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**Performance and Risks in the European Economy**

**The Romanian Economy  
during the Great War 1914-1918**

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**Abstract:** The resumption of economic progress will be slow, but unevenly, and after overcoming the food crisis of 1920-1921, Romania will be able to deliver on economic recovery by attracting the capital investment, increase the number of enterprises and workers, and especially by increasing the driving force and technical endowment of enterprises. The Central Authorities will draw up a legislation related to protectionist economic liberal doctrine “by ourselves” in most of the period, according to political algorithm and the result of increasing resource mobilization of domestic capital while limiting the foreign capital in the Romanian economy.

**Keywords:** economic war effort; economic recovery; economic blockage; economic aid; reparations.

## **Introduction**

The outbreak of World War I represents a turning point in the contemporary history of world states due to both causes and consequences it has generated. The struggle for the division and redivision of the world, mainly on economic considerations will find most of the belligerent states unprepared to support an economic war effort so long, among which will include also Romania. The issue of financing military spending will be an extremely urgent one for governments of states that are involved in conflict, only solution external crediting. Romania will range from the start in frontline disputed by the two military and political blocs, the Central Powers, respectively Entente. The political class and the public opinion also will be divided into two camps on the grounds of sympathy or political opportunity supporting country entry into war on one side or the other. Both belligerent parties promised more or less veiled the support of the Romanian interests in the provinces under foreign domination, the Entente guaranteeing the rights of Romanians in the Banat, Transylvania, Bukovina, under the Austro-Hungarian domination to unite with the Old Kingdom while the Central Powers claimed the right of Romania to unite with Bessarabia, the territory between the Prut and Nistru which was under Tsarist occupation. Given this situation and the lack of preparedness of Romania to have a successful military campaign, Crown Council will decide the adoption of armed neutrality in the early years of the war 1914-1916. The dispute between the belligerents did not take into account the status of neutrality of Romania, each side seeking to occupy dominant positions in the Romanian economy, using every possible economic weapon from buying shares in industrial or

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banking field going up to granting credits to the Romanian state, buying large quantities of grains and oil to attract Romania on one side or the other.

In 1916 the petition of Entente states was strengthened strongly to the detriment of the states of the Central Powers, the capital of French, English, Dutch or Belgian already accounted for over 61% of the total foreign capital of industrial companies in the country while the capital of German and Austro-Hungarian only held about 36%. The dispute will be sustained also in crediting, Italy and England being among the states that financed Romania's military preparations. The war caught totally unprepared Romanian economy not only for effective participation in the conflict, but also for the situation of neutrality since the two sides will mutually boycott trade relations anywhere in the world even with neutral states.

Economic disruption will be a strong enough shot for both Romanian import and especially for exports especially after Turkey's entry into the war on the Central Powers side. Moreover, the Romanian army was poorly equipped compared to the other belligerent countries, the costs of endowment being extremely high. The weak enough representation of the automobile industry, without having a developed branch of the chemical industry, the Romanian economy was not able to cope with the war, especially since the results had been made public even during Romania's participation in the Balkans Campaign. Army endowment had also suffered due to less advantageous business that the state has concluded with various companies, scandals being high notoriety. However, in order to fill skills gaps more apprentice schools will be opened to prepare turners, ethnic personal, adjustors, etc.

Agricultural production situation best reflects the Romanian government's efforts to increase production, the statistics provided being clear: in 1913 wheat production rose from 2.229 million tons to 2.44 million tons and area under cultivation of corn increased from 1,600,000 ha to 2,100,000 ha in the same period. For the moment the need to build state reserves will be crucial for sustaining economic war effort so that the Romanian authorities will stop the export of grain but good harvest of 1915 led to the request of exporters granting special permits for the export of grain. Low acquisition prices offered by German and Austro-Hungarian will boost Romanian State to export grains mainly in the states of the Entente however, blocking the straits Bosphorus and Dardanelles in Turkey will have decisive effects regarding the decrease in export revenues collected by Romanian the state or companies. Between 1914 and 1916 the situation of residents from cities will worsen greatly primarily due to unemployment in industrial branches that had no direct cooperation with the army (estimations reach the figure of 100,000 unemployed workers in March 1915 2/3 of the workers in Bucharest did not have a job and in Galati 44%). Food prices will skyrocket and rents the same. The impoverishment of industrial workers will be enhanced also by the massive concentration of state for the numerical growth of the army.

### **War Economic Effort of Romania 1916-1918**

The economic situation will worsen even more once Romania joins the war on 14/27 August 1916. After a brief victorious campaign in Transylvania joint forces of Austro-Hungary, Germany and Bulgaria will determine the withdrawal of Romanian troops on the line of Carpathians and the Danube highlighting weaknesses in the National Army endowment. Central Powers offensive force will continue and Romanian army, with all the allied support, will have to cede the Carpathian passes, Turtucaia, south of the Danube, and after the Battle of the Neajlov-Arges to evacuate part of the national territory. The refuge of the authorities, the army and a large number of people in Moldova will create serious economic, social and political difficulties to which should be added the military

one, front line being stabilized on the line of Eastern Carpathians and Focsani, Namoloasa, Galati and the Danube. In enemy-occupied territory shall be established a pro-German administration, with the sole purpose to help the soil and subsoil riches looting for the benefit of the Central Powers. Military preparations on Romania's imminent entry into the war will not go unnoticed, as well as financial and the economic effort. The costs will stand to an impressive amount of 539 million lei in 1913 to 1914, 542.5 million in 1914-1915 reaching 831mil lei in the budget year 1916 to 1917.

Years of neutrality were essentially a worsening fiscal period for most of the residents, authorities rigorously cashing any type of tax. By achieving a national loan Liberal government managed to reduce the debt that it had to the National Bank. The actual war entry will exacerbate the decline of the Romanian economy due to an unfortunate outcome of the campaign of the first part of the war. The offensive of Romanian army in August 1916 in Transylvania will end too quickly, after only four months of the onset of operations the enemy managed to occupy Oltenia, Muntenia and Dobrogea thus depriving the Romanian authorities of important human and material resources necessary for the front, the evacuated population but not only. The defeats in the first part of the military campaign will yield about 100,000 dead, 150,000 injured and 250,000 prisoners' losses that will result in new recruitments and enrolls of peasants and workers emphasizing the industrial and agricultural production decline. The evacuation in Moldova and stabilization of the front on Eastern Carpathians ridges and alignment Focsani-Namoloasa-Galati offered brief respite to prepare for rebuilding the Romanian army with constant support ala allies.

Although previously conditions laid down in the Convention of alliance with the Entente have been partially addressed by Allies economic, military and political collapse envisioned on Romania and the danger of putting its resources under the occupation of the Central Powers led to the supplementation of economic aid and military assistance given to the Romanian state that will succeed with special efforts to record in the summer of 1917 the only victories of the Entente on the theaters of operations Marasti, Marasesti and Oituz. In the territory occupied Central Powers shall institute a harsh regime of domination through military administration which will aim at enslaving Romanian economy to their war effort. It will pass to the destruction of all Romanian industry components that could not be made functional for the occupant or could not be deployed in countries of the Central Powers such as the extraction industry and oil processing, food, railways, port, etc.

Particular attention will rejoice oil exploitation, agriculture, monetary circulation and transport. Romanian exports, legal or less legal use on site of the army of occupation will further mitigate the potential national economy (1.2 million tons wheat, 495 000 tones maize, 860,000 cattle, 106,000 pigs, etc.). In unoccupied territory expenditures will increase more in comparison with diminishing of resources which determines the appearance of budget deficits and fiscal tightening. The large number of refugees, civilian or military, armed resistance or defense reorganization and administration of the territory will burden the state budget also so poor. Agriculture and industry will be reorganized on cvasimilitary criteria, exploiting oil fields and forests will increase and to cope with military spending authorities will contract more loans from the National Bank for 1.2 billion lei in 1917, and 1,5mld lei in 1918. Increasing the money supply in circulation (from 700 million in 1913 to 2 billion lei in 1918) will result in deepening inflation and price increase highlighting the mismatch between the needs of the market and monetary circulation. Leu depreciation will impose restrictions on the export of gold, National Bank acquiring it even at high prices on the domestic market.

**Economic, Social and Political Consequences of the Great Union of 1918**

The end of the Great War, as it is known in Western historiography, represents a turning point in the history of the participating states and especially Europe, continent that was the main theater of war. Human and material losses have never been seen before up to that time and being amounting to approximately 9 million dead, 5 million missing, 7 million crippled and 15 million injured. To these will be added the economic losses amounting to over 330 billion dollars of which more than 200 billion came back to the allies and about the European industrial production, it fell by 40%, agricultural production by 30% and inflation increased 10 times. From the political point of view we are witnessing at the collapse of three large multinational empires: the Tsarist Empire, Austria-Hungary and the Ottoman Empire and in its place will emerge new independent political states like Austria, Czechoslovakia, Hungary, Poland, Finland, Baltic countries and others will accomplish their national unity: Romania, Yugoslavia.

The defeat of the Central Powers will have important not only political but also economic consequences because the new countries will seek to consolidate internationally their positions of political and economic independence. Even if, at the Paris peace conference the winner states will impose Germany and its allies absolutely huge war reparations, they could not cancel even hypothetically the social, economic and political effects of the war. Moreover, the war will definitively contribute to the loss by Europe of the leadership position in the economic field, it being forced to reorganize areas seriously affected by the war. Countries like US, Canada, Japan and Switzerland will record high profits from commercial relations with Belligerents apprehended but mainly because of crediting rebuilding of war European states needed. The US economy comes out best from the war in 1919 it already controlling large amounts of capital in European economies countries, thanks to massive loans granted. It will dominate the whole world from now on including Europe that will turn into a market for both goods and especially capital. If in 1913 the US owned assets abroad over 3.5 billion dollars, and in the American economy, foreign capital had invested approximately 6.8 million dollars at the end of the war foreign investments had fallen by half while the value of US capital placed abroad was doubled helping to increase the national income to 30% in 1919 compared to 1911.

Regarding the Romanian economy, it will record special mutations thanks to the reunification in a single state of all Romanian provinces after some major national manifestations such as those in March 1918 in Chisinau, November in Chernovtsy and concluded at December 1st, 1918 in Alba Iulia. The representatives of the three Romanian historical provinces, namely Bessarabia, Bukovina and Transylvania will vote for the union with Romania, their political act constituting the accomplishment of a millennial goal of all Romanians to live in a single national, unitary and independent state. Greater Romania will now represent a medium sized country in Europe thanks to the economic, territorial and demographic intake with which each province will contribute to the Greater Romania. The process will be, however, a long one and will impose additional costs generated by the territorial, legislative, economic, cultural, political administrative reorganization.

Romanian provinces united in 1918 with the country were in a difficult situation as the old kingdom thanks to foreign domination, but overall Greater Union in 1918 will contribute significantly to the increase of the economic potential of Romania as follows:

- Romania's population will increase from about 7 million to nearly 18 million people;
- By the abolition of customs barriers is achieved a unitary system of national economy (economies of the new provinces and of the old Kingdom are complementary);
- The potential of natural and material and intellectual resources will increase;

- Socially, obvious mutations are produced;
- Economical share of large landowners, leaseholders falls in favor of the bourgeoisie (entrepreneurs), the role of this social category being now also a political one.

Integration into the national economy of productive resources and technical capabilities of Romanian territories under foreign domination will diversify the economic capacity of Great Romania facilitating the straightening of economic ties between various fields and increase production potential of transport, human and material resources of over 2.5 times compared to the economic potential of the prewar Romanian state. Romania's participation in the war with the allies will result from economic point of view in only 1% of the total of over 132 billion marks that Germany had to pay the allies under the title of war reparations (during the conference of Spa, the amount was absolutely infinitesimal compared to the destruction and damage caused by the Central powers to Romania). Although Austria, Hungary and Bulgaria had established obligations to Romania by 10.5% (Oriental repairs) yet The Big Four (the US, Britain, France and Italy) will impose to smaller states (regional powers) the payment of some release rates, debts that the respective countries contracted during the war. Also, the Great Powers desired that the successor states of Austria-Hungary to contribute and support proportionally debts and war reparations, in 1924 Romania being established an amount of 235 million francs, gold as release and reimbursement share by its allies. Romania did not pay those amounts but did not receive any amounts due from Germany established at Spa. Monetary and banking system will experience changes resulting from the withdrawal in 1921 of foreign coins in circulation concomitantly with the extension of privileges of the Romanian National Bank on national territory.

Years of neutrality were essentially a worsening fiscal period for most of the residents, authorities rigorously cashing any type of tax. By carrying out a national loan Liberal government managed to reduce the debt that he had to the National Bank. The effective entry in the war will exacerbate the decline of the Romanian economy due to the unfortunate outcome campaign of the first part of the war. In terms of economic recovery even with the economic potential growth of Romania after the union prewar production and exports level in various fields will be achieved in 1921 and 1924 which will contribute to the deepening the economic crisis after the war

In terms of economic recovery even with the economic potential growth of Romania after the union prewar production and exports level in various fields will be achieved in 1921 and 1924 which will contribute to the deepening the economic crisis after the war. The new national framework required the generalization of some reforms and popular measures like agrarian reform of 1921 (the most radical in Central and Eastern Europe) in which over 1 million peasant families will receive land by expropriating estates covering more than 500 hectares of farmland. Universal suffrage and development of a unified constitution for all Romanians, in 1923 will be the political measures with significant social and economic implications. The Union in 1918 will make of Greater Romania an important average state on the map of Europe territorially and demographically, and from economic point of view, the Romanian state will manage to become in the interwar period the most important competitor in Central and South East of Europe.

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