

THE INFLUENCE OF THE LIBERAL CONCEPT “BY OURSELVES” ON THE PUBLIC FINANCE IN ROMANIA

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Abstract: Since the end of the 19th century, the Liberal National Party engaged to rectify the economic situation by itself without resorting to external loans, but running the policy “by ourselves”, a policy of budgetary austerity and public expenditure limitations from fiscal revenues, encouraging the state’s economic function. The liberal budgetary policy mainly relied on revenue increase from public wealth increase. This budgetary component of the liberal economic policy kept running until the first interwar decade, contributing to the normalization of public finance during the national economic crises. Similar measures were recommended after 1989 to adapt the Romanian public finance to the market economy requirements. But often their application was delayed by the respective political climate.

Key words: provision, initiative, normalization

Introduction

The consolidated domestic capital accumulated by the Romanian bourgeoisie at the end of the 19th century and the beginning of the 20th century generated many disputes regarding the optimal relation that had to be established between the external and internal capitals, so that the national economic development should not be troubled by the foreign interference. At first, the concept “by ourselves” meant a policy to develop the country’s productive powers by themselves, without refusing entirely the foreign capital. After the World War I, according to the principle “by ourselves”, the liberal leaders proposed a policy of prevention and national initiative in all fields of activity, including the public finance.

Romanian financial policy directions during the interwar period

The end of the World War I generated new challenges for the Romanian public finance which faced since the beginning of the military conflict major problems determined by:

- the large number of public officers that worked 4-5 hours a day to reduce expenses;
- the low taxation base;
- the high financial efforts to equip the army.

Therefore the financial period 1916/ 1917 ended with a 467,506 thousand lei deficit (363,556 thousand lei budget revenues and 831,063 thousand lei budget expenditures) [Axenciuc, V., 2000: 620]. Considering the other external and internal loans contracted by the Romanian state since the beginning of the war, there was a significant pressure on the state budget: 564,477 thousand lei consolidated internal loans, 250,000 thousand lei floating internal loans, 1,571,820 thousand lei consolidated external loans and 312,652 thousand lei floating external loans [Romania’s Encyclopaedia, 1944: 773].

The financial situation in Romania could generate, according to the Minister for Finance Vintilă I.C. Brătianu, dangerous and damaging consequences for the country’s economy that “settles only available foreign elements” [Brătianu, I.C. Vintilă., 1916: 6]. Therefore the success of the policy of prevention and national initiative planned by the Liberal National Party according to the principle “by ourselves” depended mostly on the rapid settling of the severe budgetary and financial problems mentioned by the liberal economist. Vintilă I.C. Brătianu stated that Romania’s economic policy should have relied mostly on the internal financial resources and not on the foreign loans [Brătianu, I.C. Vintilă., 1916: 6].

Even since 1913, Vintilă I.C. Brătianu declared in favour of a prudent financial policy and the need to change the budget planning procedure. He thought that the budget revenue evaluation should take into account “not only the average of the last 3 years, but also the country’s economic situation when planning

the budget” [Brătianu, I.C. Vintilă., 1916: 11]. Also he expressed concern regarding the tendency of excessive centralization of public funds and the increasing number of officers that exceeded the real administration needs.

Following the concept “by ourselves” to introduce the principle of economy in public money use and to size properly the budget expenditures, the liberal economists proposed the following recommendations even since 1916:

- establishing an institution to coordinate the different budgetary projects in order to keep constant the state expenditures;
- reducing the sizable differences between the central and local expenditures;
- organizing commercially the operations of state-owned domains and goods;
- introducing the obligation to publish the local administration budgets.

During the first years of interwar liberal government, the budgets were conceived according to a severe saving form of government; the priorities were the reduction of public officers and the reorganization of public services. The budget revenue evaluation according to the previous year takings and the expenditures kept within the severe limits of ordinary revenues were meant to attain the budget balance and to cover the expenses of national economy endowment and recover from the budget surpluses. The liberal financial plan proposed for the year 1922 intended to:

- adopt some measures to satisfy the country’s urgent needs (coordinating general and local administration, increasing productivity in state-administrated sectors, introducing the principle of order and economy in commercial services and their reorganization to increase their profitability and adaptability to state’s requirements, reducing the budget expenditures by increasing the role of private initiative in certain fields of activity, and organizing a more efficient control on public expenditure engagement and completion);
- amend the fiscal legislation made by Nicolae Titulescu in 1921, in view of reducing taxes, so that the fiscal reform in Romania showed two essential characteristics: to be simple because “the Romanian taxpayer is not educated yet to record his income to the last centime” [Brătianu, I.C. Vintilă., 1922: 11] and not to hinder the country’s economic development through too high fiscal duties.

The new fiscal and modern system started in 1923 that could satisfy the public financial needs and did not discourage the economic activities was not spared by the critics. For example, Virgil Madgearu, an economist representing the Peasant Party, considered that the fiscal system established by the law in 1923 encouraged the industry to the detriment of the other economic branches and favoured the bourgeoisie through the low taxes for the high incomes. To the problems reported by Virgil Madgearu, Vintilă I.C. Brătianu answered that there is not an income concentration in a small social class in Romania to justify a progressive taxation for the high incomes. On the other hand, the liberal economic policy aimed at stimulating the domestic capital concentration, so that the Romanian enterprises could face the competition on the internal and international market. Thanks to the reform of public services and financial legislation, the financial period 1922/ 1923 showed a significant progress in consolidating the Romanian public finance.

Consolidating Romania’s external debt

To settle the financial problems of our country after the World War I, Romania’s foreign debts had to be arranged and the amounts for war recovering owned by the Central Powers had to be collected. On the other hand, some urgent measures had to be adopted to achieve the budgetary union and the fiscal reform.

As Minister for Finance, Vintilă I.C. Brătianu involved directly in resolving those problems that he considered to be the priorities of protecting the national interests. He gave well-informed notice to the governments of the allied states about the structures and sizes of the Romania’s loss during the war and protested against the small recover share of damage claimed from Germany. Together with other Romanian officials, Vintilă I.C. Brătianu made many approaches during the international conferences for war damage assignments to postpone Romania’s terms of payment established in different treaties and to collect the debts from the former enemies. The Romanian authorities’ requests to postpone these terms were rejected and at the time the national economy needed important financial resources to recover and endow. This was

another reason for the liberal governors to redirect the economic and financial policy during the post-war period. The attitude of the great European powers toward the problems of our country strengthened Vintilă I.C. Brătianu's belief that the liberal formula "by ourselves" had to be applicable in the financial field, too. The Minister for Finance was convinced that Romania's chances to attract resources such as external loans were very small after the war, and declared in favour of joining together all national elements so that "what has to be done can be achieved only with our competence and work" [Brătianu, I.C. Vintilă., 1927: 40].

Considering the sizable implications of the internal debt on the budget balance and the balance of external payments, the consolidation of Romania's floating external debt was essential to normalize the public finance and to improve the general economic situation.

The problem of consolidating Romania's floating external debt was wide press covered at the time and the public opinion could learn the Minister's for Finance point of view and the critical position that doubted the opportunity of that operation. The objections against the floating external debt were expressed and synthesized by I. Dobrovici in the press of the time. They referred to the following aspects regarding the terms of the loan to consolidate that debt [Dobrovici, I., 1934: 416]:

- the high amount supported by the Romanian state to pay the interests, since the consolidating loan amortization would begin after 6 years;
- the customs export taxes were most affected, as they would be cashed only in gold or foreign hard currency, in order to guarantee the annuity payment;
- the National Bank made a commitment with the foreign banks, at the request of the Romanian state, to pay the annuities of the contracted loan if the public authorities had not have the necessary financial resources.

Without reducing the importance of the critics against the liberal government, Vintilă I.C. Brătianu's measure was the first step to reset Romania's credit abroad after the World War I. Moreover, Vintilă I.C. Brătianu himself stated that "you cannot ask for money from those you have not yet paid the debt to or at least made it steady" [Brătianu, I.C. Vintilă, 1925: 39]. Therefore the possibility to attract future financial external resources depended on how the problem of our country's external debts was solved.

Romania's external debt to the governments of the USA, France, England and Italy was consolidated during the period 1925-1928, by budget registration and regular annuity payment of the external debt determined by the war and its consequence liquidation [Văcărel, I., 1998: 17].

During the liberal government, the idea of financing the Romanian economy with foreign resources was disputed when the economic legislation was changed in 1924. In order to make the liberals give up their economic policy based on the principle "by ourselves", the great European powers tried to change the regime of foreign capitals, considered to be discriminating, in exchange of the external loans necessary to recover our economy. The officials of the states Romania was financially indebted to offered to facilitate the conclusion of some concession contracts for the oil fields of the Romanian state, in favour of some foreign companies, so that the liberal government could pay the external debts from those dues. This treatment made the liberal Minister for Finance to state many times that: "to say to the foreign creditors that we can recover only with their help means to beg and not to strengthen our country's financial situation" [Brătianu, I.C. Vintilă, 1923: 11].

Respecting Charles Rist' financial policy recommendations, Vintilă I.C. Brătianu applied, during his six years of governance, the principle of compressing the state's needs, according to which the amount of public expenditure had to be reduced to the level of revenues. Meantime, this component of the financial and budget policy promoted by the liberal economist lowered the possibility to assign resources for some productive investments that could contribute to a more rapid recover of the Romanian economy. On the other hand, the principle of budget balance disciplined the expenditure assignment and along with the fiscal policy measures provided the continuous increase of takings. This was an important step in consolidating our country's financial situation.

Liberal economic doctrine influence on contemporary evolution of public finance

The motto "development by ourselves" launched by the Romanian liberals even since the 19th century did not mean to separate from the rest of the world, but to trust in our own strengths, so that the Romanian economy could produce more and better, to be active in the European and trans-European economy, and not to wait for foreign help, but to see what could be done "by ourselves" to improve life quality. After

1989, these principles of economic policy have been forgotten. Waiting for the welfare generated by Romania's opening outward, the Romanian politicians could not set a precise direction of economic evolution, so that the measures of financial policies were sometimes contradictory. The major macroeconomic unbalances amplified by the lack of some consistent reforms generated budget deficit increase. The budget deficit was caused by the budget expenditure increase given the economic decline, the poor capacity of revenue collection, and the insufficient transparency of the budget period that generated an inefficient use of the financial resources. The attempts to increase the budget revenues were mainly counteracted by the increase of fiscal evasion and/ or arrear accumulation.

Only by the end of the 90's a substantial fiscal adjustment was made by reducing the primary expenditures and increasing the taxes. In consequence, the consolidated general budget deficit and the current account deficit improved. These results were achieved mainly to the recommendations of the international financial community, especially the International Monetary Fund. Otherwise the relation with IMF was defining for the Romanian governments' economic policies. The doctrinaire turnaround of liberalism characterized by minimal state agenda, the liberty to choose and the responsibility of the 19th century second half influenced the financial policy measures promoted by the international financial organizations to recover the economy in certain countries. Some measures similar to those promoted by the Romanian liberals during the interwar period were recommended to restructure and increase the competitiveness of the Romanian economy after 1989: permanent revenue increase, strengthening the fiscal administration, widening the taxation base, and reducing expenditures. The evolution of some financial indicators in the period 2000-2007 show the budget process improvement by developing a credible environment, but also the hesitations in adopting some expenditure limits lately.

Financial indicators (percent of GDP)

Year	2000	2001	2002	2003	2004	2005	2006	2007*
Revenues	31.2	30.1	29.6	28.7	30.1	30.2	31.2	33.5
Expenditures	35.3	33.3	32.3	30.9	31.1	31.0	32.9	36.3
General balance	-4.0	-3.2	-2.6	-2.2	-1.0	-0.8	-1.7	-2.8

Source: IMF Public Report No. 46/2006 and IMF Report regarding the Consultation on Article IV from 2007

In IMF's and European Committee's opinions, Romania's growth deficit and its volatility after adhering to the EU represent a risk for the macroeconomic and financial stability. The recommendations are as follows:

- reduce the excessive deficit to limit the risks regarding the long-term viability of public finance;
- control the public expenditure increase and re-examine their structure to improve the economic growth potential;
- a proper salary policy in public administration.

Conclusions

The financial policy according to the liberal doctrine during the interwar period had an indisputable positive impact on the budget revenue size and structure, and Romania's economic and social development after the World War I was mainly based on budget balance.

The main directions of the financial policy provided by the actual Liberal National Party's programs demonstrate that, at least theoretically, there is still a connection with the past. The policy to reduce progressively the general fiscal level has been promoted since 2005. There was an attempt to reform the public expenditure: reducing them by eliminating the subventions for price differences, eliminating the budget subventions for the enterprises that showed loss, reducing the public investments for unproductive activities or activities of low social profitability. In fact, after Romania's adherence to the EU, the liberal

* IMF estimates and projections

government stated that it would use to the full the budget deficit of 3% of GDP (agreed through the Maastricht Treaty) to finance the development projects of infrastructure, environment and agriculture and to reduce the gap between Romania and the other EU member states.

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