industry, services) the productivity showed very different changes in the amount and in the relative best and worst position of the regions. In agriculture, the gap between the regions decreased to the half, while the agricultural labour productivity in all regions fell considerably. In the industry and the services, the gap in relative productivity between regions tripled during the analysed period, the main winner being the Bucharest region.

The separate study of the changes of the direct factors of productivity, namely the GDP and the employment evolution, showed changes rather in the share of regions and no significant increases in regional differences. The "winner" position of the Bucharest region, concerning the productivity, can be explained by the 20.8% increase of the GDP and by a 34.2% decreasing of the employment. In the "loser" South region, the GDP decreased between 1993-1999 by 21.6% and the decrease of employment was of 17.85%.

In what follows, we used a living standard indicator, on the level of 2001, in order to deeper explore the "winner" or "loser" position of the regions. The regional differences can be emphasized by the average monthly income of households, respectively of a household member (Figure 2)



Source: [13]: page 100.

2. figure. The monthly average income of households respectively per capita of the households in 2001

These indicators also show the most advantageous position of the Bucharest region, respectively the more disadvantageous positions (compared to the Romanian average) of North-East, South and South-East regions.

On the bases of the regional level of the analysed indicators and of their evolution, we can conclude that the negative and positive implication of transition affected all regions to different extents. The net winner is the Bucharest region

where the living standard and the labour productivity is the highest and the last indicator showed favourable dynamics.

## 2. THE GROWTH OF THE URBAN-RURAL DIFFERENCES

Romania is the most rural country of Central-Eastern Europe. The share of the population, living in villages, is more than 45% and the predominant urban area represents only 1% of the territory.

The rural area in Romania, as in most Central European countries, became the “loser” of transition to market economy. In the following, I will use some statistical indicators to prove the above statement, making a comparison between the value of indicators for rural and urban areas.

First, we compare the average monthly income level of households, respectively on capita of household (1. table)

The distribution of the average monthly income of households on groups emphasizes more clearly the rural poverty dimension, the lagging - behind of the rural areas (2. Table).

In 2001, [AMIGO, 2002] about 68.3% of the rural employment were employed in agriculture, most of them in small subsistence farms. The 4.2 million peasant farms, with 2.5 hectares of agricultural surface on the average could be understood as a form of hidden unemployment in the rural

area [Köllő and Vincze, 1999]. Only 25.9% of rural workers are employees, while 73.1 % are self-employed and unpaid family workers. (3.table).

The significant difference between the structure of employment in the urban and rural areas is not only a present problem; it is feared that it will remain at least on medium term. The difficulty is caused above all by the low education level of the rural population, which creates a weak position of the rural labour force on the labour market. (4. table)

One of the greatest “loser” groups of transition is the one formed by young people from the rural area, especially those with a low education level. The restored land is in the property of elderly people, the non-agricultural jobs decreased both in rural and in urban areas, and this is why a part of the young people are compelled to work in a family farm, while others try to find a job in foreign countries, most of them as seasonal workers [Vincze, 2000], [Vincze, 2002].

In the last decade, the state of rural education deteriorated significantly (5. table). This is caused not only by the lack of qualified teaching staff in rural areas, but also by the pupils’ disinterest and lack of motivation. On the other hand, the pupils are occupied either with farm activities or feel attracted to working abroad.

The low level of education in the rural area became a real bottleneck for increased employment in the future, so the chance of young rural people to find a non-agricultural job have decreased during the transition period.

1. table. The average monthly income of the households in urban and rural area in 2001

	Total income of the households		Income per capita	
	Thou lei	%	Thou lei	%
Total households	5217.9	100.0	1808.5	100.0
Urban households	5659.5	108.5	2002.1	110.7
Rural households	4666.3	89.4	1577.4	87.2

Source: [13]: pp. 30.

Note: 26026,89 lei/EUR

2. table. Distribution of households by average monthly income in urban and rural areas in 2001

Average monthly income (lei)	Total households	Urban	Rural
less than 1400000	26.9%	15.3%	41.5%
1400001-3000000	30.6%	29.8%	31.6%
3000001-7000000	33.7%	42.6%	22.6%
7000001-11000000	6.6%	9.5%	2.9%
more than 11000000	2.2%	2.8%	1.4%
Total	100.0%	100.0%	100.0%

Source: [13]: pp. 30.

*3.table. The structure of employment by area.*

	Total	Urban	Rural
Total employment– thou.persons	10697	5019	5678
Distribution by professional status-%			
Employee	55.8	89.5	25.9
Employer	1.2	2.1	0.5
Self-employed	23.6	6.2	39.1
Unpaid family worker	19.1	2.2	34.0
Member of an agricult. holding or of a cooperative	0.3	0.0	0.5

Source: [10]: pp.22.

The figures prove the worsening of the structure of education level in the group aged 15-24, in comparison to the group aged 25-34, respectively 35-49, which created a lag in what the future of rural people is concerned.

### 3. THE IMPOVERISHED GROUPS OF POPULATION

If we try to find the “winners” and the “losers” on the level of the individual or the group, we can provide examples for both categories. It is enough to look at the new residences or at the modern cars on one hand or to look at the beggars as well as the homeless on the other hand.

Mostly after 2000, Romania began the privatisation, the restructuring or liquidation of the big state-owned enterprises with huge losses. This process resulted in a further increase of the unemployment rate (10.5% in December 2000), which on short term could certainly be added to the “loser” group. The share of population living under the poverty level in 2000 was 44% [Georgescu, 2002], mainly unemployed persons and elderly single persons in rural areas belong to this group.

According to the World Bank estimation, [14] the income level per capita in Romania could achieve 50% of the average EU income if Romania is able to sustain in the next 20 years a continuous and relatively high growth rate in the economy. This expectation is very unlikely to happen due to the fragile equilibrium of the Romanian economy, under the circumstances of a world economy in recession or stagnation.

### 4. THE ECONOMIC ACTIVITIES OF THE “WINNERS” AND “LOSERS”

The transformation process that began in 1990 generated important changes in different sectors, economic activities, respectively in the relative importance of enterprises. With Romania’s accession to the European Union, the

competitiveness will be the most important criteria of the “winner” or “loser” position of companies and products. The mobility of resources, mainly of the labour force, from the lower to the higher efficiency sectors and companies has to increase. This process of accommodation, with low professional and geographic mobility of Romanian labour force will generate on short term new “loser” groups. This sacrifice could be interpreted as a condition to become a “winner” on the long term, but this explanation does not diminish the present-day difficulties.

The classical way to emphasize the “winner’ and “loser” economic activities is the analysis of the foreign trade evolution. A comprehensive study [Dăianu et al.,2001] explained the comparative advantages based upon the cost of labour force in interdependence with labour productivity in the 90s. In this approach, the “loser“ economic activities of transition were agriculture, the mining and quarrying industry, the chemical industry, the synthetic and artificial fibres industry and the furniture industry. In the group of the “winners” we find the wood exporting industry, the enterprises that produce high technology products and mainly those with service activities. In the manufacturing of textile, fur and leather industry, we have a special situation in the 90s. These branches could be considered to be “winners” on short term, but in what their dynamics are concerned, they head into the direction of “losers”, with their low labour productivity and increased labour costs.

The accession to the EU in May 2004 of the majority of present CEFTA countries will create new difficulties for Romania, our country having to wait to join the European Union.

### CONCLUSION

The outline image approaches the “winners’ and “losers” issues only in the narrow economic sense. A more democratised socio-political life for Romanian residents could be the subject of another paper. In this large sense, the majority of the population are “winners” and it is important not to forget this.

5. table. Education level of the employed population in the rural area in 2001 by age groups

	15–24 year	25–34 year	35–49 year	50–64 year	65 year and more
Rural – total	100	100	100	100	100
Higher education	0.7	2.5	3.0	2.4	0.3
Post high school and foremen education	1.1	1.6	2.0	2.1	0.4
High school education	19.8	43.3	25.8	4.9	1.2
Vocational and apprenticeship education	24.4	29.7	31.2	12.6	2.3
Secondary I or II Cycle	45.4	20.0	31.8	42.6	28.6
Primary education or less	8.5	2.9	6.2	35.4	67.2

Source: [10] page 219, own calculations

6. table. The changes of the average real income (1990 = 100)

	1990	1991	1993	1995	1997	1998	1999	2000
Wage index*	100.0	81.7	59.4	66.5	56.3	58.2	56	58.6
Average pension index**	100.0	77.5	56.5	61.2	49.7	48.8	47.6	43.9
Average pension and average net wage rate**	44.7	45.1	45.2	40.0	40.0	36.2	41.1	39.8
Agricultural income index***	100.0	53.4	31.9	37.9	35.6	32.8	27.9	28.3
Price index	100.0	352.6	4292	9353	33077	52624	76728	111767

Source: \* [11]: pp. 131, \*\* [16]: pp. 96, \*\*\* [11].

4. table . Education level in urban and rural areas in 2001

	Total	Urban	Rural
Higher-, post high school and foremen education	8.6	7.9	0.7
High school and secondary education	70.4	43.1	27.3
Primary education or less	21.0	4.5	16.5

Source: [10]

## ANNEXES

Annex 1. The GDP/employment by regions and sectors in comparison to the national average (%)

	Total			Agriculture			Industry			Services		
<b>RO</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
NE	86.93	102.81	118.26	96.59	89.73	92.90	88.60	90.87	102.55	94.49	136.10	144.04
SE	101.38	90.73	89.50	116.12	114.16	98.31	107.62	107.65	100.03	92.50	79.65	86.10
S	103.33	80.90	78.29	102.08	100.97	98.91	111.42	87.91	78.90	103.62	82.45	79.57
SW	82.46	81.57	98.92	63.55	90.17	41.90	112.57	117.37	104.26	91.79	77.44	84.37
W	104.67	106.93	102.16	129.87	123.88	95.39	101.64	89.27	87.83	90.80	103.39	113.86
NW	93.10	82.35	88.45	88.87	88.14	99.18	89.05	82.30	92.41	105.29	88.53	84.08
C	102.80	94.88	92.30	118.47	111.00	93.70	90.48	86.73	95.85	100.46	86.47	86.07
B	128.78	193.81	150.49	125.17	99.20	79.25	100.94	158.48	157.01	110.59	130.88	118.35

Source: [15], own calculations

Annex 2. Changes of the GDP/employment between 1993 and 1999 by regions and sectors (%)

	Total		Agriculture		Industry		Services	
<b>RO</b>	<b>121.90</b>	<b>8.01</b>	<b>67.60</b>	<b>18.96</b>	<b>110.27</b>	<b>7.67</b>	<b>158.29</b>	<b>17.81</b>
NE	144.16	13.50	62.80	17.98	113.09	8.57	227.99	35.50
SE	109.10	9.17	66.46	18.73	110.31	10.56	136.29	14.27
S	95.44	5.66	66.87	19.24	87.01	8.93	125.95	12.03
SW	120.58	9.78	95.93	22.08	114.98	6.79	133.55	13.94
W	124.53	8.18	64.48	20.53	96.86	7.65	180.23	22.32
NW	107.81	7.26	67.05	23.17	101.91	8.24	133.09	16.30
C	112.51	9.54	63.35	23.70	105.70	12.10	136.24	14.77
B	183.45	19.80	53.58	21.72	173.14	16.00	187.33	21.98

Source: [15], own calculations

Notation:  $W_{kj}^t = \frac{GDP_{kj}^t}{E_{kj}^t}$  - labour productivity in region  $k$ , in economy activity  $j$ , in year  $t$ , where  $k = \overline{0, 8}$

( $k = 0$  the country level and  $k = 1, 2, \dots, 8$  regional levels),  $j = n, a, i, s$  ( $j = n$  total economy,  $j = a$  agriculture,  $j = i$  industry,

$j = s$  services) and  $t = \overline{1993, 1999}$ ;  $r_{W_{kj}}^t = \frac{W_{kj}^t}{W_{0j}^t}$ ;  $r_{GDP_{kj}}^t = \frac{GDP_{kj}^t}{GDP_{0j}^t}$ ;  $r_{E_{kj}}^t = \frac{E_{kj}^t}{E_{0j}^t}$ ; the ratio between the regional and the country level of

indicators,  $I_{W_{kj}}^{99/93} = \frac{W_{kj}^{99}}{W_{kj}^{93}} \cdot 100$ ; the index dynamic, 1993-the basic year,  $V_{W_{kj}}^{99/93} = \frac{\sigma_{W_{kj}}}{W_{kj}} \cdot 100$ ;

coefficient of variance:  $v_{PIB_{kj}}^{99-93} = \frac{\sigma_{GDP_{kj}}}{GDP_{kj}}$

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### Zusammenfassung

Wir haben versucht, die "Gewinner" und die "Verlierer" der postsozialistischen Übergangszeit in Rumänien hervorzuheben. Die "Gewinner", beziehungsweise "Verlierer" der Entwicklungsregionen, der Stadt- und Dorfgegenden, der verschiedenen Bevölkerungsschichten sowie der verschiedenen volkswirtschaftlichen Zweige wurden aufgrund statistischer Kennziffern charakterisiert. In den 90er Jahren stellte die Region Bukarest den hauptsächlichen "Gewinner" dar, während die Siebenbürger Regionen ihre relativen Stellungen nicht verbessern konnten. Die Dorfgegend, vor allem der landwirtschaftliche Zweig, welcher eine Knautschzone der verborgenen Arbeitslosenzahl darstellt, sind "Verlierer". Die Mehrheit der Arbeitnehmer, der einzelnen Bauern, der Rentner und vor allem die Arbeitslosen sind "Verlierer" der Übergangszeit, zumindest auf kurze Dauer. Wir müssen jedoch bemerken, daß der Großteil der rumänischen Bevölkerung einen "Gewinner" in Sachen Demokratie darstellt.

### Összefoglaló

A romániai poszt-szocialista átmenet „nyerteseit” és „vesztéseit” próbáltuk feltárni. A viszonylagos „nyertes” és „vesztes” pozíciókat statisztikai adatok alapján állapítottuk meg a fejlesztési régiók szintjén, város-falu vonatkozásában, a különböző lakossági csoportok esetében, valamint a nemzetgazdasági ágazatokra. A 90-es évek fő területi „nyertese” a Bukarest régió, az erdélyi megyék nem tudtak javítani relativ helyzetükön. A vidék „vesztesnek” tekinthető, és különösen az agrár ágazat, amely a bújtatott munkanélküliség tere lett. A fizetésből élők, a mezőgazdasági gazdálkodók, a nyugdíjasok és különösképpen a munkanélküliek gazdasági értelemben „vesztesek”, legalább is rövid távon. Megjegyzendő viszont, hogy Románia népességének nagyrésze a demokrácia vonatkozásában nyertes.