

CHANGES IN SOCIAL POLICIES SINCE THE ECONOMIC CRISIS. WHAT IS LEFT OF WELFARE AFTER THE AUSTERITY MEASURES?

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Some scholars suggest that Romania, Estonia, Bulgaria, Latvia and Lithuania (REBLs), have implemented one of the toughest austerity programs in Europe since 2010 (e.g. Blyth, 2013). I will argue, alongside other scholars, that the recent economic crisis these countries experienced was not caused only by an unregulated banking system, but also by their economic growth model. My focus will be more on Romania's austerity program and its effects on various domains such as public and social spending, labor market policies, collective bargaining, education, and health. I will show that during the economic crisis, the neoliberal monetarist approach used by the IMF, known as the Polak model, used to redress the fiscal imbalances was blended with local policy decisions that overturn the relationship between labor and capital and placed the burden of economic recovery on the population. The article concludes that, while the problems were solved on the short run, the structural problems were not only left unaddressed, but many of them sharpened during and after the economic crisis.

Keywords: austerity, social policies, public and social spending, economic crisis, economic growth model.

INTRODUCTION

In an overview of the impact of the economic crisis in 181 countries, Ortiz and Cummins (2013) uses the International Monetary Fund (IMF) data to analyze the trends in the adjustment measures and public spending during the period 2007 to 2015 (for the 2013–2015 years they used predictions). Thus, overviewing 314 IMF studies, they conclude that the austerity measures taken in this period affected 5,8 billion people in 2013 (80% of the globe's population) and was estimated to reach 6,3 billion people in 2015 (or 90% of the world's population) (See *Table no. 1* from *Annex*). The authors show that one quarter of the countries will undergo extensive contraction, by this meaning that the government public spending (as percentage of GDP) for the period 2013–2015 will reach only the pre-crisis levels (2005–2007) (Ortiz și Cummins, 2013: 37). More than that, this fiscal contraction

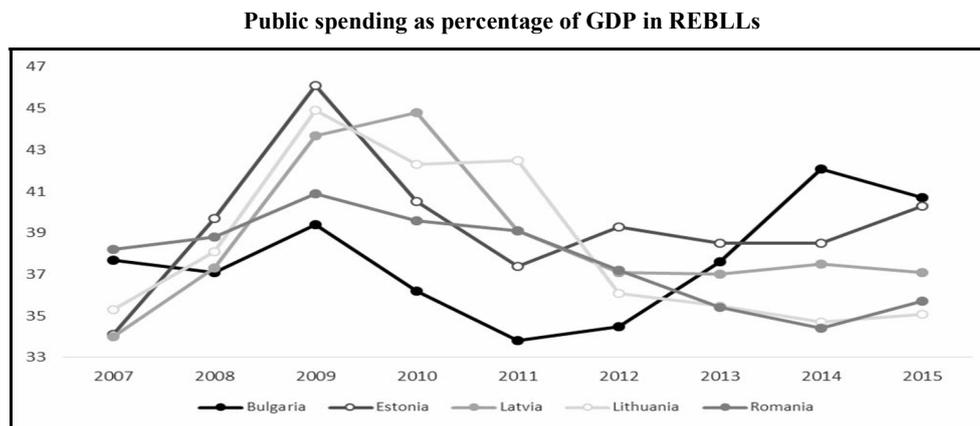
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will be more visible in developing countries than in developed ones. For example, 68 developing countries were predicted to reduce their government public spending for 2013–2015 by a 3,7% of GDP in average, while for the same period, only 26 developed countries were predicted to reduce their government public spending by 2,2% in average (Ortiz and Cummins, 2013: i) Since this fiscal contraction would ultimately lead to more unemployment, high prices for foods and gas, reduced access to public services in all over the globe, it is clear that the impact of the economic crisis was bared by the households.

Ortiz and Cummins paper helps us to understand the different stages and responses caused by the global economic crisis. If during the beginning of the crisis, 2008–2009, governments were more inclined to increase their public spending to mitigate the effects of the economic crisis – by increasing social expenditures, create incentives to stimulate the labor market and investments –, after 2010, most of the states starting contracted their public spending, and the “shift toward austerity was most acute in the group of middle-income countries and largely concentrated in Eastern Europe and Central Asia but also in the Middle East and North Africa, where [...] three-quarters of countries moved to cut spending by more than 3% of GDP, on average” (2013: 5).

This also stands true for Romania, Estonia, Bulgaria, Latvia and Lithuania (REBLs) which were seen by IMF and European Commission as good examples of crisis management. If we look at the Eurostat data on government public spending for REBLs we see that all countries have contracted their public spending after 2010. Estonia, Lithuania and Bulgaria have undergone a sharp decrease in government public spending in just three years (2010–2012) but have managed to redress to their pre-crisis level, or above, while Romania still did not reach its pre-crisis level (See *Figure 1*).

Figure 1



Source: Eurostat [tec00023].

In Romania, the contraction of public spending was argued to be necessary in order to reduce its public deficit, which increased from 2,8% in 2007 to 9,5% in 2009

and its current account deficit which increased from 3,8 of GDP in 2000 to 13,8% of GDP in 2007. I will argue, alongside other scholars (see Voinea, 2013) that the state of the economic crisis in Romania was not only the result of the global economic crisis (e.g. the crisis of the banking system) but also because of Romania's blueprint towards economic growth based on foreign direct investments (FDIs) and private consumption. I will briefly sketch Romania's (and the other REBLLs) development model in the 2000s in the first part. In the second part, I will describe the government's responses to the economic crisis and the measures that were taken in the field of social policies – labor market, collective bargaining, education, and health. I will argue that the burden of the economic recovery was paid by the population, while the big capital remained untaxed. In the final part of the article I will pinpoint some implications of the changes in social policies that were undertaken during 2010–2011. The data I used in this article are from Eurostat, if not mention otherwise.

ROMANIA'S (AND THE OTHER REBLLS) ECONOMIC GROWTH MODEL IN THE 2000S

According to Liviu Voinea (2013), the global economic crisis was just the trigger of the economic crisis in Romania (and by extension in the other REBLLs) and that loose fiscal and monetary policies were the main causes for Romania's recession. Romania (as the other REBLLs) benefited by a constant economic growth between 2000 and 2008, but unlike the other countries from the group, had its own particularities. The employment rate remained constant since 2002. The size of the shadow economy decreased only slowly, from 36% in 2003 to 32,6% in 2010, while 25% of the labor force is working in the agriculture, most of them in low-productive agriculture as subsistence farmers and contributing family workers (Incaltarau și Maha, 2014: 50; Domnișoru, 2014b). Moreover, mass deindustrialization and the shortening of the labor force, due to outmigration gloomed the development potential in these countries. This is most obvious for Romania and Bulgaria, where industry's added value to GDP dropped from 50% in 1990 to 27% in 2014, while manufacturing added value dropped by 40% in Romania and 50% in Latvia in the same period (World Bank, 2015b). This economic downturn ultimately led to outmigration of 10 to 30% of REBLLs active workforce (Blyth, 2013: 219).

As most as the authors remarked, the economic growth was mainly driven by FDIs and private consumption (Ban, 2013; Ban, 2014; Stănescu, 2014; Voinea, 2013). Ban for example states that since the 2000s, Romania became a dependent economy on multinational financial capital and FDIs. Between 2002 and 2010, around 106 billion euros in FDIs and other financial flux entered the country, which lead to a tripling of the Gross Domestic Product (GDP) (Ban, 2013). If in the early 2000s, the FDIs reached 10% of the GDP, in 2009, the share was almost 50% (Ban, 2013; Moraru, 2013: 131). This spectacular growth is due to trade and capital account liberalization. The input from the FDIs not only increased labor productivity, but help fast increase exports. In the late 2000s, exports increased with 600% than

during the 1990s. Basically, from the first 100 exporters, 96 represented subsidiaries of multinational companies (Ban, 2013).

However, the liberalization of capital did not have its limitations. The REBLs are considered to be fast capital account liberalizers and as Voinea (2013) shows all fast capital account liberalizers had bigger current account deficits than the prudential capital account liberalizers (Hungary, Slovenia, Slovakia), before the crisis. Not all FDI flows are considered to increase productivity and competitiveness. Without sufficient prudent regulations, Romania could not avoid speculative flows. For example, in 2007, over 60% of FOREX transactions took place in the derivatives segment, where dealers make profit from the volatility of the exchange rate. Over 80% of transactions involved instruments with maturity less than 7 days, and 90% of them used by non-resident operators, meaning speculators (Gabor, 2010: 821).

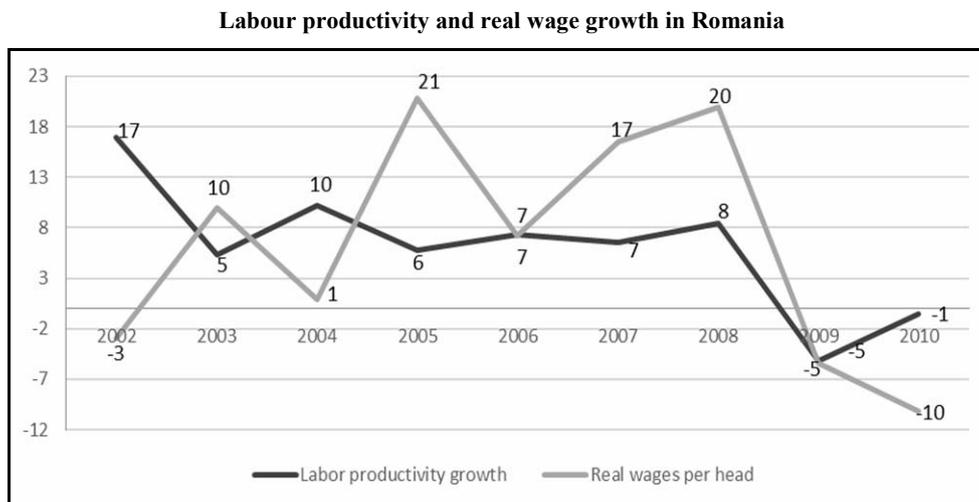
The FDI flows and monetary remittances – which grew from 116 million dollars in 2001 to 1,7 billion dollars in 2008 (World Bank, 2015a) – injected foreign currencies in the Romanian economy and helped appreciate the national currency and the exchange rate and facilitated instead a credit boom. A short glance on some indicators regarding the impact of the credit boom, reveals us that the households private debt raised from 3% of GDP in 2001 to 25,7% of GDP in 2007, while the private credit reached 37,6% of GDP in 2008, from 7,2% in 2000, an increase by 522% (Voinea, 2013: 988). Most of the goods were imported, as imports doubled in nominal terms between 2004 and 2007, from 24 to 46 billion euros (Voinea, 2013: 991). If we look at the whole region, between 2007–2008, CEE countries attracted 250 billion cumulative net inflow of credit, which then reversed during 2009, leading to exchange rate depreciations (Gabor, 2010: 821–822). The result of such consumption led growth was an increase in the current account deficit for Romania from 3,7% of GDP in 2000 to 13,4% of GDP in 2007 (Zamfir et al., 2011: 10) since most of the goods were imported.

As long as the FDIs and consumption maintained the economic growth, real wages surpassed labor productivity (See *Figure 2*). IMF showed concerns about the fast growth of wages in the government sector since 2004, which outpaced the ones in the private sector (IMF, 2007: 37). Thus, it is not surprising that the salary cuts from 2010 were aimed at the public sector. Ciprian Domnişoru for instance shows the wages in public administration and education surpassed the ones in industry and construction. If in 1997, the average wage in public administration was 90% of the average wage in the economy, in 2006 it reached 172%, while in education the increase was less visible, from 83% in 1997 to 116% in 2006 (Domnişoru, 2014b: 23). Not only wages but pensions also increased at a fast pace. Between 2006 and 2010, the average pension increased with 240% (from 298 to 717 RON).

Thus, as an overview, until 2008, the REBLs suffered from the same ills: rising current account deficits, while in Latvia, Lithuania and Romania this was doubled by a rising government public deficit; a massive deindustrialization which led to outmigration of an important share of their workforce and a property bubble created by the credit boom, which loaded down households with private debt. All REBLs were, to cite Mark Blyth (2013: 219), “open to money coming in and

people going out”. Furthermore, the economic growth model based on massive flows of foreign investments and foreign borrowing was vulnerable to external shocks because it was highly dependent on transnational capital flows. The REBLs started accumulating current account deficits and because of their weak export performances (because of massive deindustrialization in the 1990s and the reduction of the manufacturing sector) their current account deficits were being mainly financed by FDIs and remittances (Ban, 2013; Blyth, 2013).

Figure 2



Source: European Commission, 2013: 213; European Commission, 2016: 193.

In the aftermath of the Lehman-bank collapse, the REBLs governments discovered a dreadful truth. Most of the local banks were subsidiaries of Western banks, and the market share of these banks varied between 80 and 100% (in Romania, the market share of foreign banks was 89%, see Ban, 2013). Since the home-banks were also worried about the solvency of their operations due to credit bubbles, the subsidiaries from CEE could retract their liquidities in order to help their home-bank operations (Blyth, 2013: 220). In order to avoid this money supply flight, EU-IMF-BERD prepared a financial package that will bailout the financial banking system, if the REBLs will commit to austerity measures. Latvia, Lithuania and Estonia announced that they will “voluntary” adopt structural adjustments policies in 2008, while Romania and Bulgaria followed them in 2009 (for the domains in which the REBLs committed to undertake adjustment measures see *Table 2* from the *Annex*). In exchange, the local subsidiaries will continue to receive money from their home-banks.

Not only the banking system offered signs of hard times to come. Romania’s exports dropped in the last three months of 2008 from 3,2 to 2,5 billion euros (i.e. more than 40%), while the industrial production decreased in December 2008 by 19% compared to the previous month (Duguleană, 2011: 21). Moreover, remittances –

another source of covering the current account deficit – dropped from 1,7 billion in 2008 to 682 million dollars from 2008 to 2009 (World Bank, 2015a). Thus, the government agreed to a 20 billion loan from IMF, EU and BERD to redress its public deficit (although most of money really went to the banking system). The loan was conditioned by substantial fiscal consolidation and structural reforms, although some of the measures taken by the Romanian government that I present in the next section were not imposed by the financial institutions. But first, I will show that before 2010, the responses to the economic recession were more heterodox because the answers to the crisis in the main epistemic community were more diverse.

FIRST RESPONSES TO THE ECONOMIC CRISIS. SHORT LIVED KEYNESIANISM

I have shown in the introduction of this article that the government public spending have increased during the first years of the global economic crisis (2008–2009). These expansion of public spending was not only the result of a political solution to mitigate the effects of the economic crisis, but it was also seen as a favorable solution inside the epistemic ecology of the most important departments of the IMF. Cornel Ban (2015a: 174) for example, shows that the research department of IMF (which publishes the World Economic Outlook), mainly filled by economists from the central banks in Europe and Nord America but also MIT scholars, did contest the IMF orthodoxy during the crisis and argued that the states should extend their public investments and expand income transfers to the unemployed and the poor households in order to combat the collapse of private demand. Thus, the European governments continued their investments in infrastructure, implemented tax exemptions and extend their social benefits in order to boost demand (which can be considered Keynesian measures) (Hermann, 2014; Todor, 2014). Indeed, all REBLLs have increased their financial effort (measured as euro spent per inhabitant) in the fields of unemployment and social exclusion.

In Romania, the most important measures taken in 2009 were regarded to the protection of the labor market. Only in 2009, around 315.000 employees in the branches of constructions, industry and retail were fired (Stoiciu, 2012: 2). The government responded by encouraging investments, through tax exemptions on reinvested profit¹, exemption from social security contributions for a six months period for employers that hired unemployed², or starting grants for middle-sized enterprises (ibid.). Expenditures for labor market policies doubled in just two years (from 373,75 million euros in 2008 to 749,13 in 2010), although most of the expenditures went to unemployment benefits (Incaltarau and Maha, 2014: 60). But hard times were yet to come. In 2010, the government of Romania adopted an austerity package that included 25% wage cuts in all public sector, social protection

¹ Law 329/2009.

² OUG 13/2010.

benefits cuts by 15% and increasing VAT from 19 to 24%. These measures were doubled by other adjustment policies in the field of health, collective bargaining, labor market, that I discuss in the next section.

AUSTERITY ARRIVES IN ROMANIA. IMPLICATIONS FOR THE SOCIAL POLICIES

One of the core arguments in mainstream policy circles was that excessive public spending (thus a government debt crisis) was the main reason for the economic crisis. If this was true, than probably Italy should have been the first country that should have entered in recession (having a government debt of 102% of GDP in 2008). But this was not the case. The Baltic States and Ireland were the first countries that suffered a rapid economic downturn, although their public debt were below 50% of GDP.

Romania reduced its public debt with 10%, from 26% in 2001 to 13% in 2008, but instead increased its current account deficit and government public deficit, which reached together 20% of GDP at the end of 2008. In order to redress this fiscal imbalances, the Romanian government adopted a Stand-By agreement with IMF in April 2009 (for a full account of the policy objectives undertaken by The Romanian government see Stănescu, 2014: 202–215). The main objectives were to reduce the transnational capital flight, to straighten the fiscal and external deficits and to strengthen the banking system (Stănescu, 2014: 205–206). The agreement was followed by harsh reforms in the fields of social protection, education, health, labor market, collective bargaining and public administration. As we shall see, the burden for economic recovery was paid by the population in favor of the capital.

Romania's austerity program reflects the core arguments of the neoliberal orthodoxy: expenditure control, low government deficits, lower inflation rates, increase interest rates to reduce the credit activity and lowering wages to increase competitiveness in the export sector (also known as the Polak model) (Gabor, 2010; Voinea, 2013). Although "there is no alternative" rhetoric to austerity was used by the main political actors, Stefanie Walter (2016) shows that the practical policies used to reach the ends (e.g. lower government deficit) varied according to the government's political orientation and its electoral pool. Also, Ciprian Domnișoru (2014a) remarks that president Băsescu did promote policies in favour of the bussiness environment and particulary for the bussiness clientele closer to the government's main political party. During the economic crisis, he permanently attacked the public employees, which rested on the back of the hard-working private entrepreneurs, blending his remarks with moral categories between the deserving and undeserving categories that should benefit from the state's support (Fourcade et al., 2013). It is no surprising that in 2010, the government decided to cut by 25% the wages in the public sector, although the director of IMF, Dominique Strauss-Kahn, suggested that the government should have taxed the wealthy instead³.

³ http://economie.hotnews.ro/stiri-finante_banci-7299969-audio-strauss-kahn-catre-guvernul-boc-mariti-impozitele-mai-ales-cele-pentru-bogati-spus-nu-noi-decidem.htm, accessed 29.10.2016.

Moreover, Romania was an EU champion in restructuring the public sector. Only in 2010, from the 70,000 jobs in public administration restructured in the EU countries, 50,000 were in Romania (Eurofund, 2010: 8). Until 2012, the total jobs restructured (lost) in public administration increased to 200,000, which represents 1/6 of the total employees in the sector (Voinea, 2013: 1000).

The government reversed the trend in social protection expenditures and reduced its financial efforts towards this domain. According to Eurostat, the Romanian government decreased its expenditures for combating social exclusion, from 17,37 euros per person in 2008 to 13,39 euros in 2011, while in the same period EU27 increased its efforts from 85,93 euros per person to 101,31 euros (Todor, 2015: 86). Also, the unemployment benefit was reduced by 15% and the legibility criteria was toughened and thus, the number of unemployed who received unemployment allowances decreased from 435,497 in 2009 to 182,538 in 2011⁴. Not to mention that the unemployment benefit devalued over the last 15 years, reaching 48,5% of the minimum wage in 2014, decreasing from 96,6% in 2000⁵. The active labor market policies have failed to compensate for the lack of employment opportunities at the local level. Romania spends the lowest share for active labor market policies at EU level (0.03%) and consequently the number of people who resorted to such measures fell by half, from 103,839 in 2004 to 54,129 in 2012.

Other social benefits that experienced a decrease in expenditures were disability allowances, family/children benefits and alongside the two benefits discussed above, are examples of the trend reversed after 2010, in a country where already the public and social spending are last in line, if we compare it to other EU countries (Mărginean, 2014). The liberal-democratic government tried also to cut 15% of pensions but the measure was opposed by a decision of the Constitutional Court. Instead, the government tried to reduce the contributions to the II pillar by 0,5% (and hence reduce the deficit of the first pillar), but met opposition from the Ministry of Labor, Social Protection and the Elderly and the World Bank, which argued that the reduction will not improve the deficit of the PAYG system (Adăscăliței and Domonkos, 2015). Fighting with this opposition, the solution adopted was a freezing of the contribution to the second pillar for a year (Adăscăliței și Domonkos, 2015: 100) and a taxation by 5,5% to healthcare for pensions larger than 740 RON (which increased to 871 RON in 2016). Moreover, the government introduced in 2009 the minimum guaranteed pension to ease off the pressures on household income at the bottom of the distribution (mainly farmers who have worked in the state owned collective farms during communism). However, the minimum pension is far behind the minimum wage, reaching only 400 RON (in 2015).

Other public services were also affected by expenditure contraction. The education sector, already underfunded, received only three times above 4% of GDP in the period 2001–2011. During the economic crisis, the public expenditure drop

⁴ NIS, Tempo database, <http://statistici.insse.ro/shop/>, accessed 26.10.2016.

⁵ NIS, Tempo database, <http://statistici.insse.ro/shop/>, accessed 26.10.2016.

by 1%, from 4% in 2007 to 3,1% in 2011. Underfunding of the education system creates social polarization in access to quality education, the poorest segment being sentenced to lower quality education. The dropout rate for young people aged 18–24 years fell by 4% in the last decade, from 22.4% in 2004 to 18.1% in 2014, but below the national target of 11.3%. Romania introduced since 2010 a cost-analysis methodology to finance its educational system, and schools are now being financed per pupil and not by historical costs. Thus, between 2007 and 2011, more than 1700 schools were closed and 1534 were merged⁶, deepening the inequality between rural and urban areas in accessing education. Moreover, the unitary pay law from 2011 reduced the benefits (*sporuri*) for the teachers in rural areas, leaving the rural areas with more poorly qualified personnel (Domnișoru, 2014a).

Public spending on health care was in 2014 more closely to the Baltic States (the most faithful adherents of economic libertarianism) than to those from Central Europe, ex-communist. With a share of 4% of GDP, Romania is antepenultimate in the EU. In the past 15 years, the sector has undergone several attempts of liberalization, privatization and decentralization, with a rather negative impact on the management of system resources. In 2012, a new health bill that aimed at extensive privatization of public hospitals and clinics – in order to reduce public funding – has been withdrawn from debate after it was heavily criticized by doctors and even the deputy minister. The lack of health professionals and poor motivation of the young ones to work in the health care system, because of low salaries, further complicates the functionality of the medical system. If between 2004 and 2008, the wages of doctors increased from 89% of the average wage to 98%, their wages decreased by 25% due to austerity measures and also eliminated the 13th wage paid based on seniority and overtime. Some union leaders even remarked that the wages have been reduced by 40% for the medical staff (except family doctors), although the workload and overtime increased (Trif, 2013: 233). As in the case of teachers, the unitary pay law from 2011 reduced the benefits for the rural healthcare personnel, thus reducing the motivation for working in rural areas (Domnișoru, 2014a).

Last but not least, the most important consequence of the economic crisis in my opinion was the weakening of the social agenda in favor of the multinational capital, which was enforced by two economic and political processes: reducing the influence of collective bargaining institutions – which could pressure for wage increases –, and thus reducing the costs for the capital, and transferring the tax burden from capital to labor and consumption.

In just a few months, the government adopted *blitzkrieg* a new labor code and a social dialogue law. Before 2010, Romania had a comprehensive legal system to negotiate wages at the national, branch and company level, while consultations and negotiations were carried between the government, employer associations and trade unions. The three actors established a minimum wage for each sector of activity. Frightened by the flight of the transnational capital, the Romanian government

⁶ <http://www.hotnews.ro/stiri-esential-14228103-cate-scoli-inchis-romania-bilantul-ministrilor-aproape-1-800-scoli-inchise-1-500-comasate-2007-2011.htm> [accessed 27.10.2016].

changed one-sided the labor code towards flexibilization and replaced the laws that governed collective bargaining since 1991, with a social dialogue law that would regulate collective bargaining at all levels (Trif, 2013: 230–231). A first remark that should be highlighted is that the government, through law 62/2011 on social dialogue, eliminated national collective bargaining.

The new labor code facilitates part-time jobs or temporary employment, increases thresholds and reduces obligations for mass layoffs, thus facilitates individual and collective firing and restrains the right to strikes (Guga, 2014; Trif, 2013; Todor, 2014; Hermann, 2014). Also, probation periods are extended from 30 to 90 days. The flexibilization of the labor code was not part of the agreement with IMF, but rather it was pushed on the agenda by the Foreign Investment Council and the American Chamber for Commerce and then taken over by the government. Since the modifications brought to the labor code, part-time and temporary employment did not increase. The part-time employment decreased from 9,5% in 2011 to 8,8% in 2015, while the share of employees with a contract of limited duration remained steady at 1%. There might be potential explanations for the lack of changes. First of all, in work poverty for part-time employment is largest in Romania (almost 60%) due to low wages. Also, effects in the changes of the legislation might be seen on the long run. But most importantly, because of Romania's atypical employment structure, with a third of its workforce in informal economy: day laborers, working in subsistence agriculture or unpaid family workers, the last two categories representing 90% of the workforce working in agriculture – the European statistics underrates the share of workers in temporary jobs, since employment without a legal form is by its nature, temporary (Domnişoru, 2014b: 25).

Just as worrying is the abolition of national and tripartite collective bargaining. The new legislation no longer affords social partners to negotiate cross-sectorial collective agreements, leading to a decentralization of collective bargaining and as a consequence, to a week coordination of trade unions (Trif, 2013). The Social Dialogue Law imposes legal obstacles for trade unions to obtain representativeness, complicating administrative procedures for registration of new trade unions while professional trade unions were abolished, and with it, the only legal paths through which employees could establish a trade union (Stoiciu, 2012). The thresholds for representativeness were increased and corroborated with the abolition of national collective agreement, made impossible for collective bargaining in enterprises with less than 20 employees, which represent 90% of Romania's enterprises, and where the wages are already smaller than in large enterprises (Guga, 2014: 177). If the previous legislation stipulated that part time workers could not earn less than full-time workers who perform the same job, the new labor code permits free negotiation of wages for part-time workers, which might lead to wage differences between standard and atypical employment (Domnişoru, 2014b: 26).

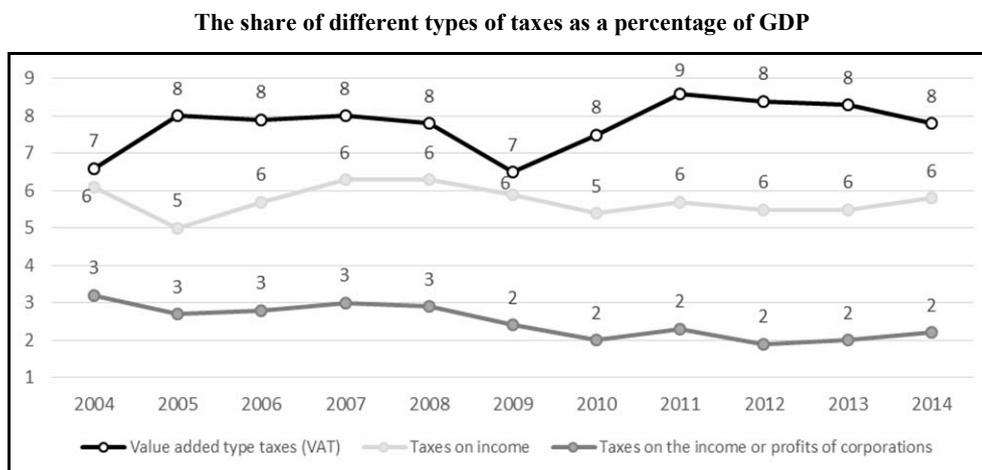
A follow up report on the effects of the social dialogue law, stipulates that share of employees covered by collective agreements decreased from 100% to less than a third (Chivu et al., 2013: 48). The trade unions had to regain their representativeness in harder conditions.

After the government passed the two laws, without consulting the Parliament or the trade unions, some effects on the short and medium term were seen. In 2011, the Labor Inspectors found 29,095 workers without a formal contract, a 60% increase from the previous year (Chivu et al., 2013: 26). The abolishing of national collective agreement and decentering the wage negotiations from national and branch level to sector and company level will increase disparities in wages in the same sector of activity and further precarize the workforce. In 2016, more than 2 million wage earners (or 44%), were earning the minimum wage (or below)⁷.

As it can be seen, to maintain its competitive advantage against the multinational capital, the Romanian government choose to repress its labor force, by dismantling work rights and pushing many employees close to the minimum wage, which is already before last in EU (217 euros at PPP in 2015).

Moreover, facing budget deficits, the state decided to implement regressive taxation, increasing VAT from 19 to 24%, (because VAT represents the largest share in government revenues), rather than progressive taxation on income. Thus, even in times of economic crisis, the state has virtually left untaxed corporate profits and shifted the burden on employees and consumers. The share in GDP of different types of taxes clearly indicates the huge gap between the two types of budgetary sources (See *Figure 3*).

Figure 3



Source: Eurostat [gov_10a_taxag].

⁷ http://www.zf.ro/eveniment/prima-oara-zf-prezinta-distributia-detaliata-salariilor-romania-34-000-angajati-castiga-pest-10-000-lei-net-luna-polul-opus-70-dintre-salariati-castiga-1-700-lei-lunar-salariul-medi-economie-15284575/?utm_source=newsletter&utm_medium=li324_mi121797&utm_content=articol&utm_campaign=Penru+prima+oara+ZF+prezinta+distributia+detaliata+a+salariilor+din+Romania.+70%25+dintre+salariati+castiga+sub+1.700+de+lei+lunar%2C+salariul+mediu+pe+economie&utm_term=li324_mi121797_s154882 [accessed 28.10.2016].

WAS IT REALLY WORTH IT?

Hard to say. Most of the REBLLs recovered after just two years of recession and started experimenting economic growth since 2011 (See *Figure 4*). However, the annual economic growth is behind the economic output lost during the recession (especially in the Baltic States). It might look as a rapid recovery, but did it really solve the problems it was supposed to solve? It did manage to reduce the government deficit below the threshold of 3% of GDP imposed by IMF and also reduce their current account deficits. But during the recession, the unemployment doubled in Bulgaria, more than doubled in Latvia and tripled in Estonia and Lithuania. The youth unemployment rate increased since 2010 above 30% in the Baltic States and 20% in Romania and Bulgaria. The long-term unemployment more than doubled between 2009 and 2011 in the Baltic States, to 54% in Latvia, 57% in Estonia, 52% in Lithuania and increased with 10% in Bulgaria (from 43 to 55%) and Romania (from 31 to 41%)⁸. While the share decreased for the Baltic States in 2013, this was mainly because of outmigration (Woolfson și Sommers, 2016). The material deprivation rate grew outstandingly in the Baltic States between 2008 and 2011 by more than 10%, while the growth was more modest in Bulgaria. The at risk at poverty rate increased by 5% in Latvia in just 3 years (2007–2009) and by 2% in just two years in Lithuania (2007–2008), leading to outmigration of almost 4% of the Latvians and 3% of Lithuanians between 2008 and 2011 (Blyth, 2013: 223; Woolfson and Sommers, 2016: 83). In Romania, the at risk of poverty rate increased after the economic crisis from 21,6% in 2010 to 25,4% in 2015, leading the government to rethink a new social benefit scheme (The Minimum Social Inclusion Benefit) that will better reach the lowest quintile.

The main narrative that the states are spending too much was contradicted by the data. All REBLLs had a government debt below 20% in 2008. In just 7 years, their public debt skyrocketed, in some cases even dramatically. Lithuania increased its public debt from 14% to 42% in 2015, while Romania also tripled its public debt, from 13% in 2008 to 38,4% in 2015. The governments transformed the private debt undertaken by their own consumers and real estate investors into a public debt.

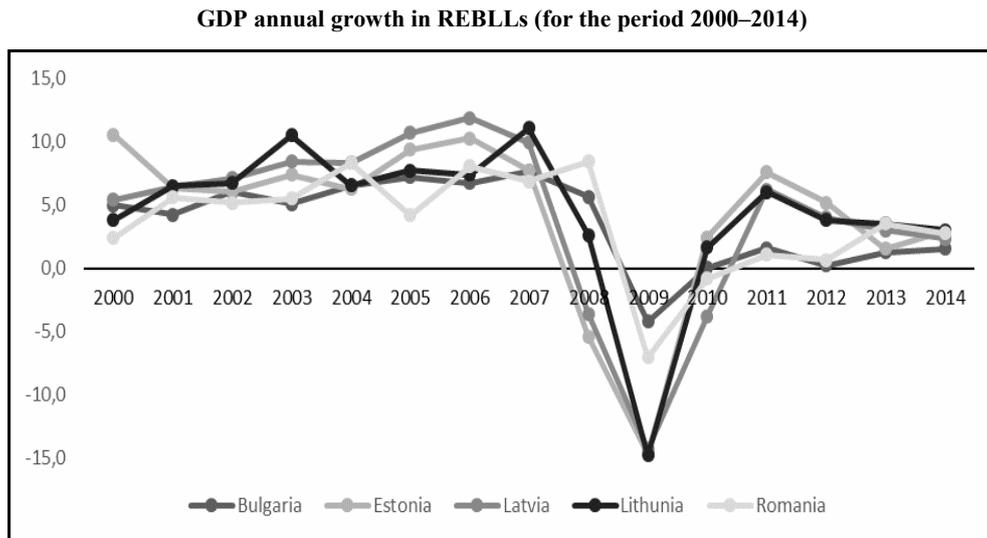
Not to say that the neoliberal pro-market orthodoxy was not fully contested during the economic crisis. We did not see any draconian financial regulations, nor was financial repression a response to the government debt crisis⁹, labor markets

⁸ <https://data.oecd.org/unemp/long-term-unemployment-rate.htm> [accessed 03.11.2016].

⁹ Financial repression refers to a set of regulations used during the 1945–1980 by Western Governments to reduce their debt accumulated during the second World War. Its main measures refers to establishing caps or ceilings on interest rates; direct ownership of banks or extensive management of banks and other financial institutions; restricting entry into the financial industry and directing credit to certain industries, see for example Reinhart, C. and Sbrancia, B. 2015. *The Liquidation of Government Debt*. Washington: International Monetary Fund.

continued to be deregularized (Ban and Gallagher, 2015b), while outsourcing of public services to private stakeholders continued to be preached as a way to increase the efficiency of public services (World Bank, 2016: 25, 28).

Figure 4



Source: World Development Indicators (2015).

Moving to our case study that I discussed in more depth, Romania implemented an austerity program that was seen even harsh by the IMF. The austerity package focused on control spending, reducing inflation, reducing wages to increase exports' competitiveness and raised the interest rate to stop the credit boom that fueled the imports of goods and services and thus reached an external equilibrium – also known as the Polak model (see Blyth, 2013; Voinea, 2013). But, the Romanian government also cut welfare spending, cut 25% of all public wages, restructured (e.g. fired public employees) many government central/local agencies, deregularized labor market to remain competitive for the multinational capital and increase VAT from 19 to 24%, because of its large share to the total budget revenue. Many policies adopted during the economic crisis were not in the agreement with the international financial institutions, and were fully assumed by the government in power. Although the policies adopted during this crisis were largely conditioned by the country's vulnerability profile, the actual policies implemented to meet the ends reflected partisan interests of the government in power to influence policy design and distributive outcomes of the crisis (Walter, 2016). This also reflects Careja and Emmenegger (2009) findings that the government composition has the most direct influence on the

direction of welfare spending during economic crises. The center-right government in power during 2010–2012 took decisions that would favor the private companies, multinational capital and business clientele closest to the leading political party and placed the burden of the economic recovery on the population.

Romania managed to get back on track at the end of 2011 with a small growth in GDP by 1,1%, due to an amazing increase of its exports between 2010 and 2011 by 55% (Voinea, 2013: 1001). Altogether, Romania was a model of austerity for two years (2010–2011) but then managed to comeback to growth thanks to exports in countries that suffered less during the crisis (mainly Germany)¹⁰ and to steady increases of the minimum wage to stimulate the domestic demand. However, Romania did not resolve its structural problems regarding its large informal economy, underemployment in agriculture, one of the lowest employment rate in the EU. The unemployment rate remains in 2015 around 7%, just as in 2010, the first year when austerity came into force. The at risk of poverty rate increased from 21,6% in 2010 to 25,4% in 2015.

During the economic crisis, Romania experienced paradoxically the largest drop in inequality in the EU (from 38,3 in 2007 to 33,5 in 2011) but this was not the result of some redistributive policies¹¹ – on the contrary, during this period we have witnessed a comprehensive reform of the social assistance system, in which categorical benefits were transformed into means-tested, coupled with a strengthening institutional capacity for better targeting of benefits to the population with the highest risk of poverty (Pop, 2013) – but rather because of the wage cuts in the public sector and the contraction of profits in the real estate market. Once the wages were reinstated and the economy starting recovering, it increased again to 37,4 in 2015, only before Lithuania. The further flexibilization of the labor code and the weakening of the trade unions since 2011 will probably change the wage distribution, bringing more employees to the minimum wage and increase wage differences in the same branch of activity. For example, if 15,4% of the employees in 2011 were earning gross wages between 801–1000 RON (200–250 euros), in 2013 the share increased to 20,3% (National Institute of Statistics, 2012: 150, National Institute of Statistics, 2016: 177).

The REBLLs seem to have put themselves back on track although with much smaller annual GDP growth than before the economic crisis. The damaged caused instead is much more important, more people in poverty, a growth in youth unemployment, in longer term unemployment which ultimately lead to more outmigration and thus more problems in the future, all because of “scarce social policies” (Crețu, 2011).

¹⁰ <http://statistici.insse.ro/shop/> [accessed 04.11.2016].

¹¹ Although the introduction of the minimum guaranteed pension did manage to ease off the pressures on household income at the bottom of the income distribution

ANNEX

Table no. 1

**Number of Countries and Population Affected by Public Expenditure Contraction,
2008–2015 (in % of GDP)**

Developing Region/ Income Group	Indicator	2008	2009	2010	2011	2012	2013	2014	2015
East Asia and Pacific	No. of countries contracting	8	3	10	8	6	10	14	16
	No. of persons affected (millions)	313	252	1,702	248	117	1,598	1 785	1 956
	% of population affected	15,6	12,6	84,8	12,3	5,8	79,6	89	97,5
Eastern Europe and Central Asia	No. of countries contracting	6	4	16	19	7	17	19	16
	No. of persons affected (millions)	35	29	322	391	48	351	380	366
	% of population affected	8,4	7	76,9	93,4	11,4	83,7	90,7	87,3
Latin America and Caribbean	No. of countries contracting	9	4	14	15	10	19	17	17
	No. of persons affected (millions)	310	42	263	451	285	478	311	369
	% of population affected	51,7	6,9	43,8	75,2	47,6	79,6	51,9	61,5
Middle East and North Africa	No. of countries contracting	2	5	9	5	5	9	9	9
	No. of persons affected (millions)	11	227	280	153	125	314	317	317
	% of population affected	3,4	70	86,4	47,1	38,4	96,6	97,7	97,7
South Asia	No. of countries contracting	3	3	5	5	2	3	6	3
	No. of persons affected (millions)	57	341	1,373	1,523	53	1,32	1,648	1,491
	% of population affected	3,3	19,9	80,1	88,9	3,1	77	96,1	87
Sub-Saharan Africa	No. of countries contracting	16	14	17	22	17	31	26	33
	No. of persons affected (millions)	323	307	389	388	433	701	651	749
	% of population affected	36	34,3	43,5	43,3	48,4	78,3	72,7	83,6
Low-income	No. of countries contracting	13	9	11	17	12	21	19	22
	No. of persons affected (millions)	339	312	175	386	224	502	541	460
	% of population affected	42,2	39	21,8	48,1	28	62,6	67,5	57,4
Lower-middle-income	No. of countries contracting	18	14	28	27	12	35	34	36
	No. of persons affected (millions)	324	713	1,962	1,965	319	2,009	2,385	2,483
	% of population affected	12,5	27,4	75,5	75,5	12,3	77,2	91,7	95,5
Upper-middle-income	No. of countries contracting	13	10	32	30	23	33	38	36
	No. of persons affected (millions)	386	173	2192	803	518	2250	2166	2304
	% of population affected	15,1	6,8	85,7	31,4	20,3	88	84,7	90,1
Developing countries	No. of countries contracting	44	33	71	74	47	89	91	94
	No. of persons affected (millions)	1,049	1,199	4,33	3,154	1,061	4,761	5,092	5,247
	% of population affected	17,6	20,1	72,7	52,9	17,8	79,9	85,5	88,1
High-income countries	No. of countries contracting	11	4	35	37	21	30	40	38
	No. of persons affected (millions)	73	16	1,071	933	682	1,04	1,13	1,095
	% of population affected	6,2	1,4	91,9	80,1	58,5	89,2	97	94
All countries	No. of countries contracting	55	37	106	111	68	119	131	132
	No. of persons affected (millions)	1,122	1,215	5,401	4,087	1,743	5,8	6,222	6,343
	% of population affected	15,7	17,1	75,8	57,4	24,5	81,4	87,3	89

Source: Ortiz și Cummins (2013: 3).

Table no. 2

Adjustment Measures in REBLs between 2010–2013

Country	Reducing subsidies	Wage bill cuts/ caps	Increasing consumption taxes	Pension Reform	Rationalizing and targeting safety nets	Health reform	Labor Reform
Bulgaria	X	X	X	X	X	X	
Estonia		X		X			
Latvia	X			X	X		
Lithuania		X	X	X	X	X	
Romania	X	X	X	X	X	X	X

Source: Ortiz și Cummins (2013: 17).

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Unii cercetători argumentează că România, Estonia, Bulgaria, Letonia și Lituania (REBLs) au implementat unele dintre cele mai dure programe de austeritate din Europa începând cu anul 2010 (vezi de exemplu, Blyth, 2013). În acest articol, voi argumenta, alături de alți autori, că recenta criză economică nu a fost cauzată doar de un sistem bancar nereglementat, ci este și rezultatul modelului de creștere economică dezvoltat în aceste state. Articolul se va axa mai mult pe programul de austeritate din România și efectele sale asupra diferitelor domenii, cum ar fi cheltuielile publice și sociale, politicile privind piața forței de muncă, negocierile colective, educație și sănătate. Voi arăta că în timpul crizei economice, abordarea neoliberală monetaristă utilizată de FMI, cunoscută sub numele de modelul Polak, utilizată pentru a redresa dezechilibrele fiscale, a fost dublată de decizii politice locale care au întărit și mai mult relațiile de putere inegale dintre muncă și capital în favoarea celei din urmă și au externalizat povara redresării economice pe umerii populației. Articolul concluzionează că, în timp ce problemele pe termen scurt au fost rezolvate, problemele structurale nu numai că nu au fost adresate, dar multe dintre ele s-au adâncit în timpul și după criza economică.

Cuvinte-cheie: austeritate, politici sociale, cheltuieli publice și sociale, criză economică, model de creștere economică.