

APPRECIATIONS REGARDING EXTERNAL CAPITAL IN ROMANIAN ECONOMY IN THE SECOND HALF OF THE 19TH CENTURY AND THE FIRST TWO DECADES OF THE 20TH CENTURY

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Abstract

The study with the mentioned title outlines the specificity of the Romanian world related to its level of development and to the interest of foreign capital in capitalizing the potential of the Romanian economy. In the middle of the 19th century the foreign capital penetrates the Romanian economy only in form of some state loans awarded under onerous conditions. In the second half of the 19th century, the foreign capital is present in the Romanian economy in form of direct investments in the large manufacturing industry but it has not a decisive role in the economical evolution of our country. Foreign capital manifested an extreme interest and was very present in the oil industry, especially after passing the Mine Law in 1895. Thus, after approximately one decade and half from enacting the mentioned law, the capital investments in the oil industry had the following structure: German – 39,3%, French – 15,0%, Dutch – 10,1%, American – 6,8%, Italian – 6,1%, Belgian – 3,6%, English – 2,7%. In this structure, the Romanian capital owned 14,1%.

The accumulation of capital, which, in our country evolved under the circumstances mentioned and through the known methods, determined the gradual transformation of the market economy in a capitalist economy. The shortage of own capital, accumulation of which was limited by the factors reminded above, offered the foreign capital the opportunity to penetrate the market and at the same time it imposed the resort to this one.

The foreign capital contributed as well to maintain the Romanian economy, in the context of its gearing into the world's economical circuit, in a status of a peripheral and dependent economy, movement of which took place also under the influence of foreign economical powers. Watched in time, the consequences of the foreign capital's penetration represented a part of the cost of modernizing the Romanian economy.

Key words: External debt, foreign investments, Romanian oil industry, internal accumulation of capital, equal advantages for Romanian and foreign investors, market economy, modernizing the Romanian economy.

Unlike the economies of other countries, which from political point of view, benefited from unitary states, the Romanian economy, on its way to modern development, was burdened, first of all with state crumbling and with the fact that all Romanian Historical Provinces were under suzerainty and/or foreign government.

During the rivalries between the three vast surrounding empires – the Ottoman, the Russian, and the Austro-Hungarian – the Romanian countries represented the subject of dispute and military occupations. The frequent wars between the three vast empires were occasions for devastating the Romanian territory, generated uncertainty of fortunes and persons, permanent harassment of the population, favored the arbitrary acts and corruption and the drawing out over the Romanian borders of important values. All these limited the internal accumulation of financial capital, capital that had to contribute to the development of the economy, especially to the development of lucrative activities. Two other phenomena, that clearly impeded the internal accumulation of financial capital, can be added to the already mentioned ones, the Ottoman monopoly on the external trade of the Romanian countries and the late maintenance of feudal rapports which limited the juridical liberty of the labor force and hindered the development of the internal market.

The Unification of the Principalities from 1859, the secularization of monastic assets, the emancipation and assignment of land to bondsmen in conformity to the Land Law from 1864 and afterwards the institutional reform, as well as the achievement of the state independence in 1877 created favorable circumstances for promoting a systematic economic policy regarding the support of national productive forces, the accumulation and the usage of financial capital. All these were

Until achievement of the state independence, the foreign capital participates in a couple of concessions with monopolist character. Thus, a convention regarding the construction of 19 metallic bridges over some major rivers is concluded in 1864 with the English company „J.T. Barclay & J. Staniforth”. With the same company, a concession contract for building the railway București-Giurgiu [8] is concluded in August 1866. The contract was finalized in April 1867. A year before, a similar convention, concluded with the same company, was invalidated by the Romanian Parliament. In October 1865 a financial group consisting of English, French, and Austrian banks is given the right to establish in Bucharest a discount and issue bank. Short time after, the respective bank is withdrawn the privilege to issue and it continues to run as commercial bank, named “Bank of Romania”, with a capital of 25 million lei. The first chairman of the administration board of this bank was Ion Ghica. Essentially, the establishment of this bank meant the transformation of the Bucharest subsidiary of the “Bank of the Ottoman Empire” in a native entity with English majority capital.

Sections of railroad have been built also through concessions to different German, French, English or Austrian bank groups and have been bought back by the Romanian state after 1880.

After achievement of Romania’s state independence in 1877 and, implicitly, after the delineation of its European status, the participation conditions of the foreign capital were relatively improved, a part of the former loan contracts being renegotiated and re-echeloned, converted, under conditions, which were easier to be tolerated by the state budget and by the Romanian tax payer.

The necessity of major long-term loans grows together with the acceleration of the process of modernizing the economical and social life; process materialized in constructions of railways, modernization of harbors and roads, constructions of public buildings, etc. As the achievement of such goals exceeds the possibilities of the state budget, external loans are contracted, fact which leads to the increase of the external public debt. In table 1, we reproduce the data regarding the external public debt at the beginning of the 20th century.

Table no 1. Romania’s external public debt in 1902, in million lei

Kind of public debt	Borrowed capital		Converted sums	Sunk sums	Balance of the external public debt	Paid interests	Paid annuities
	Nominal value	Real value					
External debt	2.331,2	2.092,3	642,1	310,0	1.379,1	1.165,0	1.475,0

Source: *Enciclopedia României/Romania’s Encyclopedia*, Imprimeria Națională, București, 1943, vol. IV, p. 387

It has to be specified that, in 1902, in the total public debt of Romania, internal and external, the external public debt represented 97 % , and the payment of the annuity represented almost 40% of the total state budget income.

After 1900 the external loans of Romania tend to be monopolized [5] by the financial groups Diskonto-Gesellschaft, Bleichroder and Rotschild & Sons. Between 1900-1914, through their mediation, Romania contracted on the German financial market six loans, in total sum of approximately 1.100 million lei, conditioned by purchase from German companies of rolling stock for the railways and of armament. It is to be mentioned that, in the course of the first decade and at the beginning of the next one of our century, as a result of exceptional agricultural production and of the substantial increase of the exports of agricultural products and also of other products with larger weight in its export, Romania managed to pay off an important part of the public external debt.

In April 1914, the external public debt of Romania was in sum of 1.652,1 million lei and was contracted in a ratio of 47% with German banks, 32% with French banks, 10% with English banks, 7% with Belgian banks, and 4% with other banks.

Direct investments of foreign capital started to be present beginning with the seventh and eighth decades of the 19th century. For example, the „Lemaître” factory, with French capital, which produced weighing machines, measures and weights was founded in 1864, the „Freund” foundry, with Swiss capital, was founded in 1867, the enterprise „Jackson Brown & Co.” with English capital, exploited and commercialized oil and was founded in 1868 but it went bankrupt only after one year of operation, the Sascut sugar factory, with joint participation of French capital was founded in 1875, in the same year the Chitila sugar factory was also founded, with joint participation of Belgian capital, and later on, starting with 1886, with joint participation of Austro - Hungarian capital, the „Max Tonolla”, brick factory, with Italian capital was founded in 1873, as well as two other factories of hydraulic lime and cement in Comarnic, in 1876, respectively 1878, etc.

At national economy level, the direct investments of foreign capital become more important after passing the First law for encouraging the industry, in 1887 [6], and especially after passing the Mine Law, in 1895. The first law mentioned, which grants equal advantages for home and foreign entrepreneurs, in the area of founding enterprises in the manufacturing industry, determines the establishment of many joint enterprises, with Romanian and foreign capital, and the other law, with extraordinary results in the exploitation and utilization of oil, promotes the establishment of many companies, in their majority, with foreign capital only.

Hereinafter, we will refer in particular to the oil business, where the foreign capital is represented at its best. So, in 1896 the company „Steaua Român ” (*Romanian Star*) is founded. Until the First World War, this is the most powerful oil company in Romania. It was established with Austro-Hungarian capital, in initial sum of 2,4 million lei. It is bought by the Deutsche Bank in 1903, and starting this date, it operates as company with German capital. After ten years, in 1913, the capital of the company represents 130 million lei and it extracts and refines $\frac{1}{4}$ of the total oil production in the country. At the same time, through financial levers, it controlled other oil companies as well, for example: „Aurora”, „Aliantza” and „Danubiul”. The German capital, through the Diskonto-Gesellschaft bank, was also present in the companies „Vega”, „Carpatia”, and „Creditul Petrolifer”. The American capital is represented through the „Romanian -American” company, established in 1904, which was in fact a subsidiary of the large „Standard Oil of New Jersey” trust. The English-Dutch capital is represented through the „Astra-Român ” company, established in 1910, as subsidiary of the „Royal Dutch” trust, as well as through smaller companies with separate capital, English and Dutch. The French capital is present through the companies „Acvila franco-român ”, „Lutetia”, „Odette”, „Société française Predeal -Teleajen”, the Belgian one through the „Romanian-Belgian Oil Company” and the Italian one through the „Italian -Romanian Company » .

In the first decades of the 20th century, the capital accumulation in the industry, but as well the accumulation in other domains of activity, banks, trade, agriculture, etc, conform to the statistical data of the time, embody a relatively vast picture. Thus, according to the data provided by the Industrial Research in the years 1901-1902, the fixed capital invested in the big manufacturing industry totalized 247,4 thousands lei, while the opening capital totalized 110,4 thousands lei. According to data provided by the Industrial Research from 1906, the big industry, private and state-owned, respectively the private encouraged and non encouraged industry the state industry, counties and communes, the last one comprising only large enterprises with capital over 50.000 lei, enclosed in the mentioned year, a total capital of 356,9 million lei, out of which 214,3 fixed capital and 142,6 working capital. By all means, to these data the capital of the other companies, smaller than the mentioned margin, is also to be added. Later on, the volume of the capital in the big industry increases, the data we possess, are only those regarding the fixed capital, which in 1910 totalized 281 millions and in 1915, 361 millions. We are not in possession of data regarding the nationality of the capital in the big manufacturing industry, but the data on the nationality of private companies operating in the big industry, from the year 1906, offer us an image in this regard. Thus, from 293 companies, 152 were private ones and 141 were social ones. These last ones operated under different forms, more frequently as limited companies and under Romanian emblem but

founded, most of them, by foreign capital. Within the private firms, 81 were Romanian, 38 were foreign ones and 33 were without protection, within the social firms, 131 were Romanian, 10 were foreign ones and/or subsidiaries of foreign companies.

We are in possession of data regarding the evolution of the capital investments in the oil industry, by nationality, in the years 1904 and 1908, shown in table 2.

Table no 2. Capital investments in the oil industry, by nationality, in the years 1904 and 1908

Nature of capital	Capital, thousands lei		Percentage	
	1904	1908	1904	1908
TOTAL:	82.678	222.203	100,0	100,0
German	35.600	87.506	43,1	39,3
Dutch	13.840	22.388	16,7	10,1
Romanian	12.488	31.259	15,1	14,1
Belgian	7.250	7.900	8,8	3,6
English	6.500	6.000	7,9	2,7
French	3.000	33.400	3,6	15,0
American	2.500	15.000	3,0	6,8
Austro-Hungarian	1.500	5.150	1,8	2,3
Italian	–	13.600	–	6,1

Source: Axenciuc, V., *Evolu ia economic a României, Cercet ri statistico-istorice 1859-1947, vol. I industria/Economical Evolution of Romania, Statistic-historic Researches 1859-1947, volume I Industry*, Editura Academiei Române, Bucure ti, 1992, p. 285.

The data refer to a short period of time but are very expressive regarding the evolution of capital investments in the area, especially when it comes to the decrease of the Romanian percentage in favor of the foreign one. We also want to mention that in 1903 the Romanian capital represented only 21,9% of the total invested in the oil industry.

The conclusion above is confirmed as well by the data regarding share capital in the oil industry, by nationality, in 1915. These data are reproduced in table 3.

Table no 3. Share capital in the Romanian oil industry, by nationality, in 1915

Nature of capital	Capital, thousands lei	Percentage
TOTAL:	412.147	100,0
German	110.354	26,8
Dutch	97.901	23,8
English	95.421	23,1
Romanian	32.726	7,9
American	25.000	6,1
French	20.350	4,9
Belgian	14.395	3,5
Austro-Hungarian	8.500	2,1
Italian	7.500	1,8

Source: V. Axenciuc, *op. cit.*, p. 285.

After 1867, Transylvania did not have its own fiscal policy, budget, and public debt. Therefore, we can not make any appreciations regarding the accumulation of capital through the mentioned levers. The accumulation of capital, was done here, to a large extend, through direct investments, including through mediation of Austrian and Hungarian banks, the last ones depending in their majority on German banks. In the last decades of the 19th century, especially after 1900, the German capital had a remarkable weight. Beside Austrian and German capital, the French, English and Belgian capitals were also present but in a slighter proportion. The technical literature estimates

on the ground of some approximated calculations that in 1914, the foreign capital owned in Transylvania about 96% of the coal production, 51 % of the iron ore production, and 59% of the iron one [1].

Regarding capital accumulation before First World War in Basarabia and Bucovina, we do not own any data, not even approximated ones.

The accumulation of capital, which, in our country evolved under the circumstances mentioned and through the known methods, determined the gradual transformation of the market economy in a capitalist economy. The shortage of own capital, accumulation of which was limited by the factors reminded above, offered the foreign capital the opportunity to penetrate the market and at the same time it imposed the resort to this one.

The results of the penetration of foreign capital into Romanian economy can be considered positive, to the extent to which this capital promoted the utilization of natural resources, the increase of industrial production, the augmentation of exports, employment of national labor force but also negative, to the extent to which its main activity object here was the exploitation of an important part of the subsoil, the manufacture of staple goods, the predatory exploitation of some natural resources, all these being accompanied by the tendency of profits' repatriation, fact which did not contribute to the expansion of the internal market.

Hereby, the foreign capital contributed as well to maintain the Romanian economy, in the context of its gearing into the world's economical circuit, in a status of a peripheral and dependent economy, movement of which took place under the influence of foreign economical powers. Watched in time, the consequences of the foreign capital's penetration represented a part of the cost of modernizing the Romanian economy.

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