

THE ALTERNATIVE ECONOMY: INFORMAL PRACTICES UNDER COMMUNISM AND THEIR POST-COMMUNIST COUNTER-PARTS*

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Abstract: *When communism collapsed in Romania, in December 1989, the majority of the population lived under the rule of everyday shortages. In this paper, we have focused on the creation of the alternative economy, based on exchanges of goods and favours. Firstly, we tried to briefly explain how such practices developed during the communist period, starting from documents created by the Securitate. One essential element is the historiographical debate over the issue of the regime's attitude towards the alternative economy, if it tolerated such practices or took preventive action. Secondly, we will look at the transition period in Romania, through the 1990s meant that the 2nd and 3rd echelons of the nomenklatura imposed themselves as the new so-called democratic elite. This early period, until 1996, was characterized by unclear and unfinished economic reforms, which encouraged the transfer of certain alternative economy practices. However, now they became the instruments of corruption and state capture for certain well-placed individuals, who turned into oligarchs or local barons.*

Keywords: Romania, communism, Alternative Economy, informal practices, penury

Introduction

When communism collapsed in Romania, in December 1989, the majority of the population lived under the rule of everyday shortages. Power-outages and long queues in front of shops were common occurrences. These were presented as necessary sacrifices for the construction of socialism and gaining independence from the

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international economic system. In the background of official discourse and policies people learn to adapt and devise various strategies of overcoming scarcity and the regime's bureaucracy. In the following pages we will look at how they created an alternative economy, based on exchanges of goods and favours. This became a second-nature, another common occurrence of everyday life.

We propose a two-fold approach, dealing with the evolution of this alternative economy over the span of two historical periods. Firstly, we will try to illustrate such practices during communism, how they came to be and perspectives over them (the regime's and the population's). One essential element, is the historiographical debate over the authorities' attitude towards the alternative economy, if they tolerated it or if they took active measures against the phenomenon. Our analysis starts from information found in the archives of the Securitate and the cases and incidents they described in reports and informative bulletins. In the second part of the paper we will deal with the transition period in Romania, through the 1990s and the early 2000s. We will look into the transfer of power in 1989, when the 2nd and 3rd echelons of the nomenklatura imposed themselves as the new so-called democratic elite. This early period, until 1996, was characterized by unclear and unfinished economic reforms, which encouraged the transfer of certain informal practices. However, now they became the instruments of corruption and state capture by certain well-placed individuals, who turned into oligarchs or local barons.

I. The birth of the alternative economy

With Romania firmly within the Soviet sphere of influence, what had survived of democracy after the Second World War, was quickly destroyed and a communist regime imposed. Besides the elimination of any possible political enemies or adversaries, the new authorities moved quickly to take over the economy as well. Thus, new policies became the norm, agriculture was to be collectivized (Romania being the only country in the bloc to actually finish this operation) and heavy industry was to become the main focus of economic development and the key to modernization¹. This mentality allowed for a relative rapid reconstruction after the war, but it also meant that strict limitations were imposed on consumption, incomes, and standards of living were kept at quite a low level².

¹ ***, *Raport Final*, București, 2006; Bogdan Murgescu, *România și Europa. Acumularea decalajelor economice (1500-2010)*, Iași, Edit. Polirom, 2010.

² Victor Axenciuc, *Produsul intern brut al României 1862-2000. Serii Statistice seculare și argumente metodologice. Volum I: Produsul intern brut 1862-2000. Sinteza seriilor de timp a indicatorilor globali, pe secțiuni temporale*, București, Edit. Economică, p. 152; David Turnock, *The Economy of East Central Europe, 1815-1989: Stages of transformation in a peripheral region*, Routledge,

The 1960s brought an alleviation of the overall economic situation of the country and of the population. It is also during this period that we can see the first signs of a relaxation of the regime's firm grip on society and a reduction in the use of terror methods by the secret police³. However, by now people had already developed new strategies of going around shortages and the regime's harsh economic restrictions, especially on imported goods. A sort of barter culture was born, operating in an informal part of society with a different set of rules than the official distribution system, based on trust in a totalitarian landscape. In a sense, this transformation made much sense, as the regime itself, on an ideological level, had reduced the importance of money, ideally, it should have been completely eliminated⁴. Beyond such theoretical aspects, wide-spread shortage itself had the same result, as people could not buy products which did not exist. Thus, exchanges of goods, services and favours became far more relevant and represented a practical solution, thus, they created an alternative economy.

What gives value to money? The paper on which it is printed is not worth very much, its value is more symbolic, coming from how much trust the state can inspire to people or other institutions and countries. It reflects the state's ability to guarantee for the sum mentioned on that piece of paper⁵. In essence, this is an exchange between the people and their state, one in trust. Under the communist regime, this relationship is severely fractured, as the people are no longer citizens, they no longer delegate power to authorities, but are now dependent on them. The regime was the one supposed to ensure the proper functioning of production and of the distribution system in order to maintain consumption levels. However, as it is very well known, this ideological promise turned out to be an utter failure, and especially during the 1980s shortage became a fundamental characteristic of everyday life⁶.

In the introduction of the paper we mentioned a historiographical debate regarding the regime's attitude towards the alternative economy. Certain parts of the literature argue that such practices were tolerated as they made-up for what was lacking and that it served the regime in an indirect fashion. However, the majority of researchers are of the opinion that the contrary would be true. The existence of the

London, New York, Routledge, 2006, p. 276.

³ Michael Shafir, *Romania: Politics, Economics and Society: Political Stagnation and Simulated Change*, London & Boulder, Frances Pinter Publishers & Lynne Rienner Publishers, 1985; Dennis Deletant, *Ceaușescu and the Securitate: Coercion and Dissent in Romania, 1965-1989*, M. E. Sharpe, 1995.

⁴ Michael Ellman, *Socialist Planning*, Ediția a III-a, Cambridge, Cambridge University Press, 2014, pp. 23-31.

⁵ <http://www.investopedia.com/terms/f/fiatmoney/asp>, accesat la data 07.08.2017.

⁶ See Bogdan Murgescu, *op.cit.*; Ghiță Ionescu, *Comunismul în România*, București, Edit. Litera, 1994.

alternative economy and informal practices weakened the regime's legitimacy as it constantly underlined its failures while also causing disruptions in production and distribution flows, since most barter transactions were with goods stolen from the workplace⁷.

The regime's intolerant attitude is reflected in the measures it took in trying to stop the alternative economy. The files of the Securitate illustrate ample operations meant to catch those involved and bring them to justice, while the legislation itself underlines the seriousness of such matters in the eyes of the authorities. The 1968 Penal Code defined embezzlement as "the appropriation, use, and trafficking, by a functionary in his or another's interest, of money, valuables, or other goods under his care". Such a vague and extensive definition allowed for a wide use of this accusation in many instances of petty thievery in the workplace. Punishment could be severe, varying from 1 to 15 years of imprisonment or even 15 to 20 years if the deed had serious consequences (someone getting injured or even killed). The same legislation put abuse of position into two major categories, for infractions which harmed the interests of individuals, and for activities which had a negative impact on public interest. Punishment for the latter was between 6 months and 5 years of imprisonment, as well as confiscation of part of their wealth⁸.

It is essential that we distinguish between the scale of individual activities dealing with small quantities or amounts and those who enriched themselves. There were those who created complex operations, similar to businesses. One such example was that of Gheorghe Stefanescu, the famed Bacchus, who built-up quite a fortune by selling wine and lying in his books. He was actually caught during an ample campaign to put a stoppage to such activities, named Fermitatea⁹. He had put all of his gains in gold which he then hid¹⁰. In fact, Stefanescu's case was incorporated in the regime's propaganda against criminality, as it was turned into an artistic film, *Secretul lui Bacchus* (The Secret of Bacchus)¹¹.

⁷ See Alena Ledeneva, *Russia's Economy of Favours: Blat, Networking and Informal Exchange*, Cambridge University Press, Cambridge, 1998; Sheila Fitzpatrick, *Stalinismul de fiecare zi: Viața cotidiană în Rusia Sovietică a anilor 1930*, Edit. Corint, București, 2016.

⁸ Codul Penal din 1936, <http://www.monitoruljuridic.ro/act/cod-penal-din-21-iunie-1968-emitent-marea-adunare-naional-publicat-n-buletinul-oficial-nr-38070.html>, accesat la data 04.08.2017.

⁹ Florel Manu, *Cazul Ștefănescu: Execuția unui <capitalist> român*, in „Historia”, <https://www.historia.ro/sectiune/general/articol/cazul-stefanescu-executia-unui-capitalist-roman>, accesat la data 04.08.2017.

¹⁰ Idem, *„Secretul lui Bacchus” – o poveste comunistă cu iz de băutură*, in „Historia”, <https://www.historia.ro/sectiune/portret/articol/secretul-lui-bacchus-o-poveste-comunista-cu-iz-de-bautura>, accesat la data 04.08.2017.

¹¹ <http://www.cinemagia.ro/filme/secretul-lui-bacchus-4451/>, accesat la data 04.08.2017.

Yet, people's relationship with the alternative economy became so common and to some extent casual, that it continued even after the fall of the communist regime. However, before exploring this aspect we should look at their paradoxical attitude towards it. On the one hand, as Katherine Verdery argues there was a certain level of pride in taking part in the alternative economy, because it meant one has cheated the system and has taken back something they were not given, although it was rightfully theirs¹². On the other hand, the regime constantly and publicly condemned such activities, which turned them into taboos that could tarnish one's social image. Everyone wants to be accepted and respected within their communities. In fact, this ties in to one of the major methodological difficulties of such research. People are rarely willing to be recorded when taking of their alternative economy activities for fear that others might find out. This occurs in spite of their knowledge, that this was common practice, but it was private and not public. They were, however, more than willing to share if there were no other witnesses.

II. Post-communist practices

The transition period brought not only political transformations, but socio-economical as well, which of course influenced the practices of the alternative economy, making it far more toxic to the new system than before. What was once used to alleviate everyday shortage, was now corruption, weakened by those with resources and connections to hijack privatization or even capture institutions. This was made possible by the nature of Romania's transition which saw the 2nd and 3rd echelons of the communist nomenklatura impose themselves as the new so-called democratic elite. This was made possible by the harshness of the previous regime, which weakened dissent to several isolated voices who wrote letters to the outside, but were under the constant surveillance of the Securitate¹³.

What followed during the 1990s was an economic crisis, as people wanted more in terms of living standards and consumption levels, but the system itself was incapable of satisfying them. Thus, shortages took a new form, as people did not have enough money to buy the goods they desired, high inflation, low incomes, and growing unemployment led to poverty. This, in turn, encouraged the continuation of certain activities of the alternative economy, but now, instead of bartering people used actual

¹² Katherine Verdery, *What Was Socialism and What Comes Next?*, New Jersey, Princeton University Press, 1996, p. 29.

¹³ See Tom Gallagher, *Furtul unei Națiuni: România de la comunism încoace*, București, Edit. Humanitas, 2004; Marius Oprea, *Moștenitorii Securității*, București, Edit. Humanitas, 2004; Vladimir Pasti, *România în tranziție. Căderea în Viitor*, București, Edit. Nemira, 1994.

money, which now had re-acquired its role the economy. This, for all intents and purposes is defined as corruption, serving only to weaken the state's institutions.

Privatization was another troublesome issue for Romania during the transition period. Those in the nomenklatura or those close to the inner circles of power had an un-fair advantage. Some used funds designated for external transactions to acquire failing businesses or other state-owned properties. This of course, offered them an unfair advantage over other citizens and allowed them to consolidate their positions. Certain cases led to a mixture of great wealth and a political career. Others used their Securitate connections and hijacked privatizations, going so far as to make a business out of sabotaging certain transactions. These types of behaviours made the state even less capable of deliver on its duties to the citizens. But the example of such people attaining financial success, while the majority faced economic hardships, while also getting away from justice, generated a crisis of moral values. Also, one should not treat lightly the growing distrust among Romanians for the institutions meant to serve their interests.

The Romanian historian, Marius Oprea, put these well-connected individuals in three categories: 1.) those who entered politics and business; 2.) those who continued working as spies; and 3.) those who simply retired from activity. Of these, the first category interests us the most, as they were involved in capturing both the economy and the state's institutions. This evolution of affairs would prove to be a great hinderance to the transition as it reduced the chances of any real and constructive competition¹⁴.

We have identified several famous examples of hijacked privatizations through illegal methods. What usually happened was that state-owned banks were used to finance certain private enterprises, but without any intent of ever paying-off the respective debt. This was possible through credits not backed by any guarantees. Most debtors were individuals with close political ties who basically used the state's own money to buy its own properties. One of the best-known examples was that of Bancorex, which was created in 1968 as the Romanian Bank for Commerce with the Exterior. By the end of 1989 it had a reverse of approximately one billion dollars. After only eight years since the fall of the communist regime it was facing serious problems and by 1999 it was easier to just default it on a loss of two billion dollars¹⁵.

Similar cases were those of Credit Bank, Felix Bank, and the International Bank of Religions. Vladimir Pasti explained the ransacking of these financial institutions as

¹⁴ Marius Oprea, *op.cit.*, p. 150; also see Tom Gallagher, *op. cit.*, p. 136.

¹⁵ ***, „ROMÂNIA FURATĂ. Bancorex, un faliment prin grija statului, <https://www.digi24.ro/special/campanii-digi24/romania-furata/romania-furata-bancorex-un-faliment-prin-grija-statului-213119>, accessed on September 29, 2018.

a three-phase operation. Firstly, they would gather large sums of money through public and private clients. In the second phase, the leadership and owners would steal these funds. In the last one, they sought state support in order to secure its bankruptcy. The aim was to acquire state funds and then distribute them to third parties¹⁶.

Further exploring the phenomenon of ‘local barons’ reveals they became something of an ‘institution’ of post-communist Romanian politics. A cable from the U.S. embassy in Bucharest published on WikiLeaks mentions the most prominent cases: Dumitru Sechelariu, former mayor of Bacau, Verestoy Attila, well-known for his role in de-forestations. However, the first ‘local baron’ was Nicolae Mischie, who came into the limelight during the 1990s as the president of county council of Gorj. He was known for ‘ruling’ in an authoritarian fashion, serving the interests of his party or his own, even if in 2013 he was imprisoned for his deeds.

The activities of these individuals could at times be quite contradictory, especially in relation to their parties or state institutions. ‘Local barons’ were only those who gained great wealth and influence through an abuse of their position. Their interactions with party structures is dual. On the one hand, they are a source of electoral power making the party dependant on them. On the other hand, they themselves depended on the party for funding¹⁷. The concept is broad and thus allows its use in most cases of regional representatives using elected-office abusively.

In another U.S. cable found on WikiLeaks, there was a list of five individuals described as Romanian ‘oligarchs’. It stated that they had used their previous connections with the Securitate to get economic privileges. They were: Dinu Patriciu – involved in the shady privatization of Rompetrol, on a debt never re-paid¹⁸; Dan Voiculescu – who used external funds to create a little financial empire¹⁹; Sorin-Ovidiu

¹⁶ Vladimir Pasti, *Noul Capitalism Românesc*, Iași, Edit. Polirom, 2006, p. 235.

¹⁷ Clara Volontiru, *Clientelism and Cartelization in Post-communist Europe: The Case of Romania*, <http://theses.lse.ac.uk/3611/>, p. 225-227.

¹⁸ ***, *Dinu Patriciu. Afacerile care l-au adus în topul miliardarilor lumii*, <https://www.digi24.ro/stiri/actualitate/evenimente/dinu-patriciu-afacerile-care-l-au-adus-in-topul-miliardarilor-lumii-282865>, accessed on October 10, 2018.

¹⁹ I. Stoica, *Unde s-a produs transferul de bani ICE Dunărea-GRIVCO. Basescu: <As căuta dacă exista vreo asociere între actualele firme ale lui Voiculescu și Crescent>*, <https://evz.ro/dosarele-ice-dunarea-misterele-fabricii-de-bani-a-securitatii-si-misiunea-lui-dan-voicule-10309.html>, accessed on October 10, 2018; R. Amariei, *Încurcătura poveste a averii lui Voiculescu*, <https://www.capital.ro/incurcatura-poveste-a-averii-lui-voiculescu-188923.html>, accessed on October 9, 2018; ***, *Averea lui Dan Voiculescu, clădită pe banii Crescent*, <http://epochtimes-romania.com/news/averea-lui-dan-voiculescu-cladita-pe-banii-crescent---221561>, accessed on October 10, 2018; L. Georgescu, *Cine este Dan Voiculescu: CV-ul politicianului și omului de afaceri condamnat vineri la zece ani de închisoare*, <https://www.zf.ro/politica/cine-este-dan-voiculescu-cv-ul-politicianului-si-omului-de-afaceri-condamnat-vineri-la-zece-ani-de-inchisoare-13059735>, accessed on October 9, 2018.

Vantu - who created a business aimed at sabotaging privatization for third-parties and who is well-known for the National Investment Fund, a Ponzi scheme²⁰; Ioan Niculae – favourable energy deals with the state²¹; and Gigi Becali – who became rich through suspicious real-estate deals with state-owned land²².

Their wealth was acquired or consolidated through deals with state enterprises. Essential to their continued success were connections with Romanian politics allowing for favourable prices for them or they acted as intermediaries between various state-owned companies, taking large commissions. This was made possible by the state's inability or unwillingness to prosecute such acts or corruption. Their positions of influence made them relatively invulnerable to state justice, while also allowing them to use blackmail others into servicing their requests.

These individuals are not quite traditional oligarchs, as the image constructed through the Russian example, a rich businessman close to the seat of power. This gave them the ideal context to create close relations between private and public wealth²³. In this respect, they are a close match. However, they moved around the seat of power, as their protectors and allies were not always in charge of the government. This alternation of parties has partially limited their ability to consolidate positions as in the Russian model. One other difference between the Russian oligarch and his Romanian counterpart is that the latter has taken-up office, while the other has mostly avoided it²⁴.

Conclusions

The fall of the communist regime in December 1989 did not mark a total break with the effects of shortage on society. Behaviours developed in the alternative economy continued during the transition period as corruption and state capture. Those in the second and third echelons of the nomenklatura and individuals with close ties to the Securitate quickly took over the transformation of Romania into a democracy and market economy. What was once meant to alleviate living conditions now came to haunt society.

²⁰ https://www.wikileaks.org/plusd/cables/07BUCHAREST897_a.html, accessed on October 10, 2018.

²¹ M. P. Pârvu, *Personajul Săptămânii. Ioan Niculae. Un miliardar, fost securist, băgat la pârnaie de țara lui tâmpită*, <https://evz.ro/personajul-saptamanii-ioan-niculae-un-miliardar-fost-securist-bagat-la-parnaie-de-tara-lui-tampita.html>, accessed on October 10, 2018.

²² https://www.wikileaks.org/plusd/cables/07BUCHAREST897_a.html, accessed on October 10, 2018.

²³ Anne Sraders, *What is an Oligarchy and What Does It Mean in 2018?*, <https://www.thestreet.com/politics/what-is-an-oligarchy-14671881>, accessed on November 05, 2018.

²⁴ Stephen Fortescue, *Russia's Oil Barons and Metal Magneto-Oligarchs and the State in Transition*, New York, Palgrave Macmillan, 2017, passim.

In the first part of the study we tried to illustrate how people developed strategies of overcoming shortages. They were based on personal trust which allowed for an exchange of goods or services. The historiographical debate focused on the attitude of the regime towards the alternative economy. Some authors have argued there was tolerance shown, since it helped with consumer satisfaction. However, as we have found in official documents, Romanian authorities took active measures to stop such activities. This was because it worked with the state's resources, which hindered the production and distribution systems. These were usually activities such as stealing or using equipment from the workplace, punishable by the penal code as crimes against state property.

