V Conclusions

The Romanian reform program is designed to bring the country out of a strict centrally planned economic system into a world where individual choice and markets play the central role. In just over a year, considerable progress has been made. The status of the reform effort in the main policy areas is summarized in Table 3. The achievements to date become all the more striking if one considers that when the centrally planned system collapsed at the end of 1989, it left the country in the grip of an economic and institutional crisis, the outcome of four decades of central planning, compounded in the late 1980s by an almost religious fervor to repay all external debt. Ceauşescu's legacy was an economy plagued by an inefficient industrial structure and an almost totally obsolete capital stock, a completely disorganized system of production and distribution, a collectivized agricultural sector, a decaying infrastructure, and a population whose living standards had been forced steadily down to a level where even basic necessities—food, heating, electricity, and medical attention—were hard to come by. There is little doubt that the initial obstacles to reform in Romania were far worse than those faced by the other reforming Eastern European countries.

The reformers who came to power in 1990 knew that the solution to the crisis lay in dismantling the existing system and replacing it with a market-based system in as short a time as possible, a task made even more difficult, however, by the worsening external environment. The Middle East crisis, which pushed up energy costs, sharply reduced exports to the region, and led to the freezing of a sizable amount of Romanian assets in Iraq, was a major shock. In 1991, the collapse of CMEA trade, particularly exports to the U.S.S.R.—a major market for Romanian manufactures—only added to the difficulties. Nevertheless, the reformers remained committed to their ultimate objectives and persisted with the measures designed to achieve them.

The Government believed that its first priority was to establish a legal framework that would be conducive to the development and protection of private property and ownership rights, and the promotion of private entrepreneurship and economic decision making. To this end, it devoted considerable effort to rescinding previous laws and promulgating new ones. During 1990 and 1991, laws dealing with banking and other financial operations, land ownership, privatization of state enterprises, foreign investment, and free wage determination, among others, have been passed or are in the final stages of preparation.

The Government has also taken a series of steps to reduce its role in the functioning of the economy. Most prices have been liberalized; controls apply to only a small list of products that are considered essential in the consumption basket of the population. All quantitative restrictions on imports have been removed, and only relatively low tariffs are employed to protect domestic industries. This change is an important step, along with the convertibility of the leu, in Romania's integration into the world economy. Enterprises and labor are free to determine wages through collective bargaining although, for stabilization purposes, the Government has retained the right to restrict wage increases above a certain norm. Banks and their customers can negotiate interest rates without reference to the National Bank of Romania, and foreign banks are allowed free entry into the domestic market. Finally, all citizens have been given the right to establish businesses and to compete freely in the market.

The return of state assets to private individuals, through either sales or giveaway schemes, has been proceeding rapidly. The breaking up of collective farms and redistribution of agricultural land is expected to be nearly completed by the end of 1991, placing over 80 percent of farmland into private hands. About 50 percent of state housing has already been sold to the public, and the remainder will be sold by 1992. The privatization of state enterprises is to be achieved under the law recently passed by Parliament, while small-scale privatization has already begun. The transfer of state-owned assets is considered critical to the reform for three main reasons. First, it allows private agents to

Table 3. The Status of Reforms

Policy Areas	Measures
Prices	Prices liberalized in three rounds—November 1990, April 1991, and July 1991. About 80 percent of prices are now determined freely in the market. Controlled prices of imported goods (notably energy) set at world price levels.
Labor market	— Controls on labor mobility abolished in 1990. Free collective bargaining introduced in 1991, although a tax-based incomes policy is in place for stabilization purposes. — Unemployment compensation scheme introduced in 1991.
Interest rates	All bank interest rates liberalized in April 1991. Controls on spread between deposit and lending rates in place.
Foreign trade	— State monopoly on foreign trade abolished in early 1990. All citizens can engage in foreign trade transactions. — All quantitative import restrictions abolished in January 1991. — Tariff code rationalized and maximum rate reduced to 40 percent in January 1991. A new tariff code is under preparation.
Exchange system	— Exporters allowed to retain 50 percent of their export earnings in foreign currency as of September 1990. — Interbank foreign exchange auctions started in February 1991, while the official rate applies to a limited number of foreign trade transactions. — The Government announced in July 1991 its intention to unify the exchange system. — The operation of foreign exchange houses allowed in August 1991.
Private sector activity and privatization	— Private sector activity, including joint ventures, allowed in February 1990. — First privatization law enacted August 1990. State enterprises converted to commercial companies or *régies autonomes*. — Sales of state housing and leasing of state stores started in 1991. — Land reform law enacted in May 1991. — New privatization law enacted July 1991. Thirty percent of shares of commercial companies to be distributed to private ownership funds for free distribution to population; remaining shares to be sold.
Financial sector	— Central and commercial banking activities of the National Bank of Romania separated in December 1990. — Private banks allowed to operate in Romania in 1990; two private banks commenced operations in 1991. — New banking and central banking laws enacted in April 1991. — Off-shore banks allowed to conduct transactions in domestic currency in early 1991.
Tax system	— Profit remittance system replaced by a profit tax in July 1990. — Turnover tax simplified and revised in November 1990. — Tax on the wage fund of enterprises replaced by a wage tax in 1990. — Preparation for the introduction of VAT and a general income tax started in 1991.

exercise control over the bulk of the country's economic resources. Second, it makes the reform process more binding: undoing the reform would require confiscation of property, which is most unlikely. Third, it helps eliminate the monetary overhang and thus create conditions of macroeconomic stability, which are conducive to the success of the general reform effort.

While in many respects Romania in 1991 is vastly different from Romania in 1989, the transformation is still far from complete. Indeed, one can still point to a number of areas where change is scarcely visible. State monopolies still dominate the economy, particularly in industry and mining, and will probably continue to do so for some time. Competitive markets have yet to emerge, even though the legal basis has been established and the Government has declared its intention not to interfere with their functioning. Except perhaps in agriculture, a system in which prices reflect the forces of demand and supply has yet to emerge. Private enterprise, although growing rapidly, still represents a very small share of the economy. The Romanian reformers, like others in the region, are discovering that introducing and changing laws is one thing, but establishing institutions, developing markets, and, particularly, altering the behavior of individual agents—conditioned by decades of centralized and

tight government control—is a far more difficult and lengthy process. For this reason, and because the reforms are still evolving, judgment on the Romanian reform program should be reserved for the time being. Nevertheless, a number of fundamental steps in transforming the economy have been taken, and the reform process is under way. If the momentum can be sustained, there is good reason to believe that the objectives of the Romanian economic reform program will be realized.