

Liberalism and Economic Development in Interwar Romania

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Abstract

Romania's economic development in the interwar era has always generated fierce debates when it comes to economic ideology. There was an undisputed need to come up with a national strategy of development in order to insure and consolidate the country's economic independence. The economists of those times clashed their ideas and covered the full range of doctrinarian approaches from rejecting the state intervention to adopting economic dirigisme as a state policy. The reality of the insufficient development of the national productive forces was the starting point, and there were numerous attempts to draw up a strategy to modernize Romania. The issues related to the genesis of the Romanian economy captures the interest of many a great economists liberals, such as Ștefan Zeletin and Mihail Manoilescu, social-democrats (Marxist) such as Lothar Rădăceanu and Șerban Voinea, or agrarians such as Virgil Madgearu and Ion Răducanu.

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1. Introduction

In a time when there was a great need to draw up a national strategy of development in our country, the main currents in the economic thought in interwar Romania were liberalism, agrarianism, and social-Marxism.

In spite of the different directions of the economists of those times, there is a common point of view among them, and that is the process of modernization in Romania started at the beginning of the 19th century, when the Romanian Principalities joined the European economic circuit once the Treaty of Adrianople was signed in 1829, which testified to the fact that the Romanian foreign trade was free of the Turkish monopoly.

The most debated problem was the character and the structure of the Romanian economy. The economists were divided into two major groups: the supporters of the idea that "Romania was a signally agrarian country" (the phrasing belongs to economist Nicolae Șuțu who emphasized the unilateral development of the Romanian economy) and supporters of the idea that there was a need for industrial development.

2. Theoretical background. Aspects of European Liberalism

Liberalism is rightfully considered the main current of economic thought in interwar Romania. In Europe, its theoretical basis had been laid by J. Locke, J.J. Rousseau, Voltaire, Diderot, Quesnay, Turgot, A. Smith, D. Ricardo and the English Utilitarians (J. Bentham, J.S. Mill). They targeted replacing feudalism with capitalism, passing the political power to the newly formed bourgeoisie, applying the principle of *laissez faire, laissez passer, le monde va de lui meme*, and last but not least, having freedom of thought.

Cultural and political westernization was accompanied by accepting the liberal economic influence both in theory and in practice. The dominant political elite – a great many of which were representatives of the Liberal Party – believed that modernization had to be generated "downwards", meaning the political initiative could replace the dynamics of the economical and social changes; the government had to take on the modernizing role because the social classes

specific to the capitalist economy were insufficiently shaped and developed: the change was to take place from *forms* to the *roots*.

From an economic point of view, the National Liberal Party promoted the policy *by our own efforts* in order to consolidate economic independence by stimulating national initiative, capital and labor above all. Foreign capital was to be drawn only as part of a national program and only to those fields in which the national economy was unable to develop on their own. Economic modernization mainly meant industrializing the country, which implied capital, specialized workforce and a protectionist economic policy. Just as I.C. Brătianu admitted, encouraging industry translated into sacrifices in other fields of activity, such as agriculture. Under such conditions, certain protective measures had to be taken in order to protect the peasantry's level of living. The need for the industry to be developed first and foremost sprang first of all from the need to eliminate the country's economic dependence on developed countries from where highly manufactured goods were imported, which were far more expensive than the Romanian exported goods. Liberals considered that a strategy for agriculture and industry to support each other would be the most appropriate solution. The economic nationalism promoted by liberalism was meant to protect domestic capital against foreign competition in the context of the collaboration between foreign capital and domestic capital.

3. Major Representatives of Romanian Interwar Economic Liberalism

Among those who strongly believed that Romania was an agrarian country above all was Constantin Garoflid (1872-1943) who developed a doctrine of rural development through labor efficiency increase in agriculture, achievable through expansion of the size of agricultural farms, through ample land survey works and through mechanization. In 1926 he wrote: "Sure, our economic policy must encourage industry, since the growing population needs these openings in the labor market; but we must not imagine that we will ever be able to support this country's economic prosperity by anything other than its agriculture. Agriculture is the staple activity for the majority of the inhabitants and the sole natural industry that lives on no matter what obstacles it comes across. Everybody's concern and the concern of all political parties should be the development of this natural and truly national industry". (Garoflid, 1926, p. 6-7)

Influenced by Hegel, Marx and Sombart, sociologist and economist Ștefan Zeletin (1882-1934) criticized the theory of the Junimea titled *forms without roots* and demonstrated that the economic factor is the foundation for the society's evolution. The topic for analysis in his main work *Burghezia română. Originea și rolul ei istoric* (The Romanian Bourgeoisie. Origins and Historical Role) published in 1925 is the relations between the evolution of Romania's economic and social life and its public, judicial and cultural institutions. Even though he considered that the genesis of capitalism followed the same stages in Romania as it did in the West, Zeletin pointed out a major difference: in Western Europe the process of the evolution of capitalism went on for several centuries, while in Romania it only took less than a hundred years. After 1829, the year when the Treaty of Adrianople was signed, Romania came under the influence of the Western capitalism and underwent a europeanization process as a result of the development of its national capitalism.

Economist and sociologist Virgil Madgearu (1887-1940) identified two possible solutions for the economic development of the country: either eliminate agrarian feudalism and propel agriculture. Or maintain the agrarian regime and encourage industry through a protectionist regime. A member of the Agrarian Party, he considered that there was no analogy between the evolution of the western capitalism and that of the Romanian capitalism. The arguments he brought forth were the following (Madgearu, 1999, p. 116-117):

1. The development of the Romanian capitalism took place in a neo-serfdom environment, in which the peasants had a very low standard of living, and not in a liberal and bourgeois environment;
2. The commercial capital and the usuary capital do not favor the development of the industry, because household industry and crafts had been destroyed once the Romanian market had been invaded by manufactured goods coming from developed countries;
3. State leadership was in the hands of the political oligarchy, since enlightened absolutism had never existed;

4. The industry that emerged was an *import* industry. When English products invaded the Romanian market, there was a steep decline in the household industry and crafts (the guilds disappeared) before a Romanian commercial capital appeared. (Madgerau, 1995, p. 19). Given the fact that there was Romanian commercial capitalism, „Romania went straight to factory industry, also with the help from the foreign capitalism, in the wake of introducing a protectionist customs regime and a system to encourage national industry” (Madgearu, op.cit., p. 20). The Romanian national industry was poorly developed (there were no natural conditions –no mineral ores, there were no social conditions –no industrial proletariat, there were no economic conditions – no market) and the one that did exist was the *work of the export capitalism*: under the conditions of customs protectionism developed capitalist countries took industrial machines and equipment, as well as specialized personnel to non-developed countries to produce *in situ* industrial goods that were sold for a maximum profit;

5. Industrialism developed, while industrial feudalism kept existing;

6. The Romanian economy enters from the very beginning into the financial capitalist system (under the dominance of the European capital or that of the local financial oligarchy) on its way from commercial capitalism and usury capitalism to financial capitalism thus skipping the stage of the industrial capitalism.

Another important liberal economist who was concerned about the modernization of Romania was Mihail Manoilescu (1891-1950). For him, the development of interwar Romania was a national priority and the criterion for selecting the industrial branches to be supported was that in which labor productivity was higher compared to the national average value.

In his work *Rostul și destinul burgheziei românești* (The Purpose and the Destiny of the Romanian Bourgeoisie) published in 1942, Manoilescu explained terms such as bourgeoisie, liberalism and capitalism: “The bourgeoisie has existed since the beginning of the 12th century and has lived for four centuries, until the end of the 15th century and capitalism let alone liberalism have never been spoken of in all this time. The bourgeoisie of those times have had a purely communal economic horizon and has evolved in a medieval political environment. [...] The bourgeois have freed themselves from the rural serfdom regime using money [...], and the bourgeoisie has been a privilege from the very beginning. It has emerged along commerce and industry and the royal power”. (Manoilescu, 1942, p. 42-43).

In medieval times, the bourgeoisie had an economic function (organizing production and labor) and a political function of taking part in governing. Later, in the mentality and the objectives of the bourgeoisie there were economic and social changes that could be defined as capitalist: “Capitalism overlapped the bourgeoisie [...] Moreover, the entrepreneurial spirit overlapped the traditional bourgeois one and brought forth the capitalist spirit” (Manoilescu, op. cit., p. 44-45). In time, according to the historic context and according to interests, the bourgeoisie in the European countries practiced both protectionism and the free exchange (England is famous in this respect – after a period of protectionism in which it set and developed its own industry, it became a top representative of free exchange both in the field of economic policy and in the doctrine field). In the same way, the bourgeois ideology changed according to the stages of economic development: initially it was corporatist (in late feudalism), then mercantilist (in early capitalism), to become liberal (in the maturity stage of capitalism): “Liberalism and its consequences overlapped capitalism bourgeoisie thus bringing as a new element the greatest economic and political freedom that history had ever known” (Manoilescu, op.cit., p. 46)

In his works *Teoria protecționismului și a schimbului internațional* (The Theory of Protectionism and International Trade) published in 1929 and *Forțele naționale productive și comerțul exterior* (National Productive Forces and Foreign Trade) published in 1937, Mihail Manoilescu emphasized the need to continue industrialization as a basis for the modernization and the development of the Romanian economy, the more developed the industry of a country is, the more advantages it will get in trade on the global market. He drew an economic theory on economic development of countries in modern times, in accordance with their different technical and economic structures and in accordance with the differences in the average level of labor productivity.

4. Conclusions

By briefly analyzing the economic, social and political realities of interwar Romania, as well as the most important works of the representatives of economic liberalism, these final ideas come to surface:

1. Economic liberalism emerged in Romania more as an ideology than a science with a well defined corpus; as a result of the fact that the political element constantly prevailed over the economic one, liberalism was a state policy meant to emancipate the country by getting away from the Turkish dominance and getting under the influence of the developed Europe;

2. Interwar economic liberalism was often economic nationalism; its representatives brought scientific and credible arguments to support the importance of developing the Romanian industry (as a basis for modernization and for insuring national independence), especially by protecting it against foreign competition. Nevertheless, there have been attempts to take over the ideas of the European economic liberalism and grant priority to agriculture and a priori rejecting the idea of state protection for the national industry (as it was an anti-liberal measure);

3. Interwar economic liberalism, as Sultana Sută-Sălăjan pointed out, had two essential forms: moderate and radical. Moderate liberals were close to the great boyars (the future landowners) and wanted to maintain the advantages of feudalism (monopoly of land ownership and access to governing) as the bourgeoisie developed. They accepted the modernization of the country and the improvement in the status of the peasantry (the peasants were to be freed but not given property over land). Their fundamental conception gravitated around the phrasing *Romania – a signally agricultural country*. Radical liberals wanted to reform the entire Romanian economic, social, political, and cultural system from the grounds. They favored industrialization and an agrarian reform to give land to peasants and tried to adjust liberalism to the existing particularities in Romania.

4. Placing certain economists in the liberal current is quite relative, as they either changed their opinions on the ways to economically modernize the country, or adopted contradictory positions regarding this modernization process.

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