Romanian Market Governance: Why No Capture by Business Interests?

Patricia T. Young
Rutgers University, New Jersey
patriyou@eden.rutgers.edu

- October 5, 2008 -
Introduction

Romania’s economic and reform performance in the last seven years has been surprisingly robust, especially if viewed from the vantage point of the economic and political situation of early in the year 2000. Economic growth has been spectacular for a European country, exceeding 5% in all but one year since 2001, and raising the standard of living, measured in GDP per capita, more than three times since 2001. Inflation and unemployment have dropped, inflows of FDI have taken off, and the share of population living in poverty has declined from 30% in 1999 to 12.9% in 2003 (EBRD 1999, 2007).

Even the IMF, long critical of Romania’s economic performance, has admitted that the country has been growing faster than any other EU economy between 2000 and 2006, and has praised its sound macroeconomic management and restructuring progress (IMF 2007). The business environment has also improved considerably in many areas, including dealing with licenses, employing workers, getting credit and protecting investors (World Bank 2006: 2), transforming Romania in a short period from a transition laggard to an investment destination. Economic reform indicators from the European Bank for Reconstruction and Development (EBRD) have also shown marked improvement in many areas in the last few years, in spite of Romania’s transition score in 2007 still being the lowest among Eastern European EU members.

This is not to say that Romania’s situation is as rosy as can be. Romanian incomes are still very low compared to the EU average, and corruption perceptions are still very high. High-level corruption in the economy has been in the public spotlight recently, with the Prime-Minister and the President accusing each other of being controlled by ‘illegitimate interest
groups’, by ‘the smart boys’ of the energy sector or by media moguls involved in Mafia-like activities (Badea 2007). These accusations were made in the context of a politically-motivated conflict, but they do indicate that the topic of high-level corruption by businesspeople is an important one in Romania today.

In spite of the visibility of corruption accusations, and of the continuing street level pessimism about the topic, there have been improvements even in this field. The Corruption Perceptions Index was 3.7 in 2007. This is still the worst score in the EU, but an improvement from values around 3.0 between 1998 and 2006. Business surveys also show significant drops in perceptions of the frequency of bribery (37% to 23%), as well as lower values of bribes (2.57% to 0.81%) and kickbacks (2.11% to 0.67%) as a percentage of firm revenues in 2005 compared to 2002 (EBRD 2005).

Thus, overall, the improvements of the last few years have been remarkable. These improvements are all the more impressive from a theoretical point of view. A prevailing view in academic and policy circles is that communist-era managers were the early winners of economic liberalization, and were able to gain long-term advantages in the first decade of transition and to prevent restructuring by opposing the creation of market rules that would level the economic playing field (Hellman 1998, EBRD 1999). The EBRD warned in 1999 that narrow vested interests “often gain from the market distortions and corrupt practices associated with partial reforms” (EBRD 1999: 102).

Economic and political competition were believed to be the antidotes for this situation (Hellman 1998, EBRD 1999). In Romania, both of these conditions have been lacking. Large-scale privatization did not start in earnest until the second half of the 1990s, and the communist successor party (now called the Social Democratic Party or PSD) dominated the political scene,
holding power between 1990 and 1996, and then again between 2000 and 2004. The return to power of the PSD in 2000 in particular created a resigned, pessimistic mood among those with high hopes for economic reforms. In spite of a new change in power in 2005, the fragile ruling coalition disintegrated rapidly, and a minority liberal government has been surviving since 2007 with the help of the PSD. As an unlikely case of diminished influence of business interests, Romania presents the perfect opportunity for identifying the conditions under which the influence of ‘early winners’ can fail to translate into capture of market governance rules by narrow economic interests.

**Explanations of market governance reform**

The emphasis on concepts like governance and rule of law by international organizations highlights the relatively new belief in development circles that institutional reform is a necessary complement to economic reforms in the search for high and sustainable economic performance. The World Bank’s definition of governance has a political dimension, as well as an economic dimension, and an institutional respect dimension. These dimensions are influenced by different factors and sometimes behave differently. Romania’s best governance measure in 2007 was for regulatory quality, an economic measure, and its worst was for control of corruption, with ranking differences of more than 10 percentile points on these dimensions (Kaufmann et al 2008). To understand these differences, and to avoid blanket pessimism about the country’s institutions, I separate economic and political governance, although sometimes governance
dimensions overlap\textsuperscript{1}. On the political or democratic governance side, unsettled institutions of state monitoring and oversight persist, and politicians are struggling to prevent rules that might make them vulnerable to prosecution. On the less talked about side of market governance, however, there have been notable advances. I focus here on these advances in market governance.

I also define market governance in a narrower way than the World Bank. Concepts like the World Bank’s government effectiveness or regulatory quality, which comprise the notion of market governance, are very broad, measuring perceptions about anything from the government’s ability to provide public services to very specific regulations. In this paper, I refer to market governance as the basic institutional rules of the market game, which includes laws regarding insolvency, secured transactions, capital markets, concessions, corporate governance, competition and company law. Creating the institutional framework for a functioning market economy was considered a critical second phase of economic reform, and a key follow-up for initial liberalizing reforms (price liberalization, macroeconomic stabilization and privatization) (Stiglitz 1999, Svejnar 2002).

I am particularly interested in institutional capture, defined as the ability of powerful actors to create broad laws and institutions that protect their advantages in the future and that allow for their continued enrichment and power. This includes these actors’ ability to block laws or reforms that would even the playing field. Institutional capture is potentially more pernicious for economic performance than corruption targeting one-time benefits because it maintains and institutionalizes inequality by setting the rules of the market game in favor of the captors. Such capture is therefore potentially one of the practices most harmful to economic development.

\textsuperscript{1} In particular, the institutional respect dimension, consisting of rule of law and control of corruption, has implications for both the economic and the political dimensions. I deal with these overlaps by discussing institutional reform implementation in addition to the quality of law on the books.
There is reason to worry about institutional capture especially in transition economies, due to the capture opportunities offered early on by a porous institutional environment.

I argue that institutional capture of market governance laws has not come to pass in Romania, even though other forms of high-level corruption continue. To explain this outcome, I argue that the new economic elite no longer consists mainly of communist-era enterprise managers with little market acumen, who can only survive on political connections, and on taking advantage of unclear property rights and market institutions. Instead, this elite is now composed of businessmen who were relatively young at the beginning of transition, and who learned the rules of the market game fast, now resembling typical Western businessmen. The new entrepreneurs have certainly benefitted from shady privatization deals and government contracts, but the rents obtained from such endeavors were large one-time benefits, which did not depend on the continuation of lax rules, unlike rents from arbitrage or from unclear property rights early in transition. The initial wealth accumulation afforded by political connections has often been crucial for making these businesspeople important market players, but these actors are now playing a game with sophisticated market rules.

A key episode of transition that marked the decline in political influence of the old state-owned enterprises (SOEs) and the rise of the new entrepreneurs was the banking reform of 1998-2000 and the decision to start large-scale privatization in earnest. Maintaining the availability of clientelistically disbursed soft loans where the new entrepreneurs and the SOE managers had shared interests in preventing reform. When banking reform became inevitable due to severe economic crisis, debt forgiveness had the effect of co-opting the new entrepreneurs into acquiescing to reform. The end of soft financing combined with the start of large-scale privatization marked the demise of the old industrial technocracy.
My argument above is a revised view of interest-group explanations of the formation of the market governance framework. Interest group opposition is a popular explanation for the difficulty of enacting policy reform in developing countries, an explanation that is better at accounting for policy continuity than for change (Haggard 2000). Among scholars of postcommunism, Hellman (1998) is most prominent for the argument that business interests in the early transition benefited from partial reform by siphoning off state resources, and by opposing institutional reforms that would end unfair benefits. Only external shocks like sudden political change, external influence, or economic crisis could jolt the government into reform mode by raising the costs of inaction and providing sufficient incentives to policy-makers to overcome interest group opposition. These factors contribute to institutional reform, but I show that they are certainly not sufficient. The key ingredient lies not in the government’s incentives for reform, but rather in the change of the relevant interest groups. By the end of the year 2000, the relevant business interest group was no longer comprised of market-phobic communist-era SOE managers, but rather consisted of new entrepreneurs, who had obtained enough capital (often from the state) to start market-based ventures.

Interest-group explanations for policy reform in transition economies are closely related to legacies-inspired arguments, which claim that the initial situation at the end of communism was an important influence over the direction and possible outcomes of transition, because it determined the resources and opportunities available to various actors. Initial policy choices are also considered vital for the ability of a government to pursue further reform because reforms are path-dependent in this view: early choices have disproportionate influence on outcomes by foreclosing certain paths initially open; later choices matter less, because they cannot change the path already chosen. The EBRD (1999: 102) noted that “where initial policy choices have
concentrated economic power in particular groups, this power has been used to distort or stall reforms later in the transition”. Romania, together with Bulgaria, Ukraine, Russia and many other countries east of the Central European frontrunners, were believed to have made the wrong initial choices (ibid: 106). These countries were not expected to be able to fully reform their market economies. Wild or crony capitalism, or capitalism ‘with a comrade’s face’, was believed to endure for the long-term in these Eastern European laggards. I argue that initial choices against full market reforms were not sufficient to lock Romania into a low-performance equilibrium.

Institutional capture is often assumed, rather than studied; the hidden nature of the processes involved makes this issue difficult to pursue. I use a variety of data sources to get as complete a picture as possible of institutional capture. A key data source on state capture is the Business and Enterprise Economic Performance Survey (BEEPS), put together by the World Bank and the EBRD. In 1999, Romanian firms believed that state capture, measured as the sale of parliamentary votes to private interests, had a very significant or significant impact on 22.3% of firms\(^2\), making Romania a high-capture economy (Hellman et al 2000). In high-capture economies, the strategy of state capture by individual firms was believed to create a vicious circle, in which political connections are rewarded more than innovation and other market strategies, encouraging firms to further engage in state capture (ibid.).

In contrast to this gloomy perspective, in 2002 only 4.4% of Romanian firms declared that the sale of parliamentary votes affected them in a decisive or major way (World Bank 2002)^3, suggesting that the vicious circle of state capture had not materialized. This situation is

\(^2\) 17% of firms also felt, in 1999, that the sale of commercial courts’ decisions affected them significantly, and 21% complained about being significantly affected by sale of presidential decrees.

\(^3\) Other aspects of state capture beside the sale of parliamentary votes had improved as well: only 4.8% of firms were majorly affected by the sale of government decrees, and 5.3% by the sale of commercial courts’ decision (World Bank 2002). In 2002, there were some minor changes in the BEEPS question phrasing, although the meaning of the question has not changed significantly.
similar in many of the economies considered ‘high-capture’ in 1999⁴, suggesting that Romania’s
evolution could be relevant further east and south.

The BEEPS state capture measure is imperfect. It asks about the sale of any decisions that
might affect firms, which includes much more than basic market rules. Particularistic decisions
that affect only one or a few firms in the short-term (temporary subsidies or exceptions from
taxation) would be included in this measure, even though they do not amount to institutional
capture. In addition, this measure suffers from the shortcomings of perception-based indicators.
Additional data sources I use to assess the accuracy of the BEEPS measure are corruption
scandals in the press, and EBRD reports assessing the quality of market governance rules (in the
next section).

Press scandals related to the institutional capture of market legislation are virtually absent
from the Romanian press. In spite at attempts at political manipulation of the press documented
in Freedom House country reports, the Romanian mass media is not shy about reporting on
corruption scandals, and there is no reason why the capture of market governance rules should be
overlooked. My interviewees warned me about the undeclared biases of various newspapers, but
also remarked that the press is doing a good job at publicizing corruption, and pointed out to me
which were the more reliable newspapers and news sites. Stories of firms benefiting from
arranged privatization and public procurement auctions, and scandals involving the capture by
politicians of anti-corruption, transparency, or criminal procedure rules are frequent in Romanian
newspapers. The typical high-level corruption scandal reported in newspapers involves a
construction company closely connected to some important political figure, who gets a public
procurement contract in exchange for a bribe or some work on the politician’s house. In the late

⁴ Some of the countries where less than 5% of firms were majorly or decisively affected by the sale of Parliamentary
votes to private interests in 2002 include Poland, Czech, Hungary, but also Serbia, Croatia, Ukraine, Moldova and
Russia.
1990s and early 2000s, corruption scandals related to the collapse of banks, investment funds, the businesses of former Securitate members, and especially privatization decisions were the norm, but scandals related to the capture of market rules were largely missing. This suggests that instead of fighting over basic market rules, powerful Romanian firms tried to secure particularistic benefits from interactions with politicians.

In support of my explanation for the absence of institutional capture, I use a narrative of the pivotal last years of the 1990s, marked by banking reform and the start of large-scale privatization. To pin down the composition of the Romanian business elite, I compile data on the socio-economic background of the wealthiest Romanians based on Capital’s magazine *Top 300*, published in 2007. My research is also supported throughout by several interviews with Romanian analysts, politicians and businesspeople, conducted in the spring of 2007, which complement my other data sources.

The paper proceeds as follows: in the next section, I detail the characteristics of market governance rules in Romania, in order to further assess whether these basic rules were likely captured by special business interests. Then I address the main possible objection to my argument: the notion that EU conditionality forced legislators to surpass interest group objections to the creation of a high-quality market governance framework. I present my revised interest-group explanation next, focusing on the changes of the late 1990s, and detailing the composition of the new economic elite and their political involvement. I conclude with some comments on business strategies in transition.
Market governance in Romania

By 2007, Romania’s market governance legislation was considered advanced judging by the standards set by the EBRD\(^5\). Commercial legislation in general was assessed as extensive and effective already in 2001. In 2001 and 2002 Romania received better scores in both extensiveness and effectiveness of such legislation than most Central European countries (EBRD 2002: 38). Romania has also reached high levels of compliance with international standards in several fields (see Table 1). The EBRD (2007) notes the high quality of insolvency and secured transactions laws, and considers the Romanian insolvency law one of the leading such laws in EBRD’s countries of operation (EBRD 2006: 13). The European Commission was satisfied with the Company Law chapter of Romanian accession negotiations by 2005, asking only for efforts to improve financial reporting and efficient follow-up of these provisions (EC 2005: 37). Complete legislative alignment with the EU, improved decisions and increased activity were also achieved in the area of competition regulation in 2005, while in 2006 the requirement of pre-approval of state aid by the Competition Council made this council one of the most independent market regulators in Romania (Young 2008). Capital markets (securities) law was also strengthened in 2004 (Law 297/2004), and the insurance law was upgraded in late 2003.

In 2007, the EBRD’s assessment of Romanian securities law noted that the legislative framework in this domain has substantially improved, and there remained only minor flaws (EBRD 2007). Romania’s high compliance with international standards in this legal domain was matched by Central European countries, but also by Bulgaria, Croatia, Moldova, Serbia and

---

\(^5\) The EBRD measures address not only legal extensiveness, but also fairness as a synonym for quality of laws. EBRD’s general benchmark for assessing quality is how the law would affect the investment desirability of the country in question from the point of view of a third-party investor (one not involved as a party in a legal dispute).
Ukraine, with Russia lagging only slightly behind (Table 1). This suggests that the changes experienced in Romania in terms of market governance indicate broader regional patterns.

The two legal areas assessed by the EBRD where Romania had not yet achieved high compliance with international standards are concessions and corporate governance. Concession legislation, last assessed by the EBRD in 2007/8, was under medium compliance with international standards (same as the 2005 assessment). Significant legal changes in 2006/7 aligned public procurement rules with EU regulations, but that also created a too complex law uniting public procurement and concession rules under one legal framework. However, in spite of low scores for the general framework and the definition and scope of the concession law, some of the areas with the highest potential for institutional capture, namely the selection of the concessionaire\(^6\), and the settlement of disputes, received high compliance scores. In the area of flexibility of the concession agreement, Romania even scored higher than all Central European countries except for Slovenia (EBRD 2008b).

Corporate governance legislation (contained mostly in Company law, Capital Markets law and regulations of the national securities regulators) was the worst commercial law area for Romania in 2004 in terms of compliance with international standards. Issues of disclosure and transparency were noted as in need of improvement. However, this assessment referred only to law in effect by September 2003. The EBRD’s 2005 report on corporate governance notes that the Romanian framework has improved since 2004, but these improvements will only reflect in the next legal assessment (Cigna and Enriques 2005)\(^7\). Additional information about the state of corporate governance in Romania can be obtained from the World Bank’s *Doing Business 2008*

---

6 This core area of the concession law refers to mandating a fair and transparent selection process, and allowing limited exceptions for direct negotiations, as well as the possibility to challenge illegal awards (EBRD 2008).

7 A new Corporate Governance Legislation Assessment Project has been conducted at the end of 2007, but a final report has yet to be released.
report. As part of the investor protection criterion used by the World Bank in its assessments of the ease of doing business, the transparency of transactions and director liability for self-dealing were showing a surprisingly good performance for Romania, better than the averages for the region, and similar to OECD averages (Badulescu and Badulescu 2008).

Law on the books is often a different matter than law in practice, with legal improvements often remaining on paper due to a variety of implementation problems, such as poor enforcement or corrupt or incompetent judges or regulators. Thus, Romania’s legal improvements in market governance can only be encouraging if they are matched by improvements in implementation of these rules. The EBRD measures the application of market legislation through Legal Indicator Surveys (LIS), which ask legal practitioners how the laws would operate in their countries based on specific scenarios. Every year, the LIS focuses on a different sector of market governance.

Overall, the EBRD legal surveys suggest enforcement of commercial legislation is better than expected in some areas, though implementation problems are still serious. Critical lack of expertise in many specialized fields (e.g. financial markets) and legalistic application of EU standards are noted as challenges of the market governance framework (World Bank 2005b).

In spite of remaining problems with implementation, there are some encouraging signs. The 2007 securities markets LIS placed Romania in a top position in terms of the effectiveness of private enforcement mechanisms and legislation regarding the market regulator. This performance was equaled only by Hungary, Estonia, and Croatia for private enforcement mechanisms, while Romania was second only to Lithuania for the effectiveness of the market regulator (EBRD 2007). Insolvency legislation, whose extensiveness was graded highest in
Eastern Europe in 2004, also showed effectiveness levels similar to those of Hungary, and better than those of Czech and Slovak Republics, Latvia and Lithuania (EBRD 2004).

For corporate governance, various measures of effectiveness were showing the country in a favorable light. Enforceability of disclosure\textsuperscript{8} was higher in Romania than in all the rest of Eastern Europe except for Lithuania and Croatia, simplicity of disclosure was significantly better than in Poland and Hungary, while the speed of disclosure was much higher than in Hungary and Czech Republic (Cigna and Enriques 2005).

The remaining challenges do not necessarily suggest capture of market governance laws by private interests. Firms’ perceptions of the impact of sale of commercial court decisions have actually dropped considerably between 1999 and 2002, from 17% (for significant and very significant impact) to just over 5% (World Bank 1999, 2002). In addition, my Romanian interviewees also agree that most of the problems with the market governance framework are related to the cumbersome functioning of the legal system, the lack of experience or expertise in commercial matters and other such transitional pains, rather than to firms’ ability to consistently influence the implementation of market governance rules.

Another obstacle to market governance legislation has been the state’s opposition to some of the proposals advanced by international actors, rather than the opposition of private business. Various governments have taken advantage of weak competition and insolvency legislation to keep large SOEs employing large numbers of workers on the market, as well as to speed up and sweeten privatization deals of such enterprises, whether they were being sold to Romanian or foreign entrepreneurs. The special treatment of these enterprises should not be confused with

\textsuperscript{8} Disclosure and redress are the two dimensions of corporate governance measured. Disclosure refers to the ability of a minority shareholder to obtain information about the company, while redress is about the options available to a minority shareholder whose rights have been breached. The rankings for redress are very similar to those for disclosure.
state capture. Numerous debt write-offs of the ‘big dinosaurs’ and exceptions from insolvency regulations of these companies can be attributed instead to the electoral importance of these companies. The BEEP survey itself distinguishes between state capture and influence, defining influence as the ability of some SOEs, especially large employers, to influence governmental decisions without the need for illicit payments. Such influence was due to the SOEs perceived structural importance in the economy, to the potential effects of these companies’ bankruptcy on unemployment and on the electoral fortunes of the party in power, and sometimes to the strength of trade unions. There is virtually no media evidence of these SOEs managers’ personal influence on politicians in drafting or passing market governance laws for private gain. The fact that many of these companies have been privatized shows that with Romania’s accession to the EU, even this structural influence is waning\(^9\).

In spite of remaining problems, by 2007 the Romanian legal framework for market governance was believed to be relatively stable, the decoupling of the economic and political domains was considered complete, and the market economy was believed to be the only solid pillar of the state (Toma 2007). The improvements over the last eight years have been significant, showing that reforms in the market governance field have not been stalled by special interests, and have not languished into a partial reform equilibrium.

**International influence**

The reasonably advanced stage of market governance laws begs the question of how these reforms were passed. I argue that policy-makers have passed these laws at the advise and

---

\(^9\) Most of these SOEs were privatized during Nastase’s PSD government of 2000-2004, even though this government’s leftist orientation and its connections to the former nomenklatura were expected to make it particularly prone to influence or state capture by the managers of large SOEs.
with the help of international organizations, but not because external conditionality or economic crisis has diminished the influence of business. Rather, business interests in a position to capture the basic rules of market governance have not opposed these rules in spite of having gained from lax rules in the past.

Building institutions of democratic consolidation, and infusing these institutional rules with value is a difficult process in post-communist countries, due to the high degree of political uncertainty that shortens the time horizons of politicians (Hanson 2001). The same can be said about laws that consolidate or sustain market economies. Like in the democratic consolidation field, the encouraging results in the market domain in some Eastern European countries are due to the influence of the idea of “return to Europe” on the time horizons of policy-makers (ibid.) as well as to the specific assistance received from European and other international bodies in the drafting of these reforms.

The influence of international actors in the market governance domain is undeniable, especially in the case of Romania, a country that had to harmonize its legislative framework with the EU’s *acquis communautaire* in a short period of time (between 2000, when negotiations for accession started, and 2006, when accession became certainty). The IMF, the World Bank, USAID and numerous other international advisors also contributed to the creation of these laws. Based on research about EU influence on other policy areas of transition economies, we would expect the EU to have had a significant impact on market governance laws, due to the consistency of the international message in this domain, to the relatively low density of domestic actors, and to the absence of established prior policy (Grabbe 2001, Jacoby 2005, Epstein 2006). Indeed, market governance laws show high compliance with European requirements. References to EU Commission principles, directives, and recommendations, sometimes specifically point by
point, is abundant in Parliament documents presenting reasons for government’s proposals to change market governance laws.

However, international influence on market governance appears to owe more to policymakers desire for internal and external legitimacy than to outright conditionality. Conditionality arguments suggest that whatever the strength of other factors, such as domestic opposition to reform from interest groups, the country was forced by external pressure to change market governance institutions. If conditionality had been the main instrument of institutional change, we would expect to see marked differences between the market governance institutions of countries that fell under this external influence and those that did not, for lack of firm prospects of joining the EU. However, market governance has improved not only in the countries with realistic prospects of becoming EU members. Countries like Russia, Moldova and Ukraine have equal or higher quality of certain market governance laws than Romania, in spite of the lack of EU conditionality (e.g. in securities laws, concessions law, banking regulation and corporate governance) (EBRD 2005, 2006, 2006b, 2007b).

There is also another reason to doubt the notion that the strength of conditionality trumped the influence of domestic interests. Market governance in Romania has improved not only in the areas specifically covered by the acquis. Areas such as bankruptcy are not covered in the EU acquis, and thus were not subject to direct conditionality, but improved at least as much as legislation specifically monitored by the EU, such as competition law. These similarities suggest that while international influence played an important role, ‘soft’ influence may have been sufficient, and conditionality was not necessary in the field of market legislation. The external influences on market governance legislation were to a large extent pushing on an open door, in the sense that the government willingness to gain international legitimacy through such
reforms was not met by antagonism from business interests. In marked contrast, there were numerous difficulties in adoption of EU-required democratic governance rules (such as reform of the judiciary and the National Integrity Agency) due to opposition from politicians (Young 2008). The unproblematic adoption of EU market governance requirements suggests that there was little opposition from vested interests to such rule adoption.

The late 1990s: Banking reform, privatization and the new economic elite

The economic crisis of 1998-9, and the political change of 1996 can also be considered alternative explanations of how market governance reforms came about. I argue that these explanations need to be qualified, and that the true importance of crisis and political change lies in contributing to the rise of the new economic elite, with its distinct preferences towards institutional reform, rather than in simply providing impetus for the government to defeat vested anti-reform interests.

The electoral defeat of the communist-successor party in 1996, and its replacement with a progressive coalition called the Democratic Convention (CD) was supposed to mean the end of partial reform. More political impetus for reform was provided by the economic crisis of 1998-9, which gave policy-makers additional incentives to reform. The logic of this standard interest group explanation of policy reform is that crises are periods of extraordinary politics, when the costs to governments of policy inaction rise substantially, surpassing the costs of attacking entrenched interests opposed to reform (Haggard 2000). The electoral benefits from reform are also expected to rise due to the beneficial impact of reform on the general public, and this can change the electoral calculus of politicians. This may have been the explanation for Yeltin’s
reforms of the Russian banking system during the 1997 financial crisis, when some of the undue benefits of wealthy bankers who had engaged in state capture were cut back (Johnson 2000). I first discuss how these standard arguments of crisis and political change fare in the Romanian case, and then provide my amended story of the role of these factors in institutional change.

**Crisis and political change: Standard arguments**

In 1996-9, crisis conditions were present in Romania. Due to the sudden price liberalization and subsidy pullbacks brought on by a new government’s reform impetus, Romania went through a second dip in GDP levels, a prolonged bout of high inflation, and a period of worryingly low international reserves. In 1999, the IMF, the World Bank and the EU signed loan agreements with Romania, helping to narrowly avoid default on sovereign debt caused by liquidity constraints. This crisis situation, and the advice received from international financial institutions prompted the government to follow macroeconomic stabilization with financial reform.

Banks in transition economies had plenty of perverse incentives, which often resulted in vicious circles. These include political rationing of credit for the state-owned banks, insider lending by small new private banks to their owners, a need to hide non-performing loans by lending even more to the problem debtors, moral hazard caused by expectations created by indiscriminate bail-outs by governments, and tax and accounting loopholes allowing the hiding of insolvency.

In 1998, the Romanian banking sector was in crisis, the share of doubtful and non-performing loans reaching 66.2% of total private loans (Doltu 2002: 299). In 1999, the National
Bank of Romania (NBR), with a new Board of Directors, launched a restructuring programme supported by laws upgraded in 1998-9, such as the Banking Act (Law 58/1998), the National Bank of Romania Act (Law 101/1998), and the norms added to the Bank Insolvency Act (Doltu 2002). Banking supervision and other powers of the NBR were also increased with the legislative changes of 1998-9, and the Bank Asset Recovery Agency (AVAB) was established to deal with failing banks in a centralized manner.

Privatization of the Romanian Development Bank and of BancPost in 1998 and the exit of eight banks from the market in 1999-2000 followed the legal reforms and brought about some immediate improvement. Interest rate spreads narrowed, bad loans as a percentage of total loans and of GDP plunged rapidly, and a credit boom, especially in retail lending (mortgage in particular) ensued. By 2005, Romanian domestic credit to private sector had grown to 11.3% of GDP (from 7.2% in 2000), and stock market capitalization, another indicator of financial development, rose spectacularly from 3.4% of GDP in 2000 to 22.3% in 2005 (EBRD 2007)\textsuperscript{10}.

Thus, in agreement with standard interest-group arguments, economic crisis (combined with international influences) created the initial impetus for banking sector reform. The political influence of banking interests was not strong enough to prevent banking reform, in part because unlike in Russia or in Bulgaria (see Johnson 2000, Barnes 2007), banking in Romania was not deregulated during the last years of communism, so private banks had less time to consolidate their influence on the state. Political change was also important in curtailing the influence of large industrial enterprises, whose managers had overwhelmingly supported the communist-successor party.

\textsuperscript{10} In spite of rapid improvement, these figures are still much below Central European averages, let alone world or EU averages. In particular, the share of domestic credit to private sector in Romanian GDP (11.3%) is still only half of the average for South-East Europe of 23.9%, and only a fraction of the average for Central Europe (42.3%) or for the EU (85.8%).
However, many aspects of banking reform do not fit with the standard explanations based on crisis and political change. Banking reform in Romania is not a story of valiant government opposition to business interests trying to maintain soft loans. The political coalition in power in 1996-2000 had its own business allies who benefited from soft loans, and some business people formerly allied with the communist-successor party switched sides in 1996. Pasti (2006) argues that if until 1995 bank credit was a means of transferring subsidies to politically connected SOEs, since 1995 bank credit started to be used for the financing of private politically connected entrepreneurs at negative interest rates and without much hope of repayment. Soft credits allowed new private entrepreneurs the accumulation of working capital, either for new investments, for private consumption or for buying off SOEs offered for privatization, amounting in effect to the creation of a national capitalist class. Some beneficiaries of these credits, such as George Constantin Paunescu, were able to get personal credits of more than $10 million, and open private banks with this money, so that credit could keep flowing to their private businesses (Pasti 2006).

Moreover, if the political change of 1996 had created a government adamantly opposed to narrow economic interests, we would have seen a more open attack on these interests, which was not the case. The time in office of the Democratic Convention and president Constantinescu was marred with corruption scandals, such as the collapse of the largest investment fund, FNI, which held 75% of the mutual fund sector assets, Liberal MP Catarama’s alleged fraud in the SAFI investment fund, and a shady government contract with Bell Helicopters that resulted in the firing of the reformist finance minister. These scandals were especially over closeness of the government to business interests, and over the lack of control over intelligence services, whose representatives made huge fortunes. Even the President, who had started a publicized anti-
corruption campaign, came under suspicion in a cigarette smuggling scandal, which dealt a
deathblow to his previously high popularity (Gallagher 2005).

In addition, crisis and political change arguments fail to explain the connection between
banking reform and the rest of market governance reforms. Banking reform was part of the
puzzle of reforming the economy, but not the most important part. While financial sector
development can have a large effect on growth by reducing firms’ liquidity constraints, in South-
East Europe, about 40% of small firms, 60% of medium firms and 70% of large firms did not
consider themselves financially constrained in 2005, using mainly internal finance for further
investment (EBRD 2006). Moreover, the new foreign banks tended to specialize in household,
not corporate finance, which suggests that their effect on investment was limited (ibid). Most
foreign companies had financing from parent companies, so banking system reform was also not
the catalyst for an increase in FDI. Thus, while financial sector reform has preceded industrial
restructuring and other institutional reforms, it is unlikely that it tells the whole story of how
Romania was able to overhaul its economy. Financial sector reform was more important
economically for cutting credit from SOEs than for providing financing to a large array of
companies without political ties.

Furthermore, crisis had a much stronger influence on highly visible reforms like the
overhaul of the financial system and macroeconomic stabilization than on other institutional
reforms. Banking reform also did not lead to an immediate avalanche of other market
governance reforms. In spite of some complementarities between banking and other institutions
of market governance, such as bankruptcy or secured transactions, these fields were only
reformed several years after the banking crisis.
The importance of the late 1990s

Banking reform and political change may have failed to eliminate business interest groups or to overhaul the economy, but they were instrumental in the rise of a new economic elite, who did not have the same incentives to oppose institutional reform as the previous elite comprised of SOE managers.

Several rounds of mass and insider privatization until 1997 managed to transfer less than 30% of state capital into private hands. The start in earnest of large-scale privatization through direct sales in 1997 meant the rise of a new Romanian business class. Most of the privatizations of 1997-2000 focused on sales to local, rather than foreign investors, at heavily discounted prices, amounting to a short-lived ‘golden age’ of local capital (Pasti 2006). These privatizations were large one-time wealth transfers, which carry different incentives than the more continuous but ‘trickle’ process of wealth accumulation allowed by unsettled market governance rules such as lax or incomplete collateral or capital market laws. The one-time nature of the wealth transfer through privatization means that once in possession of the privatized assets, business people had less reason to insist on the continued weakness of market legislation. Privatization through direct sales was reoriented towards foreign buyers after 2000, but it did not stop with the return to power of the PSD, in spite of this party having previously protected SOEs. Notable among the large enterprises privatized at this time are steelmaker Sidex Galati (the producer of 15% of Romania’s gross industrial output), Alro Slatina (aluminum producer), Rafo Onesti (refinery), and the Constanta Naval Yard. By mid-2003, 12 out or an IMF-agreed list of 23 SOEs in dire need of restructuring had been privatized, others were in the process of being privatized, and only two appeared to be scheduled for bankruptcy (Capital 2003a).
My interviews with business people and local analysts in Romania also suggest an important link between privatization and business preferences. Some interviewees suggested that the end of a period of significant privatization means fewer opportunities for state capture. Besides, interviewees pointed out that now that the Romanian economic elite has acquired substantial wealth, it is less willing to fight for more. Others suggested that corruption has become more limited and more sophisticated (less visible) with the conclusion of privatization.

Unlike privatization, soft loans involved potentially multiple transactions, creating incentives for business people in the continued laxity of banking rules. To soften opposition to banking reform of the new entrepreneurs who had benefited from clientelistic finance, the government effectively offered them ‘compensation’ in the form of writing off large portions of bank debt, by transferring such debt to AVAB with few chances of recovery. This amounted to a permanent transfer of assets from banks to those who had managed to obtain large loans. This transfer of wealth had a high cost to the economy, estimated at between 4 and 6% of GDP. By the end of 1999, USD2.3 billion were in AVAB’s portfolio, and very few of those bad loans were ever recovered, amounting to the lowest recovery rate for bad debts among reforming countries (Movit 2006).

The new Romanian capitalists also managed to avoid prosecution for fraudulent behavior. For instance, the bankruptcy of Columna Bank, started in 1998, was still surrounded by uncertainty in 2004, and Razvan Temesan, a main actor in the Bancorex case, was able to use his political connections to escape prosecution (SAR 2002).

There is no evidence that the compensation offered to the new entrepreneurs in the form of bank debt write-off and protection from prosecution was an intentional government policy.

11 Shleifer and Treisman (2000) use a similar argument to explain economic policy changes in Russia in the wake of the 1997 financial crisis. Johnson (2000) critiques this argument, noting that it is unlikely that the Russian government was intentionally co-opting Russian banking elites.
However, this course of events had the important effect of appeasing business opposition to banking reform and of allowing Romanian entrepreneurs to obtain the capital necessary to acquire state assets up for privatization. Having become property owners, sometimes through illicit means, most of the important Romanian business people behaved more like modern Western businessmen, capable and willing to conduct their business within a sophisticated legal framework, than like communist-style managers with little business knowledge and a fear of markets.

**New and old economic elites**

Initially, the actors believed to engage in state capture and to oppose institutional reforms were the communist-era managers of SOEs, or what Pasti (1997) calls ‘the industrial technocracy’. The survival of the old nomenklatura and its transformation into a new burgerie, a process called elite reproduction in the economy, was believed to be the main dynamic of elites in post-communism (Hankiss 1990, Staniszkis 1991, Szalai 1994). This dynamic, based on Bourdieu’s theory of the convertibility of social assets, argued that the top ranks of communist cadres and the nomenklatura were likely to transform their political capital into economic capital and become the new propertied classes.12 (Bozoki 2003).

In the notorious conditions of imperfect information that characterized the early transition, the economic strategies of these actors were believed to be shaped by their subjective models or ideology (North 1990), allowing a reproduction of communist-style thinking in the post-communist economy. Path-dependence and communist ideological legacies mean that most

---

12 Bozoki (2003) notes that systematic elite research has been done only in Poland and Hungary, while for the rest of the transition economies all that is available in this field are memoirs, philosophical essays and journalistic accounts.
of the managers in question not only have no competences in navigating their enterprises through market conditions, but also have an aversion to change, and an over-dependence on the state. They owe their jobs to their position in the communist nomenklatura, so they “still hanker for the safe bureaucratic diktat that reduced the need for managers to make any decisions or take any initiatives” (Ibrahim & Galt, 2002: 109). Stan (2004:44) also notes that “deep distrust of the impartial hand of the market has reinforced heavy reliance on the visible hand of state” in the economic domain. Enterprise insiders were thus likely to oppose a sophisticated market governance environment because they could not navigate it, and because it would force them to become self-reliant.

After the regime change, these managers often created private ‘tick’ firms (firma-căpușă), in effect transferring valuable resources from these large enterprises into private hands by buying up raw materials from the SOEs at very low prices, and selling intermediary goods back to them at inflated prices. The conversion of state property into private property through such satellite firms has been called by Stark and Bruszt (1998) ‘recombinant property’ in the context of network sociology, and is not unique to Romania. Recombinant property was characterized by blurred boundaries between the public and private domains and by the discretionary distribution of assets and liabilities, which amounted to an informal process of spontaneous privatization. This conversion has involved the state’s tacit cooperation; the siphoning off of SOE resources was made possible by the state’s acceptance of growing tax arrears of the large SOEs, as well as arrears towards state-owned utility companies.

Many of the enterprise insiders were actually unable to transform their short-term benefits from partial reform into long-term advantages. Starting in 1997, with a new party coalition in power, the privatization agency began to cut SOEs loose from the state, by initiating
bankruptcy procedures against them, and by curtailing subsidies (Pop 2006). Enterprise managers were some of the main opponents to privatization through direct sale, both because they could lose their jobs and social position, and because delay in privatization allowed them to develop their own tick firms (Stan 2004). Thus, the beginning of large-scale privatization in 1997 meant that the privileges of the industrial technocracy started to come to an end. Some of these managers were undoubtedly able to convert their tick firms into successful market enterprises, but they are not the majority of the most successful Romanian business people.

In the Russian context, it has been noted that many of the oligarchs are relatively young and run highly productive Western-style corporations according to market rules (Guriev and Rachinsky 2005). A similar pattern can be observed in the new Romanian economic elite. The 2007 edition of the *Top 300* of Romanian businesspeople put together by the *Capital* magazine shows that the typical Romanian multi-millionaire was younger than 40 in 1989 and thus unlikely to have held an important position in the communist nomenklatura (see Table 2). A notable exception is Dan Voiculescu, who at 43 was still in 1989, but had benefitted from a position in international trade before the fall of communism, which was a privilege reserved to those with close communist party connections. Some other members of the top are suspected to have had close relationships with the former or present secret services (e.g. Sorin Ovidiu Vantu, Paunescu, Ioan Niculae, Ovidiu Tender), but others were ex-pats who made fortunes abroad or who benefited from restitution of pre-communist wealth (e.g. Ion Tiriac, Iosif Constantin Dragan, Dimitrie Sturdza), and many others built their businesses from scratch, often at a young age (e.g. Gabriel Valentin Comanescu, a big name in offshore drilling at 40, George Copos, who

---

13 Dan Voiculescu himself is no longer in *Top 300*, because he renounced his business positions in favor of his two daughters in order to engage full-time in politics.
started early after 1989 with electronics imports and bakery products to build a $700 million business group etc.).

Media, real estate, finance, international trade and tourism are the main activities of the wealthiest Romanians, though many of them now have industrial acquisitions as part of their portfolios. An important exception is the field of energy production and distribution. Dinu Patriciu, the wealthiest Romanian, with a net worth of $3.1-3.3 billion, has made an important part of his empire by buying from oil refining capacity from the state\textsuperscript{14}.

The new business elite often took advantage of lax or poorly enforced rules or of non-transparent privatizations, and proved adept in making political connections, and in using them for getting heavy discounts on state assets and debt write-offs. Patriciu, for instance, bought former SOE Petromedia in 2000 for a big price discount (he paid only $50 million), after the company had almost been sold by the previous government to a Turkish firm. He then convinced the government to forget $600 million in debt (Hotnews.ro 2007, Miclescu 2005).

However, these entrepreneurs were much more pro-European and likely to accept the idea of conducting business under the rules set for Western corporations. This does not mean a commitment to always playing by the rules, but it shows a higher degree of market sophistication of the new elite compared to the managers of SOEs. As pointed out to me in an interview with a foreign businessperson, these Romanian entrepreneurs have now often become professional business people, and their learning process in business management was aided by the money they managed to siphon off from the state, which allowed them to make more costly mistakes in business.

\textsuperscript{14} He recently sold 75% of Rompetrol Holding to a Kazakh oil company in the largest transaction in Romania’s post-communist history.
The new Romanian entrepreneurs have become Western style capitalists with the help of foreign partners who likely contributed much-needed business know-how. Dinu Patriciu, for instance, was associated with the American Phil Stephenson in his largest company, Rompetrol, and with French and German companies in other ventures started in the early 1990s, while Dan Voiculescu was helped in his early business days by a Cypriot partner. Most of these businesspeople are now expert in financial transactions on capital markets and in the use of offshore companies to hide the identity of owners and to take advantage of differences in tax regimes. They also run competitive businesses, focusing on performance and improving business practices. When Capital interviewed Adrian Porumboiu, the owner of one of the biggest Romanian agricultural production companies, about the secret of success, he emphasized hiring high-performing managers, complementing agricultural production with food processing plants into an integrated system, weighing and monitoring all expenses, and managing risk (Capital 2003).

Many of the new entrepreneurs have been involved in politics, but their experiences varied. Some have attempted to get political leverage by building their own parties. Gigi Becali, real estate magnate and controversial owner of soccer club Steaua, is the president of the xenophobic New Generation Party. In spite of Becali’s personal popularity, his new party had a disappointing experience in the recent European elections, suggesting that building electoral support is a tricky issue. A more successful example is Dan Voiculescu, whose small Conservative (previously Humanist) Party briefly played a pivotal role in Romanian politics in 2005 due to post-electoral coalition changes, and managed to place a few members in government for short periods of time. Most of the prominent members of Voiculescu’s party had worked for his Grivco business empire, and thus had quite close connections to the businessman.
Such examples are former Industry Minister Codrut Seres, and Silvia Ciornei, the president of the Senate’s Economic, Industry and Services Commission. In spite of being close to Voiculescu, they were also young professionals with extensive foreign management training, and quite open to and active in modernizing the legal business environment.

Other businesspeople preferred to build on their alliances with existing political parties. Dinu Patriciu is an ex-politician and former MP for the National Liberal Party from 1990 to 2003, while Ovidiu Tender and Marian Iancu were known to be close to the PSD. Some business people, such as Adrian Porumboiu, have preferred to remain politically independent, while others, like the Paunescu brothers and Dinu Patriciu, have supported parties from both sides of the political spectrum.\footnote{Paunescu is believed to have supported President Constantinescu’s electoral campaign in 1996, in spite of previously being close to PSD (formerly PDSR), while Liberal Party member Patriciu has supported PSD’s Mircea Geoana’s mayoral campaign.}

The importance of political connections for initial wealth accumulation notwithstanding, business people could not always count on these connections, suggesting the difficulty of state capture. The case of Patriciu is instructive in this respect. His allegiance to the Liberal party came under question (though he never switched sides politically) when he obtained the Petromedia privatization during the social democratic government of Nastase. Patriciu was later harassed by the social-democrats for this suspicious privatization and sent before the anti-corruption prosecutors (Avram 2004), but paradoxically he became even more controversial after 2005, when his Liberal party was in power. In 2006 he found himself used in the political fight between President Basescu and Prime-Minister Tariceanu, accused of guiding liberal party policy from the shadows (Nicut et al 2007). Around this time, Patriciu also started having legal troubles related to shady financial deals (BBC Romanian 2006), and eventually had to sell his
Rompetrol oil empire. Thus, having political ties is not always safe for business people, due to the uncertainty of political support and to the quick shifting of political alliances.

**Conclusion**

During PSD’s 2000-2004 term, and increasingly afterwards as well, many Romanian commentators pointed to a Latin American type of transition marked by growing social disparities and predatory elites (SAR 2002, Flonta 2003, SAR 2008). There are still numerous scandals in the press that seem to confirm this view. Attempts of political parties to avoid legal checks on their indiscriminate power may amount to institutional capture by politicians of state monitoring and oversight institutions. In contrast, Romanian high-level corruption involving powerful business people does not amount to institutional capture. Instead, like in corruption scandals of advanced economies, Romanian firms may pay bribes or kickbacks to get individual, particularistic benefits, within the context of relatively developed market rules. Although corruption and the use of informal networks and contacts to obtain personal benefits is extensive in Eastern Europe (Grødeland 2007, Holmes 2006, Ledeneva 2006), it does not appear to have extended to the capture of market governance laws.

Various strategies for rent-seeking have been available to business people during transition. Such variation in rent-seeking activity can be thought of along two dimensions: the duration of rents and the type of interaction with politicians required to obtain and sustain such benefits. One-time interaction with short-term rents refers to bribes for public procurement contracts or one-time exceptions from regulation. Repeated transactions with short-term rents characterize strategies like creating tick firms, contracting soft loans or arbitrage in inflationary environments. Illicit privatizations, in turn, involve one-time interactions to obtain assets, but
produce rents that are long-term in duration; once the assets have changed ownership, they can provide a steady stream of income and durable inequality.

Compared to these strategies, institutional capture of market governance rules would be the most dangerous. Like illicit privatizations, it involves long-term duration of rents, but unlike privatization, where resulting assets can lose their value due to market price fluctuations or poor management, institutional capture would have the effect of automatically reproducing outcomes that favor the captors in multiple transactions (whenever the respective law is applied). In institutional capture, unlike in other types of high-level corruption, once the rules are set up to favor the captors, these firms obtain their preferred outcomes without the need to engage in costly rent-seeking. If market governance rules had remained lax in Romania, SOE managers would have been able to maintain the early advantages they obtained from short-term strategies like tick firms, arbitrage, and clientelistic finance.

Fortunately, institutional capture is not only the most prized outcome of rent-seeking; it is also one of the most difficult to obtain, due to the high-level of political control by captors it requires. But institutional capture did not come to pass in Romania mostly because the new business elite that rose to prominence in the late 1990s had the requisite pro-market orientation and market skills that allowed them to be successful in an environment with Western market rules. They still engage in one-time corruption transactions to capture short-terms rents (e.g. by seeking to obtain government contracts illicitly), but their preferred strategy for obtaining long-term rents has been capturing assets through privatization, rather than through designing biased institutions of market governance.

The asset inequality resulting from early advantages such as arranged privatization auctions is certainly impressive. The business people who enjoyed such advantages were often
able to multiply their wealth by investing in highly speculative growth markets like real estate and sports. The strong wealth advantage these people now enjoy is not likely to be erased soon, and can eventually translate into political power, though not quite as reliably as institutional capture would have. So far, however, Romanian business people appear to have settled for economic power rather than consistent political power.

It remains to be seen how beneficial the creation of a sophisticated market governance framework is for the Romanian economy. The optimists suggest that “a well-established market system characterized by clear and transparent rules, fully functioning checks and balances, and a healthy competitive environment reduces rent-seeking opportunities and, in turn, the incentives for corruption” (Broadman and Recantini 2000: 16). Indeed, there are some signs of improvement on the corruption front. Also, certain business practices characterizing the lax institutional environment of early transition are no longer possible. However, for the advances in market governance to fulfill their promise in reducing corruption, they may still need to be complemented by reforms of the democratic governance framework, such as judiciary reforms and reforms of state oversight and monitoring institutions. These reforms have yet to prove their effectiveness in Romania.
Table 1: Compliance with international standards in market legislation in Eastern Europe

<table>
<thead>
<tr>
<th>Law</th>
<th>High Compliance</th>
<th>Medium Compliance</th>
<th>Low Compliance</th>
<th>Very Low Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bosnia, Croatia</td>
<td>Bulgaria, Czech Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moldova, <strong>Romania</strong></td>
<td>Estonia, Kazakhstan, Macedonia, Poland, Russia, Slovak</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Serbia/Monten.</td>
<td>Armenia, Belarus, Czech Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bulgaria, Croatia, Czech Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hungary, Kazakhstan, Latvia, Macedonia, Moldova, Montenegro, Poland</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Romania</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Slovak Rep.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ukraine</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bulgaria, Croatia, Czech Republic, Hungary, Kazakhstan, Latvia, Macedonia, Moldova, Montenegro, Poland</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Armenia, Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Romania</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Slovak Rep.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ukraine</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Croatia, Czech Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Estonia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hungary</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Latvia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Croatia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Estonia</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hungary</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Latvia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>Moldova</td>
<td>Poland</td>
<td>Romania</td>
<td>Slovak Rep.</td>
</tr>
<tr>
<td>----------</td>
<td>---------</td>
<td>--------</td>
<td>---------</td>
<td>------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Secured transactions (2004)**

<table>
<thead>
<tr>
<th>Bulgaria</th>
<th>Romania</th>
<th>Hungary</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Slovak Rep.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bosnia Herzeg.</th>
<th>Poland</th>
<th>Macedonia</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estonia</th>
<th>Kazakhstan</th>
<th>Armenia</th>
<th>Azerbaijan</th>
<th>Belarus</th>
<th>Czech Rep.</th>
<th>Croatia</th>
<th>Georgia</th>
<th>Russia</th>
<th>Slovenia</th>
<th>Uzbekistan</th>
<th>Turkmenistan</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 2: Top 25 Wealthiest Romanians (Source: Capital 2007)

<table>
<thead>
<tr>
<th>Name</th>
<th>Age in 1989</th>
<th>Net worth (million USD)</th>
<th>Main sectors</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dinu Patriciu</td>
<td>39</td>
<td>3.1-3.3 billion</td>
<td>oil, media, real estate</td>
<td>architect; worked for architecture institute before 1989</td>
</tr>
<tr>
<td>George Becali</td>
<td>31</td>
<td>2.8-3 billion</td>
<td>real estate, soccer, auto industry, agriculture (poultry), construction</td>
<td>Starts real estate business after a land ‘exchange’ with the Romanian army, and some other suspicious land acquisitions from the state</td>
</tr>
<tr>
<td>Ion Tiriac</td>
<td>50</td>
<td>2.2 - 2.4 billion</td>
<td>finance, real estate, trade, sport</td>
<td>ex-pat</td>
</tr>
<tr>
<td>Sorin Ovidiu Vantu</td>
<td>33</td>
<td>2.1-2.3 billion</td>
<td>finance, media, real estate</td>
<td>Involved in the collapse of the National Investment Fund in 2000</td>
</tr>
<tr>
<td>Micula brothers</td>
<td>195</td>
<td>1.9-2.1 billion</td>
<td>food and beverage, tourism, media, real estate</td>
<td>ex-pats; returned from Sweden in the early 1990s</td>
</tr>
<tr>
<td>George Constantin Paunescu</td>
<td>52</td>
<td>1.6-1.8 billion</td>
<td>Tourism, media, real estate, publishing, shipping</td>
<td>Believed to have ties with ex-securitate; worked in foreign trade before 1989; moved business and residence abroad after 1996</td>
</tr>
<tr>
<td>Iosif Constantin Dragan</td>
<td>72</td>
<td>1.5-1.6 billion</td>
<td>propane distribution, publishing, real estate, transportation</td>
<td>ex-pat</td>
</tr>
<tr>
<td>Zoltan Teszari</td>
<td>19</td>
<td>1.2 billion</td>
<td>communications</td>
<td></td>
</tr>
<tr>
<td>Ioan Neculae</td>
<td>35</td>
<td>1.4-1.6 billion</td>
<td>foreign trade</td>
<td>various accusation of shady deals; was involved in oil refining business; London Stock Exchange listing of the chemical company in 2007</td>
</tr>
<tr>
<td>Camelia and Corina Voiculescu</td>
<td>Less than 30</td>
<td>0.9-1 billion</td>
<td>Media, trade, agriculture, industry, real estate</td>
<td>daughters of Dan Voiculescu, accused of collaborating with the former Securitate</td>
</tr>
<tr>
<td>Marius and Emil Cristescu</td>
<td>Less than 30</td>
<td>750-800</td>
<td>industry (Bega group), tourism</td>
<td>They started in 1990 as students with a small store on campus; their Bega group has 29 companies, mostly in industry, mostly bought from the state in direct privatization deals in the late 1990s</td>
</tr>
<tr>
<td>Adamescu family (Dan Grigore and Carmen Adamescu)</td>
<td>700-900</td>
<td>insurance, trade construction, real estate, tourism</td>
<td>Dan Grigore is a German citizen and Carmen Adamescu is a resident of Monaco</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Age</td>
<td>Income Range</td>
<td>Industry/Activities</td>
<td>Notes</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----</td>
<td>--------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Carmen Adamescu</td>
<td></td>
<td></td>
<td>industry: food, electronics, real estate, tourism</td>
<td>accused in Loteria file, former Vice-PM in Tariceanu government, PC; July 2008 accusations of capital market manipulation</td>
</tr>
<tr>
<td>George Copos</td>
<td>36</td>
<td>600-700</td>
<td>offshore oil, oil industry tools, tourism</td>
<td>new in the top 300, bought offshore platforms in 2005 after credits from foreign and Romanian banks</td>
</tr>
<tr>
<td>Gabriel Valentin</td>
<td>22</td>
<td>600-700</td>
<td>insurance, pharmaceuticals, tobacco, oil prospecting electricity, green</td>
<td>Controversial businessman involved in RAFO refinery deals</td>
</tr>
<tr>
<td>Comanescu</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ovidiu Tender</td>
<td>33</td>
<td>600-620</td>
<td>energy, aviation, real estate</td>
<td></td>
</tr>
<tr>
<td>Stefan Vuza</td>
<td>19</td>
<td>400-410</td>
<td>auto industry, construction, tourism, agriculture</td>
<td>contested ownership of Roman truck factory; exports trucks to the US</td>
</tr>
<tr>
<td>Ioan Neculaie</td>
<td>32</td>
<td>380-400</td>
<td>tourism, process equipment manufacturing</td>
<td>Lebanese; Grivo (formerly Grivita Rosie), one of the oldest Romanian factories, has an impressive list of international clients</td>
</tr>
<tr>
<td>Fathi Taher</td>
<td>41</td>
<td>350</td>
<td>natural resources around the world</td>
<td></td>
</tr>
<tr>
<td>Frank Timis</td>
<td>26</td>
<td>320-350</td>
<td>trade, hotels, real estate</td>
<td>lives in Australia</td>
</tr>
<tr>
<td>Josef Goschy</td>
<td>58</td>
<td>250-300</td>
<td>tourism</td>
<td>also lives in Germany</td>
</tr>
<tr>
<td>Robert (and Ionut) Negoita</td>
<td>18</td>
<td>250-300</td>
<td>trade, hotels, real estate</td>
<td>started with floor coverings firm in 1996; Robert became PSD member in 2003</td>
</tr>
<tr>
<td>Dimitrie Sturdza</td>
<td>51</td>
<td>250-300</td>
<td>cosmetics, accessories, real estate</td>
<td>ex-pat, part of the Romanian royal family</td>
</tr>
<tr>
<td>Enrico Perini</td>
<td>22</td>
<td>200-250</td>
<td>trade, sanitary equipment production</td>
<td>Italian with double citizenship; came to Romania in 1992</td>
</tr>
<tr>
<td>Zinger Family</td>
<td></td>
<td>200</td>
<td>real estate, construction</td>
<td>also live in Tel Aviv, and do business in the US</td>
</tr>
<tr>
<td>Iosif Armas</td>
<td>23</td>
<td>200</td>
<td>transportation, tourism, trade, agriculture</td>
<td>took part in several privatisations; deputy on behalf of PSD 2000-2004, member of the privatization commission in parliament</td>
</tr>
</tbody>
</table>
References:


Capital (Financial and Economc Weekly). 2007. 300 Cei Mai Bogati Romani (300 Wealthiest Romanians) nr. 6, Bucharest: Ringier Romania.


EBRD. 2006b. Commercial Laws of Romania: An Assessment by the EBRD London: EBRD.


21-57.


Hanson and Philip Roeder Postcommunism and the Theory of Democracy Princeton, NJ: 

Transitions” World Politics 50(2), 203-234.

Hellman, Joel, Geraint Jones and Daniel Kaufmann. 2000. “Seize the State, Seize the Day: State 
No. 2444.

Hellman, Joel and Daniel Kaufmann. 2001. “Confronting the Challenge of State Capture in 
Transition Economies” Finance and Development 38(3), 


Hotnews.ro. 2007. “Cum a devenit Patriciu cel mai bogat roman” (How Patriciu Became the 
Wealthiest Romanian), August 27, 2007 
http://www.hotnews.ro/Arhiva_noiembrie_2007/articol_1035907/-_.htm (accessed November 26, 
2007)

Ibrahim, Gamal and Vaughan Galt. 2002. “Bye-bye central planning, hello market hiccups: 

International Monetary Fund. 2007. “Romania - 2007 Article IV Consultation, Concluding 
(accessed April 14, 2007)

Jacoby, Wade. 2005. The Enlargement of the European Union and NATO: Ordering from the 
Institutional Menu in Central Europe Cambridge UK: Cambridge University Press.


SAR (Romanian Academic Society). 2008. SAR Annual Report: Romania’s First Year in the EU Bucharest: SAR.


