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THEORETICAL CONSIDERATIONS ON THE PRIVATIZATION PROCESS IN ROMANIA

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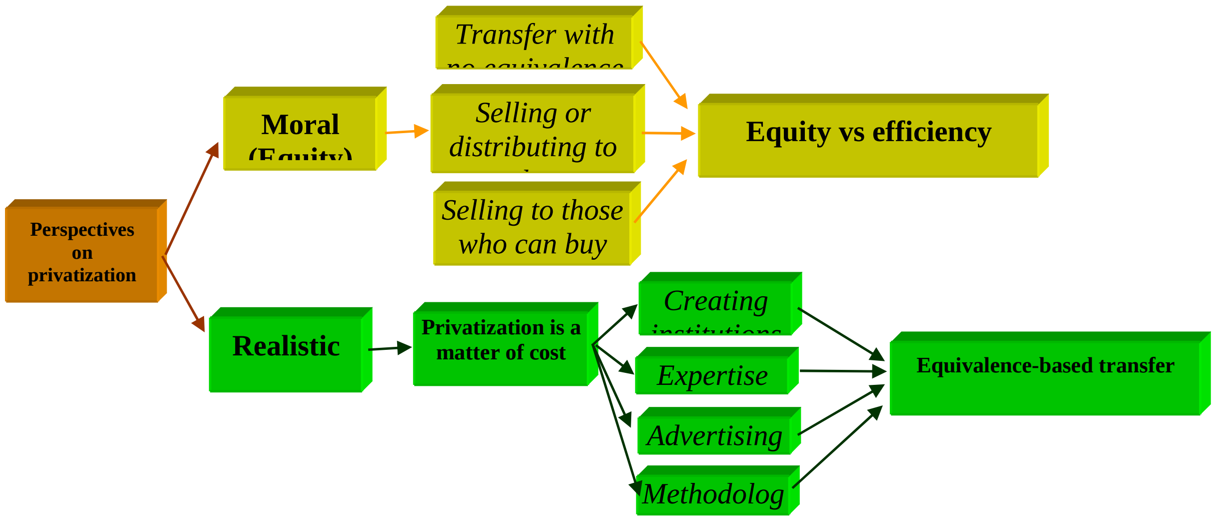
Abstract*: As in any period of transition, the restructuring processes become effective through the implementation of various strategies. Any strategy envisages a complete picture about the process which consists of objectives, principles, programs and instruments of restructuring programs. Thus, the privatization process in transition countries has involved two aspects referring to moral and realism. In case of the first aspect, that of fairness, in terms of assigning a larger share of the social component of the privatization by which either sale was made to the employees or by a transfer with no equivalence, the process was less efficient leading to a compromise of the idea of ownership. Regarding the second aspect, that of equivalence, this shows that the privatization done is such a manner has undistorted effects in the economic field.*

Keywords*: capital privatization, economic restructuring, economic reform, investment, capital.*

The legal transfer of ownership from the state to private agents was pursued by privatization. The state has used privatization as a tool for macrostabilization, because the sale losses of state enterprises means reducing arrears, reducing the state budget deficit, limiting the inflationary pressures, etc. [1]

Referring to several points of view, the privatization aimed at: (figure 1)

1. politics - establishment of a new class of capitalists and entrepreneurs;
2. equity, involves transferring ownership of state assets to those who were wronged after the nationalization process or granting ownership of assets of a state company to its employees and staff;
3. efficiency, should lead to increased efficiency of resource allocation in the economy;
4. financial, aims to increase state budget revenues.



- Source: OCDE, 2002 Figure 1.

The evolution of the privatization process in Romania

The most effective method of privatization used by developing countries was that of the large financial groups (investment funds, foreign groups and rent seekers), whereas that used by their own employees and managers (MEBO) were not successful because they were neither able to provide capital to modernize the business, nor had the experience of the market research process and of a strong market-oriented management.

Concerning the reform of property, its immediate effect was creating the new company agents, who were the promoters and operators of its specific interests. The fact that there were delays in this area, the people were brought in the situation to opt either for the "casino economy" structures [2], or not to engage in investment, limiting their actions to the accumulation of money in bank deposits.

In fact, a great success enjoyed also the privatization based on concentrated ownership (by foreign strategic investors able to contribute with increased financial resources to restructure the company, technologies, performance management), as compared to the investment funds or holdings. [3]

Compared to other transition countries, the privatization restrictions in our country affected more the privatization process so that its gradualism has led to low efficiency. Several factors were the hindrance for the dynamic transfer of state property into private property, such as:

- the weak internal capitalization;
- establishment and management of institutions to manage the process;
- the reduced external financial assistance
- the insufficient support from society;
- the lack of domain experts and specific infrastructure;

Most privatizations in Romania were done by selling to foreign companies (eg, Romtelecom, Petrom, the Romanian Commercial Bank, Home Savings Bank, etc.). Among the factors contributing to this type of sale are the large debts of state enterprises and the underdeveloped domestic financial and capital markets.

Another sensitive issue of privatization in Romania was the sale of state enterprises where the privatization marketing has played a fundamental role in this process. It involved several important prerequisites for attracting investment capital:

- a stable political and economic environment;
- good future prospects;
- the realistic evaluation of the company and its price;

- largely giving up regulations;
- an active marketing in the privatization programs.

Promoting a privatization process of this kind (especially in the case of the flagship companies), has brought the countries which have implemented it much higher revenues than the ones from a sale. Privatisation of small and medium enterprises was successful in most of the transition countries, the studies show. [4]

Along with the increase of the number of enterprises which passed in the private sector, the privatization solutions were becoming more complex.

Privatization has effects with implications in the entire economy. Therefore, in the process of restructuring, we can consider privatization as a fundamental pillar, and the privatization process itself should be integrated into the overall strategy, in close relationship with discipline and encouragement in the economy.

The overall reform of the national economic system meant, first, a drastic reduction in GDP.

In this context, the attempt to avoid social instability determined the political leaders to adopt an inefficient policy, respectively to feed the national economy "black holes" from the state budget (industries consuming large resources and failing to sell). This action not only conducted to a delayed privatization, but also extended the transition from the centralized economic system to the market system with long term negative effects on the general economic evolution. Moreover, it strengthened the orientation to purchase necessary products from imports which increased with the opening of the Romanian economy to the external markets.

As mentioned before, in the transition economy countries, a macrostabilization sustained by monetary and fiscal but also by social and commercial real policies, would certify the confidence and social safety of the transition.

The real rate of transition is marked by the evolution in the restructuring plan. Macrostabilization proved its effects only when the restructuring was steadily generating ways of achieving balance in the economy, so that it was manageable on a long term.

The economic stability has an effective value if it supports the social stability, the reconfiguration of the new balance in the social structure of the specific target system.

When along with the restructuring there is also transmitted a rigidity of allocation, phenomena such as arrears, non-contractual relationships, unaccounted business, etc. Liberalization itself is compromised. Thus, we believe that restructuring must begin along with the liberalization and macrostabilization programs. [5]

As for the sustainable growth to be achieved, it is necessary to have a balance between social costs and invested funds.

Restructuring the economy is essentially a process of consolidation of functional markets and augmentation of the microeconomics capacity to adapt to the competitive environment. [6]

Therefore, the main strength of the restructuring was the privatization, which was the main objective and was intended to be the basis for the ownership reforms. Basically, this market-oriented the activity of the enterprises which were formerly owned by the state.

A situation with a special feature is that the concern to stimulate spontaneous privatization was marginalized, which would have led to an open business environment and more attention was paid to the privatization based on transfer of ownership from state to individuals, so that the restructuring power of the privatization became insignificant. The effect of this situation was one of producing a profit privatization, generating an attitude of decision waiting in favor of the modernization investments [7].

Thus, it came to the unfavorable situation of inadequate restructuring, in which the natural way to reach to a market economy resulted in loss of market, both internal and external, bankrupcy of enterprises, including of privatized ones, the collapse of branches and sectors etc.

Consequently, from the short analysis of the process of privatization in transition countries, we can draw several conclusions:

• in dealing with a highly competitive environment, in order to aquire discipline for the managers of the new enterprise, privatization should be accompanied by measures to increase competition in the market for the goods produced by that company.

• the rapid and effective privatization of small enterprises could be done by open and competitive auctions.

• the effective privatization of medium and large enterprises could be done by strategic investors (especially foreign) by the following methods: direct negotiation with the sealed bid

• possession of power by a single strategic investor involved strong incentives for restructuring, technology, investment in human capital, etc. If they would have used the technique of privatization called "case by case" and a privatization consultant would have been hired - a prestigious financial company - a much higher price had been obtained.

• the necessity of creating a legal framework to protect investors (including the minority shareholders), designing the rules against agreements or conflicts of interest regarding compliance, auditing, regulation of financial intermediaries (brokerage companies, investment funds), banking reform etc.

Another major problem occurred early in the privatization process was that of the functionalization of the bankruptcy law, so that:

• there should be no strong barriers to market exit

• there would be a regulation of the state action in companies where it still held the property rights

• there would be an increase of competition in sectors where there were monopolies and oligopolies.

In strategic areas (especially public utilities), rigorous action was necessary to regulate the new owner (by protecting the public interest), so as not to become from a state monopoly into a poorly regulated private monopoly.

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