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Spoliation vs. ‘The right not to lie’: An economic theory of the 2012 political crisis leading to the referendum to impeach the President of Romania

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Abstract: In July 2012, Romania witnessed signs hinting at a possible erosion of political freedom. The paper shows that these signs point to a significant shortfall in economic freedom, deeply rooted in insecure property rights and high corruption. Such a shortage accounts for both the absence of the rule of law and many people’s reliance on the government for a job. Voters reliant on redistribution (mainly employees in the public sector, pensioners and welfare recipients) who actually cast their votes have outnumbered the other voters and have come to think of themselves as the owners not only of the redistribution rights set forth by law, but also of the values of those rights. Thus, excessive redistribution lays the groundwork for the “tyranny of the majority” and explains why the mechanisms to correct excesses cannot be used or are used too late, as they seem illegitimate. The paper presents the particularities of voters reliant on redistribution and the mechanism whereby they may come to agree, even if not wholeheartedly, to the reduction in their political freedoms if this means averting a cut in redistribution incomes. The paper concludes that it is only a matter of time before political freedom deteriorates in the absence of higher economic freedom via enhanced property rights, lower corruption and less reliance on redistribution.

Keywords: Economic power, political power, rule of law, economic freedom, property rights, corruption, redistribution, tyranny of the majority, voters, political parties, psychological crowd

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Introduction

Democratic countries further show concern over the emerging signs hinting at a possible significant erosion of political freedom in Hungary and Romania, both EU Member States.

In Romania, the aforementioned signs originated in actions that directly and regrettably affected several democratic institutions in early July 2012. Thus, attempts have been made at severely impairing the institution of the referendum as such, which is a constituent of the most important institution in any democracy – free elections. The Ombudsman and the Chairs of the Chamber of Deputies and the Senate were supplanted on 3 July in Parliament. Moreover, a few days earlier, the Parliament had resolved to limit the competences of the Constitutional Court with respect to parliamentary decisions, a resolution which the Court subsequently annulled. For this reason, the Constitutional Court rejected the complaints filed by the supplanted officials. Just a few days later, on 6 July, the parliament suspended the President of Romania, for unclear accusations regarding actions allegedly violating constitutional provisions. All these moves took place at such a fast pace and systematically that they raised some brows on the constitutionality of the proceedings.

Specifically, in Romania’s case, most analysts took a political view on these actions. They basically focused on what the European Commission (2012) defined in its Report to the European Parliament and the Council on Progress in Romania under the Cooperation and Verification Mechanism as “an overly polarised political system where mistrust between political entities and accusations are a common pattern”. However, the European Commission properly noted that “this political context cannot explain the systematic nature of several actions”, adding that the steps recently taken by the Romanian Government raised “serious doubts

about the commitment to the respect of the rule of law or the understanding of the meaning of the rule of law in a pluralist democratic system”.

The analysts who took an economic approach on the matter cited the economic crisis that started in 2008, which enhanced public tolerance for such deviations. In my opinion, the signs point to a much deeper cause, namely a significant shortfall in economic freedom, both in terms of quantity and quality. Such a shortage, especially in view of its qualitative side, is indicative of the possibility that non-economic freedoms may deteriorate at any time and of the reversibility of the reform process.

Shortfall in economic freedom

In Romania, the shortfall in economic freedom was the result of the “subtle” large-scale spoliation witnessed by the entire Romanian society after 1989, but which very few people were aware of. The object of spoliation was economic freedom, namely “the freedom to prosper within a country without intervention from a government or economic authority” (<http://www.businessdictionary.com/definition/economic-freedom.html>). Thus, freedom as a whole, man’s worthiest asset and the foundation of Western prosperity and civilisation, was curbed.

The spoliators are the political heirs of the Romanian Communist Party (PCR), a party that seized all types of freedoms (economic freedom, freedom of expression, political freedom) for nearly 45 years by quasi-abolishing private property. Its successors were compelled to grant political freedom 22 years ago, but they did not bow. For the last 22 years, they have been curbing economic freedom, particularly by preserving unclear property rights, a category of rights which Milton Friedman (1998) saw as “an essential foundation for other human rights”¹.

¹ Adam Smith and Arthur Lee, one of his American contemporaries, understood the centrality of private property to governance. The former made a clear connection between justice and property, stating in his lectures: “The first and chief design of every system of government is to maintain justice; to prevent the members of a society from incroaching [sic] on one anothers [sic] property, or siezing [sic] what is not their own”. Lee’s comment on the centrality of property to society was even clearer, as he described property as “the guardian of every other right” (Lee, 1775).

By so doing, they prevented the emergence of “competitive capitalism”², which “provides economic freedom directly” and “also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other” (Milton Friedman, 2002, p. 9). A large part of Romania’s economy was further tied to political power. Economic power truly separated from political power was not strong enough to keep political power in check. The incomplete separation of economic power and political power thwarted the emergence of the rule of law and paved the way for constraints on political freedom and other non-economic freedoms.

Could the EU have a problem with economic freedom?

Apart from raising concerns, the possible significant erosion of political freedom in the above-mentioned countries brings to the fore the essential issue of the connection between economic freedom and political freedom. Ludwig von Mises argued in his 1945 essay titled *Planning for Freedom* that economic freedom and political freedom were mutually dependent³, only to conclude in his *Laissez Faire or Dictatorship* essay that “If individuals are not free to buy and to sell on the market, they turn into virtual slaves dependent on the good graces of the omnipotent government, whatever the wording of the constitution may be”⁴. Some 17 years later, Milton and Rose Friedman asserted in *Capitalism and Freedom* that economic freedom was a sine qua non for political freedom.

² Milton Friedman (2002, p. 13) defined competitive capitalism as follows: “The possibility of co-ordination through voluntary co-operation rests on the elementary – yet frequently denied – proposition that both parties to an economic transaction benefit from it, *provided the transaction is bi-laterally voluntary and informed*. Exchange can therefore bring about co-ordination without coercion. A working model of a society organized through voluntary exchange is a *free private enterprise exchange economy* – what we have been calling competitive capitalism” (Friedman’s emphases).

³ *Planning for Freedom*, Address delivered before the American Academy of Political and Social Science, Philadelphia, Pa., March 30, 1945, and reprinted in *Planning for Freedom* (1962).

⁴ *Laissez Faire or Dictatorship* originally appeared in *Plain Talk*, Volume 3, No. 4, 1949, pp. 57-64, and was also reprinted in *Planning for Freedom* (1962).

Much more recently, Fukuyama (1992)⁵, Amartya Sen (1999), Bhagwati (2004), and Greenspan (2007) highlighted the progress that free markets (i.e. economic freedom) represented in terms of prosperity, political freedom, democracy, and social satisfaction. Eichengreen and Leblang (2006) evidenced the fact that “trade openness [a component of economic freedom-the author’s note] promotes democracy”. Making use of the change in the Index of Economic Freedom and employing data from a panel of 117 countries for the period from 1981 to 2006, Soysa and Vadlamannati (2011) showed that “the level of economic freedom and movement towards greater economic freedom both reduce violations of human rights”⁶ and that “market-economic policy reforms seem to predict better human rights”. In line with these older or newer approaches, I showed that there was a gold causal chain that made democracy depend on economic freedom and rendered the permanent return to socialism impossible, although a return for a limited period of time could not be ruled out (Croitoru, 2012)⁷.

Pursuant to this liberal view, a low level of economic freedom can be expected to impair both living standards

and political freedom sooner or later. In Romania, the low living standards of the past 22 years substantiated this causality, but the developments in political freedom rather seemed to invalidate it. They appeared to reconfirm Gordon Tullock’s (1988) opinion, according to which extensive government control did not curb non-economic freedoms.

Many democratic countries with large government expenditure ratios (such as Sweden, which Tullock cited) did not see, indeed, an erosion of their political freedoms, as Hayek in *The Road to Serfdom* and Friedman had predicted. Nonetheless, Hungary and very recently Romania, which are EU Member States, have witnessed signs hinting at an impairment of political freedom in the absence of solid economic freedom to rely on. Thus, the relationship between economic freedom and political and social freedom becomes a going concern not only for the future of China and the Arab world, but also for that of the EU.

Romania’s crumbled economic freedom

There are various indices that measure economic freedom and political freedom. For the purposes of this study, recourse shall be made to the indices published by The Wall Street Journal, The Heritage Foundation and The Freedom House. China, India and Singapore are among several isolated instances where there is a weak correlation between economic freedom and political freedom. For example, India posts a low level of economic freedom, while reporting relatively high political freedom. By contrast, Singapore’s economic freedom score ranks among the highest, whereas its political freedom is somewhat low. Nonetheless, all the other countries evince a strong positive direct correlation between the economic freedom scores calculated by The Wall Street Journal and The Heritage Foundation and the level of political freedom as measured by The Freedom House.

Romania enjoys a relatively low level of economic freedom. The 2012 Index of Economic Freedom released by The Heritage Foundation and The Wall Street Journal ranks Romania 62nd out of 179 countries, with an overall economic score of 64.4. But achieving the status of a “moderately free” economy was by no means an easy task. Thus, Romania’s economy was rated as “repressed” up until 1996 (overall economic freedom score lower than 50). Between 1997 and 2007, the Romanian economy was “mostly unfree”, with an overall economic freedom score below 60. It was no sooner than 2007 that the score became higher than the world average and the threshold value

5 Fukuyama argued that the link between economic freedom and political freedom is established via man’s “desire for recognition”. He explains this link based on the three parts of the soul described by Plato in his *Republic*, namely a desiring part, a reasoning part, and a part that he called *thymos* or “spiritedness”. In Fukuyama’s view, material prosperity can be explained as a combination of the first two parts. In particular, desire induces men to produce (goods, services etc.), while reason teaches us how to effectively achieve this. Thus, the “logic of modern science” is a force underlying a coherent and directional history. However, it cannot explain political freedom, which is rooted in man’s “struggle for recognition”. Fukuyama shows that “man differs fundamentally from the animals, however, because in addition he desires the desire of other men, that is, he wants to be ‘recognised’”. The economic logic of science and man’s struggle for recognition are the driving forces that together lead all nations to democratic liberal capitalism. It can be implied from Fukuyama’s analysis that economic freedom is a prerequisite for political freedom. He claims “there are many historical and contemporary examples of technologically advanced capitalism coexisting with political authoritarianism, from Meiji Japan and Bismarckian Germany to present-day Singapore and Thailand”. Economic freedom was relatively high in these countries during the respective periods.

6 Footnote 1 in Soysa and Vadlamannati’s work specifies that “We use the terms *political repression* and *violations of human rights* interchangeably because they essentially mean the same thing.” (authors’ emphases).

7 The gold causal chain works as follows: the *primarily private ownership* of capital lies at the root of *free markets*, which ensure the *competition* leading to *innovation*, acting as the basis for sufficiently high *productivity* to allow *democracy* and *political freedom*. The latter two ensure that the previous sequence of the chain (i.e. the very premises for their existence) cannot be definitively suppressed, although it can be temporarily suppressed.” (author’s emphases).

of 60, as Romania's economy turned moderately free. A country's overall economic freedom score is determined based on 10 components of economic freedom, each of them measuring its various facets (fiscal freedom, financial freedom, monetary freedom, trade freedom, etc.).

Nevertheless, property rights and freedom from corruption, i.e. the components that characterise the rule of law⁸, posting the lowest scores out of the 10 economic freedoms is, in my opinion, of paramount importance. Moreover, in view of the emerging signs hinting at a possible erosion of political freedom in Romania, I also find it relevant that the relatively low government spending score comes immediately after the scores that characterise the rule of law. The shortfall in economic freedom apparent via these three channels is very large as compared with the overall shortfall in economic freedom and, to my mind, correlates best with political freedom. It is for this reason that I asserted, earlier in this paper, that the shortfall in economic freedom is both in terms of quantity and quality.

Insecure property rights

In the above-mentioned ranking, the property rights component was 30 as of 1995 (when these components started to be disclosed) up until 2008. It was no earlier than 2009 that this component rose to 35 and stabilised at 40 during 2010-2012. The corruption component (freedom from corruption) is even smaller, equalling 37. For the sake of comparison, the two components in Germany stand at 90 and 79 respectively in the 2012 ranking. Both property rights and corruption define the rule of law in the society. Their low levels in Romania show the society's disrespect to the rule of law.

The two components come to confirm the lack of clarity (ambiguity) of property rights for the past 22 years. Too many enterprises have been in public ownership for

too long, which made it possible for political interest groups to keep hold of the economic power. Substantial financial incentives remained available for the politicians exerting control over state-owned enterprises. The insufficient economic freedom could not help contain the politicians' power over the man in the street.

Numerous industries could not become competitive in the absence of clear property rights. Most private entrepreneurs were not "elected" by the market; instead, they resorted to the *ad hoc* privatisation of the external commercial ties of the former socialist regime. At the same time, they preserved their positions as managers of some large state-owned enterprises, siphoning off the profit to their own firms and, for a long time, hindered access to industries where their firms were operating.

For this reason, a great deal of individuals had to rely on the state's support to find a job. Moreover, some allowances that had a good reason only over the short term became permanent. As a result, by paying such individuals for not working, governments made them dependent on social welfare, thus limiting their economic freedom, aspirations, creativeness, etc.

The deficient and unclear institutional framework for the observance of property agreements and rights brought about a build-up of non-performing loans and inter-company arrears, while also keeping loss-making state-owned enterprises in operation. By means of tax arrears and profit siphoning, part of government resources (e.g. budget revenues) came *de facto* under joint ownership, which led to relatively large deficits or relatively high taxes. *Ex post* bailouts by governments of numerous companies in distress made the latter dependent on state intervention. Getting involved in too many bailouts, the state found itself in the position to be rescued by the IMF and the EU in 1992 and 2009.

Basically, the reform aimed at changing the reality of "the citizen serving the government" into the "government serving the citizen" has failed. The transfer of sovereignty from the state to the individual did not occur, as it was hoped for back in 1989. The interdependence between corrupt bureaucracy and business elites continued to exert control over the entire economic system, making room for a large informal sector, which is a good measure of restrictive policies.

As a result, individuals and firms enjoy a relatively low level of economic freedom. Market freedom, which is essential for sustainable economic growth, remained precarious. This is the reason why Romania has a small and vulnerable middle class. And this also accounts for Romania's lacking the prosperity and civility of Western civilisation and for the more adverse impact of the crisis

⁸ As Alan Greenspan points out, "In my experience, the most important is the nature of our rule of law. [...] To have had, for more than two centuries, unrivaled protection of individual rights, and especially property rights, for all participants in our economy, both native-born and immigrant, is a profoundly important contributor to our adventuresomeness and prosperity. [...] The principle of individual freedom touches a deep cultural chord in Americans: the belief embodied in our Constitution of the basic equality of all citizens before the law" (p. 468). Greenspan makes it even clearer on page 389: "In fact, a major reason they [developing countries] remain 'developing' and find it difficult to graduate to 'developed' is their low scores on property-rights enforcement". Greenspan also comes around to the conclusion that "the success of five- and ten-year economic forecasts is as much dependent on a forecast of the degree of the rule of law as on our most sophisticated econometrics" (p. 504, footnote).

on the Romanian economy than on Western economies.

The ambiguity of property rights resulted into the alteration of all types of freedoms. This is basically due to the lacking rule of law for 22 years, ever since the collapse of the communist regime. For this matter, corruption and the corrupted are in place, but no legal action is taken against them⁹. As a result, even the freedom of speech and the individual freedom are just illusions in particular cases. In view of the above, The Freedom House rated Romania as a “flawed democracy” and considered the freedom of the press as being obstructed by “serious problems”.

Many Romanians believe that criticism, particularly that targeting politicians, is proof of freedom. As a result, they failed to realise that economic freedom remained at low levels following the manipulation of their wishes and of doctrines. Hence, the idea has been inoculated that privatisation means “selling the country” and that corruption is a state of normalcy. The same as communists, the political successors of the Romanian Communist Party, who are currently members of different parties, claimed to have offered freedom and manipulated these individuals by distorting the significance and virtues of freedom.

Individual freedom and redistribution

Not only ambiguous property rights and corruption contribute to keeping economic freedom low enough to alter political freedom. Another cause, concerning the volume of government transfers, is the way society understands individual freedom. In the name of misunderstood individual freedom, governments can maintain high levels of public consumption and transfers.

Even in capitalist societies, individual freedom may be wrongly assessed in terms of access to a job, healthcare, education, etc. For instance, unemployment could be misinterpreted as the absence of the individual freedom to have a job. In this case, the error derives from the separate assessment of individual freedom and its fundamental component, namely the natural rights of the individual, including to make free economic choices.

Politicians have the political power and incentives to “correct” this “lack of individual freedom” by achieving the material equality of different individuals. The material equality may be achieved by regulations democratically passed by the Parliament, namely by means of political power with a view to establishing social safety nets. The

final outcome is a lower production of material wealth.

There is, however, a good reason for conceding a social security system: over the longer term, wealth is produced as a result of a process of creative destruction, entailing a lot of suffering for many people. I believe Alan Greenspan provided the clearest explanation for this process: “[...] for any given culture and level of education, the greater the freedom to compete and the stronger the rule of law, the greater the material wealth produced. But, regrettably, the greater the degree of competition – and, consequently, the more rapid the onset of obsolescence of existing capital facilities and the skills of the workers who staff them – the greater the degree of stress and anxiety experienced by market participants” (Greenspan, 2007, p. 504). In a nutshell, there is a limit beyond which competition renders stress unbearable.

I have stated that the capitalist system needs redistribution in order to avoid extreme disparities and produce more ‘substantial freedom’, a concept defined by Amartya Sen (1999), namely to create a wider range of development opportunities supporting public choices. In other words, I have submitted to the idea that there is no such thing as complete economic freedom. What I mean is that there cannot be only an economic order of private property; the economic order also derives from political power¹⁰.

On the other hand, however, “[...] it has become evident that in a globally competitive world, there are limits to the size and nature of social safety nets that markets can tolerate without severely negative economic consequences” (Greenspan, 2007, p. 504). These limits have been exceeded in Romania and in other European countries, especially via an unsustainable rise in retirement benefits and excessive protection against job redundancies¹¹.

Unfortunately, an unsustainable and socially inefficient state “generosity” that exceeds the increase in the substantial freedom is achieved democratically and hence is difficult to avoid in many cases. Such “generosity” reduces incentives for job seeking and entails the rise in the number of individuals depending on redistribution (pensioners of the pay-as-you-go system and public sector employees, welfare recipients (socially assisted persons), containing economic freedom and, thus, individual and political freedoms.

⁹ However, as compared to 2012, when this study was completed, the fight against corruption has gained momentum since 2013.

¹⁰ In his *Politics*, Aristotle shows that “the city (the state) naturally precedes a family or an individual” (p.15) and that “...we all have a natural impetus to associate with each other in this manner...” (p.17)... “Man, when perfected, is the best of animals, but when separated from law and justice, he is the worst of all...” (p.17).

¹¹ It should be mentioned, yet again, that protection against redundancies violates the freedom of those looking for a job.

Excessive redistribution and the road to the “tyranny of the majority”

When economic freedom is thus limited, political freedom is jeopardised as an increasingly large number of individuals come to the conclusion that they are not only the owners of different goods or rights established by law, but also of the values of such goods or rights. For this reason, the mechanisms to correct excesses cannot be used or are used too late, as they seem illegitimate and are thus rejected by an increasingly large number of recipients of redistribution income. For instance, the pay as you go (pyramidal) public sector pensioners are entitled to pension rights, yet they are wrong in believing that they have the right to a certain pension amount, even if it can no longer be paid. The same holds true for other types of welfare.

In order to be more specific, I will refer to the similar issue of real estate property rights, which relate to the physical property alone, not to the value thereof, which depends on the human actions of others (buyers or sellers) (Hoppe and Block, 2002). If the property right included the house value, then it would impinge on the freedom of other house buyers or sellers. Similarly, there is no property right on the value of a pension or of social entitlements, but only the right to receive a pension or a social benefit. The public is not interested making a distinction between the two very distinctive rights if public pensions and welfare benefits are adequately calibrated and they remain sustainable and payable as established by law.

However, no individual benefiting from redistribution income would easily accept the cut in nominal income if it becomes unsustainable. As a result, the actual demand for redistribution income becomes excessive. In Romania, the number of public sector pensioners and employees is more than twice that of private sector employees. Consequently, the number of opponents to the reforms for increasing economic freedom by bringing public sector finances to sustainable levels will be relatively high for a long period.

Once in place, the excessive demand for redistribution will either identify or create a political structure to rely on. Thus, the economic freedom and the political freedom bases are undermined, which may lead to the “tyranny of the majority”, a phrase coined in Classical Greece (the 5th-4th centuries B.C.) and revisited in modern times by Adams, Tocqueville, Mill, Popper and others.

Failure to reduce corruption and increased reliance on redistribution in Romania

Unfortunately, the decline in economic freedom by increasing redistribution is very subtle and the majority is unable to “see” it. This may explain the lack of a public to vote against the rise in redistribution to excessive levels. The best seen is the absence of the rule of law, as indicated by the high (visible) corruption and the insecure (less visible) property rights mentioned above. In 2004, Romanians voted against corruption, which was then associated with Adrian Năstase’s cabinet, namely against the most visible way of reducing economic freedom.

Although the D.A. political alliance comprising the National Liberal Party and the Democratic Party – centre-right parties in the opinion of the general public – won the elections, electors did not vote for a centre-right government that promised to increase economic freedom, especially by clarifying property rights and introducing the rule of law. The people gave their vote to the D.A. political alliance because – unlike their competitors – they credibly promised to reduce corruption and, the same as the opposition parties, showed no intention to cut reliance on redistribution¹².

Quite on the contrary, reliance on redistribution grew higher, while reducing corruption remained a desideration. The governments in office during 2005-2008

12 Erik von Kuehnelt-Leddihn (1988) explained in a clear-cut and convincing manner why right-wing parties (which he calls Tighten Your Belt parties) seldom dare reverse the measures implemented by economically-reckless leftist parties (referred to as Santa Claus parties). Worth mentioning is the following excerpt of his 1988 article: “But 150 years ago he [Tocqueville] could not exactly foresee that the parliamentary scene would produce two main types of parties: the Santa Claus parties, predominantly on the Left, and the Tighten Your Belt parties, more or less on the Right. The Santa Claus parties, with presents for the many, normally take from some people to give to others: they operate with largesse, to use the term of John Adams. Socialism, whether national or international, will act in the name of “distributive justice,” as well as “social justice” and “progress,” and thus gain popularity. You don’t, after all, shoot Santa Claus. As a result, these parties normally win elections, and politicians who use their slogans are effective vote-getters. The Tighten Your Belt parties, if they unexpectedly gain power, generally act more wisely, but they rarely have the courage to undo the policies of the Santa parties. The voting masses, who frequently favor the Santa parties, would retract their support if the Tighten Your Belt parties were to act radically and consistently. Profligates are usually more popular than misers. In fact, the Santa Claus parties are rarely utterly defeated, but they sometimes defeat themselves by featuring hopeless candidates or causing political turmoil or economic disaster”.

benefited from the global economic boom and practiced an “unsustainable” generosity that proved inefficient from a social standpoint, as it led to increases in both the number and benefits of employees, pensioners and welfare recipients. As a result, the redistribution became unsustainable. When the crisis hit Romania at end-2008, a large number of individuals were ready to oppose reforms aimed at bringing redistribution down to sustainable levels. Thus, they turned into enemies of reforms envisaging the rise in economic freedom by containing redistribution.

In 2009, the deepening recession called for bringing social expenses down to sustainable levels. That same year, the government was unable to adopt any relevant measures, as the two supporting parties [the Democratic Liberal Party (PDL) and the Social Democratic Party (PSD)] had come to have strongly opposing views not only on the role and magnitude of redistribution, as had been the case for some time, but also on the required corrections. Because of the crisis, PDL seemed poised to assume the wisdom of a right-wing party, while also apparently being bold enough – rarely seen among Tighten Your Belt parties – to unwind the policies pursued by Santa Claus parties.

Corrections were made particularly in 2010, at the recommendation of Emil Boc’s cabinet and supported by the ruling coalition that assumed the centre-right political orientation [PDL, the Democratic Alliance of Hungarians in Romania (UDMR), the National Union for the Progress of Romania (UNPR) and independent representatives] and President Traian Băsescu. Corrections came in conflict with the interests of the largest part of the voters (employees, pensioners and welfare recipients), whose reliance on redistribution had increased during 2005–2008.

Concomitantly, the low level of economic freedom and the economic recession combined to reveal the way in which political freedom had been steadily eroded ever since 1990. Under all the 1990–2012 governments, political freedom fared worse, as all public institutions were politicised. The population was able to vote, but the elected politicians appointed their yes-men in positions requiring specific competences, which was far from reflecting the initial intention of the voters.

The recession only made this particular way of altering the political freedom more visible and generated more concerns about it. At the same time, some individuals were further above the law and the level of corruption remained unchanged. Against this background, the opposition parties experienced a gradual rise in popularity, which reached very high levels, due to their populist promises.

The public reliant on redistribution and its characteristics

In May 2012 the opposition, namely the Social and Liberal Union (USL), came to power, having the largest public support in the past 10 years. The supporters of this political alliance are mainly people dependent on redistribution. For the purpose of eliminating any confusion about who is providing this support, a distinction needs to be made between three public categories with voting rights: a) employees, pensioners and welfare recipients; b) the public dependent on redistribution, namely the public in the first category less the number of public sector employees that do not depend on budget income, although they work in this sector¹³, and c) the voters dependent on redistribution, namely the public relying on redistribution plus their relatives and friends that are private-sector employees, particularly low-income employees favouring redistribution.

Adding to the voters dependent on redistribution that actually vote are the negative voters, namely those who do not support USL, but vote for this political alliance in order to show their disappointment with the former government. Besides, this political alliance has its own supporters who are not voters dependent on redistribution, although their number is very low. My assumption is that the voters dependent on redistribution make up the largest part of the public support to the USL.

The electors reliant on redistribution have four characteristics relevant for the relationship between economic and political freedom: (i) they account for more than half of the number of voters¹⁴; (ii) most of them are

¹³ Some public sector employees are not dependent on redistribution either because they have high qualification enabling them to find a job in the private sector or they belong to wealthy families. All these individuals enjoy a relatively high economic freedom.

¹⁴ Including 5.5 million pensioners, 1.2 million employees and 1 million welfare recipients, which make a total of 7.7 million individuals paid from the government budget. If one fourth of public sector employees could readily find jobs in the private sector (an overstatement), the number of voters would decline by 0.3 million. Assuming that one fourth of the 3 million private-sector employees have relatives in the budgetary sector (an understatement), the number of voters would increase by 0.75 million. Hence, the number of voters dependent on redistribution equals 8.15 million. Assuming that the turnout of voters dependent on redistribution is higher than that of other voters, say 50 percent (which may be attributed to pensioners being more prone to express their voting rights), then there are roughly 4.1 million voters dependent on redistribution that actually vote, out of a total number of 7.2 million voters that attended the 2008 parliamentary elections (the voters dependent on redistribution account for almost 57 percent of total).

low-income employees and do not want to face income cuts or lose their jobs (they support redistribution); (iii) their economic freedom is lower than that of other voters. The economic freedom of these individuals is very low not only due to the lacking rule of law, but also to their dependence on redistribution; and (iv) they believe there is a political force willing to limit redistribution. This feature is supported by the recent cuts in public sector wages and some social benefits¹⁵.

These features provide a basis for a certain collective "indifference" of the persons reliant on redistribution to the efficient use of savings in the society, on the one hand, and to the political freedom, on the other, both being vital for progress and development. Before explaining in the next paragraph the manner in which the four characteristics combined so as to make the erosion of political freedom in Romania possible, it is worth illustrating how the voters dependent on redistribution can depress the efficient use of savings and, implicitly, economic freedom, i.e. the basis of political freedom.

The volume and efficient use of savings decline where the (poorer) voters reliant on redistribution get the chance, via their representatives in the Parliament, to put forward laws and taxes. This danger was pointed out a long time ago by the famous Swedish economist Wicksell (1896) in relation to the poor social classes. He warned about the latter's possibility to "impose the bulk of taxes on the rich class and at the same time to show irresponsibility and extravagance in approving the budget expenditures to which they contribute themselves". On the other hand, Wicksell showed that the poor social classes may be less concerned about the "moving capital of the nation that could soon be exhausted".

In a nutshell, in today's language, Wicksell made reference to the fact that, instead of being used on the market for financing the most efficient investment, savings are channelled to the budget via taxes and are spent irresponsibly. In this case, the policies intended to boost saving are pointless. Thus, the overall economic freedom is eroded on account of the decline in the following economic freedoms at least: monetary freedom (if budget deficits emerge, pushing up inflation), business freedom (requiring more time to raise the start-up capital), investment freedom (as available capital decreases), fiscal freedom (as the degree to which income and wealth stay with those who produce them diminishes) and, it goes without saying, the freedom associated with government expenditures (as their increase leads to the crowding-out effect of private consumption and investment).

¹⁵ The public sector wages and some welfare benefits were cut by 25 percent in July 2010.

The mechanism behind the recent alteration of political freedom in Romania

The voters dependent on redistribution can equally accept a lower efficiency of social savings and a diminished political freedom although they do not wish it. In order to understand what makes it possible, we should start with the characteristics (i) and (ii) of the voters that are dependent on redistribution as well as with the equilibrium they generate. The fact that the largest number of voters comes from those dependent on redistribution [characteristic (i)] also guarantees the existence (or the formation) of a political force capable of preserving employment and possibly securing larger incomes from the budget [characteristic (ii)].

Thus, an equilibrium point is reached: the persons dependent on redistribution get the requested incomes and jobs, while the politicians who promise to maintain or increase the redistribution level secure themselves Parliamentary representation proportional to the number of voters reliant on redistribution.

However, this equilibrium is in potential conflict with political freedom. Once it is achieved, the conditions for the "tyranny of the majority" are created. Under these conditions, the (temporary) parliamentary majority can alter political freedom without a sufficiently large mass of people being able to oppose it. Over the short run, the persons dependent on redistribution, which we deem as forming a majority [characteristic (i)], lack the necessary incentives to oppose this state of affairs. In case the voters dependent on redistribution took to the street to oppose the unwanted alteration of political freedom, this would bring to power a political force in whose existence they believe [characteristic (iv)] and which could reduce redistribution¹⁶.

Faced with the conundrum of accepting either lower incomes or reduced political freedom, most of the voters dependent on redistribution would favour the latter over the short run. The difference between their economic freedom and the political freedom of the society is larger than the difference between the other voters' economic

¹⁶ This could explain why, in the 2008 parliamentary elections, even though PDL presented itself as a centre-right political force, its political campaign did not mention the need to reduce redistribution which had become unsustainable against the background of the global financial crisis raging on since July 2007. Another explanation might be that, in the autumn of 2008, PDL was still unaware that the payment of wages, pensions and allowances from the government budget had become unsustainable.

freedom and the political freedom [characteristic (iii)]. On this basis, most of the voters reliant on redistribution may accept the reduction of the political freedom if this is the solution to avoid reducing the redistribution they depend upon.

Therefore, assuming that all conditions mentioned thus far – i.e. low economic freedom (especially in terms of ownership rights and corruption) and a parliamentary majority based on the votes cast by the persons reliant on unsustainable redistribution – are fulfilled, the door to altering political freedoms is open. The only thing missing is a trigger for the actions effectively limiting political freedom. In Romania, this trigger was the election-related clash that prompted the actions mentioned earlier in this paper. These actions are seen as signs of improper understanding of the commitment to the rule of law in a pluralistic democratic system and of the fact that political freedom could be in for a worsening.

The actions initiated by the USL, as described above, were unheard of across the EU considering the EC President's and other officials' reaction, which clearly showed concerns over the future of political freedoms in Romania. Moreover, the legitimacy of these actions was questioned by a large part of the Romanian. The actions occurred just a few months before the 2012 parliamentary elections, which bears proof to initiators being confident that voters reliant on redistribution would accept, even if not wholeheartedly, a possible limitation of political freedom.

Last but not least, the erosion of political freedom via the mechanism described above includes also a self-regulating component that prevents political freedom deterioration from taking root. Such a worsening will be subject to criticism and penalties by external economic partners, be they democratic governments or individual/institutional private investors. But however tough the external partners' stance, there will always be a domestic movement against the erosion of political freedoms. At local level, in the beginning, only the persons who enjoy relatively high economic freedom will oppose political freedom alteration. The majority of the opponents will most surely be part of the private sector.

Nevertheless, since the trade-off between redistribution and political freedom cannot be of long duration, and given the low freedom from corruption and poor property freedom, public sector revenues as a percentage of GDP will be on the wane. Even the electorate reliant on redistribution will ultimately turn against the politicians attempting to alter their political freedom. Thus, the basis underlying political alliances

supportive of excessive redistribution withers away, entailing the break-up of political alliances.

Over the long term, if economic freedom remains low as a result of insecure ownership rights and corruption, the public reliant on redistribution, together with its four characteristics described above, will never die. The cycle described in this paragraph will resume from the point where these voters will be again willing to agree on an erosion of political freedom if this is the only way of avoiding, in the short term, a cut in redistribution-related individual income.

A psychological crowd?

The rapid and efficient implementation of actions that raised "serious doubts" about the "commitment to the respect of the rule of law or the understanding of the meaning of the rule of law in a pluralist democratic system" bears proof to a well-coordinated plan. As with any plan, this too must have been devised by a small number of authors. Inasmuch as we admit that the implementation of the plan involved actions on the edge of legality, it is necessary to explain why a large number of MPs agreed to the plan.

The argument that the plan was followed based on party discipline does not hold, as this sort of discipline does not rely on the bending-of-the-law hypothesis. It is difficult to admit that, eventually, each MP would have taken the risk of breaking the law without having any guarantee against facing the consequences. There can be two assumptions for taking this risk. Both hinge on the increasingly popular opinion that most people would have voted in favour of ousting the President of Romania (whose popularity had plummeted after more than three years of being mired in an economic crisis) if this had been subject to a national referendum.

The first hypothesis is that all MPs who voted in favour of the plan believed it would end successfully and agreed to it wilfully. The President's impeachment validated through a national referendum would have legitimised the entire plan, despite suspicions about the legal nature of actions.

The second hypothesis is that every governing MP acquired the characteristics of a psychological crowd prior to voting for the plan. A crowd turns into a psychological crowd if the thoughts and feelings of all the persons therein take one and the same direction, and their conscious personality vanishes (Le Bon, *The Crowd: A Study of the Popular Mind*). Such a metamorphosis does not require the simultaneous presence of a number of

individuals on one spot, but rather a special event.

And the special event was the plan concocted by USL leaders, as summarised in the main text. The plan failed to turn the individuals who would have voted against the President into a psychological crowd. On the contrary, it created a rift, which was only too predictable from the perspective of the different economic freedoms of the voters. The plan had no effect on the reasoning of voters reliant on redistribution, who would have voted against the President in virtue of characteristics (i)-(iv) and rationales described in the previous section. Instead, the other voters were largely discouraged by the plan that was deemed to be illegal by a large number of Romanians relying on redistribution or not. Thus, the electors that would have voted in favour of ousting the President were fewer after the plan was disclosed.

The plan could however have been successful in turning the group of governing MPs into a psychological crowd. These MPs could not realise the plan-induced rift across the population and, prompted by their triumph in the June 2012 local elections, with the voters' turnout nearing 55 percent, they thought of themselves being "heroes" and voted haphazardly in favour of the plan, as they nurtured the false hope of sharing the opinion of most voters. In front of a psychological crowd, laws no longer matter.

Gustave Le Bon showed in *The Crowd: A Study of the Popular Mind* (1895) that "[...] by the mere fact that he forms part of an organised crowd, a man descends several rungs in the ladder of civilisation. Isolated, he may be a cultivated individual; in a crowd, he is a barbarian - that is, a creature acting by instinct" (p.8). This is why we can see that "parliamentary assemblies adopt laws and measures of which each of their members would disapprove in his own person" (p.8). Eventually, a possible conclusion of this hasty decision was that "A crowd is not merely impulsive and mobile. Like a savage, it is not prepared to admit that anything can come between its desire and the realisation of its desire. It is the less capable of understanding such an intervention, in consequence of the feeling of irresistible power given to it by its numerical strength." (p.12). In view of the reasons mentioned above, considering both hypotheses, the governing MPs were certain that the electorate reliant on redistribution would not blame them and would validate their actions by voting in the forthcoming referendum.

The lessons learned

Democracy does not warrant economic freedom. Democracy means, according to William Greider (1988), the collective choices of both the rich and the poor, regardless of whether they own property or not. In other words, political power is not the power of owners alone. If in a democracy the owners' rights are infringed and at the same time redistribution reaches unsustainable levels, the economic freedom declines.

When economic freedom is low, political power may easily turn from democratic into non-democratic and in a democracy the tyranny of the majority can easily take over. In order to generate a level of economic freedom capable of ensuring people's political freedom, a democracy must protect ownership rights. It is the only way that the rule of law required by the economic freedom can be vouched for and the only way that the economic freedom can guarantee the rule of law, two factors that are mutually conditioned, according to Hayek.

The free democratic (political) choices are not safe from the arbitrary decisions of those winning the elections. On this coordinate of discretion, free political choices may come into conflict with individual free economic choices, i.e. market freedom. As political power does not belong to owners only, the markets and the state will engage in a permanent battle for the central role in managing the economy. In the absence of the rule of law, the greater the role of the state, the larger the extent to which economic freedom is altered. Clarity, consistency and the impartiality of the rules may change and corruption may easily creep in. A public dependent on redistribution may produce the same effect if it provides a parliamentary majority.

Nevertheless, the economic and financial crisis that broke out in 2008 is invoked to reduce economic freedom even more in the name of lofty ideals. In Romania, privatisation deals are postponed based on the belief that the value of companies declines in times of crisis. Regulations become excessive especially in the financial sector, knowing that, in Romania, financial freedom is the fourth weakest component out of the ten components characteristic of the economic freedom. Even though excessive redistribution is a big challenge for Romania, politicians appear to see the crisis as a good reason to empower governments to the detriment of the markets. All this occurs on the backdrop of a still high corruption level.

One might believe that the sheer tightening of the provisions sanctioning the actions that can alter political freedom or their introduction where necessary could warrant political freedom. Even if they would prove

somewhat helpful, such provisions will not act, however, as guarantees.

The key lesson of this analysis shows that unless measures are taken to increase economic freedom by improving ownership rights, by reducing corruption and diminishing dependence on redistribution, the political freedom might deteriorate. Even if the signs manifest in July 2012 regarding the possible major alteration of the political freedom could be reversed, the problem remains. In the absence of an adequate increase in economic freedom via the said channels, it is but a matter of time before political freedom declines.

The political crisis triggered in early July 2012 by the actions referred to in the introduction to this paper will not have merely short-term economic consequences. Quite on the contrary, its effects will become manifest primarily in the long run, owing to the asymmetry of changes in investors' perception on political risk. Once political risk has materialised, investor sentiment changes almost instantaneously, the risk is incorporated in the decision-making process and hence investment dwindles. Conversely, once political risk has been removed, it may take quite some time before investors changed their sentiment again and eliminated a considerable part of this risk from the decision-making process. "In fact, investor perception of such political risk changes so slowly that it would likely be years following any fundamental and credible changes before such risks were largely excised from economic decision making" (Greenspan, 2007, p. 389).

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