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Romanian Economy in the Interwar Period

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

Keywords: crisis; economic recovery; protectionist legislation

Introduction

Resumption of economic progress will be slow, but unevenly but after overcoming the food crisis of 1920-1921, Romania will be able to deliver on economic recovery by attracting 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 legislation related 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.

The interwar period economically subdivides in 4 stages namely:

- the stage of economic recovery 1919-1921;
- the stage of economic growth 1922-1929;
- the stage of economic crisis 1929-1933;
- the stage of of economic growth 1034-1939.

Romania's economic recovery process (1919-1921) assumed the achievement of some absolute targets similar to those held by many of the European countries affected by war and was characterized by the need to restore industrial and agricultural production, by regulating monetary circulation and stagnation of inflation, by balancing the trade and payments balance of budget of revenue and expenses and the restoration of infrastructure, transport concomitantly with renewed growth.

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But the resumption of economic progress will be slow and uneven, but after overcoming the food crisis of 1920-1921, Romania will be able to materialize its economic recovery by attracting capital investment, increase the number of enterprises and workers and especially by increasing the driving force and technical endowment of enterprises.

Liberal government will draft a protectionist economic legislation related to the liberal doctrine "by ourselves" and that aimed at increasing the degree of mobilizing resources of local capital while limiting the foreign capital in the Romanian economy. By the Mining Law of 1924 would prohibit the concession of exploitation of riches of soil and subsoil, foreign capital in a ratio higher than 40%, according to the new constitution but under the political and economic foreign pressure the law will be amended so that Romanian citizens will be able to hold 50.1% of the capital and 49.9% foreign capital.

Yet economic recovery and development of the national industry will be possible also because of the presence of foreign capital, which proves that although the policy of protecting local capital was more present than in the past, Romania was still one of the most attractive markets in Europe for foreign investments. Furthermore it occurs also a redistribution of the share of foreign capital, French, English, Dutch and American, being more present than the German or Austro-Hungarian one. Restoring agriculture will be closely linked to the agrarian reform of 1921 which will expropriate over 66% (over 6 million hectares) of the area owned by estates with over 100 hectares. Peasants will be given land with land farm of up to 5 hectares by redemption but in the early years of reform, agricultural production will be one less than the pre-war one, later development of agriculture and agricultural production will contribute to the improvement of the most important social categories and will intensify the process of social stratification.

Restoring the national economy will take longer than the economic recovery of the great powers, but once the level of production and prewar exports is overcome, the state will take over in a greater extent the control over trade by encouraging the export of finished products and imposing a tax regime for grain and food products exports. In 1926, the value of exports will exceed the value of imports and oil export will exceed 40% of total exports.

The Stage of Economic Growth (1922-1929)

The economic growth of the first decade of the interwar period will represent a natural continuation of both processes of consecutive increase of the trade production volume and due to the stability of national currency and cotation that this will have on international financial markets. Yet the economic measures taken by the Romanian authorities, could inscribe only in the general trend adopted by most governments of European countries, such as at European and international level we are witnessing at an increase of competition of goods in exports (Romanian grains, partially Oil are strongly competed by American cereals imported by European countries overseas. In this context, the Romanian state was forced to counteract by economic measures the defense of national economic interests and this was done both through local capital protection but also by controlling and directing the national economy. Economic growth will be also helped by providing major orders in different areas by the state to private companies, both for equipping the army but also for the achievement of some infrastructure targets (metallurgy industry, energetic industry, transportation, manufacturing industry, textile, machinery, food). Economic boom in this period is found both in investments realized in industry (from 40 billion to 75 billion-1929) but also in manufacturing, mining and electricity where the share of the growth of these sectors is preserved.

The economic boom is undoubtedly supported by the increase at international level of oil demand which contributes to infrastructure development, mechanical engineering industry, railways, shipyards and not the least air transport. Imports consist mainly of industrial products, equipment, automobiles and certain deficient raw materials. However, imports will help support the national economic growth by the fact that the use of some efficient industrial techniques will contribute to the increase of output and production, both industrial and agricultural. In order to support this healthy economic growth, in 1927 the Liberal government will have to achieve the monetary stabilization and National Bank began revaluing leu by showing commitment to no longer issue money above the ceiling reached in December 1924 because the money supply had increased more than 12 times the pre-war level. Country's public debt will grow steadily, reaching in 1927 to nearly 6 billion lei and that given that in 1924 Romania's budget is in excess (although budget revenues have increased 13 times, expenditures will increase by 18 times the prewar level).

The Period of Economic Crisis (1929-1933)

Although the economic crisis has impacted tougher overseas, however, they were felt strong enough in Europe, especially in advanced industrialized countries. Part of the European economy with an industrial-agrarian economy, Romania will support the economical crisis effects in a somewhat original way, they being felt more in advanced industrialized economic sectors: agricultural production during the economic crisis was a pretty good one and the fact that the export price of cereals on the international market collapsed it will have a dual effect.

On the one hand it will contribute to the decrease of state and exporters revenues, on the other hand grains will be consumed on the domestic market. In the years of economic crisis the state has had major problems regarding the payment of its external debt contracted both by Liberal and farms governments, but the export of crude oil will be the only source of income even if its price will drop to half (production level will increase during this time to compensate for the price decrease and the quantity of oil extracted obviously will increase thanks to investments made by foreign head). The only, extractive industry, will be disagreeing with the other economic sectors which, because of the crisis will contribute to the outburst of some big social movements as strikes of miners, railway workers and oil workers but not only. Economic and social instability will contribute greatly to political instability and therefore the uncertainty in the decision making in the last instance in 1933.

Romania, through the National Peasant Party in government will accept the return of Carol II to the throne and the abolition of the regency. Romanian economy between 1929-1933 will also feel financially, the financial investments level, being drastically diminished particularly in the metallurgical and steel sectors. Romania's economic potential will be seriously affected so that to cope with huge budget deficits Romania will cease payment of foreign debt and will resort to a policy of drastic decrease of expenditure even to the point of temporary suspension of payment of salaries of some categories of state workers.

The Overpass of the Moment of Economical Crisis of 1929-1933

The overpass of the moment of economical crisis of 1929-1933 was made gradually, the Romanian economy rebounding hardly after such an ordeal, the production and export levels before the crisis being reached in 1934-1934. Sustained economic increase will be recorded in all branches of industry but once the first threats to international peace and security, countries of the world including Romania

will pay more attention to endow the national army with military equipment. The years 1936 -1937 represent the years of maximum economic development both in terms of production and exports from the entire interwar period, but this economic growth will be halted by the outbreak in 1939 of the Second World War. In the next decade of the economic crisis Romanian state concludes contracts and economic cooperation agreements with a significant number of countries significantly diversifying its economic relations both in terms of exports and imports. This is due to Romania's participation in a number of international fairs and exhibitions such as those from Milan and Prague of 1933 or those of 1937 in Belgrade, Milan, Bari and Prague. Particularly fruitful in terms of concluding by commercial trade, proved to be Romanian participations in international exhibitions in Japan in 1935, the Universal Exhibition in Brussels in 1937, exhibition in Berlin from 1939 and the one in New York. A significant impact on the evolution of Romanian economy in the period immediately before the outbreak of the Second World War will be given by the Romanian-German economic Treaty of March 23, 1939.

The provisions of this Agreement will subordinate from economic point of view the Romanian State with all efforts that will be made later by the occidental states to decrease the German share on grain exports and oil. Romanian exports will be correlated according to an economic plan to the needs of German state which undertakes to supply military equipment to the Romanian Army. Basically, through the establishment of Romanian-German joint companies in areas of major interest, the entire Romanian economy will undergo a true German monopoly. Signing of this treaty was highly controversial at the time, Romanian authorities aiming at tempering the claims of neighboring states to revise the borders. The Third Reich will not take into account the Romanian side's wish to safeguard western border than when after Hungary and Bulgaria claims will be met at least partially.

Moreover, by signing the German-Soviet Non-Aggression Pact in the summer of 1939, the entire international public opinion will be taken by surprise. Some of the secret provisions of this pact also referred to Romania, namely to change its Eastern border in favor U.R.S.S. further weakening Romanian economic, political and military potential on the international stage.

Romanian state now becomes a really easy prey being extremely easily attracted by the German while the traditional allies, England and France will be unable to support Romania. Romanian economy will be strongly affected by territorial concessions in the summer of 1940 and the outbreak of the Second World War. War preparations and actual participation in the conflict both before especially after August 23, 1944 will further contribute to Romania's economic weakening although the war effort places it on an honorable place in the top four countries that fought in the antifascist war.

The economic costs are even more relevant considering the the fact that the Romanian economy has been exhausted by Germany during both Romania fought alongside it, ie June 1941-august1944 by the massive losses suffered on the front and not only caused by allies by losses suffered by Germany and its allies after august 23, 1944, and not least by practical maintenance of both German and Soviet occupation army before and after turning weapons in august 23, 1944.

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