

Aspects on Practice of Concession in the Romanian Economy in Inter-War Period

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Abstract

The restructuring and modernization of the Romanian economy and society in the interwar period imposed to governors, significant efforts, in order to accumulate the capital necessary to achieve the economic objectives.

The insufficiency of the means necessary to accomplish the big projects meant, besides the mobilization of the national resources, the attraction of the foreign capital, too, one of the forms of its presence in the country's economy, being the concession.

The paper refers to the feature of the concept of concession and the forms of its application, as well as to the existing regulations in the epoch. Also, there are, shown examples of partnership manifestation in the form of concession, in some areas of the Romanian interwar economy.

The conclusions emphasize the role of this form of cooperation between the Romanian capital and the foreign ones, developed during the interwar period, by the contribution brought to the evolution of the Romanian economy.

Key words: concession, interwar, foreign capital, partnership, public infrastructure

J.E.L. classification: H41, H42, H44, H54, L32, N00

1. Introduction

The consequences of the First World War meant for Romania great economic and social damage and difficulties, materialized in human, material and financial losses, production diminution associated with inflation and financial imbalances, generating significant recovery efforts. (Muşat & Ardeleanu, 1986, p. 3)

The post-war evolution of the Romanian economy took place in the context of a new international order (political, economic, social), of the trends and transformations that occurred, at the time, in the process of economic development. (Madgearu, 1940).

The process of developing the industry, increasing production in industry and agriculture, has implied endeavours to mobilize national resources and strengthen the position of domestic (state and private) capital, without neglecting the importance of foreign capital penetration and of an implicit collaboration, by supporting its own capital, thus bringing its contribution to development.

2. Theoretical background

The achievement of the economic objectives, initiated since the last decades of the nineteenth century, accelerated process, in the first half of the 20th century, in order to restructure and modernize the Romanian economy and society, claimed significant amounts of money.

The lack of funds needed to finance major projects (railways construction, port and road upgrades, construction of building destined to public institutions) imposed on the governors the increase of their own efforts to *accumulate internal capital and attract the foreign one*, one of the significant forms of the presence of foreign capital in the economy of the country, being the concession.

The concession, a form of collaboration between the public and the private partner, was not regulated by a single law in the interwar period but was covered by the provisions of several special laws: *the Water Law (1924)*, *the Energy Law (1924)* afterwards, being presented in: *The Law on the Organization and Administration on a Commercial Base of Enterprises and Public Wealth, The Mining Law (1929)*.

Theoreticians of the era developed considerations regarding the definition and particularities of the concession, for example:

Remus G. T. Ionescu considers the public service concession "the act by which an individual undertakes to provide, at his own expense and at his own risk, the operation of a public service in return for a remuneration". (Blondeau, 1933, p. 54-55, Negulescu, 1934, p. 154, quoted in Ionescu, 1936, p. 7) Remuneration may be the profit obtained from the operation of the public service as a result of the collection of fees from the public for its use.

The essential features of the concession consist in the fact that it refers to the management of a service by an individual and the concessionaire levies royalties from those who use the service. (Comte, 1934, p. 10, quoted in Ionescu, 1936, p.7)

In a narrow sense, the concession is "the mode of exploitation in which the private person is the only one to bear the costs and the risk of public service management". (Ionescu, 1936, p. 8).

Broadly speaking, concession exploitation involves forms in which the state is a partner alongside the private person: mixed administration, cooperative or combined forms.

Although the concession usually refers to the exploitation of a public work (Ducrocq, p. 248, quoted in Ionescu, 1936) or the organization and operation of public services, the notion has also been used for other administrative activities, such as concessions for private occupation of the domain, such as for example: concessions occupying the seashore, waterways and actually referring to sales of territorial real estate for the benefit of individuals or public administrations.

The Law on the Organization and Administration on a Commercial Base of Enterprises and Public Wealth of March 16, 1929 (Lege pentru organizarea și administrarea pe baze comerciale, a întreprinderilor și avuțiilor publice, din 16 martie 1929) sets out the forms of organization of public wealth, enterprises, institutions, exploitations, public establishments (or component services), of goods and rights belonging to the public or private domain of the State, namely: concession, lease or rental, commercial public entity, joint entity, cooperative entity.

In Western countries the call to concession has a long tradition, the process being used for the construction and exploitation of canals, aqueducts, roads, railways, etc., due to the advantages they have brought to the public administration.

3. Concessions in the economy - examples

The call to foreign sources - the foreign capital - through the concession form, was made by the state for large-scale categories of works (roads, bridges, railways, communication routes), the costs of which required large sums of money, as the national budget did not have sufficient funds. Romania took over the model of the concession of public works and services from France, being considered an important legal institution. (Porumbaru în Șed. Senat 17 ianuarie 1906, M. Of. din 4 Febr. 1906, quoted in Ionescu, 1936, p. 17).

Such actions have manifested itself in several areas, as shown in the examples below, with reference to the concessions of infrastructure services and their history.

- **Transportation**

- *Public transport*

Prior to 1934, auto transport by road was made by concession by the Ministry of Public Works, of some portions of roads to transport companies or some private individuals.

In January 1889, they conceded to *Société Anonyme d'Entreprises de Travaux* from Liège and the Dutch company represented by I.A. Keum Adolf Otlet and Ercole Grazia, 30 km of tram lines with horses for 26 years until 1916; Subsequently, the *Romanian Anonymous Society for the construction and operation of railways and trams* was established. The emergence of electric trams determined the Mayor's Office to resort to the establishment on April 14, 1909 of a new company, the *Communal Tram Company*, which was to build and operate a network of electric lines. The founding of the new companies was in the form of an administration that sought to develop this

type of public service. Subsequently, having the exclusive ownership of the public transport by mechanical means throughout București, by the law of April 18, 1909, amended by the law of July 24, 1919, the company received from the Mayor's Office the concession of public transport by bus (which was owned by private companies); the law was recognized by the law of April 20, 1930, until the end of the period, which could not exceed 1 year and six months from the date of promulgation of this law.

The Romanian Railways organized the auto transport by setting up the *Autonomous Administration of Auto Transport - RATA*. The activity of the company was designed for passenger transport (about 7800 km) with its own vehicles (direct administration) and for transportation of goods (5000 km) with the cars of private companies.

In 1934, the Ministry of Public Works granted a concession for 20 years to the Autonomous Administration of Romanian Railways, the carriage of passenger, luggage and goods on the country's roads (comprising a network of 11,000 km). The association was meant to supplement the means of transport belonging to the Romanian Railways with auto means. (Mureșan & Mureșan, 1998, p.267)

→ *Railway*

Following some attempts in the second half of the 19th century to concede the construction of railways, the state took over the monopoly for the administration and operation of the railways. By the law of March 28, 1900, for the development of railways, the state conceded the construction of railways, to counties, communes and individuals, maintaining its monopoly on the operation of the main lines, while 30 years after the granting of the concession, it would be able to redeem the lines of general interest, and after 90 years, to take over all the lines.

Among the concessions granted in 1926 are the construction of the București-Bucureștii Noi - Bariera Sf. Vineri railway line (M. Of. no. 72/1926 p. 4462, quoted in Ionescu, 1936, p. 30).

→ *Air transport*

Air transport experienced a new development phase in the fourth decade as a result of the adoption of the Law of Aeronautics in 1932. Among the provisions of the law were those concerning the possibility of granting concessions for the operation of air commercial routes accompanied by exemptions or reductions in taxes and duties granted to concessionaires or private companies specializing in air transport. The aim was to stimulate the development of civil aviation.

In the fourth decade, external traffic was ensured by National Company LARES - the Romanian State-owned Air Lines (established in 1930) and a private enterprise - Romanian capital - SARTA - Romanian Anonymous Air Transport Company the operation of which was approved in 1935.

By reorganizing the two companies in 1937 (LARES and SARTA), a new company was established LARES - the Romanian State-owned Air Lines - joint venture - two thirds of the state and a third - private. It had the right to operate, for 15 years, the passenger, freight and mail transport on domestic and foreign routes.

In 1939 there were 15 international and domestic lines served by LARES as well as by foreign companies on foreign routes: Czechoslovak, Italian, French, German, Polish (based on conventions concluded between the Romanian state and the respective companies). In the case of the French company AIR France - the Romanian state grants an annual subsidy of 3.5 million lei. (Mureșan & Mureșan, 1998, p.266)

→ *Public roads*

The development of the economy has led to increasing concerns for the expansion and modernization of the public road network at a more sustained pace in the fourth decade of the last century.

Also, governments have used funds from foreign partners, different from the amounts allocated from the budget, for this purpose, for example:

- concession to the English firm *Stewart & Packard* of the modernization of the București-Brasov road, the contract being subsequently terminated due to the company's non-compliance.

- the concession of the pavement of a route of 9730 km road on the routes București-Ploiesti-Brasov-Sibiu-Alba-Iulia-Cluj-Oradea; Ploiesti-Buzau; București Girugiu; București Oltenita; partly the city belt of București, Cluj, Brasov. The negotiations were held with the Swedish company *Svenska Vgaki-ebolaget* and the French group *Routes modernes*.

Although the modernization of national roads was one of the priority concerns of the state, the project was only partially implemented. Of the total public roads, only 49.8% were cobbled or upgraded, the rest of 43.2% were natural roads and 7% roads in work. (Mureşan & Mureşan, 1998, p. 264).

• Phones

The first telephone line built in 1884 to provide the link between the Ministry of Home Affairs and the Post Office Directorate was followed in 1889 by the installation of the five-figure system in the service of the Chamber and other Ministries. In 1927, the first telephone station with 3000 thousands numbers was built in Bucureşti (Ionescu, 1936, p. 31).

The reorganization of the telephony service in 1928, the project of which required large amounts of money, led the state, in the absence of financial funds and the lack of specialized technical staff, to proceed to the concession to the *International Telephone and Telegraph Corporation of New York* (I.T.T.); For this purpose, the law was promulgated on July 3, 1930. (Monitorul Oficial No. 90 din 10 octombrie 1930, Expunerea de motive p. 4935, quoted in Ionescu, 1936, p.32).The concession contract provided, inter alia:

- ❖ Formation of a Romanian Anonymous Company based in Bucureşti, whose Board of Administration will be formed of Romanians;
- ❖ Specification concerning the profit sharing between the state and the company.
- ❖ Possibility of redemption after at least 20 years, and after 35 years, the redemption could only be done by paying the net capital invested.

• Communal services

This type of concession is of particular importance, both at national and external level, being mostly practiced in large cities, small towns, as a rule, the services being provided by directorship enterprises. Water exploitation services (capture and distribution), of electric or air gas lighting, public transport, etc. were conceded, for example:

The concession of water exploitation - an example is the initiative in the city of Galaţi (1873), to the English company, until 1926; as a result of misunderstandings, the company ceded the exploitation of water supply, to the city, leading to compensation for the company from the Romanian state, amounting to 17,857 pounds, equivalent to 17,857,000 lei. (Ionescu, 1936, p. 34)

The concession, in 1893, to a French-Belgian company in Brussels, of an *air-gas lighting service* that served part of the city of Galaţi (the rest was supplied with electric lighting by the municipal plant). After 1929, following the 1929 commercialization law, the number of concessions with electric lighting made by small towns increased. (Ministerul de Industrie, 1930, quoted in Ionescu, 1936, p. 34)

The concession of the air-gas lighting in Bucureşti in 1868, granted to Alfred Gottereau, for a period of 40 years, then (in 1870) transferred to Romanian private persons (Negroponte Mehedinţanu and Zarafi) and named the *General Company of gas heating and lighting in Romania*. Subsequently, it was sold in stages to other companies:

- in 1873, to an English company, *The British and Foreign Water & Gas Works Company Limited*;
- in 1880, to *Compagnie du Gaz du Bucarest*, and in 1881 the shares were transferred to *Gaz & Eau*;
- in 1885, it passed into the ownership of *Compania de Gaz* until 1908, the expiration date of the concession term.

The Mayor's Office made a new concession, which was abandoned after the war was over; through an agreement between the Mayor's Office and the concession company *Omnium Electric Român* under the law of June 25, 1924, the concession is redeemed in full, the price being paid in bonds, repayable for 30 years, with interest of 7% of the enterprise's income.

The concession (August 1929) of *electricity distribution* in Moineşti Commune, to *Creditul Carbonifer* company. The company began its activity on January 8, 1930 and built the electricity supply network.

The concession by the Mayor's Office of Briceni Commune of the *distribution of electricity* to a private person (Gherş Frimţiş) on July 20, 1929, for 25 years. (Ionescu, 1936, p. 34)

• Monopolies

Monopolies are considered to be public services because even in the situation of their concession to a particular person or company, public administration retains the right to set prices and to contribute to improvements in public services or to maintaining public order. (Payen, 1920, p. 55, quoted in Ionescu, 1936, p. 52).

Until the application of the 1929 law, there were a number of monopolies in various areas: the monopoly of coinage, gunpowder, mail, telegraph, salt, tobacco, matches, gambling cards, cigarette paper, alcohol monopoly, etc. . (Ionescu, 1936).

⇒ *Concession of gunpowder production* In 1880, the needs of the army led to the initiation of a draft law to license the production of gunpowder by setting up a plant holding the monopoly. In January 1881, following a public tender organized by the War Ministry, the production of gunpowder was conceded to Dallemagne and Muller for a period of 15 years, a concession subsequently redeemed by the government, under the law of April 1888, following the accidents occurred.

⇒ *Tobacco* Tobacco monopoly was introduced in 1864 and granted to the state which had the monopoly of tobacco manufacture and sale. The organization of the monopoly experienced major deficiencies, which led to its abolition in 1867. In May 1872, through a public tender, the monopoly was conceded for a period of 15 years to the Franco-Hungarian Bank of Budapest and the Bank of Romania, a contract terminated later. The monopoly of tobacco remained in the state administration, passing from April 1881, to the General State Monopolies Directorate.

⇒ The *matches* were subjected to the establishment of the state monopoly in March 1886, initially for sales, expanding, then on manufacturing, in March 1887, through the redemption of the producing factories and the existing stock. This monopoly was passed to the State Monopolies Administration. Following February 1929 Convention, the Autonomous Monopoly House (originating in the old Administration) conceded to Company *Svensca Tandsiks Akliebologet* (which was called *Stab*), the manufacture and exploitation of the match monopoly in Romania, for a period of 30 years. The Swedish Trust took over the plants in Cluj, Timisoara and București and set up the Company *Chibriturile*. (Mureșan & Mureșan, 1998, p. 215)

Characteristic of the interwar period was the presence of foreign monopolies, on the Romanian market, in the activity of enterprises and companies from various economic domains by participation in their capital, in shares that often exceed the domestic capital. Their capital resources were, as a rule, coming from the reinvestment of profits obtained in Romanian companies.

4. Conclusions

The interwar period resulted in a process of improvement and ascending evolution of the economy, first of all, of the industry, its dynamics being decisive for the whole economic system of the country.

The partnership forms set up by the state with the private sector (Romanian or foreign) as well as those between private entrepreneurs (Romanians and foreigners) were manifested by the co-participation in direct industrial investments, in various fields or by the increase of the capital of enterprises, the concession of public works and services, or other forms of cooperation.

In order to achieve the objectives of sustaining the economy, efforts have been made to mobilize resources for the accumulation of the needed capital for the realization of big projects, both from own resources and also by attracting private ones (domestic and foreign), as the state resources were not enough for them.

The concession, an intensely practiced form of partnerships in the interwar period and regulated by laws in that time, has developed in all branches of the economy, with the participation of both the domestic capital and, mostly, the foreign one.

The effects of foreign capital inflow into the Romanian economy can be considered, both from favourable perspectives, given the positive aspects of triggering the capitalization of resources, the increase of industrial production, the stimulation of exports, but also from the less favourable ones, generated by the effects of the intensive exploitation of the resources, in order to obtain big profits.

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