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Romanians' Public Debts Saga

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Abstract
By the end of 2009, a very cold breath of austerity was blowing from the European financial and banking system and thoroughly was touching every Member State's economy, but only for some of them perspective of this severe situation is called bankruptcy frequently. By the spring of this year (2010 – author's note), Greece's financial problems set all the Europeans governments on fire and, according on the most worrying news alerts, Germany was terribly angry and eager to treat this country as an undisciplined schoolchild. Many and heavy financial disasters are forecast for other countries as well, and it seems that Spain's, Portugal's or Italy's Mediterranean structure and behaviour would be the reason, since these countries are in pretty identical trouble just like Greece. The ex-communist recently EU Member States, that are united into the so-called platoon of the emergent economies, rapidly detected their own vulnerabilities and their well-known resources leakages. Then, in the old-time verified and practiced tradition of "cuts and poverty under oppression" which communism taught them well, they were abruptly compelled to conform and to adopt dreadful austerity measures. Although among them, Romania is again a special case, taking into account but the heavy burden of the 80's unbelievable sacrifices and privations, which the population endured because of the totalitarian decision of paying its whole debt. The paper reveals and analyses that, despite the actual context and the political circumstances which are totally different, Romania applied an unprecedentedly severe plan of cuts and privations, installing a general and bitter sensation of déjà-vu, instead of living and feeling the European membership status!

Keywords: public debt, sovereign debt, emergent economy, financial crisis

Jel Code: E60, E65, E66; H63, H69

1. Introduction

Before the collapse of communism, Romania had known the toughest measures of governmental policy by means of which all categories of expenses were shrunk, even those meant to sustain the living standard at a minimum level of decency. In the present context, in which the consequences of the global financial turmoil tend to reconceptualise even the economic theory and when most states have taken austerity measures and assumed them as EU policy measures, it is still our country which distinguishes itself again in a shocking manner not by freezing all categories of income but by brutally amputating them. The first step in this study is consecrated to a necessary appeal to the circumstances of the 80's Romania's efforts following the decision of the political regime in those years to pay back its debt, ignoring both international agreements for the credits and economic conditions and necessities of the population. Entitled as the *transitional heroism*, the second step describes the results of the economic policies adopted in the first decade of the transitional process within a very hostile international economic environment, which conducted Romania to another cycle of indebtedness. The third part of the study contains an essential description of the present context in which Romania, an European country this time and subject to the EU requirements, prepared to face the long route of economic and political integration, but also a long electoral cycle, since in 2008 and 2009 were planned for local, general and presidential elections as well.

The fourth part of the study reviews some opinions concerning the causes and the solutions for the actual crisis of debts and its deep consequences, insisting upon the *soft budget constraints syndrome*

(SBC), a symptom which characterizes the Romania's particular situation in the present European landscape and especially among the other emerging economies. It is an opportunity to analyze and to phrase certain theoretical thoughts and considerations about the bitter realities behind the official assumptions of a very severe cut of public expenditures, which is also an occasion of thinking about the real impact of the recent loans from EU and IMF. The sensation of déjà vu that occurs from the whole Romania's indebtedness, and also the tough measures adopted by slashing all the categories of companies or individuals stress the awareness and the imperative necessity of reforming the concepts and behaviors concerning the financial discipline.

2. Outlook on the premises

After ample and repeated contextualization of the harsh policies adopted by the present government, the "crisis" justification is constantly brought forward whenever the authorities have to answer any rightful claim expressed by the majority of social categories. The only measure that is not adopted yet is reducing the interval of supplying the daily utilities, electricity and fuel, but the alarming growth of their costs brings the society very close to the poverty threshold and strongly challenges the choice that the entire people unanimously made two decades ago for a capitalist and democratic construction of the economy and society. Explicitly, Romania is not in an alarming situation of imminent bankruptcy. Its public debt ratio (which hovers threateningly somewhere above 30% of GDP), is still situated halfway to the maximum accepted by the convergence criteria established by the Maastricht Treaty. Moreover, the evolution of the national currency has not experienced side-slips that would fuel the fears of the business environment or that of the citizen and the inflation has been systematically and efficiently stopped without derailing towards the so dangerous shortcomings of deflation, thanks to a wise monetary policy. Additionally, the consistency of the official currency reserves and the autonomy of the monetary policy are main levers which make corrections still possible and thus, we can still step in to right the effects caused by storms of the global financial crisis. However, as many credible experts' statement, the real problems appear on analyzing the *details and tendencies* of these trends, taking into account the many-times increasing *contagion risk* against the background of economic globalization. When announcing the harsh measures of 15-25% salary and pension cuts, after some first reactions of stupefaction, the whole society seemed to understand the situation, but it was not eager to swallow it, because there was still a hope that *maybe things are not so bad*. As the noisy repetition of these measures grew, accompanied by tireless and sustained comments and by the example of Greece (which, look, is sanctioned and blamed by the entire continent for the bad administration of their own finances), people stared to become aware of the fact that a new stage is coming that is far more complicated than assumed or described during the last presidential campaign.

There have been many voices that recommended a conciliatory attitude of accepting and assuming the situation because (isn't it so?) we, Romanians, know and have often proven that we have the force and the necessary courage to overpass difficult moments, and our history gives us many examples of defeating the hardships, under circumstances far more difficult than now. It is true, Romania has known dramatic moments in its recent history when, of all countries isolated behind the iron curtain, it "enjoyed" the most oppressive form of communist totalitarianism. Despite the fact that two decades have passed since the condemnation of the person who ran a regime of hunger, cold and darkness – all in the name of a patriotic duty to pay a large country's external debt; despite the fact that the present context is different and the country is a member of the select club of developed and traditionally democratic western states, the cold shivers of the cuts of all kinds cannot stop unfortunately an overwhelming feeling of *déjà vu*, a feeling of fear and uselessness awaken from a time and regime which most citizens have hazardously thought it is revolute and forever thrown away to the garbage bin of history.

2. Necessary appeal to history

In March 1989, at one of the great popular meetings organized by the party and state propaganda of the old regime, in a triumphant atmosphere, the people was announced, that, in spite of all difficulties, our external debt had been finally completely settled! The ovations that covered the entire area of the meeting were the honest and collective expression of a massive feeling of relief, of a collective hope for getting back to human working conditions and living standard as long as, after so many humiliating deprivations, the target had been reached.

Certainly, there were enough lucid and well-informed minds [4] that knew thoroughly the history of contracting and, especially, of settling these overwhelming debts because the respective data were officially hidden as well as other data referring to the real dimension of the payments made at the cost of numerous deprivations and sacrifices to the prejudice of the population's life, health and consumption. At the beginning of the '80s, Romania asked from the International Monetary Fund for some financial aid to which it was entitled as a member state since 1973. The loans were motivated by the plans to modernize the economy, as well as to build up certain industrial branches considered as the avant-garde at that time, especially the chemical industry, based on the justification that there were a rich potential of oil and natural gas resources to act as necessary support for such an industry. According to its already known practices, the international financial institution expressed its availability on certain conditions only, such as the devaluation of the national currency or the liberalization/increase of prices and so on, which would have largely opened the way towards destabilizing the economy. Initially, the program was accepted under the established terms and after a few months, the Romanian authorities but cancelled unilaterally the agreement and moved to intensify the measures regarding the collecting the funds necessary for a full, and even in advance, payment of the external debt. Due to this, the good intentions lead the reality toward other directions than the programmed one, under the circumstances of a financial and banking international environment which, in the meantime, had become hostile. For instance, in only three years (1978-1980) [4] the country's external debt tripled, reaching 11 billion dollars. A first explanation could be the major increase of the external interests related with the loans taken and which could no longer be supported by an economy which was heavily energy-consuming and energy-intensive.

Moreover, great efforts (and at difficultly quantifying costs) were made by the external market to accept the weekly competitive products of this economy, and the losses of such an external trade were made even greater by the losses that were considered *natural*, the so-called *planned losses* of the large oil processing chemical plants. According to the official published data [11], the entire external debt went up to more than 17 billion dollars. The whole effort of accumulating the necessary funds was made by sacrificing people's most basic living standards. The forced export was moving slowly and it was made up of even food products of bare necessity or of too little competitive products on an external market that was hostile more often then not and under frequent circumstances of serious monetary and financial disturbances. Consequently, in order to get the necessary currency, the volume of export of consumption goods increased year after year, to the detriment of the consumption necessary for the people. In order to get a bigger production, the installations and the machines were forced to function uninterruptedly and thus, they soon had to be set aside in the absence of periodical repairs. Settling the debts and their related interests on time is a normal thing for an economy with sufficient currency income, especially which for some of these loans there were certain agreements signed with the crediting banks which allowed for spread out payments. Equally normal was the intention to reimburse those credits whose interest had become bigger than those at the moment of the proper reimbursement, as it was the case with the debt toward the World Bank which was over 1.5 billion dollars in equivalent (because structurally it was composed of different amounts – with fixed interests – expressed in West-German marks, Japanese yens or Swiss francs whose initial interests varied between 8% and 11%, although the interests of these currencies had drastically dropped on the world market, i.e. between 2% and 6%).All these steps would have been justified if the currency resources had been obtained naturally, from an income generating balanced economy but the money that Romania paid at that moment to settle the external debt had been obtained by sacrifices difficult to describe and by depriving the population of the most elementary resources necessary to live or work. They settled even credits whose spread out payments were programmed long after 1990 or others whose interests were even smaller than those on the world market. It was all based on totally anti-economic and even anti-national decisions.

There is evidence that, at that time, there were several proposals of moderating the sacrifices forced upon the people. The managements of the National Bank and of the Romanian Bank for Foreign Trade, the main institutions operating with foreign currencies, suggested making the most of the currency accumulations by constituting bank deposits which would have had bigger interests than those of the loans that were to be paid. There were even alternatives offered very rigorously by authorized councilors who suggested, among other things, negotiations regarding the redistribution of or postponing the payment of some of the obligations combined with the use as deposits of the amounts thus collected, as long as the deposit interests were clearly superior to those of the loans. At the same time, during the annual general assembly of the Bank of International Settlements in Basel, Switzerland, prestigious personalities in the international banking field seriously warned against the danger of Romanian economy's remaining behind and against the alarming degradation of the population's living standard as well. The documents of those years claim that the international banking bodies [4] recommended a more relaxed rhythm of debt payments, expressing their deep concern regarding the exaggerated reductions of consumption as compared to the falling technological level of the economy, as well as the aggravation of the population's living standard which had gone far beyond the minimum accepted level on the continent.

Unfortunately, and simply showing a malign open-handedness, this kind of opinions were but systematically incriminated and dismissed, and the authorities of the time gave intergovernmental loans to insoluble countries, without a careful and responsible analysis of these countries' capacity of honoring their obligations and without any warranties, because, although in the position of creditor, Romania lacked the coercive means of recovering any kind of debts (the case of Iraq is emblematic!...). In doing so, a considerable amount of debts has been accumulated and, in spite of some persistent interventions at all internationally influential bodies and structures, it was not recovered yet! *The poverty generated by these cumbersome debts also was exacerbated by the irrational ambition of ensuring an excedent in the currency payments and income balance. In the meantime the difficulties of the export activities grew and the import of raw materials, materials, subassemblies and equipments kept decreasing year after year; this not only made the economic progress stop but also lead to the stagnation of the already-begun investments and turned them into loss-generating imobilizations of economic and material funds with a severe impact upon the financial results.*

In the second semester of 1986, 80 tonnes of gold from the official reserve were sold under the condition of ransoming it as soon as the external debts had been settled. This action yielded more than 1 billion dollars and it also meant a great releaf for the currency efforts because significant interests were *"saved"* between 1986 and 1989 and the topic of ransoming the gold was discussed again. In aproximately 3 years the national economy was spared from paying some interests of about 210 – 300 million dollars and, starting with the second semester of 1989, when the external debt had already been settled and the ransoming of the gold could have been arranged, due to the income realized from export activities, the reconstruction of the reserve currency fund began; unfortunately, this was still done by the deprivation of population and economy. For the 11 billion dollars (which was said to be the external debt of Romania in the '80s) about 21 billion dollars (of which 7 billion dollars represented the interests) were paid between 1975 and March 1989. At the moment of the Revolution of December 1989 the currency reserves [9] in Romania's bank accounts were over 1.8 billion dollars and the collection of the debts could have doubled this reserve. Neither the sold gold was recovered (although the price of that time would have constituted an advantage for such a transaction), nor the other debts could ensure currency and the inherited currency funds vanished rapidly during the very first months of transition. It was simply dissipated for reasons and purposes which had no connection whatsoever with the eradication of underdevelopment or underproduction!

3. The second episode: transitional heroism!

The reorientation of the commercial fluxes towards other horizons than those consecrated by the Council for Mutual Economic Aid – CAER, meant a long chain of controversial economic evolutions and an unconditioned abandonment of certain realities as well. The embracement of a production and consumption model which was characterized by imitation rather than reconstruction was also a fact with worse consequences which reverberated over time. The disappearance of this market drastically reduced the commercial relationships of all participants and also amplified their material and financial unbalances because nothing was placed instead of the structural conditions upon which these fluxes used to function, and the external markets obstructed the poor performance, the immobility and lack of competitiveness of the industries of east-central European countries. The hesitations of the Western market have deepened the frustration and a certain feelings of uselessness and futility thinking of the sacrifices made both before '89 and after the communist regime fell. This is why, only two years after the euphoric moments which marked the series of events that followed the fall of the Berlin wall, the messages from this part of the world are welcomed with more and more disappointment and to a large extent, and these circumstances represented the real causes of the recrudescence of nationalism and xenophobia.

Mostly uninspired, the government's policies purposefully maintained the confusion between the *liberalism* of market economy and the *libertinism* of a hybrid economy in the first years of transition. Following the decisive involvement only of the NBR in building and running a new monetary policy, the actual construction of a new social and economic order could have been approached openly. The electoral constraints of 1996 [9] underlined the lack of strength of the macro-economic policies-mix with a view to promoting the reforms, although the economy recorded a positive growth, however expensive and far under the necessary standards of quality. The external unbalance, caused by the growth of import and stagnation of export, affected the credibility of the stabilization efforts, reflecting the true nature of the solutions, most of which having been adopted to impress the voters. As the offer of goods and services was not big enough for the constantly growing internal demand, the offer-demand balance was accomplished at the expense of a growing external unbalance, with a current account deficit of 7.2% of the NGP, accompanied by inflation, too. If we also take into consideration the fact that the electricity bill for the *transitional winters* meant mobilizing significant currency resources, one can easily deduce the reason of an insufficient degree of covering the imports at the expense of the exports that went worse. Therefore, the country began a new cycle of external debt! Among the basic landmarks and recommendations of the stand-by agreement signed in 1997 with the IMF – and many of them still seem to linger as an echo over the years – one can find the same commitments to diminish the deficit of the public budget, of the quasi-fiscal deficits, plus the necessity to consolidate the fiscal vigilance and discipline. In 1996, the political puzzle had been transformed after the local and general rounds of elections, and a new loan was contracted on a very unfriendly external market, which generated in 1999 a historic peak of the external debt service of about 30% ratio of the medium and long-term debt of the country. Also the banking system had to be purged during the same period following the accumulation of latent vulnerabilities which both the agglomeration of non-performing credits and the deepening of the economy's external unbalance had generated.

The external *financial* environment had become dominated [9] by a series of crises, from Russia and South-East Asia, which practically propagated along all meridians, leading to an exaggerated precaution on the part of the external creditors when approaching solicitants labeled as high-risk countries. Another peak was registered the same year: political and military tensions blew up in the Balkans during the war in Yugoslavia, which lead to great commercial losses for Romania, either by affecting the bilateral relationships and by blocking the Danube River, the cheapest access route to Germany and Austria, our very important partners in Europe. As the chronicles fully mention, the international rating agencies showed an exaggerated circumspection towards the situation in our country and, for more than one year, they obsessively repeated their main piece of news about Romania's imminent cease of paying its the external debts. A significantly hostile international environment was again deploying as Romania's need for external funding had become more difficult to cover and the low level of currency reserves did not give the authorities enough room to maneuver either.

By those times, the International Monetary Fund tried a new type of policy, the so-called *P.S.I.* (*Private Sector Involvement*) or *"burden sharing"*, a new approach regarding the indebted countries.

However, it was tested on a few countries – Romania being one of them and it proved to be a failure in the end. Despite so many adversities and vicissitudes and exactly at the time scheduled for the middle of 1999, Romania correctly and fully honored its obligations towards the foreign creditors. Thus, both creditors and foreign evaluators from the well-known international rating agencies were given the peremptory proof of a credible state which had profoundly and also maturely perceived and dimensioned not only its own potential, but also the particular context in which it performs. However, and this fact is additionally worth to be mentioned, the international agency which had promptly decreased our rating to only one step away from the level which would have meant arrears of the external debt but a step which Romania did not take –, i. e. Standard & Poor's continued to keep this low and unfavorable rating for a long time after the critical situation had been surpassed and the country's reserves had already started to grow. Instead of some well deserved explanations for the prejudice of image they caused Romania and which generated the foreign investors' hesitations, due to the tendentious rumors and unfavorable reports, they simply invoked the Romania's geo-strategic position at full crossroads of areas susceptible to crises and with a well-known conflictive potential.

4. Recent Romania's special profile

The year of Romania's adhesion to EU, 2007, also contained the starting moments of the global turmoil. But the continuously growing deficits and imbalances, which were hidden or postponed during the last 20 years of transitional process violently exploded by the beginning of the next the year. Thus, in the second half of 2008, signs of weaker economic activity started to emerge in the largest central and eastern European countries. In Romania, real GDP growth remained strong in the third quarter (partly driven by a good harvest in the agricultural sector), but short-term indicators suggest a marked decline in Q4 2008. The macroeconomic outlook worsened substantially as a result of increased risk aversion towards the region, tighter financing conditions and contracting international trade. Annual inflation rates have declined, falling in Romania to 6.4% in December 2008.

In a different manner was to be approached the *public budgetary deficit* that exceeded just the most pessimistic expectations and the context of the international turmoil also increased the difficulties to be financed and to support the growth, a totally unacceptable situation after several years of continuous high growing rate. The circumstances meant a crucial important moment where there was but one of the two possible ways to choose [10].

- Either to choose a **"U"** economic evolution, i.e. to sacrifice some FOREX now and simply jeopardizing our future development under an unexpectedly excessive rate of debt,
- or to choose a **"V"** economic evolution, meaning resorting to borrowing with a view to financing both deficit and credit activity, so that the economy could *jump* in a sudden development that might afford a sustainable budgetary deficit for relatively short time in the near future, without compromising its convergence chances to EMU.

Romanian officials have opted for the 2nd solution and a borrowing agreement with European Commission, European Investments Bank and International Monetary Fund was settled those days. Henceforth, a stand-by Agreement for about 2 years was discussed upon and accepted between Romania and the international financial institutions, so that the economic engines could be restarted, credits could be taken and the negative impact of the crisis could be mitigated. The agreement that was negotiated upon set also Romania's obligation to reform certain economic activities, wages and pensions systems, to finance the infrastructure building and to sustain the exchange rate, and to control the external balances as well. The economic events during the year of the presidential election turned to another evolution than the one it was planned when assuming the IMF loan, the signs of **a W** economic evolution meant simply the explosion of all the deficits and imbalances and in this way, the economic boom, turned into an economic crash! Actually, the present general economic and political landscape is essentially different, we are an EU Member State now and a special loan from European commission and IMF is carried on recently, as a necessary financial support and also as an additional guarantee for our international credibility. With domestic demand and investment in steep decline, the 2009 GDP fell 7% a sharp turnaround, after a 7.4% in 2008 growth. And the recession continued this year, with a GDP still contracting 0.3% to stand 2.6% below a year earlier. However, with spare capacity at very high levels and business confidence low, a rebound in fixed investment is unlikely to occur until later next year. Moreover, consumer confidence is still depressed and households are expected to remain cautious given the threat of significant public sector job cuts under the IMF programme, which calls for further sharp spending cuts, despite the fiscal deficit target for 2010 having been raised to 6.8% of GDP from the original target of 5.9%. Plans to slash the public sector wage bill by 25% and pensions by 15% (which was converted in a 5% raise of VAT), with public sector job losses perhaps totalling 250,000 over a number of years, face opposition from those to be affected, but the government has survived a no-confidence vote in parliament over the cuts. Implementation of these austerity measures is a pre-condition for further EU/IMF disbursements under the economic support package, but strikes may still be looming.

5. Behind the bitter reality from Romania

Usually, the determinants of public debt dynamics (real interest rates, the real exchange rate, output growth and the primary fiscal balance) are typically more volatile in emerging market economies than in industrialised countries. Rules that would stabilise debt in a fully known world may not do so when the policymaker is faced with a realistic pattern of shocks. [7]. Major debt reductions are mainly driven by decisive and lasting [6] (rather than timid and short-lived) fiscal consolidation efforts focused on reducing government expenditure, in particular, cuts in social benefits and public wages. Revenue-based consolidations seem to have a tendency to be less successful**.** According to a brief retrospect of our debts, which were made only for temporary periods of welfare, paid with heavy prices, including even our children's life and work, it seems like a Romanians' saga that reflects the dangerous persistence of a harmful management, even if the chronology reveals facts upon several completely different premises.

In all these three situations, in which the difficulties of a debt-payment had repeated cyclically and grew more and more acute, the Romanians were the perpetual victim of some perpetual promises for *reforms.* Actually, there were but temporary policy measures of erasing and hiding within the public budget many and huge debts belonging to certain public or private structures. For instance, total debt relative to GDP in the ten mature economies increased from about 200% of GDP in 1995 to over 300% by 2008 [5]. If one looks at the other states that have reached 200% of the GDP, Romania has a relatively low debt degree, with a ratio that fluctuates around 30% of the GDP, but the problem here is the *speed* at which this percentage has been reached and the worrying premises that this threshold could be rapidly over passed in a close future relatively. Among the new members of the EU which experience some difficulties, Romania has a distinct situation, being affected by the so-called *soft budget constraints syndrome* (SBC) [2], a difficult problem to solve and which might therefore determine a crisis with very deep roots even more difficult to resorb. The analysts clarify the appearance of this syndrome whenever an economic entity's deficit is covered *ex post* by another entity, more precisely meaning the *ex post* covering of a certain deficits through the intervention of the state. This is why, when the crisis began – although there were strong voices saying that we were safe by the power of our banking system – by the end of 2008 the global financial turbulences had touched the Romanian economy as well, but in a much more toxic way than it would have done if there had been an agglomeration of toxic assets in the banking system.

It is said that the SBC impact is reflected in the accumulation of nonperforming credits, in the growth of inflation on the demand side and in the creation of the economic "*bubbles*"; generally speaking, there are the same effects generated by the toxic assets themselves. Although some progress in the evolution towards a functional market economy is undeniable, SBC have persisted in the economy due to the precedents of the transition years, when various economic entities were *absolved* by the state and the collective experience of these *dispensations*, enriched even since the first years of transition, stimulated the perpetuation of such anticipations, the much more entitled, the more numerous were those among the "*exempted*" ones that kept benefiting of consistent revenues.

Between 2004 and 2008, the practice of *forgiving* and simply *erasing* the quasi-fiscal deficits seemed to be diminished. In reality, however, this was merely blurred by the rapid growth of the budgetary income, and the chain of tax exemptions become invisible. Moreover, it secretly went on till December 2006, i.e. exactly on the eve of Romania's adhesion in the club of the Western states which would blame and disapprove this defective management of public finances. Together with the exemption of tax and other debts amnesties in the benefit of some well-known state rent-seekers, the frequent budgetary adjustments explicitly favored different subsidies much larger than it had been planned and which were very *"generous"* anyway. In 1999, a state bank was also *saved* by the central bank and, thus, a similar practice was perpetuated on a national level by *saving* the social security budget itself, which presently is *saved* by the state budget yearly.

Keeping the tone in the same registry, some local authorities got used to rely *ex post* on the state budget in order to pay their own debts. In 1992, the practices alike showed their first signs of crisis when the state, overwhelmed by this unsustainable and socially inefficient *generosity*, had to be *saved* by the IMF and, more recently, in 2009, when help from the private sector was sought for this endeavor. IMF and EU loaned the public budget, where the salaries, the pensions and direct subsidies had to be paid from and whose level grew far bigger than the inflation or the available resources of the government. In 1999, aware of the fact that such *savings* could create a moral chaos, the IMF conditioned its help by the will of the private creditors to continue crediting the public budget. Although it did not happen in 1999, in 2009 it did take place when the Vienna agreement was signed by the banks.

6. Theoretical thoughts and considerations

The paper presents a selection of certain financial stages whose common note is Romania's public debt when passing through two different political systems and tasting the problems of its first capitalist crisis within a global financial turmoil. The specific elements of each phase give also the basis for some theoretical thoughts and considerations about the foundation hypothesis of the economic science itself. The alternation between regulation\deregulation evolves some questions about the forms of the public authority's interventionism. Even the scientific literature and documents as well provide the arguments and the support of a direct accusation for the economic sciences, for their exaggerated scientifical degree, in the absence of a typically necessary predictability.

Today, with asset prices falling and credit losses mounting, it appears we may be entering a period of debt reduction, or deleveraging, both of the overall economy and within those sectors that experienced the highest build-up of debt before the crisis. Going forward, government and business leaders [5] are facing the twin questions of how to navigate through the difficult times ahead and how to prevent similar crises in the future. The magnitude of the unintentional consequences itself raises the question of the profoundness of knowing and approaching the context which ensured and recognized the theoretical bases. For instance, the direct impact of global developments on emerging market economies has, however, differed significantly between regions. In the neighbourhood of the euro area, spillovers to central and Eastern Europe, and to the countries belonging to the Commonwealth of Independent States (CIS), have been particularly substantial. By contrast, the euro area's neighbours in the south have been less affected [8].

The literature, in particular the empirical part, on the relationship between government debt and economic growth is scarce [1]**.** While the economic growth rate is likely to have a linear negative impact on the public debt-to-GDP ratio, high levels of public debt are also likely to be deleterious for growth, but potentially after a certain threshold has been reached. From a policy perspective, a negative impact of public debt on economic growth strengthens the arguments for ambitious debt reduction through fiscal consolidation. As about *the **general framework***, analysts estimate that the mankind would always and will further find plausible answers for some essential challenges in the future, among which there could be also the question whether the power is becoming more democratic and whether the wealth is becoming more humanized either.

The powerful countries continue to affirm both their strength and influence concerning the international trade, the technology progress, and the political and military field. But the spectacular (however communist) China's development imposes itself world wide and dictates the significant details and trends in global interest issues, providing sound reasons for the global concern about the future world order, which could be approximated on either a post communist or post capitalist path. On the other hand, both persistence and aggravation of the budgetary deficits, trade unbalances and wealth disparities depict a general phenomenon that could generate radical social movements to which the present financial turmoil is but the occasion of a tight connection of numberless fuel- elements. The media is now full of condemnations of greed; for many this is the quintessential source of this financial crisis. The causes of the current financial crisis should prod many to remember some important lessons. Genuine markets, transparency and proper valuation of factors of production and products (services) are needed. Simulation and models cannot be but a very imperfect and insufficient substitute of actual markets. And the transparency and smooth functioning of markets need to be propped up by adequate regulations and supervision. For, markets, by themselves, cannot protect themselves against their inherent weaknesses and the public good needs, sometimes, the work of a visible hand. But just as modern economies need public policies, so they need regulations [3].

As traffic needs rules and lights in order to protect people's lives, so market economies need regulations to limit collateral damage and enhance the production of public goods and restrict negative externalities. As about the public authority, it should continue to be the main factor entitled to solve these situations, but within the present financial turmoil, its involvement appears merely harsh measures of austerity than proper methods to mitigate the imperfections of the market or the usual disparities and inequities. Therefore, the ever generalized concern about the peaceful or peace less transformation of the world is fully justified

Conclusions

There are certain significant but little gratifying conclusions **about Romania**. When the oligarchic system of the controlling power failed in 1989, a painful debt-payment episode dramatically closed after a long and unbearable decade which politicians requited during the other next decade, but against the background of many controversial economic, financial and monetary policies, and whose final solution was chosen the same burden of a heavy debt, too. The transitional process meant the reformation of the entire system.

However, this complicated and dramatic process implied many and profound uncertainties and huge costs that were difficult to anticipate. This is why, at the end of approximately two decades of transition, this period is evaluated with different eyes; it is long and with poor or even doubtful results which, here and there, determined not only the blocking of reforms, but also the regeneration of the opposition towards change, thus consolidating the old rigidities, instead of a long expected and restructuring institutions and values. The fact that the collapse of the totalitarian regime did not bring along the expected and imagined well-being was brutally *confirmed* by the rise of the prices which followed the liberalizations, by the frequent and unbearable increases of all utilities' and consumption goods', as well as by the arrogance of a new *nomenclature* which displays an unexhausted imagination when it comes to extracting substantial rents from the continuous manipulation of the public money. Built upon essentially opposed and controversial concepts, the very foundation of the government policies in the second decade of the transitional process had planned its failure from its very beginning, when the economic growth was prevalently due to the impetus of the consumption, which was sustained, in turn, by the credit growth.

Considering the latest prognosis and our officials' data and bearing in mind the financial global crisis as well, Romania's situation is relatively difficult not from the point of view of the public debt, but of the government's deficit especially. Romania's FOREX are able to cover 10.3 months imports of goods and services, thus confirming the wise monetary measures adopted by NBR. Each of the three successive episodes of Romania's debts troubles suggests an overwhelming feeling of *déjà vu*, unfortunately doubled by a painful feeling of uselessness, especially in the case of a (still) consistent segment of the population, deeply marked by the memories of deprivations and humiliations of the *golden age*. Going through numerous nebulae connected to the privatizations of the '90s, the *collective dispensations* went on for the advantage of some companies even after they moved into private hands.

Additionally, besides the various forms of social protection, special paying means were diversified for certain social categories which have always provided the solid support for the politicians. The above-mentioned syndrome, i. e. the *soft budget constraints syndrome* (SBC), which was taken from the past and perpetuated during the transition, at the same time with other differently intended public policies would have surely lead to the crisis of the public finances, even if the international financial crisis had not been appeared. The outlook remains still very uncertain. The pick-up in exports that had led to stronger industrial output may be undermined by the renewed weakness in the Euro area economy, while inflows of workers' remittances from the EU are coming under further pressure. After the poor start, it now seems likely that GDP will contract again by about 1.5% in 2010, while growth is expected but in 2011 [12].

Moreover, this financial crisis, in conjunction with the "food crisis", brings to prominence another issue, i. e. the optimal degree of openness for an economy [3]. However, the risks to the forecasts remain on downside, as resistance to austerity measures raises the spectre of a Greek-style crisis over the budgetary deficit and public debt. One of the questions posed by this crisis is about policies. As a rule, the pro-cyclical use of monetary and budget policies should be avoided. Cyclically, each and every aspect stressed Romanians' throes of debt and the economy dramatically followed some anfractuous routes, marked by the policies which government mostly adopted and implemented in order to suddenly restoring some spontaneous crisis that a certain field revealed at a time. At their best – incomplete, the so called *reforms* were but temporary measures for a temporary and very expensive welfare, also determining the weakening of the financial discipline in the private sector. The collective mentality, behavior and experience that feed these anticipations and generates undisciplined financial behaviors should be eliminated, so that the politicians themselves should be disciplined, because the syndrome SBC is the very *toxic asset of our economy*. This toxic asset also lies at the basis of corruption, of rent extraction and poverty perpetuation. Therefore, now, more than ever, the recent and the near future reality require drastic slashing public (abnormal) expenditures, as necessary measures with a view to strengthening the budgetary discipline.

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