

BANKING PROBLEMS IN A.D. XENOPOL'S WORK

Ștefănescu Florica

Universitatea din Oradea, Facultatea de Științe Socio-Umane

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. By means of the measures suggested, he intended to give a new orientation to the economic development of agriculture, industry and commerce in the financial-banking field as a premise for the growth of the people's living standard, but also as a necessary condition for the political and cultural progress. In their essence, all these measures were intended to change the structure of Romania's economy.

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In what the overprice of gold is concerned that increased the annuity of the much debated public debt, it is analyzed and explained by Xenopol from the point of view of the causes that generated it. In his opinion these were both of a monetary as well as an economic nature.

The main monetary cause of gold's overprice was represented by the devaluation of silver, the latter being determined by a series of historical events combined with economic events. They represented the financial consequences of the French-German war, namely the obligation imposed on France to pay Germany 5 billions as war reparations. Germany used this sum, most of it in gold, to replace "its old currency the useless, effaced, silver dollars"⁵⁰⁸ with gold coins. Germany's devalued silver went to France or Belgium where it was transformed into coins of five silver francs. Being aware of the danger of being flooded with these coins, in 1873 France suggested to the other countries from the Latin monetary union established in 1865 (France, Italy, Belgium, Switzerland, all joined by Greece in 1868) for a first stage the restriction of the five francs coins battery, and later on the suspension of this coin battery, thus giving a strong blow to silver. Meanwhile, the discovery of a silver mine in the U.S.A. would enhance silver production with 2 million kilos a year, which would determine a supplementary devaluation of silver.

The final result of this series of events was according to Xenopol, the introduction of monometallism, joining England and Germany; later on it was introduced in the Latin union too. But Xenopol would prove using examples that this was only one of the causes of gold's overprice, but not the only one. He suggested an amendment to Gersham's law according to which the bad currency drives away the good currency. His amendment stated that the law was valid only when "the productive powers of a country are not capable of holding to the latter" (gold-our note).⁵⁰⁹

How else could one explain the fact that in France for example, despite the circulation of both 4.5 billions in gold and of 3.5 billion silver francs at the same time, there was no overprice; while in Greece, a country from the Latin union, thus practicing a monetary policy similar to that of France, the gold overprice was at about 20-24% as a consequence of military spending caused in 1884 by the prospect of a war. Therefore, it was obvious that the economic cause used to accompany the monetary one in generating gold overprice; in other words, according to Xenopol: "gold is retained in those countries where it can be retained by the nation's productive powers and is driven away from those countries where such powers are not sufficient enough".⁵¹⁰

⁵⁰⁸ A.D.Xenopol, "Situația financiară a României sub guvernul liberal în 1887", p. 233, (Our translation).

⁵⁰⁹ Id., (1967) *Opere economice*, Ed. Academiei Republicii Socialiste România, p. 235, (Our translation).

⁵¹⁰ Ibid., p. 236, (Our translation).

This fact was visible in our country too, because each time the export grew in size, the gold's overprice dropped, but when the settling day arrived for the rent bonds or the land loans bonds, it rose again.

Xenopol believed he was right when he concluded that in our country the overprice was not due to silver circulation, but to the incapacity to hold on to gold, considering that the expenses were bigger than the production, our country being compelled to give away to foreign countries more gold values each year than it received back. Due to this aspect we did not have overprice until 1876, as long as the balance of trade was on surplus; the overprice appeared and held constant with an unfavorable balance of values, encouraged by the conditions of the Commercial Agreement with Austria-Hungary.

Xenopol's theory regarding the causes of gold's overprice was opposed to those who believed that the overprice was the result of the monetary policy of the liberal government which introduced the silver standard to replace the gold one on the occasion of the rubles' demonetization, of the foundation of the National Bank, of the issuing of the 30 million treasury notes and of some excessive operations of title loans (Lombard loans). Xenopol maintained that if this would have been the true cause of the overprice, then it would be easily removed by introducing the gold standard. But such a measure would have caused all the gold money to disappear from the country in a short interval of time, first of all in order to pay for the differences in the values' balance. This fact, showed Xenopol, would have also happened in the case of the issuing a large quantity of golden coins. Therefore he endorsed the maintenance of bimetallism in our country, because this would keep the coins inside the country, even if they were silver ones; and he also supported abandoning monometallism in Europe because in his opinion this would be the culprit for the gold's overprice. As underlined by G. Gane too, this idea, although a mistaken one, was quite widespread in Europe in the second half of the 19th century.⁵¹¹ Yet meanwhile Xenopol argued in favor of the improvement of our economic state, which would make the country keep the gold and thus diminish or even remove the gold's overprice.

Considering that money is "that special nerve of all things" always having "the strongest influence on the evolution of all business"⁵¹² and believing that "money isn't made but through work, and the work should reflect the degree of civilization that you want to represent"⁵¹³, Xenopol gave a particular attention in his writings to the problems represented by loans, usury, banks and the monetary system. The first emissions of coins were made in Walachia during the reign of Vladislav I (1364-1377); in Moldavia during the reign of Petru Mușat (1375-1391); in Transylvania during the reign of Ioan Zapolya (1510-1540). The coin that was used in Walachia and Moldavia in the second half of the 17th century and in the first half of the 18th century was the "leu", a species of old dollar, a coin issued in the Netherlands, widely circulated in Central Europe. In our country the leu had Turkish monetary submultiples in Romanian terminology; 1 leu equaled 40 pennies, and a penny equaled 30 coins ("bani"). As a follow-up of the amassing money, the old leu disappeared from circulation, yet holding its status as calculation currency.⁵¹⁴ For a long time a real monetary chaos ruled in the Romanian principalities, characterized by the usage of 70 foreign currencies, most of them effaced, worn out, pierced, without a regular currency exchange rate. They also were part of the mixture between the commercial capital with the usurious one in the usury houses, a fact that created a great confusion and caused great damages to producers. The Constitutional Regulations sanctioned this system where, next to a fictitious monetary standard represented by the calculation leu or reckoning, there were used

⁵¹¹ G. Zane, "Conceptia economică a lui Xenopol", in *Viața Românească*, XXV, 1972, nr. 9/September, p. 109.

⁵¹² A. D. Xenopol, "Situția financiară a României sub guvernul liberal în 1887", p. 209. (Our translation).

⁵¹³ Id. "Revista economică a anului 1900" in *Evenimentul*, December 13, 1900.

⁵¹⁴ Maria Mureșan, *Istoria economiei. Epoca modernă și contemporană*, Ed. Economică, București, 1995, p. 200.

many foreign coins. Alexandru Ioan Cuza's attempt to create a national currency "the romanian", made of silver using the French model failed because "the issuing of coins was considered by the Turks as an attribute of sovereignty"⁵¹⁵, but also due to the diplomatic troubles it would have caused, combined with the lack of financial resources.

Only in April 1897, through the Law for the establishment of a new monetary system and for the making of national coins, the old nominal leu was replaced with a real currency, also called leu but guaranteed by gold protection. This law expressed the Romanian monetary doctrine and had a political importance since it expressed the right of the principalities to their own monetary system, and an economic one since it assured a regular monetary circulation. Between 1867-1873 there have been introduced into circulation first of all the copper coin, then the silver one, and when they were about to introduce the gold coin the Russian-Romanian-Turkish war broke out. On a monetary level, this event had two major effects: the issuing of mortgage bonds, paper money and that of receiving in Romania rubles at a higher exchange rate than their real value, i.e. of 4 lei per ruble rather than 3.70 lei.⁵¹⁶

Harshly criticized by the conservatives, the measure of issuing 30 million mortgage bonds was taken by the liberal government in the context of the budgetary deficits inherited from the conservative government and in the context of the impossibility to negotiate a loan while at war with the Turks. The operation proved to be a success, the bonds holding their exchange rate ad pari until they were withdrawn by the National Bank founded on the 1st of December 1880, without causing the state to suffer any loss. In addition, this operation made Romania be acquainted with paper money, get used to fiduciary circulation, thus being able to exit "the savage economic state where only the jingling metal is valued" and entering "the more cultivated economic life of civilized peoples".⁵¹⁷ Only that the result obtained by issuing mortgage bonds was cancelled by the effect of introducing in our country the rubles, "bad foreign money", which next to the devaluation of silver on international markets and next to the unfavorable balance of trade, starting with 1876, led to the emergence, then the growth of gold's overprice. Even if, immediately after the peace treaty of San Stefano, the ruble was transformed into a coin of 5 Romanian lei, the situation was not mended because the new coin really valued only 4.5 lei, thus becoming a "Romanian ruble, even more dangerous as it was no longer a foreign one, but it endorsed our national form."⁵¹⁸

As a consequence, this situation promoted usury, perpetuated the money lenders' abuses. These people were considered by Xenopol to be the conservative element regarding the capitals, since they opposed any law which would have established a maximum for the interest rates and any bank which would have decreased the interest rate.

At the same time Xenopol believed that usury was "one of the worst evils"⁵¹⁹ while the money lenders – a "greedy" and rather widespread category of "parasites" which dealt in "dishonest speculations".⁵²⁰ This "evil" affected city dwellers as well as village dwellers, usury having various facets: from very high interest money lending to loans demanded by farmers on special situations: marriages, funerals, poor crops from land agents or land owners, loans that most often had to be paid back in work. But this work was poorly valued so that the farmer was in a constant debt.

⁵¹⁵ Andrei Oțetea, *Istoria poporului român*, Editura Științifică, București, 1970, p.262, (Our translation).

⁵¹⁶ A. D. Xenopol, "Raport la lucrarea 'Politica monetară și a băncilor României' by Traian Mihaiu, București, 1907, in *Analele Academiei Române. Dezbateri*, s.II. t.30, 1907-1908, p. 387.

⁵¹⁷ Id. *Studii economice*, p.131, (Our translation).

⁵¹⁸ Id. "Raport la lucrarea 'Politica monetară și a băncilor României', vol I, by Traian Mihaiu, in *Analele Academiei Române. Dezbateri*, p.II, t. 30, 1907/1908, p.387, (Our translation).

⁵¹⁹ Id. "Mijloacele de îndreptare ale stării țărănimii române" in *Arhiva*, XVIII, 1907, nr. 6/June, p. 309, (Our translation).

⁵²⁰ Id. *Studii economice*, p. 133, (Our translation).

As a consequence, Xenopol welcomed the measures taken by the liberal government against usury: one concerned the “cancellation of the penalty clause” and the reduction of the “conventional percentages provided by the legal limit”, and the second one, “defended wages’ surveillance and the aq pensions thus declaring them necessary and untraceable.”⁵²¹

On a monetary level, the most efficient measure proved to be the foundation of the banks, first of all that of the National Bank of Romania. The first Romanian bank was the National Bank of Moldavia, founded in 1857 and bankrupt only three years later, a bankruptcy motivated by Xenopol through the employment by the above named bank of two types of incompatible banking operations: “land credit and discount”.⁵²²

In 1861 the liberal minister Golescu – Brătianu suggested establishing the Discount Bank, an ineffectual proposal due to the revocation of this ministry. The proposition was renewed in 1873, but this time by the conservative government; yet due to the lack of interest of the “conservative party” for the economic problems, it was ineffectual this time too, believed Xenopol.⁵²³

Only in 1880 the National Bank of Discount and Circulation is established, having two thirds private capital and one third state capital. This bank, the most important financial institution in the country, had supported industrial and commercial development and had given to the state convenient loans, thus contributing to the capitalist evolution of the Romanian economy and on a social level, to the development of the bourgeoisie.

As predicted by Xenopol, the National Bank proved to be extremely beneficial for farmers too. First of all because withdrawing from circulation mortgage bonds and replacing them with its own bonds, the bank would allow the state to gradually sell from its property small parcels especially to newlywed couples, thus canceling the mortgage bonds. Giving land to newlyweds and therefore passing a part of the state property in the hands of the petty farmers – all this done with the help of the National Bank – was meant to give a new boost to agriculture. But the National Bank was able to help farmers in another manner too, according to Xenopol. Thus, storing their crops in docks in exchange for some receipts (called “warande”), which certified the amount of grains deposited there, the farmers could have discounted the receipts for a minimum interest, i.e. obtaining a cheaper credit.

Another financial institution supported by Xenopol was the rural bank the foundation of which was accompanied in our country by the opposition of the land owners, who thus would have lost their quality of creditors for framers. It is beyond comprehension, said Xenopol that the land owners, once they have enjoyed the benefits of the establishment of the Land Credit which saved them from the menace of usury, did not admit of a similar measure for farmers. This was due to the fact that “what previously the money lenders represented for the property, now the land owners and the land agents represented for the farmers.”⁵²⁴ In Xenopol’s view, “the rural bank would be meant to help either communities or individuals with loans contracted under the best clauses possible, first of all the leasing of land properties and second the purchasing of land”⁵²⁵. At the same time with the facilities offered by the bank, to the Romanian farmer one should make very clear the clauses for refunding the loan, any delays or respites being excluded, excepting those stipulated by the law. According to Xenopol all this happened because of the “great flaw of the Romanian character” which is the “inaccuracy of fulfilling one’s duties”.⁵²⁶ At the same time Xenopol planed in view of the economic rebirth of our country, “a special bank for helping

⁵²¹ Ibid., p. 133, (Our translation).

⁵²² Id., Raport la lucrarea “Politica monetară și a băncilor României”, de Traian Mihaiu, p. 587.

⁵²³ Id., Studii economice, p.131

⁵²⁴ Ibid., p.148, (Our translation).

⁵²⁵ Id., Banca rurală, in *Românul literar*, L, 1907, t.6, nr. 21, p.281, (Our translation).

⁵²⁶ Ibid., p. 282, (Our translation).

Romanian craftsmen and tradesmen”⁵²⁷, having as a goal stimulating the small and medium industry in Romania.

As a conclusion we can say that Xenopol’s studies, articles and economic papers fully prove his constant interest for such an important domain in the life of a country. This interest was motivated by the importance for Xenopol of the people to which he belonged, its needs and hopes. This made him research the economic state of the Romanian people, its causes, and also formulate among the most realistic solutions possible for the improvement of this state, for the reduction of the gap that separates us from the economically developed countries. By means of the measures suggested, he sought to give a new direction to the economic development of agriculture, industry and commerce; all of this being a necessary condition to the increase in the people’s living standard. It was also necessary for the political and cultural progress which would ultimately determine the changing of the economic structure of the people’s life. The same reason made him get involved in politics, without having a special talent in this activity and without wanting to make for himself a political career. Yet this way he was able to assume an attitude, he could influence decision making on the economic level which he considered to be beneficial for the country.

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⁵²⁷ Id., “Regenerarea economică a țării noastre”, in *România viitoare*, București, I, 1910, nr. 2 from December 15, p. 67, (Our translation).