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Sovereign Debt, Austerity, and Regime Change:

The Case of Nicolae Ceausescu's Romania

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Historically, high sovereign debt and austerity policies have coincided with regime-changing popular uprisings. Nicolae Ceausescu's Romania was no exception. Why, when faced with a sovereign debt crisis in the 1980s, did his regime choose to pay its foreign debt as early as possible, at the cost of economic recession and dramatically compressed consumption? How did these choices relate to the regime's failure to survive the end of the decade? The article argues that while exogenous shocks shattered the economic bases of the regime, it was the ideas with which the regime understood development and interpreted the crisis that shaped government policy responses in the 1980s. When the price of oil and development finance went up abruptly in 1979, the low energy efficiency of Romanian industry pushed the country into a situation where debt levels became unsustainable. Committed to a view of development that blended nationalist and Stalinist ideas, but with a focus on policy sovereignty, Ceausescu diagnosed the crisis as evidence that debt-financed development and policy independence were incompatible. Consequently the regime decided to pay off foreign debt through a mix of austerity, import substitution, and export-led accumulation of dollar reserves. By the time all debt was paid off in 1989, the regime's economic sources of legitimacy were exhausted. In the external environment of 1989, this policy regime change contributed to political regime change even in the absence of an organized civil society. In addition to casting a new light on the causal mechanisms of the Romanian revolution of December 1989, the findings of this article contribute to emerging scholarship that stresses the nexus between debt-induced economic crisis and popular uprisings.

Keywords: *Romania; debt crisis; austerity; Ceausescu; oil shock*

The Puzzle of Romania's Neo-Stalinist Austerity

Rapidly deteriorating changes in the daily lives of citizens tend to cripple the stability of the political order that governs their lives. Since the inception of the

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Greek crisis in 2010, mounting sovereign debt and austerity have emerged as menacing specters of the past for Southern European democracies. The situation was serious enough to prompt the head of the European Commission to wonder aloud whether the Spanish, Portuguese, and Greek political systems could survive popular uprisings sparked by the deprivations accompanying the debt crisis and austerity policies.[1] These fears are not unfounded. According to a recent study covering Europe and Latin America over nearly a century, the link between austerity and regime-threatening popular protest has been historically robust. Crucially, this was the case irrespective of whether the failing regime was democratic or authoritarian.[2] Nominally communist systems, including the most repressive of them, were not spared this historical regularity. As this article shows, the fall of one of Europe's most repressive neo-Stalinist regimes had much to do with the fallout from a debt crisis resolved through harsh austerity measures that affected the basic needs of ordinary people.

In Reinhart and Rogoff's tour de force on financial crises, 1980s Romania appears as an oddity: a country where an authoritarian regime, at great economic and political costs, decided to repay its foreign debt in full and in the span of only a few years.[3] The decision seemed irrational because other developing countries hit by the debt crisis of the early 1980s successfully asked for debt rescheduling and "haircuts" for creditors. Using a constructivist analytical framework that takes economic ideas seriously, this article revisits the Romanian case and finds that from inside the ideological framework used by the Ceausescu regime, this policy shifts appears to be more rational.

The findings confirm the value of previous literature on the importance of economic ideas for economic policy change following economic shocks.[4] The study shows how in a situation of systemic uncertainty generated by the sharp uptick in the price of oil and development finance, the regime's preexisting ideas about economic development led to a policy turn emphasizing austerity and disengagement with international finance. More specifically, the oil shocks of the 1970s and the attendant macroeconomic crisis of Euro-Atlantic capitalist core created the conditions for a debt crisis in developing countries like Romania. The Ceausescu regime choice to pay its sovereign debt in full (in lieu of defaulting or vying for more favorable debt restructuring terms) depended on the particular ideas the regime used to define development. As these ideas stressed continuing industrialization and unencumbered policy sovereignty, Ceausescu's response to the debt crisis was defined by a harsh austerity package layered with a sudden turn to an incoherent policy mix of import substitution, export promotion, and disengagement with Western finance capital.

The case of Romania during the 1980s is also interesting for the literature on the end of "real existing socialism." The standard narrative of 1989 is that favorable external conditions (the special role of Gorbachev and Poland, Hungary's opening of the border with Austria) and its repercussions in Central Europe played a decisive role in ending East European socialism at a time when economic underperformance,