Old Wine in New Bottles? New Parties and Policy Responses to the Great Financial Crisis in the Balkans

ABSTRACT Across the post-communist region, new parties are gaining support from voters by promising to reject the status quo and orthodox policy. Some have come to govern on the basis of such promises and their “outsider” identity. But do these new parties actually make different post-crisis policy once they are in government? This paper compares policies adopted to address economic crisis in Bulgaria and Romania. Both governments pursue a standard set of austerity measures, but the Bulgarian government was able to take a more aggressive stance for a much longer time before losing support due to its outsider image. KEYWORDS new parties, populism, economic policy, crisis

1. DO NEW PARTIES MAKE DIFFERENT POST-CRISIS POLICY THAN OLD PARTIES?
Recent studies have suggested that voters give their support to new political parties because of their disappointment with all available mainstream options and the policies they have pursued (Lucardie, 2000; Pop-Eleches, 2010; Sikk, 2012; Tavits, 2008). For example, in recent elections in Poland (2015), Hungary (2010), the Czech Republic (2017), and Bulgaria (2009, 2013, 2014, 2017), voters seemingly rejected policy options that were viewed as part of the status quo or orthodoxy of policy making. This perceived status quo has often been critiqued as “liberal,” “neoliberal,” or “globalist” and part of a broader dynamic of depriving “us”—the national dispossessed—by outsiders imposing values that are not compatible or in line with local preferences. The appearance of such parties and their ability to gain enough support to govern in some countries has raised the prospect of a change in policy making that could have wide-reaching impacts such as undermining the European Union or more broadly threatening the basic institutions that support the postwar order.

Throughout this paper I adopt the label “new parties” in keeping with the extant literature. New parties are worth investigating for two reasons. In several post-communist countries, parties, like the Czech Republic’s Ano and Bulgaria’s GERB, have had electoral success. And beyond the region, Greece’s Syriza and Donald Trump’s impact on the US Republican Party are examples of a similar dynamic. Beyond their impact in government, either alone or in coalition, the emergence of new parties has a second important effect: it

1. Others have created even smaller subcategories such as “unorthodox parties” (Pop-Eleches, 2010); Sikk draws a distinction between new party vehicles created by established politicians and “genuinely new parties” (Sikk, 2005). However, I am interested here in the broadest distinction between new parties and established parties.
has put existing parties on notice that voter preferences may be shifting (Häusermann & Kriesi, 2015; Van der Brug, 2010). Politicians have frequently tried to adapt to the threat by adopting new strategies and rhetoric in an attempt to head off threats from outsiders as shown by the shifts to the right by FIDESZ in Hungary and Robert Fico’s offshoot Direction-Social Democracy (SMER-SD).

Of course, interest in such parties and movements is ultimately motivated by a concern with the kinds of policies they will pursue when they are in power. They frequently campaign on broad promises to fight corruption, roll back globalization, refuse what are seen as unjust lending terms from international institutions that were accepted by previous governments, and renegotiate international treaties to make trade and the economy “fair” again. For example, a day after winning the 2009 election, the leader of Bulgaria’s GERB, said, “Everything that harms Bulgarian society will be revised. . . . It is high time to hold someone liable” (2009). Jaroslaw Kaczyński, party leader of Poland’s Law and Justice Party, has said, “We will not be a colony” and proposed to sharply revise legal and economic relations with the EU and the rest of the world (Crawshaw, 2016).

All in all, these parties frequently present ambitious and radical agendas of reform. Particularly when it comes to responding to crisis, new outsider parties often assign explicit blame for the crisis to the orthodox policies pursued by incumbents. In the case of post-communist Europe, migrants, Westerners, and multinationals are the frequent targets of such rhetoric.

A key question then is: What do these parties actually do when they are in power? Do they stick to their promises to break with the orthodoxy, or are their policies ultimately quite similar to those of more-established, mainstream parties? The specific question this paper takes up, in an era when new outside parties and movements are gaining popularity not just in the post-communist region but also in Western Europe and the United States, is whether such parties do, in fact, deviate from the package of reforms pursued by established political parties in response to crisis. Can they actually reject what they have identified as the mistaken policies of incumbent governments, or are the pressures of global economy such that they ultimately find their room to maneuver outside commonly accepted boundaries is quite limited?

Post-communist politics offers a convenient opportunity to explore this issue because of the coincidence of the so-called Great Financial Crisis of 2007–09, which had fairly simultaneous impact across the region, and the emergence of many such parties in what Pop-Eleches (2010) calls third-generation elections. As Pop-Eleches points out, voters disillusioned with existing parties have allowed new or outside parties to increase their vote-share in several post-communist countries. The Great Financial Crisis offers a special opportunity because reforms with similar content were crafted across the region to address its impact. This permits an exploration of the actual responses to a crisis that developed in similar ways across the region. In order to obtain a fine-grained understanding of the process by which such parties govern, I carry out a comparison of two extreme cases (Lieberman, 2005; 2006).

2. By “radical” here, I mean simply that their proposals reject some status quo and propose to significantly alter the rules of the game.
Seawright & Gerring, 2008)—both countries that were deeply affected by the crisis where the effects were so severe and the room to maneuver so limited that policy options would be quite limited. One of the pair, Bulgaria, was the only post-communist country at the time governed by a new party, whereas the other, Romania, was led by a series of governments formed out of mainstream parties.

2. PLAN OF THE PAPER
The paper proceeds as follows. The next section will discuss how scholars typically conceive of crisis, the impact of crises on politics, and different ways of conceptualizing reform as a response to crisis. In section 4, I offer a distinction between different types of political parties that will be helpful in carrying out the comparison. Instead of limiting the discussion to a comparison of different types of individual parties, I also discuss the role of these governing parties within the party system of each country. This places the emergence of outside parties in the context of post-communist party development and permits a broader understanding of the role of outside parties. Section 5 discusses the impact of the crisis on the Balkans and describes the policy responses chosen by each country’s government. The very different popular reactions to austerity measures are discussed in section 6. In short, Bulgaria’s populist leader was able to undertake arguably more-aggressive measures for a longer time with much less popular resistance while Romania was gripped by crippling protests. I discuss alternative explanations in section 7 and conclude in sections 8 and 9 that the comparison of Bulgaria and Romania shows us how the parties can use their popular image as outsiders to push through orthodox reforms without generating the same kind of rapid popular opposition faced by insiders. While Romania’s government found itself in front of paralyzing protests, Bulgaria’s GERB government was able to pursue policy responses to the crisis with much less opposition for a much longer period.

3. COMMON UNDERSTANDINGS OF CRISIS
According to economists, financial crises have two key effects of (1) rising unemployment and (2) cuts in social services caused by declining economic performance, declining tax revenue, and cuts in government budgets.

An impact of the first two is often (3) political instability, or shifts in the party system fueled by the emergence of new politicians riding a wave of discontent with the established elite. At the very least, crises generate calls for new approaches and the replacement of politicians who have undertaken unpopular policies.

This third set of impacts is the focus here. A large body of research is helpful in developing expectations about the impacts of crisis. Financial crises of all types (banking, currency, inflation, and debt crises) are generally seen as disturbing the existing political equilibrium, because they bring sustained declines in employment and output (Reinhart & Rogoff, 2009). While Reinhart and Rogoff focus on the impact of economic shocks, Mian, Sufi, and Trebbi (Mian et al., 2010) argue that the difficulty in responding to such crises is largely due to the politics that result. For example, they find that crises polarize voters, weaken government coalitions, empower opposition coalitions, and fragment parties. Crises also send voters more deeply into the trenches to defend their interests. As inequality increases, reform
gridlock is more likely. Thus, social polarization naturally decreases the likelihood of reform (Mian et al., 2010) and effective government response (Garrett, 1998; Gourevitch, 1986; MacIntyre, 1998).

We commonly expect that crisis leads to political instability and undermines the response to crisis, particularly when the response imposes hardship (Haggard, 2000). This effect should be stronger in a country with poorer economic conditions and institutions, such as Bulgaria’s currency board, that make it more difficult to pursue stimulus (Blanco & Grier, 2008). In the post-communist area, earlier periods of party factionalization, broad coalitions, polarization, and poor macroeconomic conditions have also had a negative impact on reform (Bielasiak, 2005; Fish, 1997; Frye, 2010; Pacek, 1994).

Given the enormity of the financial crisis, it is not surprising that it raised deep questions about existing policy, the economic model, and dominant political parties. In other words, exogenous economic shocks like the financial crisis could be expected to reshape the party system and bring about fundamental changes in policy. Specifically, we might hypothesize that such disruptions would allow political entrepreneurs to experiment with policies that deviate significantly from the status quo ante and avoid some of the political obstacles discussed above.

Said another way, we might also hypothesize that the identity of reformers and the rhetorical opportunities that identity affords can have a strong determining effect on the policies that can be deployed. Thus, because of their identity as outsiders, newcomers might have license to deviate from policies identified with mainstream parties and incumbents. Alternatively, they may be able to pursue more aggressive policies because economic crisis creates an opportunity for new political actors to frame themselves as saviors, cleaning up the mistakes of the past (Boin et al., 2008).

To what extent new parties will actually be able to pursue the strategies they outline is an open question. On one hand, a long tradition of work exploring the interaction between an increasingly globalized capitalism and domestic policy making would predict that newcomers will not, in fact, be able to deviate from accepted policies (Garrett, 1998). Nevertheless, the emergence of popular new parties, many with a populist profile, demands that we revisit this set of questions. Both the popular and scholarly literature on the rise of populist and new parties suggests they enter the policy space to serve segments of the population not being represented or policy demands not being met (Sikk, 2005; Sik, 2012; Tavits, 2008). Specifically, one key reason that populism commands scholarly attention is precisely that such parties claim they will reject the unquestioned “rules” of the postwar economic order and pursue a radical departure from accepted economic orthodoxy. To what extent this is true and possible is a pressing question on which academic research can shed light.

Before comparing the actual policy responses to crisis implemented by different kinds of parties, I briefly discuss explanations for what actually motivates governments to react to crisis. Economic crises like the crisis that began in 2007 are distinct from crisis as a rhetorical device—the idea that some set of longstanding issues facing a country can be addressed by the strategies proposed by the program of a particular political party. The crisis of American healthcare has a different urgency than the crisis of unemployment doubling in Bulgaria in a roughly two-year period between 2008 and 2010. Increasing innovativeness, though a key
obstacle to long-term growth, is less pressing than the kind of imminently dangerous crisis presented by a recession. The immediacy of the latter forces governments to act in response to popular and widespread cries for help.

This is in line with the way that crisis is conceptualized by scholars. A key argument is advanced by Akerlof (1991), who argues that crisis may increase the salience of reform. As a result, what had previously been unconvincing arguments take on new meaning in the context of such pressing economic deterioration. Further, crisis, especially when it is severe, breaks down the possibility of obstructing reform, thus providing an opportunity to political entrepreneurs to innovate (Drazen & Grilli, 1993; Williamson, 1994, cited in Pop-Eleches, 2008). Olson (1982), for example, argues that severe crisis can disrupt the pattern of interests that have blocked reform until that point. Crises, it is argued, “can help create a societal consensus in favor of reforms while weakening the economic and political benefits of previous rent-seeking activities”.

Crisis may “unblock” reform by raising the costs of inaction, but one might still expect variation in the responses of different governments. Drazen and Easterly explain that different kinds of crises (inflation, current account, fiscal and growth) generate different levels of response. Most relevant in the context of the crisis that began in 2007, they find that fiscal and growth crises tend to prompt the most varying and often the lowest level of reform (Drazen & Easterly, 2001).

4. “OLD” AND “NEW” PARTIES

To distinguish between different party types here requires some discussion of the category “new parties” as opposed to what I have called “established parties.” My purpose is not to construct a complete typology of political parties like that offered by Gunther and Diamond (2003) because that goes beyond the requirements of the current project. The distinction necessary for this research can collapse many of the categories available in the literature to draw a line between two broadly different forms of political organization—established mainstream parties and what Sikk calls parties based on “the project of newness”—so as to observe whether they govern differently in post-crisis periods.

A brief overview of the various approaches to classifying new parties is warranted. Tavits (2008) states simply that a new party is a party that results from a split with an existing party or is “genuinely new” because it is established without the support of any existing parties. Similarly, Hug (2001) defines new parties as “genuinely new organization[s]” that appoint candidates to a general election for the first time. Barnea and Rahat (2011) develop a much broader three-part framework that identifies newness based on (i) the party’s interface with the electorate (does it have a new label, ideology, and voter base?), (2) the party’s status as an organization (does it have a new registration, institutional separation, and new activists?), and (3) the party in government (does it have new candidates and new policies?). Their approach has the benefit of sophistication and draws attention to numerous dimensions of newness.

Less relevant in identifying new parties is Hug’s argument about the factors that lead such parties to emerge. However, Hug’s approach to new party emergence is useful in that he suggests new parties are motivated by the strategic desire of elites to win seats and are able to do so because “new issues become more important.” Specifically, new parties develop
where established parties fail to address new issues that are emerging (Hug, 2001). Tavits (2008) similarly proposes that “institutional costs of launching a party and winning a seat are low, when the potential benefits of holding a political office are high and when parties in the system have not yet established reputations for electoral viability” but adds a role for voters. Specifically, she argues, “the electoral success of new parties depends on the extent of voter disappointment—both in terms of poor representation and poor performance—with the existing parties.”

Sikk, Tavits, and Hug all suggest, in different ways, that new entrants will likely pursue policies that differentiate them from established parties. Regardless which of these arguments is correct in explaining the emergence of new parties, they all point to the expectation that new parties will pursue distinct policy goals because that is why they are successful in gaining seats in the first place.

How should we classify the parties in power in the two cases under study? Are they old or new parties? Throughout the period under consideration, 2007–12, Romania’s governments were formed with the support of a broad coalitions. Emil Boc’s Liberal Democratic–led coalition was a centrist coalition of “governing parties”—the Democratic Liberal Party (PD-L) and the Social Democratic Party (PSD). Boc’s first government fell in October 2009 and was replaced by a second Boc government with the support of the PD-L and the Democratic Union of Hungarians in Romania (UDMR). Boc’s second government fell again to a vote of no confidence in February 2012 and was replaced by a government formed by Mihai Razvan Ungureanu. This government had the support of the PD-L, UDMR, and National Union for the Progress of Romania (UNPR), a party of independents who split away from the PSD and the National Liberal Party (PNL). As either mainstays of the post-communist political scene dating back to 1990 (PSD, PNL, and UDMR) or reconfigurations of such parties (PD-L and UNPR), none of these parties fit the definition of a new party.

GERB, by contrast, emerged as a center-right reformist party in 2006—it sold itself as a “new solutions” type of party led by a relative newcomer to the political scene, Boyko Borisov. Borisov had been a firefighter, lecturer at the National Police Academy, and chief secretary at the Ministry of the Interior under Simeon II before running for his first elected position as mayor of the capital city, Sofia. After serving as mayor, Borisov founded GERB, which closely fit the mold of a populist party claiming that it would embark on a program of reform, embraced a nationalist message, and viewed as corrupt all social structures emanating from state socialism and the communist party. While Boc’s Liberal Democrats embraced an ideological program defined by the center-right, including certain kinds of economic reforms, GERB followed the typical populist formula of being ideologically devoid of programs other than advocating for deep systemic change. In the next section, I will discuss how they actually governed and addressed the economic crisis in their respective countries.

5. CRISIS AND REFORM POLICY IN ROMANIA AND BULGARIA

Comparing Romanian and Bulgarian policy choices in the wake of the Great Financial Crisis provides an opportunity to reconsider our understanding of the policy options available to governments in periods of crisis and the factors that determine the behavior of different
types of parties. These two cases in particular make for an interesting comparison because they were the last countries to join the European Union in 2007, just as the global economic downturn was beginning to unfold in the United States. They were also economically and politically the least stable of the former communist countries to be admitted to the union. Institutional reforms in these two countries had progressed much less when compared with Central European countries like Poland, Hungary, and the Czech Republic as shown in EBRD indicators commonly used to assess institutional development. In fact, they were still plagued by corruption and poor functioning of basic government institutions such as the judiciary. Yet, they fared better in the crisis than one would have expected in 2008 (Sanfer, 2010) although Romania experienced a deeper and more prolonged decline than Bulgaria (Bartlett & Prica, 2012). However, their experiences of the crisis—both how the public reacted to their policies and how governing in that period affected their future popularity—were remarkably different.

In both countries, governments undertook unpopular policies such as austerity-oriented budget cuts to address the crisis. However, Boc’s coalitions and Borisov’s government had come to power on the basis of very different proposals. While Romania’s governing coalition had campaigned on a series of defined economic policy proposals, Bulgaria’s Borisov came to power with an ill-defined reform agenda focused on anti-corruption promises and broad calls for reform. Frustration with corrupt elites and disillusionment with incumbents was high in both countries, but only Borisov’s party could credibly claim to be fighting it because of his and his party’s identity.

Voters were seemingly more patient in Bulgaria although both GERB and Romania’s governing coalition faced large street protests. However, in the case of Bulgaria, because GERB continued to present itself as a protest party, popular objections were more limited despite the measures in both countries being harsh. GERB’s ability to retain the image of anti-system reformers, largely due to Borisov’s presentation as a “man of the people,” was crucial in getting the party a second mandate, a first in post-communist Bulgaria.³ Borisov’s ability to maintain his image as an outside player also weakened potential challengers to the GERB government.

Before proceeding, I should address any potential alternative factors that might explain the different experience of these two countries. On most relevant institutional factors, they are comparable. They both have semi-presidential systems although Bulgaria has a unitary chamber of parliament whereas Romania has both an upper and lower house. They both ranked similarly on common measures of institutional reform and corruption (Romania slightly better on the latter). Perhaps the most relevant institutional difference in the cases under comparison is the nature of the central bank and monetary policy making. Central banking is relevant because governments can address crises by (1) cutting government spending, (2) raising taxes, or (3) pursuing an inflationary monetary policy. The first two paths are commonly referred to as austerity. The more policy-making ability and prestige awarded the

³ Borisov ultimately was unable to form a government with the support of other parties and stepped into the opposition. Nevertheless, GERB received 32.7% of the vote and 84 of 240 seats, more than twice the number of the second-place left Coalition for Bulgaria.
Central Bank, the more likely monetary policy can also be used to address the crisis. By contrast, if monetary policy is rule driven, as in the case of a currency board or other mechanistic solution to monetary policy making, then this is not an option. It is also more difficult to blame the government for monetary policy over which it has no discretion.

At the level of economic conditions, political instability should be greater in Bulgaria than in Romania as the former was economically worse off. One might also expect Bulgaria to be disadvantaged at the level of institutions, particularly because it adopted a currency board in the early 1990s, which tied the hands of policy makers with regard to monetary policy and thus reduced the tools available for stimulus. Given the disadvantages that Bulgaria faced, we might expect it to have taken a less determined and softer route in responding to the crisis. The comparison of these two cases, however, shows the opposite to be true.

One final factor worth exploring is the nature of the coalitions in government and vulnerability to popular backlash. One might argue that weaker coalition governments are more likely to encounter opposition to their programs than parties governing alone. With regard to the two cases under consideration here, Bulgaria’s GERB received 40% of the vote in 2009 and governed alone instead of forming a coalition. Two elements are important in understanding why the nature of the coalition alone is not sufficient to explain the difference between these two countries. First, GERB’s electoral success was itself due to its anti-system reputation and Borisov’s popular support as an outsider who would clean up the government. Second, Borisov’s government was not immune to protest indefinitely and ultimately fell in 2013 because of massive nationwide protests against monopolism in the energy sector that was causing high prices. This alone shows that citizens were willing to be very patient with Borisov’s government when it proposed bitter-pill austerity policies but were also ready to revoke that support when presented with policies viewed as unjust. It is worth noting, however, that GERB was the first party in Bulgarian post-communist history to receive two consecutive mandates. Although the government fell because of its policies in 2013, it was reelected shortly thereafter.

The rest of this paper builds on this argument to explain the surprising difference between the two countries. I emphasize the role of Bulgaria’s populist leader, Boyko Borisov. By populist, I am referring to parties that are rhetorically reformist, anti-establishment, and anti-corruption without having a precise political agenda or platform (Mudde, 2004).

In the pages that follow, I compare policies pursued in the two countries and the timing of the introduction of those policies and differences in the rhetoric used to present policies that, if anything, should have made Bulgaria more prone to political instability. If GERB’s outsider image was not sufficient to determine that it would pursue unconventional policies, then the potential for backlash should have been. Contrary to expectations, however, the policies pursued to address the crisis caused the development of a prolonged political crisis in Romania while the Bulgarian government took advantage of the crisis to push through

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4. Although definitional questions are not so relevant here because of the sharp contrast between Romanian and Bulgarian political parties at this time, for the sake of clarity I adopt Mudde’s definition of populism as “a thin-centered ideology that considers society to be ultimately separated into two homogenous and antagonistic groups, ‘the pure people’ versus ‘the corrupt elite,’ and which argues that politics should be an expression of the volonté générale (general will) of the people” (Mudde 2004, p. 543).
austerity measures that met with relatively little opposition and seemed to reinforce the position of the ruling party. In Romania, frustration with President Băsescu’s regime perpetuated a long pattern of political instability. However, the fall of governments during the crisis was different from earlier political upheavals because it was largely related to the crisis and economic policies pursued by the governments in power after the 2009 elections. President Băsescu’s framing of austerity policy and negotiations with the IMF generated mass political opposition, including an impeachment vote in July 2012 that delivered a resounding vote against Băsescu but was invalid because the electorate failed to turn out to vote in sufficient numbers. The impeachment vote captured well the state of public sentiment in a country seemingly split between those furious enough to go to the polls and those too withdrawn to participate. It provides a strong contrast to the state of politics in Romania’s southern neighbor.

In Bulgaria, the crisis instead provided an opportunity for a party seeking to take on the mantle of radical reformers who were not beholden to politics and were willing to pursue painful policies that would generate long-term benefits. The cuts pursued by the new government, early on associated with the aggressive finance minister Simeon Djankov, were carefully explained to the public. Ultimately, the measures pursued in these two countries were not significantly different. However, the cuts were implemented faster in Bulgaria, and the government’s measures reduced government spending more than in Romania. Their reception also differed sharply in that the government had been elected with a mandate to reduce corruption and boost the economy out of the crisis. Its aggressive pursuit of austerity measures, which increased confidence in the Bulgarian economy abroad, also raised support for government domestically to the highest levels of any Bulgarian government since 1989 (Parkinson, 2009). Thus, policy response, popular response, and, consequently, government stability differed between the two countries. The measures enacted in each country are summarized in table 1.

As I have already argued, this outcome cannot be explained with reference to institutions and economic conditions alone. Instead, I argue, we get a great deal of leverage by considering that economic crisis creates opportunity for new political actors to frame their role in responding to the crisis (Boin et al., 2008). This does not, however, mean that new political actors will actually depart from accepted policy formulas. As we will see in the comparison here, the crisis allowed newcomers in Bulgaria, elected based on their image as outsiders coming to clean up government, to take a more aggressive approach to the crisis and weather the reaction longer than their established counterparts in Romania.

Second is the issue of timing of policy presentation in countries that experience economic downturns more deeply because they have fallen behind on making economic and political reforms. Is this lagging behind a handicap or an opportunity? While it is true that lags in reform can be less evident in boom times and more punishing in downturns, in this paper I present episodes in which such lags also can provide the stimulus, opportunity, and tolerance for more aggressive reformers when their policies are framed in a way that convinces publics to tighten their belts instead of taking them off to whip incumbents. Said another way, crisis creates opportunities for agenda setting that some governments are able to harness whereas others fail (Birkland, 2006; Campos et al., 2012; Keeler, 1993).
<table>
<thead>
<tr>
<th>Year</th>
<th>Romania</th>
<th>Bulgaria</th>
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| 2009 | • Planned cuts to social and welfare programs  
• Planned increase in social contributions  
• Initial cuts lead to widespread protests across the country and eventual fall of government. | • Government passes austerity budget for 2010  
• 43% rise in tax on cigarettes  
• 2% cut in social security payments  
• Freeze of minimum wage and pensions  
• 24% cut in hospital budget  
• 16% overall cut in healthcare spending  
• Public sector wage freeze  
• Social security contributions raised by 1.8%  
• Public sector wage and spending cuts result in one-third of all municipalities facing bankruptcy. |
| 2010 | • 25% reduction of public sector wages  
• 15% reduction of social benefits  
• 15% reduction in pensions (ruled unconstitutional by Supreme Court and not implemented)  
• Increase in women’s pension contribution years to 35 years and retirement age to 63  
• Increase in pension contribution rate  
• Increase in VAT from 19% to 24% | |
| 2011 | • Retirement age increased with immediate effect in January 2012  
• Increase in retirement age to 65 for men and 63 for women  
• Increase in pension contribution years to 40 years for men and 37 for women  
• State farm subsidies and state railway budget cut  
• Austerity budget for 2012 passed | |

Source: PSIRU Cuts Watch, November 2011.
While considering the role of institutions, economic conditions, and also histories of political instability, I concentrate on the way that each party was able to present its response to the crisis and its role in tackling it. The identity of the party is important here because the crisis coincided with a growing fatigue in South-Eastern Europe with political elites and corruption (Kopecky & Mudde, 2003; Rupnik, 2007). The crisis, thus, presents an opportunity to observe the conditions under which elites are able to obtain public support when presenting new and painful policy measures with the promise of rewards, such as renewed growth, down the road.

The financial crisis and subsequent sovereign debt crisis was like an earthquake followed by a tsunami, first catching countries under the weight of declining demand and investment from abroad and then reinforcing this effect by decreasing the ability of states to borrow as investors worried about repayment in light of decreasing tax revenues. The effects of the crisis were felt through a variety of channels as seen in the fact that Romania experienced a steep 5.3% decline in GDP between 2008 and 2009 while Bulgaria experienced a sharp 3.6% decline (IMF). Both also experienced reductions of nearly two-thirds in foreign direct investment after the crisis started in 2007 (World Bank). And demand for their exports fell rapidly in 2009 although it had increased again to nearly 2008 levels by 2010 (WTO). Reductions in GDP decreased tax revenue and eventually forced governments to impose austerity measures, particularly as skittish bond markets reduced the country’s ability to borrow while both EU and IMF pressure held them to tight fiscal policies. In both countries, these policies imposed pain on citizens with public sector employees and pensioners particularly affected. Although the crisis was not as severe or as long lived as in some countries, the above figures represent serious impacts on the economy.

Economic conditions before the crisis were also not exactly the same in both countries. Basic macroeconomic indicators such as GDP growth, unemployment, and accumulated debt for the decade beginning in 2000 suggest that Romania was in a much better position when the crisis began. Romanian GDP growth slightly outpaced that of Bulgaria between 2000 and 2008 (IMF). For the whole period 2000–11, which includes the contractionary years of the crisis, both countries had similar average rates of growth. Throughout this period, Bulgaria had a tiny budgetary surplus (0.7% averaged between 2000 and 2008) while Romania ran deficits slightly higher (−2.8%) than the euro area average (−1.9%) (Eurostat). However, unemployment rates were much higher in Bulgaria, averaging 13.1% between 2000 and 2008 compared to 7.1% in Romania (IMF). Gross government debt was also higher in Bulgaria, averaging 41.2% of GDP compared to Romania’s 20.7% for the period 2000–08 (IMF). Although neither country was in an enviable position, it is fair to say that Bulgaria’s indicators were notably worse.

5. As discussed below, increases in spending caused government debt after 2008 to rise quickly in Romania and the deficit ballooned in 2009 to 9% of GDP compared to Bulgaria’s 4.3% (Eurostat). Bulgaria had also addressed the excessive debt of the early 2000s, and general government gross debt was 14.6% of GDP compared to Romania’s 25.6% (Eurostat). Both, however, were significantly lower than the euro area average (80%) and the levels of some other post-communist countries.
Figure 1 shows how Bulgaria and Romania fared on merchandise exports. One can see a sharp decline in exports for both countries. Bulgaria suffered the second deepest decline in the region when compared to 2006. Comparing the two countries, Bulgaria’s decline in exports was much larger than Romania’s. However, Romania experienced a slightly greater decline in GDP during the single year, 2009, in which both economies contracted, as shown in figure 2. Romania also took a year longer to return to positive growth than Bulgaria, although the latter’s economy grew only marginally in 2010.

Figure 3 shows how the two fared on unemployment, which was much lower in Romania from the beginning of the crisis than the post-communist average and the EU-27 average. Bulgaria, by comparison, had much higher unemployment than Romania and slightly higher than the EU average. Unemployment in particular rose much more sharply in Bulgaria than it did in Romania between 2008 and 2011, breaking 10% in 2010.

These figures suggest that Bulgaria would have much less leverage to impose painful measures on a populace that had been suffering from poor economic performance for most of the period of post-communist transformation and was in an even more precarious position during and after the crisis.

Yet, quite the opposite is true. The two countries responded to the challenges of the crisis with punishing measures aimed at reducing the public budget. As seen in table 1, which shows the key measures implemented by year, the pace and approach to policy making was faster in Bulgaria. Figure 4 shows reductions in government expenditure, which captures well the effects and severity of the government’s response to the crisis. As seen in figure 4, Bulgaria experienced a quite dramatic decline in government spending as a percentage of GDP between 2009 and 2011 when compared to Romania. In fact, Bulgaria had the sharpest decline of any regional country except the Baltic States.
FIGURE 2. Real GDP growth rate (percent change on previous year).
Source: IMF.

FIGURE 3. Unemployment rate, annual average (%).
Source: Eurostat.
This difference in response is surprising given the severity of the crisis in both countries. Throughout this process, both countries faced serious pressure from the European Union to carry out reforms. In Romania, this pressure was part of the joint EU/IMF financial assistance program established in May 2009 (European Commission, 2012).

Romania took the approach of addressing the crisis initially by planning to stimulate the economy with spending. This plan, however, was abandoned as declining economic growth and a weak private sector led to a rapid growth of public debt and mounting pressure from the IMF to cut public spending. It was, in fact, Romania’s delayed response early in the crisis that quickly worsened its position relative to Bulgaria. Bulgaria’s ruling coalition, by contrast, went on the offensive, aggressively cutting public wages, downsizing the public sector, and reforming the tax system. Below I discuss the measures taken in each country.

5.1. Romania

The impact of the global economic crisis had an extreme adverse effect upon economic conditions in Romania; in 2009, unemployment and the budget deficit increased (to 7.8% and 8%, respectively). In response to the crisis, the Romanian government initially planned for stimulus directed primarily at the development of infrastructure, but economic conditions and the rising budget deficit and public debt forced it to abandon this plan and turn to spending cuts. Increases in public spending led to a doubling of public debt in 2009 and 2010 to 25% of GDP. It was ultimately these conditions that forced the Romanian government to appeal to the International Monetary Fund for a loan. A loan for 20 billion euro, approved in May 2009, was conditional upon Romania’s ability to create a structurally balanced budget by 2014, and installments of this loan were delayed twice by internal political crisis.
The 2009 austerity package was primarily defined by planned cuts to social welfare programs and increases of social contributions (see table 1). After the passage of the first austerity package, Romania experienced a severe political crisis. In October 2009, two months before the presidential elections, parliament elected to dissolve the government. The replacement designated by the president failed to win a majority in a vote of confidence, and the interim government was too weak to enact any meaningful measures. The presidential election in December 2009 was extremely close, with the incumbent President Băsescu emerging victorious only after an outpouring of crucial support from Romanian voters abroad. The loss of the national vote itself possibly delegitimized the regime in the eyes of many voters, making the passage of a second austerity package in May 2010 a more significant event.

The second package included a 15% cut to all social transfers and 25% cuts in public sector salaries (including an approximate loss of 70,000 public sector jobs in 2010). Both packages were entirely based upon cuts with no tax increases apart from the significant increase of VAT from 19% to 24% (European Affairs, 2011).

The VAT increase and public spending cuts affected pensions, healthcare, spending on security, and taxation of business and industry.

**Pensions** In November 2010 Romania increased the retirement age for men and women to 64 and 60, respectively. The same amendment decreased the amount of work-years required to start earning a pension from 35 to 30. Public pensions in Romania accounted for nearly 25% of government spending in 2009 and 2010, equal to about 9.7% of GDP. Public spending on pensions had exploded in the 1990s and early 2000s due to the government’s tendency to treat the pensioner voting demographic as essential to staying in power. To address this, workers under 35 had held mandatory private pensions since 2007 and the system was being expanded. As a consequence, public pensions became unsustainable as the number of contributing employees dropped from 8.1 million in 1991 to 4.5 million in 2010. In addition, the number of disabled pensioners rose from 208,000 in 1990 to over 300,000 in 2009 and 2010. Despite these demographic trends, President Băsescu publicly remarked that in 2012 there should be no further cuts to public spending earmarked for pensions and hence no further reforms.

**Healthcare** Nurses and other healthcare personnel experienced a 25% cut to their salaries due to austerity measures. The budget for the health ministry in August 2010 stood at 3.6% of GDP, less than half of Britain’s and a third of Germany’s. Since 2007 over 5,000 doctors—one in 10—have left Romania for Western Europe, where earnings can be 10 times higher. The decreasing quality and efforts to cut the state budget by privatizing healthcare were key factors in the falling popularity of the Romanian government. In 2012 President Băsescu entered into a direct conflict with an undersecretary of Health, Raed Arafat, over a plan to privatize the health service that had been drafted with little public consultation and stood to create a highly lucrative private insurance and healthcare provision sector estimated to be worth 6 billion euro (BBC News, 2012; Kulish, 2012; Presseurop, 2012). After Arafat’s resignation in protest in January 2012, which set off national demonstrations, the government modified the plan. The plan to privatize...
healthcare as part of austerity measures was seen as the final straw that brought down Emil Boc’s government.

**Security Forces**  As part of the public sector, police forces suffered pay cuts under austerity programs. This manifested itself in several ways, ranging from ambivalence toward public demonstrations to outright participation in them. In September 2010, the country’s interior minister resigned after 6,000 police officers marched to the presidential palace to protest their cut wages. Security forces usually responsible for government officials, including President Băsescu’s security detail, were dismissed in favor of private security paid for by the presidential budget. Additionally, the pensions of over 150,000 military pensioners from the army, police, and secret service, which were paid out of the annual public spending budgets, were cut by 25%.

**Industry/Business** VAT was increased from 19% to 24% in 2010. This increase led some Romanian firms to relocate to neighboring Bulgaria, which had lower corporate tax. After the economic downturn in 2008, over 2,500 Romanian firms moved to Bulgaria and even iconic Romanian firms such as the InterAgro group belonging to magnate Ioan Niculae announced plans in 2010, ultimately rescinded, to relocate (Business Review, 2010).

### 5.2. Bulgaria

Bulgaria’s situation was quite different, and this is noteworthy because nothing about the country’s progress would suggest that its experience of the crisis would be better than its northern neighbor’s. Bulgaria is the poorer southern cousin with high levels of corruption. Since Bulgaria’s accession to the European Union (EU) in January 2007, it has struggled to retain infrastructure subsidies and aid because of poor progress in adopting measures to combat governmental corruption. In June 2007, Bulgaria faced demands by the EU to address the situation, and by March 2008, infrastructure subsidies were frozen due to corruption within the country’s traffic agency. In July 2008, hundreds of millions of euro in EU aid were similarly frozen due to unsatisfactory progress in curbing corruption (BBC News). Half of this aid was permanently removed in September 2008 following a European Commission report that accused Bulgaria’s government of not doing enough to combat organized crime operating within and alongside the government. The loss of aid and the economic downturn, in combination with an energy dispute between Ukraine and Russia that cut supplies to Bulgaria dramatically, led to general public displays of outrage in 2009.

Bulgaria’s approach to austerity was piecemeal compared to Romania’s program. This was in part because Bulgaria’s budget deficit as a percentage of GDP and public debt levels in 2009, once the full effects of the downturn were being felt, were near or below the required EU levels as posed by the Maastricht criteria (3.7% and 14.8% respectively, with required levels being 3% and 60%). Although the situation facing the government was less

6. In his characteristic style, Băsescu began to drive himself to work.
7. This was in part to reduce pressure on its currency board, discussed below, which pegs the Bulgarian lev with the euro.
urgent from this perspective, it nevertheless acted believing that the crisis would further af-

The measures pursued, although not presented as a coherent austerity program, made
deep cuts into the budget. Legislation aimed at reducing the budget deficit to 2.5% of GDP
by 2011 was planned in 2009, including a 10% cut in public sector jobs and salary cuts to all
ministry jobs. By 2011, public spending in the country was cut by 20% across the board and
planned increases to public sector salaries by 10% were frozen. In 2011, cuts were also made
to the state railways and farm subsidies, and the retirement age was increased. Bulgaria also
passed an austerity budget for 2012 that did not include any increases in minimum pensions
and failed to budget funds for a planned minimum-wage increase (2011).

The principal cuts were distributed across the economy as follows:
The public administration, which accounted for about 12% of all public sector jobs, was
hit particularly hard due to the wage and pension freeze. Spending cuts resulted in a loss of
10% for local governments. In 2010 about one-third of all Bulgarian municipalities faced
bankruptcy due to the loss of state subsidies.

The government also pursued retirement reform, which included an increase in retire-
ment age. The age at which one could start receiving a pension was raised in 2011 with im-
mediate effect from 63 to 64 for men and from 60 to 61 for women. An increase in the
amount of time at work would also be gradually phased in.

In late 2011 a proposed austerity budget was passed by Bulgaria’s parliament, aimed at
producing a budget deficit of 1.35% of GDP. The budget was passed with support from the
GERB party and a coalition of independent parties, confirming both that retirement age
would go up for men and women in 2012, and that minimum retirement pensions would
increase. The act, which would increase the retirement age, was vetoed by then President
Parvanov, but passed on a second vote.

6. POPULAR REACTIONS
How did citizens react to these policies? Austerity measures had significantly different po-
litical effects in Romania and Bulgaria. Although the economic situation of the latter was
much worse when the crisis began, there was surprisingly less reaction and opposition.
According to the Eurobarometer (2010), trust in the new Bulgarian government rose dra-
matically and to high levels during the crisis.8 This began to wane as the pain of austerity
persisted, but the government resisted four votes of no confidence during the crisis period
and Borisov was still in power at this writing. In 2012, public opinion polls showed GERB
as the most popular party with 27% of support in opinion polls (Parkinson, 2009).

By contrast, in Romania huge protests erupted that placed the government under great
pressure to resign. Romania was also an outlier in the EU in the level of public support for
economy-boosting measures instead of reductions of public spending (Public Opinion
Monitoring Unit, 2012). As already noted, governments fell in 2009, again after three weeks
of massive protests that included a march in the capital by police in February 2012 and

8. The percentage of the public reporting that they tend not to trust the government dropped from over 70% in
April 2008 to just over 40% in November 2009.
April 2012. President Băsescu also became very unpopular, receiving a resounding defeat in an impeachment vote that failed only because not enough of the populace went to the polls. While political instability has been common in Romania, the fall of governments in Romania during this period was largely related to crisis policies.

6.1. Explaining the Reaction

What explains the different reactions to government policy in each country? An examination of how governments in each country positioned and presented themselves as responding to the crisis is crucial to understanding the different fate of austerity reforms. This section discusses the differences between the presentation of reformers in each country.

Romania throughout this period was governed by fragile coalitions of actors prone to splits and infighting. Over time, President Băsescu’s own grip on power also became weak. In contrast, Bulgaria’s government after the emergence of the GERB coalition enjoyed a much stronger grip on power.

Between 2004 and 2008, Romania was governed by a coalition that emerged in opposition to the Social Democratic Party (PSD) that had, through various mutations, dominated Romanian politics for much of the last two decades. An electoral alliance called the Justice and Truth Alliance (DA) and composed of the Democratic Party (PD) and the National Liberal Party (PNL) emerged in 2003. The priorities of this alliance were in line with the center-right ideology of its members and focused on attracting investment to Romania and empowering private initiatives, fighting corruption, creating a more fiscally responsible social policy, and depoliticizing the judiciary. In 2004, Traian Băsescu was elected president and appointed Călin Popescu-Tăriceanu, head of the PNL, to form a government that resulted in a weak coalition of the PNL, the PD, the Democratic Union of Hungarians in Romania (UDMR), and the Conservative Party (PC). The Truth and Justice Alliance split in 2007 when Tăriceanu excluded the PD from the governing coalition. As a result, the 2008 legislative elections gave birth to a new coalition government composed of the PSD and the Democratic Liberal Party, the latter a union of the PD and the Liberal Democratic Party. The first designated prime minister of this coalition government, Theodor Stolojan, resigned after four days, and President Băsescu nominated Emil Boc, who would govern Romania during the economic crisis. Boc’s government collapsed in October 2009 when the PSD left the coalition. Two failed attempts to form a new government prevented Romania from receiving two installments of a 20 billion euro loan from the EU and the IMF until Boc successfully formed a new government in December 2009, which fell in February 2012 because of protests against austerity measures.

Splits among political elites and weakness in the governing coalition opened a space for popular mobilization by opposition groups in Romania and limited Băsescu’s ability to present himself as a reformer addressing Romania’s economic problems. For example, as early as 2008 the crisis gave rise to new coalitions among institutional actors keen to sidestep existing structures that were seen as inefficient. In particular, tripartite relations were seen as yielding few good policy solutions and preventing Romania from offering competitive conditions to foreign investors. Managers, employers’ organizations, and trade unions were particularly keen to cut out state actors from their deliberations. In contrast to the Bulgarian
case, the crisis provided an opening to opposition groups keen to bring down Băsescu and adopt the role of “reformers.”

These new attempts began in November 2008, when the Employers’ Confederation of Romanian Industry (CONPIROM) hosted a roundtable focused on making Romanian business competitive in the EU given the global financial crisis and resulting recession. The meeting united managers, leaders of employers’ organizations, and, most notably, leaders of the four national trade unions against the government and President Băsescu (Chivu, 2009).

When in September 2010 large protests erupted in Romania in response to austerity cuts, the government was thrown into a defensive stance. These protests quickly developed to include the police and public sector employees who had seen their wages cut. Romania’s interior minister resigned in response and eventually PM Boc followed. Romania’s government collapsed for a second time on 6 February 2012 after protests that erupted in January in opposition to austerity measures. This brought down the Boc government again. And the government of Mihai Ungureanu also fell in April 2012 due to continued popular opposition to austerity cuts.

In contrast, the political impact of the crisis in Bulgaria was much weaker as the government was able to take the stance of guardian of fiscal responsibility. This stance strengthened the hand of the government. GERB was essentially a personalistic party formed by Boyko Borisov, who had been a charismatic chief secretary of the interior minister and later mayor of the capital, Sofia. The party was created in 2006 with Borisov first acting as informal and then official leader in 2010. GERB came to power by securing nearly 40% of the popular vote and 116 of 240 seats in the unicameral parliament, promising to fight corruption, increase energy security, and reinforce family values. Only five seats short of a majority, Borisov shrewdly opted to form a government with his party alone and eschew a potentially unstable coalition. This was possible because Borisov counted on support for his measures from three right-wing parties that entered parliament and could not credibly oppose GERB; siding with the Bulgarian Socialist or Turkish minority parties in opposition would cause them to lose credibility with their voters. Thus, Borisov was able to craftily assemble a government drawing support from parties with nothing to gain from sabotaging GERB but also formally gained nothing from its electoral victory. This approach was a core part of Borisov’s success and allowed him to avoid making concessions and being held up by political infighting. Although GERB’s popularity was lower by 2012 than it was in 2009, support had yet to shift to an alternative party, with almost 35% of disaffected voters claiming they would simply not vote in new elections (Novinite, 2012). Such high rates of voters with no alternative indicates the unchallenged position GERB held as a reform party even among non-supporters. The National Center for the Study of Public Opinion found GERB still had the support of 27% of voters in 2012 compared to 18% supporting the BSP and only 7.5% supporting the subsequently formed movement of the former European commissioner, Meglena Kuneva (Parkinson, 2009).

Bulgaria’s ability to make policy in a coordinated fashion brought political and economic rewards. Bulgaria was the first country in the EU to get a credit rating boost (in December 2011) from Moody’s after the start of the crisis. At the sixth yearly meeting of the Bulgarian
cabinet and businesses, Borisov spoke of the austerity reforms taken up by his finance minister as safeguarding Bulgaria’s fiscal stability, and this message was echoed by Moody’s in its praise of Bulgaria’s approach.

Bulgaria’s past fiscal discipline and GERB cohesion allowed the government to push austerity measures through with minimal protest. Thus in 2010 the Bulgarian government persevered in enacting a pension reform that generated opposition from unions and in parliament because it broke an agreement reached between union leaders and the Bulgarian government struck before the crisis. GERB similarly disregarded an understanding with trade unions struck in 2010 when it decided to raise the retirement age and enact spending cuts. Finance Minister Simeon Djankov, a former World Bank official, insisted that the cuts would be enacted and publicly spoke out about the need for them. Djankov’s tone and determination in carrying out cuts was strikingly harsh. He liked to repeat the phrase “No pain, no gain” to the press (BBC News, 2010). This was typically in line with the reasoning of fiscal responsibility that GERB embraced: making cuts early was more strategic and offered more options than waiting until foreign intervention made them necessary (Konstantinova, 2011). The reforms of 2011 were not even discussed in the tripartite council, prompting the two main unions, Podkrepa and CITUB, to leave the institution (Dimitrova, 2011).

This is not to say that there was no protest. A significant episode erupted in December 2011, but that was not sufficient to stop government policies, even after the government agreed in discussions with unions to delay them. Surprisingly, throughout the crisis, measures taken by the government and Finance Minister Simeon Djankov were perceived, particularly by union leaders, as aggressive, undemocratic, and misconceived, but they were not able to stop the reforms (Dimitrova, 2011).

7. OTHER POSSIBLE FACTORS
Before concluding, I will briefly discuss some alternative explanations. Above I have argued that the dominance of Bulgaria’s GERB government made possible enacting costly and far-reaching but unpopular reforms without generating much of a backlash. Nevertheless, there are possible alternative explanations that should be considered. The key alternative of relevance is that institutional differences are a factor determining the different responses in Bulgaria and Romania. However, as discussed above, the two countries are similar on many institutional dimensions. According to the EBRD, the status of institutional reform in these two countries between 2007 and 2012 is very similar. Transparency International also ranks the two similarly on levels of corruption. The key political institutions of the two countries are also similar. Perhaps the most important institutional difference relevant to the crisis in these two countries lies in the area of monetary policy. Romania’s Central Bank retains discretion over monetary policy, and its governor, Mugur Isărescu, is one of the most respected members of the political elite (2012). By contrast, Bulgaria operates a currency board that binds it in the area of monetary policy because the money supply is fixed and no inflationary

9. It is well known that unions in Bulgaria are weak. Nevertheless, the sidestepping of tripartite negotiations is indicative of the approach that GERB took to pursuing its policies.
monetary measures can be used in response to the crisis. Thus, while Romania could and did undertake monetary policy changes in response to the crisis, the only option available to the Bulgarian government was cutting spending and/or raising taxes. This meant that Bulgaria was only able to take the more immediately painful route of budget cutting without monetary measures. Romania instead steadily dropped its interest rate from 10% in 2008 to 5.25% in March 2012. In other words, this key institutional difference does not help us understand why the Bulgarian government was able to take a more aggressive approach to the crisis. In fact, it made the Bulgarian approach even more painful and less likely to succeed unopposed.

8. EXTENSIONS BEYOND THE BALKANS

And yet, GERB did exactly that, suggesting an important advantage to being able to claim outsider status in the current political era. This invites the question of generalizability beyond the Balkans, which is complicated by the region’s lack of similar parties in power during the financial crisis. Only a brief discussion is possible here, but perhaps the closest example, relaxing slightly the definition of outsider party, was the Slovak government of Robert Fico’s party, SMER-SD, which came to power in 2006. SMER-SD had emerged as a new party from a split. He was widely described as running a populist campaign playing to the resentments of those disillusioned with the Meciar government’s corruption and the Dzurinda government’s pro-market reforms. Although Fico came to power promising to address the ills of the previous period once in power and with the crisis in full swing, Fico’s government did everything possible to enter the Eurozone on 1 January 2009 (as planned by the previous Dzurinda government). This meant, despite rising unemployment and falling GDP, the government stuck to budget deficit limits and offered little stimulus. There were few protests in response to these moves, and Fico remained a popular politician and in power with only a brief interruption until 2018.

Since the financial crisis, numerous other parties claiming to be outsiders have come to power. Although they are not responding to acute crisis, parties like FIDESZ in Hungary and PiS in Poland came to power by riding the disappointment with what they broadly describe as a Western version of capitalism. Especially in the case of FIDESZ and PiS, neither of which was really new, these parties made grand claims about their intentions with regard to dismantling the “neoliberal order” particularly targeting foreign banks, foreign investors, and the European Union. And yet, their economic policies have been conventional and, at times, more neoliberal than those of their predecessors. For example, while targeting foreign investors in their rhetoric, both FIDESZ and PiS have been very eager to attract foreign investment to the point that heads of major foreign chambers of commerce described them as more eager to collaborate than their predecessors (Schoenman 2019). This raises a different but related question to the one at the center of this paper and suggests an important research agenda about populist campaign promises and the possibility of keeping them in a globalized economy.

9. CONCLUSION

This paper set out to understand the impact of the financial crisis on the political stability of two neighboring countries that are the laggards of European institutional and economic
development. As I have argued above, the institutional context does not explain the different levels of stability. If anything, Bulgaria’s economic conditions and more restrictive institutions, namely the currency board, left Bulgaria with no other option than to turn to bitter budget-cutting measures. By all expectations, this should have prompted a stronger response from social groups.

Instead, the political reactions in Bulgaria and Romania were strikingly different. The Romanian government, already weakened, found itself facing a well-organized opposition and large protests. It also lost support of the business community and thus had to defensively make policies to address a difficult economic situation under pressure from the European Union and the IMF. Opponents of President Băsescu in parliament as well as unions and employers’ organizations used the crisis as an opportunity to oppose reforms and put pressure on the government that resulted in three governments falling over a three-year period and the nearly successful impeachment of the president.

The Bulgarian government, in contrast, did the opposite and seized the opportunity of the crisis to push through austerity reforms and break deals made with unions such as a delay of pension reform. As in Romania, unions turned against the reforms and tried to rally against the ruling coalition. The two main unions also withdrew from tripartite bargaining institutions, which had already been weakened by the failure of the government to use them to build support for needed reforms.

Drawing on a literature that highlights the role of politics over institutional settings and economic criteria during crises, I argued that the experience of the crisis was shaped by the position of the governing party as an inside or outside party. Interestingly, this difference did more to shape how the policies of each government were received than it did to distinguish the policies themselves. To the contrary: Bulgaria’s government of outsiders was more aggressive in pushing conventional austerity measures.

In both cases, political leaders seemed to see the crisis as an opportunity for governing coalitions and opposition movements to further their agendas. In the Romanian case, the government pushed ahead with austerity reforms under intense international pressure but found itself hindered by the force of an organized opposition that united powerful stakeholders in the economy, namely an emergent alliance that included employers’ organizations and unions frustrated by the broad governing coalitions perceived ineffectiveness in dealing with the crisis. The broad nature of the governing coalition raised the likelihood of fracturing. To the contrary, the ruling GERB party in Bulgaria, by virtue of its ability to govern alone even though it was a minority in parliament, transformed the crisis into an opportunity to push ahead with long-delayed reforms and budget cutting in the name of fiscal responsibility. Whereas the Romanian conflict between government and opposition flared up after the entrance of the IMF, the Bulgarian government used the threat of foreign intervention to press ahead with painful reforms. This was possible because of its outsider position and claims of disrupting the status quo. GERB’s status as outsiders made it easier to pursue aggressive reforms while the Romanian leadership’s status as established political insiders made it even more complicated and exposed them to challenges from opponents.

The comparison of these two neighboring countries thus shows how such crises filter through domestic political dynamics and can, in some cases, be instrumentalized by governing
parties. As I have argued above, preexisting economic conditions and the actual magnitude of pain imposed by the crisis were less-significant factors in determining policy choice than the politics among which these conditions were addressed.

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