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Will Brasov be the next to erupt?

Brasov is not likely to be the next social volcano in Romania. It lacks the deadly mix of raw force and political incitement of Jiu Valley. The industrial giants of the city have slimmed down to manageable proportions, and the social protection system is well posed to caution the adjustment shocks. The development of the city is however kept hostage by the large industrial companies of the communist era. There is little sign they are going to make a turnover any time soon. On the other hand the local economy is not buoyant enough and diversified enough to cope with any of them collapsing. A development strategy, supported by large public project, looks the best way out for the city, but the central government commitment is not forthcoming.

Brasov – a cradle of social unrest

Brasov is one of Romania's most industrialized regions, and thus the economic reform has already affected and will continue to strongly affect the social structure of both the county and the city. With large industrial mammoths – over 20,000 workers for Tractorul and Roman each – Brasov was stubborn to reform and depended upon state financing, either directly or by low prices for state facilities (e.g. credits, utilities etc.). The reduction of these side-payments starting with 1997 has generated many conflicts between unions and local or central authorities. Roman's workers were the first who implemented the so- called 'spontaneous strikes' which blocked important roads with nobody claiming (or being force to bear) responsibility. The first ever such strike, in fall 1997, forced the government to break up the negotiations with the international financial institutions on reform and privatization in the industrial machines sector. The 'spontaneous' strike became very popular all over the country when people realized nobody was ever charged for causing public disorder. Violent protests accompanied during the last years of the 1990s every attempt (or just rumor) to reorganize the main local factories. As a matter of fact no reasonable and really serious privatization offer was registered until now for Roman, Tractorul, Rulmentul or Metrom – to mention just the main local factories.

There is also a strong union tradition in the main factories as Roman or Tractorul, starting before 1989, and there is a strategy set up after 1997 to work together on the main local issues. This last element can be the reason why the last protests – organized on a national level in June – were a success, from the union leader point of view, in Brasov, with more than 20 000 participating, while a failure in Bucharest.

With Brasov factories bearing heavily on the national economy, reform might be unavoidable. The aim of this piece is to analyze how can this be brought about, and what the social reaction is likely to be.¹

¹ For this overview a SAR team traveled to Brasov and had interview with local authorities, local union leaders and managers from Brasov.

Is Brasov really so poor?

Starting with 2002, the income support tries to bridge the gap between the guaranteed minimum income and the actual income of the families (including other social benefits) (Law 416/2001). Comparing to other urban areas, Brasov city is paying only a small tribute to this policy. Just 475 families receive income support (253 mil lei in total from the local budget)². At the beginning of 2002 over 1300 families requested this allowance but by a case-by-case investigation ('ancheta sociala') just 475 passed the hard requirements - the research can show out if a member of the family is receiving some income on the black market or has other additional income possibilities from various activities.

There was a huge number of families which received heating allowance support from the local budget this winter: 55,389 families for public utility heating, 9,375 families for own heating systems based on natural gas, and 35 families in other situations. Every family with less than 1,800,000 ROL (about \$55) monthly per family member could benefit from this allowance, but just for the heating bill. There was no research on these families in order to assess the eligibility for this allowance, what means they just have to document the official income.

The huge number of families receiving the heating allowance and the reduced number of minimum income receivers show out a few aspects:

- There is a large proportion of people receiving an official income between 750 000 (about \$24 - the guaranteed minimum income) – and 1 800 000 lei per family member.
- The 65,000 families in this category represent over 120,000 people (about 40% of the population). They are very exposed to poverty in the next winter, due to the increase in the cost of heating.
- Many of the people with low official incomes seem to have other sources of income, on the black market.

Jobs and unemployment

According to a union leader evaluation, in the last ten years, Brasov has lost more than 60,000 jobs, all of them in the machinery industry. Half of this number is accounted for by the total of current job seekers. Brasov has also recorded a substantial loss of population, and is expected to have dropped below 300,000 inhabitants. We have to wait for the final results of the referendum, due later this year, in order to certify these last data.

The official estimation of unemployment was 21,511 at 1st July 2002 (11, 67%). The unemployment is much higher compared to the last two years (6,8% in 2000 and 7,5% in 2001) because of the several redundancy programs (based on compensatory payments) that involved Tractorul, Roman, and companies from the defense industry. The people were highly motivated to be on the redundancy list because of the high severance compensation of 6-12 monthly salaries, calculated at the level received during last 1-2 years. This situation begs the question what will these people do when their redundancy payments end. The experience so

² For exemplification, the number of income support recipients in Brasov is similar with the number in the nearby small town of Zarnesti, which represents just one tenth of the population of Brasov city.

far in the Brasov county suggests that social conflicts (on similar lines with those in the Jiu Valley) are unlikely, either because the local economy will be able to integrate them, or because many will choose to relocate to other parts of the country. The Employment Agency has launched a new program to support those willing to relocate – 7 monthly wages for those who have found a job in another part of the country.

Another reason for the jump of the unemployment figure has been the minimum income guarantee law that came into effect in 2002. Many people registered as unemployed in order to qualify for the income support, but the stringent implementation of the law has discouraged many of them, and after about three months they started to let themselves drop from the records.



Figure 1. Unemployment in Brasov has been increasing over the last six months

The good news is that until now the city had the capacity to generate new job. Even if Brasov has some large industrial capacities, the majority of the workforce is already employed in the private sector. There were 9,779 enterprises in Brasov with 109,531 employees at the beginning of 2002. But just 38,199 of them are still working in state or mainly state sector. That means that 59,232 are working already in the private sector³. It is a good rate for a city known for its strong state sector.

A skeptical note is however due. Many of the private jobs are in the same industries as the large state companies, and in many cases are directly dependant on these state companies. This makes the private sector less of an alternative to the state sector, and it means it is exposed to same risks – i.e. if the state sector is hit by a crisis, the private sector is also affected.

³ We have reached these figures by adding up to the private sector employees the workers from the mixed sector, where the private owner has more than 50% of shares, and to the figure of public sector employees, the number of employees in the mixed companies in which the state owns more than 50%.

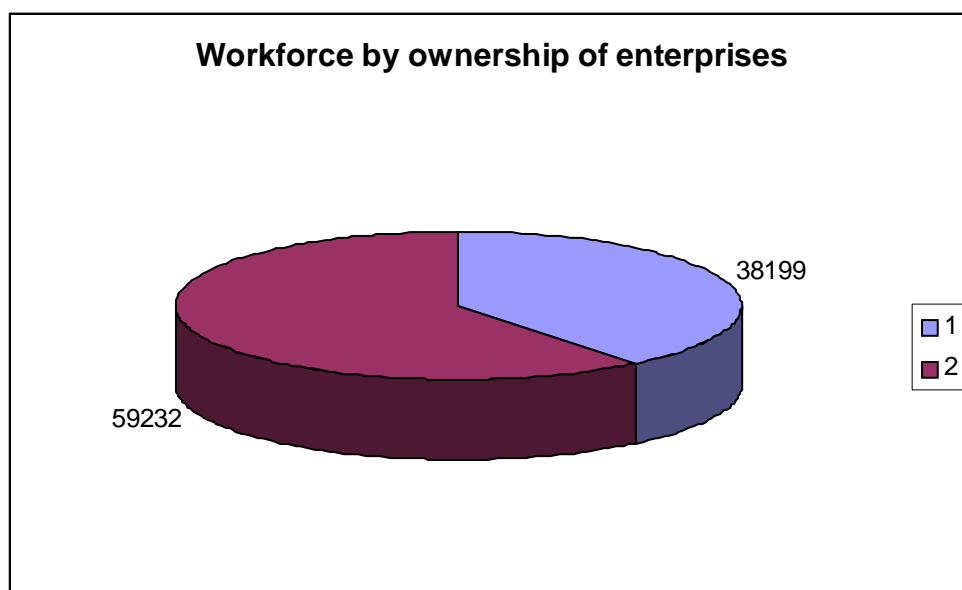


Figure 2. The majority of the workforce is already in the private sector
(1- Employees working in the state sector; 2 – Employees working in the private sector)

There is also a good contact between the local Agency for Employment (AJOFM) and the local enterprises, what allows the agency to find new opportunities on the market for the job seekers. The Agency considers an initiative for facilitating the functioning the market on day jobs.

Most of the training is provided on jobs for which there is proven market demand. There is also training provided at the request of an economic agent. The impact of the training programs is relatively good – 70% of people graduate them, and most of them find jobs. This is opposed to the ‘normal’ situation: on average only one third of the unemployed find a job in the first year of unemployment. Active measures represent however just 15% of the agency budget, and their impact is rather limited: 355 participants since the start of 2002.

There are a few conclusions that can be drawn:

1. The city appears to have the capacity to generate new jobs on a moderate scale. However, a sharp increase in the number of the unemployed could not be coped with.
2. The compensatory payments are very popular, but there are already many job seekers with such payments that will be out of the program during 2002. This situation represents a social risk.
3. There is a need for daily jobs and the local authorities can bring into open and improve this activity by organizing and controlling it.

Development plans

The Brasov town hall works on a strategy for city development. There is a large consensus that the city needs a new road to divert traffic round the city, an airport, and has to develop the tourist infrastructure. However, this consensus is revived with each electoral campaign, but fades away soon after. The communication between the main stakeholders (town hall, county council, central government representative – prefect, members of parliament, trade unions, main employers) is rather poor.

Brasov County receives development grants through the development agency system. Brasov is part of the Development Region Center, together with usually less developed counties. This means that the lion share of the development funds does not reach Brasov, and their impact is rather modest. For exemplification, in the first half of the current year Brasov County received over 1 million Euros for human resources development. These funds are expected to lead to 120 new jobs, and will support the training for 575 people. These data are valid for the whole county; the impact in the Brasov city will be even more limited. Better news is coming from the RICOP Program. For 2002, grants worth 4.2 Euro have been awarded for Brasov and Covasna counties.

The key stakeholder - Trade Unions

Brasov trade unions do not have the fearsome reputation of the Jiu Valley miners. Brasov is nevertheless one of the key fortresses of trade union activism. A strong manufacturing base and the tradition of resistance that draws its mythical roots from the 1986 anti-communist demonstrations have secured this position. As already mentioned, Brasov trade unions are credited with introducing in Romania the tactic of road blockage that has brought to their knees successive governments. The 1997 assault on the prefecture office has shattered the confidence of the reformist center-right government.

Therefore, both the government and the management were careful not to antagonize the unions. The pressure of trade unions is mainly responsible for the approach of the management to prioritize the payment of wages, while allowing mounting back-payments of taxes and social contributions. It can only be speculated the impact the powerful trade unions might have had on potential investors.

Trade union leaders have generally resisted change; they viewed with skepticism all restructuring efforts as veiled attempts at closure and leading unavoidably to redundancies. Perhaps to be expected, their efforts were directed to cautioning the redundancy process: slow it down, restrict it to voluntary redundancy and provide the people made redundant with fat severance packages. However, once people stopped company employment, they went out of the range of concern of the trade unions: there was no consideration given to the plight of the unemployed, and to efforts to create jobs.

There are signs a new generation of trade union leaders is emerging: rather suspicious of the political connections of the former leaders with the governing party, and more open to looking for solutions that, while providing cover for the employees, are consistent with the economic survival of the company. This new vision does not go as far as spilling beyond the narrow constituency of the current employees, to partnership in a development strategy however.

Roman – the truck maker. A case study

After the privatization of the huge steel mill SIDEX Galati to ISPA, Brasov is host to two of largest black holes of the Romanian economy: the truck maker ROMAN and the farming equipment producer Tractorul. Both are in a distress situation, and have undergone a slow but deep cut in the workforce. Tractorul has the advantage of a potentially large domestic market

and has recently re-opened export markets. Roman seems the most difficult to solve situation between these two.

Roman is a showcase of the problems facing, and brought about by, the large communist industrial plants. It presents all the customary problems:

- powerful trade unions that resist change
- weak management, terrified by the unions, and short-sighted
- low capacity utilization, cash-flow problems and back-payments
- legal and bureaucratic hurdles brought by the relationship with the major shareholder – the central government

Fading glory

ROMAN draws its roots from an interwar producer of railway carriages. After nationalization, it became a communist industrial flagship (re-christened as Steagul Rosu – the Red Flag - and placed in the Stalin city, as Brasov was then called). After the communist takeover the company shifts its main focus on truck production, and since 1971 works under license from the German producer MAN (ROMAN = Romanian MAN). It covers 110 ha, and at its peak employed over 20,000 workers. It had its own education, health and sports facilities.

1989 brings this situation to a sharp end. The company loses its external markets, largely due to the collapse of COMECON – the trade block of the socialist countries. The domestic market shrinks due to the economic crisis of the transition, and is invaded by foreign competitors. The company recorded chronic losses ever since.

In spite of the lack of investment, some of the workshops remain competitive. The company has succeeded to develop its own Euro 2 compatible engine. It faces an uphill struggle nevertheless: it had to cease the production of large road haulage carriers (TIR) because it is unable to provide international service; its truck division works at only 35% of capacity; and the truck industry as a whole is facing global overcapacity. Most of the revenues come now from spare parts.

Government hurdles

The close relationship with the owner, the government, did not bring many advantages. The development of any new product has to pass through the vetting of the bureaucrats of the Industry Ministry. The company complains heavily about the de-capitalization: the lack of working capital prevents it to honor whatever contracts it might receive.

Public procurement orders have been few, and the payment slow. In addition, Roman is in a sort of catch 22 situation: its debts (mainly tax back-payments) prevent it to bid in public tenders, what means there is no way they could re-pay the debts. Moreover, they did not find ways to supply the apparently large demand in the former Soviet Union because of the difficulty of integrating the money in the bank system.

The custom system did not work in the favor of Roman either. In a sort of reversed protectionism, till last year, Roman had to pay VAT and custom duties for the components they imported; on the other hand, foreign producers could use 'external leasing' to avoid paying custom duties for most of the value of the truck.

The willingness of the Romanian government to accept whatever requirements of the EU negotiators hurt the company too. The introduction of the Euro 3 standard as early as 2004 has caught the management unprepared. It is impossible for Roman to develop a compatible engine, what will force the company to import it.

Finally, not well thought out legal provisions create problems. The newly passed privatization law allows state-owned companies to transfer away social facilities (e.g. heating systems, or kindergartens etc.), but only in the limit of the state's share. While the state property agency (APAPS) owns 93.72% of ROMAN, the company cannot wholly transfer the property rights over facilities of social use to the local council.

Labor force and relations with the unions

From a peak of over 20,000 employees, at the beginning of 2002 the company employed only 8,600. Going even lower however is not possible, since the current staff is essential for maintaining the plant ready to operate⁴.

The company is facing human resources problems. On one hand, it has difficulties in recruiting well-qualified technical staff (e.g. engineers). In addition, the very in-demand sections have to cope with brain drain: once qualified, the computer designer leaves the company, and in most cases the country.

The main cause of the human resource crisis however has been the downsizing policy. All the huge personnel restructuring has been achieved by voluntary redundancy, induced by large severance payments – 15 monthly wages, 12 paid from public funds, and 3 by the company. This method resulted in many good people, who had other opportunities, and did not fear the competition on the labor market, leaving.

The unions have a fearsome reputation at Roman. Their most important leader, Marius Stinghe, is credited with masterminding the storming of the prefecture office in 1997. Trade unions were rather suspicious of any restructuring plans, and resisted anything but voluntary measures. It is a tribute to their force the fact that the company has always paid the wages on time, while accumulating piles of unpaid taxes, and being starved of working capital.

Restructuring and privatization - glare of hope?

Restructuring has not progressed very far with Roman. As a trade union leader accepted, it was conceived more as a social than an economic concern. In an effort to deal with mounting losses, the workforce has been drastically reduced. Little has been achieved however in re-thinking the company and making it viable.

Unlike Tractorul, Roman is still one integrated unit. There are plans to restructure the company, by focusing it on truck manufacturing, and spinning-off the other 9 divisions. These plans have recently been defeated in an employee referendum, but both management and trade union leaders believe this splitting up is unavoidable.

There has been practically no privatization at Roman for the past 12 years. The management complains about the quality of privatization consultants hired by the government. On the other hand, there seem to have been no effort from the management part in identifying privatization partners. Recently there was an expression of interest in the 'hot workshops' from an

⁴ For exemplification, the 'hot workshops' require round the clock staffing.

American producer, which has already made similar investments in Romania. The 'hot workshops' have caused the most headaches (high wages, expensive inputs, high rate of failed outputs), so if the deal goes through the fate of Roman will look less bleak.

Conclusions and recommendations – Look for an integrated development strategy

As long as there will be public funds for social protection, the current status quo might resist, and a social explosion can be averted. The implementation of the minimum income guarantee has showed that Brasov city is not poverty stricken (at least by comparison with other Romanian areas).

On the other hand, buying time and waiting for the problem to wither away is not realistic. It is difficult to see huge industrial complexes like Roman or Tractorul surviving in the present form. Restructuring is unavoidable in the medium term, and this is going to include redundancies.

In order to deal with this situation, the local economy has to be able to absorb the labor force made available. This is not the case for the time being. All available resources are spent for 'social protection' – i.e. maintaining the status quo, bare survival. The situation can be changed if more resources are spent on active measures (e.g. by the Employment Agency), and if more emphasis is given to Brasov in the allocation of development grants.

Anyway, Brasov stakeholders badly need to come together and agree on a development strategy for the city, and lobby the central government for public funds to support it. Whether this development plan should include an airport or the re-located Dracula Park remains to be seen. In any case, large public works are the most realistic solution for giving a boost to the local economy and create the capacity to absorb the workforce made redundant by the restructuring of the communist leftovers.