

FINANCIAL PROBLEMS IN A.D. XENOPOL'S WORK

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Many of Xenopol's studies, articles and economic papers fully prove his permanent interest in this area, so important for the life of a country.. This fact urged him to look into the economic state of his people, to search for its causes and formulate solutions, some of them among the most realistic ones, for its improvement, for the reduction of the gap that separated us from the most economically developed countries

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While the foreign trade of a country is, in Xenopol's opinion "the most reliable mirror of its economic situation"³⁶⁸, "the finances of a country are undoubtedly the most visible sign of the direction of its government. These mirror especially the competence or the incapacity of its rulers."³⁶⁹ Xenopol made this statement in the Preface to "Situția financiară a României sub guvernul liberal în 1887", a paper where we encounter numerous economic arguments by means of which he intended to underline the qualities of the Liberal government in ruling the country's finances. Even if this paper, and many others, contains numerous supporting judgments as well as some erroneous assessments like those concerning the fact that the Romanian is the least tax-burdened among Europeans, that Romania's public debt is the smallest on the continent, that bimetallism is preferable to monometallism, we believe that it was not his desire to justify liberal politics which represented the main cause of this situation, but the compatibility of his economic theories with the economic policy of the Liberals. We also believe that this is the reason for Xenopol's political joining the Liberal Party – from this position he was able to influence decision making and put into practice some of his planned solutions.

In this paper he tackled the budget's problems, those of the public debt and the gold's overprice. Other financial-banking aspects such as: duties and taxes, loans, banks, usury were developed in other studies and articles such as: "The Beer Industry and Taxation", "The Rural Bank", "Misunderstood Demagogy", etc.

Just like in our days, in Xenopol's time the state's income came mainly from duties and taxes, a fact that sustained his argument that "where the private individual (as tax-payer – our note) is rich, the country is rich, and where the country is rich, the state is rich".³⁷⁰ The state should have been rich because, as noted by Xenopol, the country needed roads, ports, railways, a strong army and many others for which the budgetary means had to be enhanced. But Romania's budget in 1880 was barely of 100 millions, to which one could add approximately 20 millions representing communal budgets, which proved to be far less than the country's need, thus one would often sell the state's estate, mortgage bonds, treasury bills.³⁷¹

Xenopol's conclusion was that taxes were necessary, that it would be even dangerous "for the consolidation of the idea of state to undo this connection between the individual and the political

³⁶⁸ A. D. Xenopol, (1967), "Comerțul exterior al României", in *Opere economice*, Ed. Academiei Republicii Socialiste România, p.150 (Our translation).

³⁶⁹ Id., "Situția financiară a României sub guvernul liberal în 1887", p. 209. (Our translation).

³⁷⁰ Id., "Agricultură și comerț" in *Românul*, 13 Septembrie, 1880, (Our translation).

³⁷¹ Ibid.

body”, that is the tax.³⁷² Due to this reason, he considered humbug the proposals of Carp’s government (a conservative one) to exempt from taxation the farmers who owned less than 6 ha of land. Since very many farmers were in this situation, the state would have been deprived of an income of approximately 10 millions lei that couldn’t have been replaced otherwise, believed Xenopol. Besides that, such a measure would have opened Pandora’s Box; the farmers would have claimed other exemptions from their obligations toward the state, and the idea of duty would have diminished significantly. On the other hand, the farmers’ exemption from a few leis a year representing land taxation wouldn’t have improved too much their fate. Thus, according to Xenopol, what determined the conservatives to propose such a measure couldn’t have been but their attempt “to cling by any means to the power they had no longer”.³⁷³

In what a country’s budget is concerned, especially that of Romania, Xenopol believed that it should be balanced, i.e. neither in a deficit which leads to public debt, neither in a surplus because in this situation on the one hand the government would be accused that it demands more than it needs, and on the other hand “the people seeing that its finances are so brilliant, would become lazy”.³⁷⁴

Even if he did not give sufficient details and nuances regarding this problem of the budget, Xenopol understood very well that it cannot always be in a balance, that budgetary balance is just a tendency in its evolution. Thus he admitted that the country’s budget was in a deficit between the years 1884/1885 and 1885/1886; but not because of the poor management or unsuitable measures taken by the liberal government, but because of the general crisis in Europe which affected our country, respectively due to the poor crops from some agricultural years.

With the obvious goal of proving the wise management of the finances by the liberals, Xenopol analyzed the way budgetary income can be increased, despite the reduction of taxes, or on the contrary, based on the increase of national wealth.

Thus he showed that in the period 1862-1886 the country budget grew up three times from 47 to 138 millions lei, proportionally with the increase in national wealth – expressed in the amount of foreign trade, an approximate and poor indicator but a necessary one when lacking more exact and relevant indicators – from 172 millions in 1862 to 515 millions in 1886. Xenopol’s conclusion was that during all this time, especially in the 11 years of the liberal government (1877-1888), the taxes were reduced more than they were increased. We are speaking here about the tobacco duty, the licenses duty, the tax on salt, land taxation, individual tax or that on the means of communication; the railways fees were reduced, the state property was diminished by the distribution of farm land to newlywed couples or by selling land lots to the farmers and by the establishment of the Royal Demesne, so that the amount of all the reductions came to a total of 88 millions lei.

If despite these reductions, the state income continued to grow, it was all due, in Xenopol’s opinion to a much better administration. Thus, the high priced leased tobacco was bringing the state only 8 millions in 1876, but in 1887, under State supervision, it was bringing an income of 20 millions lei; the railways which before 1877 consumed all they produced, as a consequence of the reduction of administration expenses and of the development of new lines brought to the country an income of 10.5 millions despite fee reduction.

Even if the state had increased its annual income by 28 millions lei by chasing in the taxes, by collecting a tax of 5% over wages and by supplementing the tax on alcohol, there were still “60 millions lei left by the government for the use of the tax-payers, from the revenue it had its right to cash in”.³⁷⁵

³⁷² Id. „Demagogie neînțeleasă”, in *Opinia*, VIII, No. 1216, 27 Ianuarie, 1911, (Our translation).

³⁷³ *Ibid.*, (Our translation).

³⁷⁴ Id. “Situăția financiară a României sub guvernul liberal în 1887”, p. 213, (Our translation).

³⁷⁵ *Ibid.* p. 217, (Our translation).

As a consequence, concluded Xenopol, the increase of revenues is based on their right administration and on the growth of national income, the latter being supplemented among others, by the increase of indirect taxation, including monopolies, from 28 millions lei in 1876 to 66 millions lei in 1887, without a substantial growth in their taxes. The increase of about 40 millions lei was due to the increase in consumption, therefore implicitly an increase of national wealth.

To show that Romania's population was no more burdened by taxes than the population of other countries, Xenopol made a comparative study between our country and several European countries similar to our own as surface and population, on the grounds that "the eagle doesn't resemble the frog"³⁷⁶, where he introduced two indicators: per capita taxation and per capita wealth.

Regarding the first indicator, with a 28 lei tax per capita (respectively only 19 lei per capita if one were to consider only the revenue from taxes), Romania was at the same level with Serbia but below the level of Denmark (37 lei per capita), that of Belgium (53 lei per capita) or Holland (62 lei per capita).³⁷⁷

Regarding wealth, with 100 lei per capita, Romania was at the same level with Italy, over the level of Serbia (50 lei per capita) but below the level of Belgium (527 lei per capita), of Holland (400 lei per capita) or Denmark (322 lei per capita).

Adding the two indicators, Xenopol reached the conclusion that the Serbian was 2.5 times more tax burdened than the Romanian as long as he paid 28 lei tax per year and traded for 50 leis, while the Romanian paid 19 lei and traded for 100 lei. More than the Romanian paid the Portuguese (1.5 times), the Italian and the French (2 times), and the Spaniard (3 times), and less than the Romanian paid the Belgian (4 times), the Dutch (3 times) and the Dane (2 times).³⁷⁸

That the population of our country was not burdened by taxes was proved according to Xenopol by the ease with which these were perceived, forgetting that most of the farmers paid along the taxes owed to the state, a part of their crop to the land-owner, large interest for loans and they were further cheated by merchants, so their situation was the very one Xenopol himself described a few years later in "Starea economică a țăranului roman" (1903).

Another important aspect discussed by Xenopol regarding taxes and duties was represented by their functions, which, in his opinion, should not be reduced only to their fiscal function, but they should also have a contribution to encouraging the industry and even the hygiene state. For this it was necessary a differentiation among taxes and duties.

In the political context of the second half of the 19th century, Xenopol argued the fact that Romania couldn't afford applying protective duties at the border; in exchange it could give a series of facilities, deductions and exemptions from taxes, subsidies, loans with the purpose of encouraging and protecting some economic activities, especially industrial ones. There should be a similar differentiation of taxes, Xenopol argued, applied also to alcoholic beverages on grounds of health, hygiene with the purpose of protecting the population against the consumption of harmful drinks and for the stimulation of the consumption of beneficial drinks; all starting from the idea that "there is no such thing as a wise government which can kill its people because for the moment it can extract money from them by means of the poison it allows them to drink".³⁷⁹

In this respect, Xenopol makes an analysis in *Industria berei și impozitul* of the influence of taxation on the consumption of three alcoholic beverages: spirits, wine and beer, in our country

³⁷⁶ Ibid. p.221, (Our translation).

³⁷⁷ Xenopol mentions that in this estimation were not included the local taxes neither regarding our country nor the others— in our case the county and communal taxes).

³⁷⁸ A.D. Xenopol, *Opere economice*, pp.219-220.

³⁷⁹ A. D. Xenopol, V. C. Buțureanu, *Industria berei și impozitul*, I.V. Socec, București, 1895, p.18, (Our translation).

and in other European countries; a relevant analysis, much appreciated in the newspapers of those days.³⁸⁰ He noticed that although beer contains much more nourishing substances than spirits or wine, thus being more useful, it contains less alcohol so it is less dangerous and, as opposed to spirits and wine it can hardly be forged; yet the tax on beer in our country of 40 lei per hectoliter was excessively large in comparison with other countries. The direct consequence of this situation was the fact that while beer consumption per capita in Romania was very low, of only 0.6 liters as compared to Holland – 50 liters or Belgium – 190 liters, the consumption of spirits per capita was among the highest, 4,56 liters compared to 4.20 l in Belgium, 3.50 l in Austria-Hungary, 1.04 l in Italy while only in Denmark, Germany, Switzerland and Holland was the consumption higher than in our country: between 4.58 and 8.25 l per capita. “In other words, our state protects the forgery of drinks, believes Xenopol, encouraging the spread of alcoholism and the population’s intoxication; whereas the only drink that has the most advantages and the least drawbacks is put on the black list, treated as a dangerous ingredient and hampered in its consumption through taxes three times excessive.”³⁸¹

He also noted another fact, that spirits didn’t obey the law of demand’s flexibility, i.e. the rise in the price of this product as a follow-up of the increase of taxes didn’t limit the consumption. He found the explanation in the fact that any rise of taxes on spirits is compensated or even overrun by the cheapening of production costs as a consequence of the forgery of this product. The same thing is valid for wine too, even more so as the tax for this product was taken from the producer and not from the innkeeper, the one who forged the wine.

In these circumstances, Xenopol believed that the only way to protect the population against the poisons contained by “forged and unclean” drinks would have been the monopoly on alcohol which would have allowed state’s control over the alcohol production and the marketing of this product in closed bottles, therefore guaranteeing genuine drinks. Only then, a rise in price would have limited consumption, without causing state’s income to diminish, because although it would have sold less, it would have sold more expensively.

Convinced supporter of beer consumption, but also a member of Anti-alcohol League, Xenopol militated in favor of encouraging the beer industry, an agricultural industry, by reducing the taxes on this product, the existing one being considered irrational, unjust and harmful for the state. Irrational because it rose the price of beer, “so much that it transformed it into an ‘extra-luxury’ drink, turning people towards the consumption of spirits; unjust because it was settled arbitrarily: neither according to the alcohol concentration as was the case of spirits, neither according to the cultivated surface as was the case of plum brandy or wine; harmful because despite the high taxation it brought little revenue due to the low consumption. Thus, despite a population comparable in size to that of Belgium, where 10 million hectoliters of beer were consumed despite the low tax on beer (2.32 lei), the state would cash in almost 17 million lei a year in Romania due to the consumption of only 37.000 hectoliters; even in the case of a very high tax, the state would cash in only 1 million lei a year.”³⁸²

In opposition to M. C. Haretu, the author of *Degrevarea berei și monopolul alcoolului. Răspuns la ”Industria berei și impozitul lui Buțureanu și Xenopol”* (București, Editura GobI, 1869), Xenopol adopted the theory of demand’s economy according to which the demand determines the production and since the tax is paid by the consumer, any rise of it would diminish the demand, limiting the production and the other way round. The exception to this rule is represented by forgeable drinks like spirits and wine, in the case of which the rise of the tax would lead not to an

³⁸⁰ “Industria berii”, an article signed “Nerva” in *Evenimentul*, IV, nr. 1590, from July 31, 1898, and nr. 1592 from August 2, 1898; the Xenopol-Buțureanu and Haret trial in *Ecoul Moldovei*, VI; Iași, 1896, nr. 19 from November 14, p.2.

³⁸¹ A.D. Xenopol, V.C. Buțureanu, *Industria berei și impozitul*, pp.58-63, (Our translation).

³⁸² *Ibid.*, p. 86.

increase of the price but to the intensification of bootlegging and to the discovery of new methods of forgery meant to reduce the production costs, which in the end would threaten in an ever increasing degree the health of the population.³⁸³

An interesting and original proposition was formulated by Xenopol regarding the improvement of the farmers' fate by including their debts generated by agricultural contracts in a more efficient and accessible taxation system. Xenopol harshly criticized the unbearable situation where the tax collectors, the mayors and the sub-prefects, being aware that the farmers could not pay their taxes, in order to ease their own job, would sell the entire village community to land-owners or land agents in exchange for the work to be carried out. This would happen because the farmers accepted this deal which not only paid their duty towards the state but sometimes gave them back some leftovers, yet this measure was profoundly unjust as long as the value of work was arbitrarily established, sometimes representing only half of its real value. In this situation not only was the farmer in a perpetual debt, sometimes for 4-5 years ahead because he couldn't discharge all his work obligations and because sometimes he would take loans from land-owners for current needs, but furthermore he didn't work his land and as a consequence of poor crops he would have to take further loans from the land-owner.

This state of facts could have ceased in Xenopol's view through the taking over by the state of the farmer's debts, through the release of "percentage carrying bonds to each land owner or land agent in accordance with the sums of money recorded in formal obligations".³⁸⁴ The state's compensation would have been realized through a special contribution of villagers, "compensation for debts". At that moment there appeared a difficulty regarding the taxation system itself: overall tax, easy to apply, would have been unfair because of the counties' debts, but also those of the farmers which were not the same and this would have meant that some of them would pay a part of somebody else's debt. Individual tax, on the other hand was impossible to apply. Thus Xenopol suggested a more equitable tax system, namely a type of taxation differentiated on counties, even on small rural districts or communes, all considering the number of inhabitants and the size of the debt. In fact, at the beginning of the 20th century, a series of judicial acts which were appreciated by Xenopol for their social impact would settle some aspects of the socio-economic filed: the Law on individual tax, the Law on income taxation, the Law for the control of precious material objects, the Law for pawnshops, the Law for wine industry loans, the Law for the amendment of the Agricultural Loan – all of them replicated in their text concerning the parliamentary debates, along with the depositions, with the ministerial application instructions and a relevant commentary, in a volume edited by Benedict Voinescu, a volume on which Xenopol would present a report for the Romanian Academy in 1906.³⁸⁵

Regarding the public debt resulting from the loans contracted by the state, Xenopol believed that although it was rather high according to the state's budget, respectively of 13-30, it was at the same time also necessary considering its destination, which was mainly connected to direct or indirect production activities and in a less measure meant to cover the budgetary deficit.

The pages discussing the public debt make Xenopol a real master of numbers; yet they are not about a game of numbers, but about a serious analysis of the problem of public debt based on statistics data. He revealed the fact that although Romania's public debt increased during the liberal government with over 200 million lei compared to 1876, the year when the government changed, the annuity it had to pay remained almost the same; respectively it grew up with only 1 million lei because simultaneously with the rise in the government's credibility, the contracted loans were increasingly advantageous, therefore obtained at an ever lower interest rate.

³⁸³ The Xenopol-Buțureanu and Haret trial in *Ecoul Moldovei*, VI; Iași, 1896, nr. 19 from Nov. 14, p.2.

³⁸⁴ A. D. Xenopol, "Studii economice" in *Opere economice*, p. 145, (Our translation).

³⁸⁵ Id., "Raport asupra lucrării *Nouăle impozite și nouăle legi financiare și economice* by Benedict Voinescu", București, 1906, in *Analele Academiei Române. Dezbateri*, s. II, t. 29, 1906-1907, p.435.

For Xenopol the most important aspect was represented by the destination of the borrowed sums. In this respect he showed that the greater part was used to build railways, bridges, docks, military and weapon constructions, educational institutions.

“It is obvious that both the constructions and the railways are productive capitals”, Xenopol said, thus “the railways are expensive for the state, but the profit for the country increases tenfold.”³⁸⁶

He suggested the example of the railway that connected Fetești to the rest of the country and which had as a consequence the leasing of the real estates from Bărăgan that had not been valued until then, with prices five times bigger. But even the expenses for the army or education, apparently unproductive, at a more careful analysis were proven to be indirectly productive. Thus Xenopol argued in favor of providing proper hygienic conditions both in barracks as well as in schools, so that the health of the young people would not be hampered. On the other hand, Xenopol reminded the reader of the negative effects of the neglect suffered by the French army before 1871, a fact that would cost France 10 millions in damages and two lost provinces, this underlining once more that these expenses are not really unproductive.

His deep love for the country that is visible in all his historical studies is to be met also in his economic studies, a fact that gives cohesion to all Xenopolian studies, regardless of the problem they debate.

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³⁸⁶ Id. “Situățiunea financiară a României sub guvernul liberal în 1887”, p.231, (Our translation).