

INVESTMENTS AND DEVELOPMENT. A FEW MILESTONES OF ROMANIA'S EVOLUTION

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Abstract

The economic development is not exclusive a contemporary reality but a feature of historical systems and eras in general. This aspect was also observed by Romanian economic school representatives, like Mihail Manoilescu, Gheorghe N. Leon, N.P. Arcadian. The present paper wants to be an insight into the issue of investment and industrialization – factors of economic development – of interwars Romania.

Key Words: *Liberalism, Industrialization, Industrial Output*

JEL Classification: B31, L16, E22

INTRODUCTION

From historical perspective the development of Romanian industry was, along times, hard enough, labourious sometimes, facing great problems both internally and externally. Internally there were some difficulties that have kept the aggregation of Romanian economic and social space, and externally these problems were caused by the necessity of levying Romania as a stand-alone entity both territorial and especially economically.

Through the Great Union (1918) *a new and natural Romania* was completed. We consider that Greater Romania (Romania Mare) had "a whole new industry body in terms of the nature of the industries [...], and an industrial legal foundation resident in four different industrial legislation: Romanian, Hungarian, Russian and Austrian." [Arcadian (1936, p.146)]

LITERATURE REVIEW, HISTORICAL AND EMPIRICAL ANALYSIS

Upon completion of national unity, in the Romanian industry structure have emerged new industries. "Greater Romania's industry was considerably enhanced by adding new provinces, Transylvania and especially Banat, important industrial centers, which brought to Romania an increasing of its industrial capacity." [Leon (1943, p.160)]

To illustrate this point, we note that before the Great Union, Old Kingdom of Romania (Vechiul Regat) industry consisted of 1114 enterprises, while in 1927 this number was 4094 [Leon (1943, p.160)]. For a better understanding of the positive effects induced by the unification of the national space industry, in Table 1 are presented several indicators of the existing situation in the domestic industry in 1921.

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Territory	Enterprises number	Driving Force (Hp)	Invested capital (million lei)	Output (million lei)
Old Kingdom of Romania	1114	189776	1406	6190
Transylvania	1024	194433	811	3153
Bessarabia	262	11916	184	442
Bucovina	210	10566	140	447
Banat	137	70056	237	1294
Total	2685	476747	2778	11526

Table 1 Industrial development in Romanian provinces

Source: Statistical Yearbook of Romania, 1922, p. 202-203

We observe that by uniting all Romanian territories, there was an increase:

- in absolute figures - 1571 of industrial enterprises in addition to the 1114 ones already existing in the Old Kingdom of Romania

- in relative figures - an increase of 141.02% also compared to the Old Kingdom of Romania.

This increase was not seen only in the number of industrial enterprises, but also in terms of Romanian population since 1918. From 7 million inhabitants the Greater Romanian population reached 14 million inhabitants.

A large population could only be a contributing factor to Romanian domestic markets. The domestic market would have allowed a strong industrial development, the more that existed disparities in terms of industrial development of the Romanian provinces.

The exact figures of unified Romania indicated indeed an increase both in terms of population and territories. Statistical data on the Romanian territory annexed the Kingdom of Romania in 1918 confirmed this (Table 2).

Territory	Area (km ²)	Population		Total Population	Density (inhabitants/km ²)
		Men	Women		
Bessarabia	44.422	1.198.900	1.145.900	2.344.800	58
Bukovina	10.442	395.963	404.135	800.098	77
Banat *	18.523	789.102	793.031	1.582.133	55,5
Transylvania	57.804	1.350.480	1.327.887	2.678.367	46,3
Crişana and Maramureş	25.955	659.836	657.145	1.316.981	63,2
		378.205	388.461	766.666	47,3
Old Kingdom of Romania	137.903	3.989.606	3.914.498	7.904.104	56
Total	295.049	8.762.092	8.631.057	17.393.149	57,6

Source: Statistical Yearbook of Romania 1915-1916, p. 342³

*For Banat, Crisana and Maramures, the data were modified based on Statistical Yearbook of Romania 1931-1932, p. 22-24

Table 2 The total area and population of Romania in 1918

It is obvious that after the completion of the national space the whole Romania has gained a lot, both in terms of territories and economic perspective.

³ Although statistical yearbook covers the period up to 1916 due to its appearance in 1919 it also includes some data about the Romanian provinces that were united in 1918.

By this statement, we emphasize the need to take account of the fact that this win was not just for the benefit of the Old Kingdom of Romania but for the benefit of all provinces of Romanian national state. A different approach, that would put the benefits of the unification of the Romanian space coming just from Old Kingdom of Romania, we consider that is unequivocally false and biased and we can only reject it. Same idea was also supported by a great Romanian economist Gheorghe N. Leon, a former Minister of Economy in several governments of Romania before and during the Second World War.

Gheorghe N. Leon's opinion - that emphasizes the common benefit of all Romanians brought by national unification - was not a single one. Broadly, similar positions were embraced by other Romanian authors too.

An edifying example is M. Manoilescu, another Romanian economist, the author of economic theory of corporatism and protectionism. His work gave us the opportunity of observing and synthesizing some general data that reveal the economic, social and spatial transformations, induced by the merger of all Romanian provinces into one national state. After studying these data we can say that the Old Kingdom of Romania on one hand and Romanian provinces on the other hand, have contributed substantially equal to the formation of a new economic and social framework of modern Romania. M. Manoilescu, presented these data (Table 3) on 24 of January 1921, to Congress of Industry, in an article called " *The Industry's importance and perspective in new Romania*" [Arcadian (1936, p.146)]

Criterion	Old Kingdom of Romania 1918		Romania in 1919	
	<i>Absolute value</i>	%	<i>Absolute value</i>	%
Population (inhabitants)	7.904.104	100	17.393.149	220
Area (km ²)	137.903	100	294.967	215
Cultivated area (ha)	6.102.631	100	13.128.900	215
Railway (km)	4155	100	10583	250
Industry (PH)	211.582	100	497.093	235

Source: Arcadian (1936, p.146)

Table 3 The demographical and economical contribution of Old Kingdom of Romania to Greater Romania

The data raised by M. Manoilescu could be considered a justification for the claim that we have set out above: the new Romanian national framework really brought a benefit that we consider it valid for all Romanians. Taking into consideration the reality that Romania in 1919 merged all Romanian provinces into a single, unified national state, it can be seen that the growth recorded by the economic forces of the New Kingdom of Romania compared to the Old Kingdom of Romania was between 115-150% - differentiated from one criterion to another.

Based on data above, the average across the country, calculated between relative total gains made by these criteria, is indicating an increase of 132.5%. At the same time the Romanian provinces - other than Old Kingdom of Romania - recorded by integrating into Kingdom Of Romania, an average increase of 67.5% of economic forces.

Regarding the analysis of the general economic and social framework, given by national unity, statistical data enables us to draw certain conclusions which underscores the idea that the unification of the Romanian space was made for the benefit of the entire population that are found in that geographic area.

Taking as starting point this framework, in the following, we focus on the study of Romanian industry after the moment of 1918.

Of all the remarks he made on the new industrial framework of Romania after the First World War, we can draw the conclusion that Gheorghe N. Leon was not an adept of the industrial development thesis of the Old Kingdom of Romania to a lower pace compared to that found in other Romanian provinces (especially in Transylvania and Banat).

The only major difference found by Gheorghe N. Leon was on Bukovina, this territory has only a small contribution to the new industrial complex. His opinion may be supported by analysis of N.P. Arcadian, which highlights the real development of various industries of Romanian provinces against Old Kingdom of Romania, based on statistical data from 1919 (Table 4):

Industry	The number of enterprises					
	Old Kingdom of Romania	Transylvania	Banat	Bucovina	Bassarabia	Kingdom of Romania
Metalurgy	171	75	19	16	24	305
Wood	155	240	25	67	15	502
Chemical	123	57	1	5	1	187
Food	352	338	35	78	174	977
Textile	58	71	14	-	13	156
Leather	66	46	5	6	10	133
Ceramics	87	93	19	12	5	216
Electricity	54	51	12	8	15	140
Others	48	56	7	18	5	134
Total	1114	1027	137	210	262	2750

Source: Authors' calculation based on Arcadian (1936, p.148-152)

Table 4 The number of enterprises - 1919

Each province separately, and the Old Kingdom of Romania by itself, had a certain industrial area that showed superiority over the others. Superiority in certain industries can be explained by specific differences that emerged from specialization on those industries that were favored by cost-benefit relationship for each province in part. An important role was played by natural resources held by each one of them. For example, in metallurgy, the number of Old Kingdom of Romania's enterprises was 171, while in Transylvania there were 75. On the other hand the number of enterprises in the wood industry in Transylvania was 240, while there were only 155 in the Old Kingdom of Romania.

This differentiated development was normal, especially since the Old Kingdom of Romania and the Romanian provinces until 1918 were not one entity, finding themselves in the position of trading partners.

National unity was a contributing factor to a national development of the industry, particularly through free access to existing natural resources in the new framework of the new country's internal market. Gheorghe N. Leon expressed this point of view in 1940 having the opportunity to observe the increase of industrial performance in the national economic framework, and taking as a basis the value of production that was obtained in the industries of each Romanian province in 1918 / 1919 (Table 5).

Industry	Total industrial output (<i>thousand lei</i>) 1919					
	Old Kingdom of Romania	Transylvania (without Crisana and Maramures)	Banat	Bukovina	Bassarabia	Kingdom of Romania
Metalurgy	786.297	259.666	254.339	13.270	16.140	1.329.712
Wood	612.247	951.960	56.027	413.314	18.940	2.052.488
Chemical	904.501	290.776	12.640	9.500	500	1.217.917
Food	2.469.909	1.070.760	405.292	123.889	346.730	4.416.580
Textile	545.993	109.176	335.671	-	17.006	1.007.846
Leather	489.103	208.885	167.252	30.180	28.041	923.461
Ceramics	136.547	152.681	30.136	23.316	381	343.061
Electricity	120.270	83.478	24.745	7.762	10.608	246.863
Others	125.306	25.293	7.633	11.359	3.798	173.389
Total	6.190.200	3.152.675	1.293.735	633.040	442.144	11.711.794

Table 5 Total industrial output - 1919

Source: Authors' calculation based on Arcadian, (1936, p.148-152)

In 1919, a year after the national unity, total industrial production in Romania stood at 11,711,794,000 lei. Of this, the contribution of Old Kingdom of Romania - in absolute terms - was 6,190,200,000 lei, while in all other Romanian provinces it was 5,521,594,000 lei.

With reference to the total value of production in the Kingdom of Romania in 1919 we see that the output of Old Kingdom of Romania had a share of 52.8% in total. The shares of the other provinces in the total output were: Transylvania 26.9%, 11.04% Banat, Bucovina 5.4% and Bessarabia only 3.7%.⁴

The value of total output in 1919 may seem an irrelevant criterion, given the fact that we want to prove the common benefit of all Romanian provinces obtained by socio-economic unity of Romania. For this, here are some relevant figures:

Year	Number of enterprises	Invested capital (thousand lei)	Driving Forces (P.H.)	Employees			The value of raw material (thousand lei)	Industrial output (thousand lei)
				Total	Administrativ	Workers		
1921	2.747	2.837.298	481.155	157.423	17.288	140.135	6.151.886	11.711.796
1922	3.061	*n.a	512.616	166.386	17.219	149.167	13.088.116	22.378.749
1923	*n.a.	*n.a.	*n.a.	*n.a.	*n.a.	*n.a.	17.674.399	34.384.323
1924	3.840	734.431	389.549	223.423	19.381	204.042	24.393.731	44.738.463
1925	3.445	759.020	384.676	208.683	17.255	191.428	22.215.794	34.723.323
1926	3.754	852.105	409.050	210.308	17.299	193.009	25.899.248	44.100.583
1927	4.094	39.482.559	463.436	214.052	24.383	189.669	33.634.362	59.044.501
1928	3.966	39.770.161	472.271	206.547	26.232	180.315	33.037.440	60.965.204
1929	3.736	40.284.730	497.961	201.184	24.305	176.879	29.698.689	56.128.798
1930	3.646	40.590.930	492.715	174.227	22.769	151.458	24.958.754	48.353.864
1931	3.524	40.549.182	498.059	152.309	19.920	132.389	16.263.488	33.154.712
1932	3.557	39.904.283	514.745	152.198	18.688	133.510	16.788.669	32.475.096
1933	3.487	39.821.220	529.968	184.777	21.264	163.513	17.881.250	34.940.757
1934	2.510	40.924.325	558.468	208.240	22.854	185.386	21.053.879	41.835.278
1935	3.613	41.841.375	582.946	230.797	24.697	206.100	22.943.534	47.288.370
1936	3.553	42.494.223	579.543	260.934	29.652	231.282	27.121.170	51.333.983
1937	3.512	46.275.399	722.638	278.919	32.881	246.038	35.244.886	64.567.298
1938	3.767	50.069.389	746.789	289.117	33.781	255.336	36.944.431	69.206.738

⁴ For these calculations we considered as 100% the total output of Romania in 1919

Table 6 The Romanian industry evolution 1921-1938

Source: Statistical Yearbook 1939-1940, p. 478-479

Within only 17 years (1921-1938) the value of Romanian industrial output grew 5.9 times from 69,206,738,000 lei in 1921 to 11,711,796,000 lei in 1938. This increase was achieved primarily through the development of new capital investment in equipment and production technology. In supporting this are the following figures: the number of enterprises increased only 1.37 times, while capital investment increased by 17.64 times (based on Table 6 data).

The capital invested in Romanian industry in 1921 was 2,837,298,000 lei, reaching 50,069,389,000 lei in 1938. On the same time with capital investment growth, the driving force of the industry grew also, followed by an increase in the quantity of raw materials used in the production process. We believe that the accomplishing a unified national economic framework and the increasing of capital invested in the Romanian economy were actually predisposing factors in achieving performance in the national industrial economic sectors in interwar Romania.

Another contributing factor to the economic unity of the country and the achievement of a functional national economic complex - whether talking about industry or any other branch of the national economy - was, according to Gheorghe N. Leon, adopting an overall national economic plan. This was supposed to have as core principles the social-economic doctrine "*by ourselves*".

It can easily be observed now, that, the economic life of Romania during the interwar period, in general, and the industry, in particular, have experienced an upward trend due to economic policy "*by ourselves*" too. In political program exposed by the Liberal National Party in 1921, there were some clarifications on how to create the proper environment for national economic development. For this, the political program was nothing else than the reaffirmation of the "*by ourselves*" doctrine principles.

N.P. Arcadian considered that the implementation of "*by ourselves*" doctrine's principles was prominently manifested since 1923-1924 [Arcadian (1936, p.167)]. We can observe that a strong current that promotes the economic independence of the country was here outlined. This current had as results a legislation that sought to provide a place of encouragement, protection and favor for Romanian labor and capital. Among the legislative measures we recall the 1924 Mining Law (*Monitorul Oficial al României*, 1924, p. 7569-7604), a law which we consider to be one of the most important legislative measures adopted by Liberals in order to promote national economic interests.

All legislative or economic policy measures have been favoring national economic forces, and eventually led to a genuine refocusing of Romania's industrial development principles.

Seeing the principles of economic liberalism the only viable alternative for Romanian economic environment evolution, Gheorghe N. Leon states that the development of industry and national economy would be done faster as Romania could showcase its tremendous economic potential that was in a dormant state. For this it was necessary that all productive sectors to play a more active economic role, avoiding disproportionate encouraging of national economic sectors or, even worse, of some industries which rely almost exclusively on imports of raw materials needed for production. In order to support this, G.N. Leon was saying: "Direct and indirect support that was given to Romanian industry has had some unfortunate consequences ... as: rubber industry without raw material in the country, monocultural, without a lens factory and a number of mechanic mills who worked with threads from abroad." [Leon (1943, p.161)]

Domestic industry's development could not be dissociated from agriculture by any means. Even more, in its early stages the national industry's development was made on account of the profits derived from selling agricultural products. Normally, as industrial development took

place, it was possible to appear a number of negative effects caused by neglecting the agricultural sector for industrial one. So, industry and agriculture had to support each other, to develop a close symbiosis avoiding the waste of human energy and natural resources of the national economy.

Even it may look so, Gheorghe N. Leon did not want isolation or development of Romania solely on the basis of national resources, but rather wanted a development mainly through domestic production factors and in accordance with the specific economic resources of Romania.

It was also thought that was necessary to accept that excessive encouragement of industrial investment in *certain artificial industries*, regardless of the source of capital used - national or allogeneic - was extremely risky. All these artificial industries were nothing else than a great burden for national economy, the forced industrialization of certain sectors being an example.

Or, forced industrialization was not a solution! However, despite this, from the desire to create a strong national industry, it seems that sometimes, the reason and the logic were left aside. If it was really about forced industrialization in interwar Romania, it is questionable. Gheorghe N. Leon thought so, and M.C. Demetrescu confirmed this position belonging to Gheorghe N. Leon "Leon was against forced industrialization that had Manoilescu as an apostle, denounced the tendency to create a parasitic industry, ..., without foundations, without market ...". [Demetrescu, (2000)]

This possible forced industrialization has two major practical manifestations: the creation of artificial industries and overinvestment in industry.

We mentioned before a few such artificial industries: rubber industry or mechanical mills. The second issue was the overinvestment in industry. Gheorghe N. Leon again proved to be critical. "There has been overinvestment, creating production capacity higher than the consumption capacity of the country for most industries of the country. That happened with cement, glass, sugar, alcohol, spinning, etc. " [Leon (1943, p.161)]

We appreciate favorably that Gheorghe N. Leon saw the future development of the Romanian economy linked with the country's natural resources, and especially with consumption possibilities of the internal market. His views did not make him a devotee of economic autarky, but a promoter of balanced development of national industry.

Without denying the correctness of his statements in relation to actual risk to which Romania could expose if promoted a process of forced industrialization, we make an amendment. If forced industrialization of any country can generate major economic dysfunctions - given the fact that is not possible to make capital of the goods produced by the concerned industries – we believe that economic autarky could be more dangerous and even unsuitable for a modern economy.

We do not accept that industries, whose operation is done exclusively using imported raw materials, had to be called unequivocally artificial. It was and it is impossible for a country to satisfy domestic consumption, optimally, only by processing its natural resources.

Imports of intermediate goods - capital intensive, in this case raw materials - could be in favor of importing countries. Importing countries were advantaged by those imports, while the production cost of final goods was lower than the price paid for similar imported goods.

On the other hand the creation of industries that had a favorable evolution in the future can only be beneficial for the economy. And even if the domestic demand was lower than the supply, for the final goods of those industries, their real contribution to national wealth could be bigger by exporting the final goods with a high degree of processing, so with a higher exchange value than imported intermediate goods. [Popescu, 2001, p.31-74]

The variable that was excluded from the industrial development equation was international trade, with all the opportunities it would offer for a better capitalization of national labor's results. The study conducted by Gheorghe N. Leon was referring in particular to opportunities

that could be exploited on the internal market for the goods produced by domestic industry, rather than the possibilities of selling such goods on foreign markets.

Paradoxically, although Gheorghe N. Leon can be placed among the Romanian liberalism representatives, the position goes beyond economic liberalism. The picture on the national economy provided by the author, his ideas and statements correspond to an economy model where the state must play an active role.

Creating a strong national industry was seen as a long process, it could not be achieved naturally, and only on account of private initiative.

"But the total transformation of an economy cannot be left to private initiative; the world live under inertia based on old habits which were based on other condition than those of current realities. The state must integrate economic factor in its general policy, ..." [Leon (1943, p.171)]

CONCLUSIONS

We can come off with an interesting aspect: between 1919 and 1940 Romania gained some maturity with regard to its understanding of its own economic interests. Were put into practice some theoretical principles based on the idea of obtaining much higher benefits from an industry that produces and exports final goods on account of imports of intermediate goods.

The transition from a young and inexperienced industrial national environment, to a mature industrial national one, based on solid principles, which have started to identify functional coordinates that put the accent on national interest, evolved a certain opinion on evolution of the Romanian economy and industry in the interwar period.

This opinion belonging to Gheorghe N. Leon has some ordoliberalism roots, leaving the limits of economic liberalism in its classical form. National economic development could not be achieved only on the basis of private economic initiative, the state having a key role in establishing a sustainable national economic and social complex, based on certain functional and organizational laws promoted by the state.

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