

Territorial Reform, Institutional Change and Economic Development. The Regions' Evolution and their Perspective along the Romanian History

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Abstract. The present study had as starting point the fact that regionalism has quite a strong tradition in Romania. Ever since the formation of the modern Romanian state the state divisions occurred as solid administrative units, each of them having its own peculiarities. Regardless of the political regimes that have taken turns in power, it can easily be observed that one of the main objectives was the development of better links between the different regions of the country. Recently, after having set clear goals to join the European Union structures, Romania has been compelled to improve social and economic conditions. This process began on the background of historical inter-regional disparities, mostly due to external factors. The present paper analyzes, from a historical perspective, how the implementation of regional development policies could be applied and work, depending on the social status of people, on traditions, on ways to develop interpersonal relationships and relationships with the authorities.

Key words: economic performance, institutional matrix, institutional transformation, transition, regional development, administration, cultural factors

JEL classification: D03, E02, R11, R58

1. Argumentum. Considerations on Economic Performance

The economic activity implies - even in its simplest forms - interacting with other individuals, the coordination of human activity being basically a social problem, referring to how people's behaviors are interconnected, thus being closely related to the social order in general and defined by the institutional matrix incorporated in the society's structure. If sociologists consider individual behavior as being largely determined by social and cultural norms transmitted through the socializing process, economists – followers of the rational choice theory – insist on the behavior's rational and voluntary nature.

The analysis of how an economy works indicates a combination of two ways – by the market (which involves voluntary cooperation, that guides individual actions towards satisfaction maximization in a certain context, while individual interest is limited to the constraints imposed by the price system leading to a resource allocation mechanism), and by administrative decision (which implies authority, in which case individual actions are not the outcome of negotiations but determined by the imposition of authority, which is either accepted voluntarily or imposed). History shows that a society's economic organization combines, in various proportions, the two types of activity coordination, one's share prevailing.

When discussing economic performance the role the state can play should be taken into account; reference here should be made primarily to the quality and working of the judiciary and of the

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bureaucracy, namely the constraints they impose on the economic activity; the manifestation of public power – the state, is due to the need for *order, predictability and trust*.

Neither economics nor any other discipline provides an integrated theory of both economic and political development. General economics teaches us that, with ideal economic policies and markets, the participants in an economy face incentives to maximize the efficiency and output of a society. On the other hand, political science, anthropology, sociology, and the law offer pertinent ideas and information, they do not subsume the logic of the market nor provide any general theoretical frameworks that can guide research into this question nor mobilize and summarize knowledge for the policy maker. A unified set of ideas is needed not only to focus research but also to assist decision-making in developing countries.

Researchers coming from varying intellectual traditions and specialties use different names for what is essentially the same set of ideas or general theory. Such a unified set of ideas has been emerging in recent years and is coming to have significant and increasing influence in economics and in other social sciences as well.

Many economists and other social scientists studying less developed countries have been aware that the institutional environment in these countries differed from that in industrialized ones. In the early postwar decades there were intense debates about the degree to which standard neoclassical economics needed to be modified to apply to less developed countries; the standard neoclassical economics was based on institutions that existed in industrialized countries but that did not necessarily exist in less developed countries. After World War II development economics assumed that the institutions of the economy were different, but there was little attention among economists to the evolution of these institutions or to deep explanations of them.

In recent decades, the subject matter of economics has expanded in many directions (Hirschleifer 1985); of particular interest in the present context is the application of economic reasoning to the rules of the game, in two directions. First, there is the decision of individuals whether to obey the existing rules. Secondly, there is the collective action of people to change the inherited set of rules. Neoclassical economics had assumed that the rules of social interaction were given, in the form of the rules of the market economy, and that people obeyed the rules of the game. These assumptions made sense in the neoclassical world of imperfect information, for violations of the rules could be easily detected and the perpetrators punished.

The extension of the subject matter of economics has reinforced the modification of the basic assumptions. The study of the evolution of cooperation through the theory of repeated games leads to recognition of the important role of focal points, which can become symbols with affective content. The study of the evolution of norms leads to economic theories of how moral sentiments develop. However, many economists have felt that this theory has not been properly explained unless it emerges from a model based exclusively on rational self-interest; if stated that choices were constrained by cultural norms, it was regarded as an unsatisfactory explanation. Recently, though, research has been done on the benefits to individuals of having a conscience (Frank, 1988) and on the efficiency gains resulting from shared mental models (North, 1995), by willingness to accommodate a richer conception of human motivation. Methodologically, criteria were suggested by which we judge theories (Stiglitz, 1986): these include simplicity (fewer assumptions are better), internal completeness (assumptions should be as "primitive" as possible), consistency with available data, predictive power, and the ability to make specific predictions in a variety of contexts. If people form groups and internalize group goals in predictable ways, then models incorporating these regularities will perform better by the various criteria than models based on the postulate of individual self-interested motivation.

Economists have often shed some light on cultural explanations, arguing, first, that people in different cultures tend to want the same things and, second, that since cultural variables have not been satisfactorily measured, explanations based on culture have been empirically blank. It would be important to note, thus, that individual culture is what the individual carries with him as a result of

having been brought up in a particular culture; on the other hand, community culture is the set of norms, attitudes and values of an entire community, and it of course affects the incentives of individuals to behave in particular ways. There are sets of rules that are recognized and frequently followed by members of the community and that impose constraints on the actions of individual members. Community culture tends to reinforce and be reinforced by the patterns of behavior in the community, and it is obvious that the behavior patterns (in the form of institutions) and the associated cultural norms can be a serious obstacle to economic progress in the community.

2. Economic Development, Transition and the Institutional Transformation

The economic system has evolved over time, from the primitive to the slavery era, to the Middle Ages, to socialism and capitalism; analyzing these stages we can notice large differences regarding the most defining characteristics of an economic system – technology, property, relationships between economic agents, relationship with the authority figures, methods of production, and respectively the dissemination of the results of the economic activity – differences that suggest an evolution of these characteristics and of the economic system in general. Therefore we consider economic development that particular change – occurring faster or slower – regarding these characteristics of the economic system. Constructive would be to find both the explanation to continuity – the people's tendency towards routines and habits, and to change – through intended action, namely by the result of learning and by extending knowledge, which leads to establishing new habits and routines, these representing the very process of economic progress – their behavior being in its turn influenced by the changes recorded by these institutions.

The way the institutions and the mental patterns change can generate a dependency of action, due to which the poor performance of an economy may persist for a longer period of time; this, moreover, reflects the reason why the transition experienced by some former communist countries was both difficult and time consuming. The changing of the mental patterns – and institutions – can be achieved with great difficulty, especially for situations in which the effort is directed toward correcting the effects instead towards analyzing and influencing the causes - in this regard being useful an analysis at the appropriate level and the use of the appropriate theory. It should also be noted that all cultures have inherent tendency towards change, while showing resistance to change; there are both factors that encourage acceptance of new ideas and trends, and conservative factors that block the change, promoting stability, their lack even generating social and economic chaos. The factors that determine resistance to change include the habits, and respectively the interdependence of institutions. People are usually reluctant to changing their way of perception, thinking and acting; the habitual behavior provides emotional security and psychological comfort in a more and more dynamic and unpredictable world The fact that cultural institutions are integrated and interdependent induces a resistance to change, as precise changes trigger other - more or less desired - changes. Thus this cultural integration leads to a slowing down and to a deviation of cultural exchanges on one hand, and on the other hand it may lead to stress and frustration regarding the ones involved. Basically, the sources of influence or pressure that are responsible for both promoting change and resistance to change are (1) the forces within the society, (2) the changes occurred in the natural environment, and (3) the contact with other societies, these acting in different directions with different degrees of intensity depending on the country, on the historical period, on the institutional and social system. It was stated that one fact cannot be denied, i.e. that ancient Greece, Rome, and later Spain, England and France, as well as other colonial empires promoted models of culture, governance and justice – with a civilizing role and lasting contributions to the emancipation of countries they conquered (Galbraith, 1997).

The economic transition is a type of economic development, which the former communist countries face in an attempt to adopt the market economy system. The transition from socialism to capitalism is not exactly a new topic of economics, capitalism being a system which is in constant evolution, so in terms of the economic theory transition represents a time-compressed economic evolution. Change management provides a useful perspective, the analysis of change at micro-level being helpful as the

institutional transformation is reflected in every organization, and respectively, in every individual. Change is defined mainly by a few basic elements. First we can consider the existence of interdependencies between various components of the system; changing one component will put pressure on triggering change to the others, not always desired, but there are also situations in which a component can be altered intentionally in order to produce the expected changes in the others. Secondly, we have to face the fact that there exist conflicts and frustrations that put pressure both towards change in certain circumstances and towards resistance to change in other circumstances. And last but not least, time lags can also be considered, and these are due to the fact that the different components of an organization adapt to change differently, at their own pace.

The transition is not a simple process to restore the balance of a system where interest is shown only given the final equilibrium conditions, the transition should also be viewed as a historical process, an evolutionary one; in this respect, this builds a market-based economic system while giving up old production relations which were based on centralized planning. The experience of countries that have faced a transition showed that there is no unique formula applicable to all transition-induced problems in different countries, because the institutional gap does not fill itself – changing the informal rules is done at a slower pace, requiring considerable effort. Similarly, the imposition of formal rules, though quickly achievable, will not automatically entail their compliance, more so if they conflict with the informal rules. And the economic performance is ultimately determined by these formal and informal rules/ norms. North (1995) notes that "the societies that adopt the formal rules of another (the way Latin American countries adopted Constitutions similar to the U.S. one) will register performance characteristics which will differ compared to the countries of origin, as the informal rules and their application will be different". This is the reason why the results of similar measures may be different if the starting points in terms of institutions are different.

3. The Regions' Evolution and their Perspective along the Romanian History

Regionalism has quite a solid tradition in our country. Ever since the formation of the modern Romanian state the state divisions occurred as solid administrative units, each of them having its own particularities.

Subsequent to the Union on January 24, in 1859, a single administration was created a year later for both Moldova and the Romanian fatherland, which later on led to the initiation of the first draft on the administrative organization of the Romanian territory. Thus it was suggested that the partial decentralization of the administration should be achieved, jointly with the respective re-centralization at the ministries' level of those activities that were of high importance for the socio-economic life of the country; another core objective was achieving better links between the different regions of the country, between central and local administrations, pursuing the idea of making a better match between the local communities' potential and needs. The bill, which came into force in 1862, provided the organization of the country's territory into four regions - general prefectures - which broadly overlapped historical regions (Oroveanu, 1986) - law which was later considered unfortunate on the grounds that a territorial division of the country based on historical provinces would only have led to the exacerbation of regional mind-sets, thus considerably restraining the perspective of absolute unification. Therefore, on April 2, in 1864, the Law for county councils was passed, granting the counties' legal entity, by acknowledging their right to disposing both of their own assets and of obligations - a law which remained in force for several years until the administrative law of 14 June 1925 was passed, being amended 9 times during this period. The major event that marked Romania's history between the two Unifications was the independence gained as aftermath of the Russian-Romanian-Turkish war (1877), and also adding the territory of Northern Dobrogea to Romania, thus gaining access to the Black Sea, but having to renounce three counties in southern Bassarabia.

After setting the configuration of the Romanian unified state subsequent to the joining together of Transylvania and the Kingdom of Romania in December 1918, four administrative arrangements were operating on Romania's territory as integrative parts of a single global system: the administrative

regime of the Former Kingdom of Romania, the administrative regime of Transylvania, the administrative regime of Bassarabia, and the administrative regime of Bucovina. These four administrative delineations had their own uniqueness, indicating pronounced imbalances regarding both the size of their territory and demographics and their shape, position in the county council headquarters or degree of accessibility. From another point of view, the cohabitation of Romanians with other ethnic populations, in territories administered by different imperial capitals, led to the population of these regions having very different concepts in terms of administration, towards the centralizing trends induced by the Former Kingdom. Consequently, politicians have claimed that the most appropriate frame for accomplishing national cohesion and a climate of understanding and tolerance among the majority of the population and the ethnic minorities would be a decentralized administrative structure, allowing people from different parts of the country to preserve former institutions which distinguished their culture and traditions from those of the regions'. This differentiated legacy was reflected in the first administrative map of the newly formed Greater Romania which showed the association of heterogeneous territorial structures, which were formed and evolved under different political-administrative systems. In the interwar period projects on administrative unification were put forward, some of them being oriented towards centralization, others being based on an administrative regionalism based on decentralization and local autonomy. The contrasts - although they decreased in time - continued to remain quite profound, both at demographic and territorial level.

The Constitution of 1923 confirmed Romania as a unitary and indivisible national state, unifying the different legal systems inherited by the several regions of the state. The county was the basic administrative unit in charge of territorial activity coordination, the county' councils being directly subject to central authorities; the counties were grouped into administrative districts, these being allotted executive role but no legal entity, led by general administrative inspectors, to streamline administrative activities and for a better, more rigorous and uniform application of administrative guardianship.

The government led by Iuliu Maniu (1928-1930), focusing attention on the reform of administrative structures, passed the *Law on the organization of local administration* on August 3, in 1929, which was hoped to be an important step towards the local administration's democratization and decentralization. This law renewed the former idea of historical regions, organizing the country's territory in 7 ministerial directorates named after the cities appointed to function as administrative centers. Their delineation, partially overlapping the historical provinces, took into account both the ethnic criterion and the traditional relations established at urban system level. This administrative delineation remained stable for two years until 1931, when the National Rural Party lost control of the government; the Liberal government which succeeded in power abolished this administrative structure, considering that they would be divergent to national ideals and would threaten state unity.

The last administrative reform in interwar Romania took place after the royal dictatorship of Carol the 2nd set in, by adopting a new constitution on February 24, in 1938. This resulted in the counties association in the new macro-territorial structures – *10 regions*, acknowledged by the administrative law of August 14, 1938. This time, the delineation of macro-regional administrative structures did not take into account the configuration of the former historical provinces, but assumed that they had to be "well-defined geographical and economic entities, putting together the united people of the new Romania, according to their real needs, to their natural geographical location, to means of communication, to the common character of the economic life, to available resources" (Calinescu, 1938:3-5). The avowed goals of the regions' delineation related to a better administration of local communities by subordinating them to a local governor, appointed by central government bodies.

It can easily observed that the evolution of interwar Romania's administrative-territorial organization was a reflection of two conflicting trends, corresponding to the two political trends promoted by the coming-next-after parties in governance: *a trend of centralist character*, promoted by the Liberal Party, based on the local autonomy's suppression and on the denial of historical provinces, and another, of *regionalist, localist character*, supported by the Peasant Party, advocates of unity in

diversity based on macro-regions which were supposed to overlap historical provinces and have dispose of extensive local autonomy. But neither the advocates of centralism, nor those of regionalism have succeeded in creating new administrative units, settling for regional clippings put together by aggregating former counties.

The constitution of 1948, issued by the first government led by communists of pro-Soviet referencing, aimed to provide for a new administrative-territorial reorganization of the country, without being granted an immediate priority. Later, in the early '50s – a period which earmarked Romania's transition under the Soviet influence – the Soviet model was adopted, the administrative-territorial organization including *regions* and *districts*, so that the entire territory was divided up into 28 regions, being made up of districts (177) and villages (4052) – in accordance with the Soviet model. These were delineated according to the "criteria of social and economic complexity", being considered administrative units which directly supported the central state bodies in the implementation of state policy. Their configuration does not resemble the former counties, relying heavily on former natural barriers represented by the Carpathians and the Danube, but also on the reason of the agricultural regions' subordination to urban centers, accomplishing integrated agro-industrial structures.

In time, the 28 regions were found to form an excessively fragmented structure, which was unresponsive to the political demands of that time; this form of organization could not survive the constitution of 24 September 1952, so that constitutional provisions were incorporated by decree 331/29 September 1952 which established a new administrative-territorial organization. Thus 12 regions disappeared – by blending – other two being set up instead, i.e. the Craiova region (by merging regions Dolj and Gorj) and the Hungarian Autonomous Region (by unifying the territories inhabited by szeklers - Covasna, Harghita and Mures). The natural consequences reflected considerable increase of the regions' territories and the disappearance from the country's administrative map of some former Romanian names, deeply rooted in the public perception, which were replaced by the names of local county capital cities or by "imported" names. The main reasons behind this approach were first of economic nature - the establishment of larger and more powerful regions, easily capable of reaching a higher level of economic specialization, and secondly of an administrative nature - aiming at accomplishing regions which were larger and easier to administer compared to central power authorities. But even these regions were not large enough, so that four years later (1956) other two regions will be eliminated; in the meantime other changes were made to former configurations, by passing some districts from one region to another.

After the withdrawal of Soviet troops' withdrawal from Romania in 1958, the Soviet communism stage was replaced by wave of communism of nationalist character, so the former Romanian names reappeared on the country's administrative map. At the end of 1960 there was a new administrative reform that amended the structure and configuration of regions, following the abolition or transition of districts or passage from one region to another. If the regions formed in 1950 were based on the criterion of economic potential homogeneity, the new regions were designed to be functional structures, encompassing different landscape units within their territories, as well as resources and varied potential, which altogether were aimed to generate economic complementarity. They did not vary much in size but more in the number of villages they comprised – 33 in Covasna to 125 in Ilfov. The central character represented the reason behind investing small towns (which were less developed economically) with administrative role, which therefore needed heavy investments in order to justify their role as coordinating centers and polarizing nuclei for settlement systems formed at the county level. But these measures generated other imbalances, so that besides stagnant - often regressive dynamics of urban centers, which have never regained administrative function, there were also some disruptions at macro-territorial level. There resulted substantial differences in terms of areas and the power of polarization towards the surrounding rural areas. While some villages were under the influence of two or more urban settlements, vast rural areas remained on their own or were quite poorly polarized by an urban core. This discrepancy is also the reason why 49 of the larger rural settlements were granted the status of towns in 1968, (other 27 were added to them in 1998). On

January 1, in 1968, this structure was renounced and the current pattern was adopted, comprising 39 counties plus Bucharest, respectively – later on - 41 counties plus Bucharest.

Following the legislative provisions 8 regions have been established corresponding to NUTS II statistical level, thus not being considered administrative units. The regions of development were formed by the counties' association to a higher level, and they are named after their geographical position in the country (Table no. 1). Later on, by grouping the eight regions, four macro-regions of development were set corresponding to NUTS I level. Within the Romanian regional structure of NUTS type, only the NUTS III territorial units – comprising the 41 counties and Bucharest – dispose of territorial administrative competencies. The macro-regions and the regions of development have neither administrative statute nor their own form of governance or administration.

NUTS I	Macro-region I		Macro-region II		Macro-region III		Macro-region IV	
NUTS II	North-West	Centre	North- East	South- East	South- Muntenia	Bucharest -Ilfov	South- West	West
NUTS III	Bihor	Alba	Bacău	Brăila	Argeş	Bucharest	Dolj	Arad
	Bistrița – Năsăud	Brașov	Botoşani	Buzău	Călărași	Ilfov	Gorj	Caraş- Severin
	Cluj	Covasna	Iași	Constanța	Dâmbovița		Mehedinți	Hunedoara
	Maramureş	Harghita	Neamț	Galați	Giurgiu		Olt	Timiş
	Satu Mare	Mureş	Suceava	Tulcea	Ialomița		Vâlcea	
	Sălaj	Sibiu	Vaslui	Vrancea	Prahova			
					Teleorman			

The current configuration (table no.1) following the general trends experienced throughout Europe, reflects the need to pursue an administrative system of regional type, by setting up macro-territorial structures (the 8 regions), based on the former historical provinces and on polarization centers which dispose of regional responsibilities. The territorial planning strategies considered founding the economic and social development on balanced spatial structures, which should ensure a balance between economic efficiency and social justice; the reality of imbalances and backlogs in the territorial development of the country on one hand, and the variety of landscape, natural resources, the demographic potential of areas in the country, on the other hand, amply justifies the need for an active regional policy to be developed and carried out by the Romanian state. These considerations of internal nature are complemented by ones of external character, given Romania's option to successfully integrate into European structures.

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