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Romania's Monetary Evolution from its Creation until the Great Union

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Abstract

Ever since the creation of the Romanian state in 1859 and until the period immediately following the First World War, the newly formed Romanian state has been subjected to heavy political, social and economic trials. But the real challenge was the financial support by the National Bank of Romania of the war effort for the first major world conflagration and after that, the exit from the economic and financial crisis, of the new Romanian unitary state.

The paper deals with the evolution of Romania's international supply from the period preceding the First World War, during the conflagration with its complete exhaustion, the monetary imbalance generated by the war, until the monetary unification was realized, with the aim of regaining confidence in the national currency since the end of the First World War.

Key words: monetary system, international supply, currency
J.E.L. classification: N13, N14

1. Introduction

The international reserve is now considered to consist of all external claims made up of the monetary gold, International Monetary Fund reserve, convertible currencies, special drawing rights, other assets. The National Monetary Authority with control over the international reserve guarantees the country's external solvency by ensuring payment of the external debt service and keeping under control the expenses balance and guaranteeing the refunding of the external debt of the country.

Over time, the concept of international reserve has changed according to the economic and historical context. At first the international reserve was given by the metal stock held by the issuing banks. The international reserve comprised the gold stock followed by the silver stock, which had a downward evolution, eventually reaching the coins with intrinsic value of precious metal.

The quantity of metallic stock required for monetary coverage was dimensioned by the fixed ratio of the money in circulation at face value or by the commitments at sight being regulated by the monetary law.

The guarantee for converting bank notes in circulation into gold was given by the metal stock in the international reserve.

In cases where debts to other countries were not paid from goods deliveries or services, the metal stock could be used for this purpose.

2. Theoretical background

In order to motivate the choice of the theme that refers to history, our plea begins with the words of a German professor, B. Pendorf "Whoever wants to become a master in an art must first study its history. Without historical foundation, all knowledge is incomplete, and the judgment of the phenomena presented is uncertain and lacking in maturity" (Pendorf, cited in Demetrescu, 1947, p. 5).

On the other hand, "Few subjects in economic science are more tangled than currency", and "the multitude of opinions on monetary issues" have "the perfect historical equivalent as a Babel Tower" (Rothbard, cited in Marian, 2007, p. 307).

Therefore, in the context of the centenary anniversary of the Great Union, consecrated on December 1st, 1918 but also its consolidation from the immediate period, from the beginning of the interwar period, we considered it appropriate to undertake a scientific approach on Romania's Monetary Evolution from its Creation to the Great Union.

Studies found in this regard highlight Romania's monetary evolution, including international reserves, from its constitution until the Great Union period. T. Brailean realizes an analytical incursion into the world of ideas that promote, among others, the monetarism in the economic mechanism and in the face of reality, and advocates for a moral economy (Brailean, 1998). In the chronology of the economic thinking from antiquity to the period of economic neoliberalism, Ghe. Popescu emphasizes the effects of treasuring the currency, but also of the reverse effect (Popescu, 2002).

I. Saizu and Al. Tacu emphasize the extremely subtle and often difficult to decipher complexity of the economic realities, in a continuous movement in one direction or another, which involves the use of specific tools to penetrate the mechanism of monetary mass fluctuations in relation to the analysis of economic conjunctions (Saizu *et al*, 1997). Knowing the economic realities, including those regarding the monetary system and the evolution of the international reserve, must be related to the context of economic evolution overshadowed by the aftermath of the First World War, which warned about the economic decline in the next period. The important moments regarding Romania's national monetary system evolution were presented by V. Stoica and P. Deaconu (Stoica *et al*, 2003), and V. Turliuc highlights the progress made in the monetary reality, analyzing the important stages in the evolution of the national monetary system before and after its foundation (Turliuc, 2013).

We also mentioned that the capital work of C. Kiritescu, entitled "The money system of the *leu* and its precursors", represents Romania's national monetary system, its history, its antecedents, its genesis and its manner of functioning until today (Kiritescu, 1997). C. Kiritescu also captures, in a unique way, the monetary disturbances of the 20th century (Kiritescu, 1996).

3. Research methodology

Economic history, monetarism, currency and credit, monetary policy, economic thinking were the theoretical guiding marks from which we initiated this scientific endeavor; guiding marks that we have passed through the filter of observation, reasoning, analysis and synthesis. By the nature of the subject addressed by us, our research is descriptive and analyzes the evolution of Romania's international reserve from the period prior to the First World War, during the conflagration, the monetary imbalance generated by the war until the monetary unification as part of the efforts to restore the currency's national prestige.

Researching means being objective, and this research is based on how the authors understood to reflect the reality of the past events regarding Romania's monetary evolution in a period of great historical fragmentation for the Romanian people.

Obviously we do not claim that we have contributed to the progress of science in this subject area, but in the tumultuous times we are going through, such a subject can generate new scientific reflections, positions and new research ideas, which can contribute to the development of science in the field of history and monetary policies.

4. Findings

4.1. The Evolution of the International Reserve and of the Romanian Monetary System, from the Creation of Romania until the Eve of the First World War

After establishing the Romanian state under the Ruler Alexandru Ioan Cuza in 1859, the government from that time had a failed attempt to create a monetary system in 1860, following the French model, as a consequence of the withdrawal of France's support in its desire to avoid a diplomatic conflict with the Ottoman Empire. In Romania, there was the intention to realize the emission of the first coin, named român or *romanat*.

The act of establishment of the national currency, the ”leu”, came only in April 1867, after the dethroning of Alexandru Ioan Cuza, when the modern Romanian monetary system was established. The denomination of leu was taken by the name of the lion-taller, a high-value currency that had circulatory power first in the United Provinces of the Netherlands, then in the Balkan Peninsula including in the Romanian countries. The Lion-taller has been circulating for 150 years starting with the 17th century in the Romanian space, gaining a great popularity.

In order to manufacture national coins, the law imposed the double gold-silver standard as the basis. The first coins on which the name of the lion was inscribed are the gold ones with a face value of 20 lei and the silver ones of 1 leu, the same year the State Monetary was inaugurated.

By making coins with a high content of precious metals, therefore an intrinsically large value of the national currency, the desire was to amplify the leu's hoarding function. Heinrich Marx said about the treasury function of the currency, the fact that if the currency in circulation is too large, the currency is treasured by turning into a metal block and conversely if the monetary mass is too small, the treasured metal blocks returned to the currency. In this way a continuous process of adapting the monetary mass to the needs of the economy takes place (Popescu, 2002, p. 547).

Worldwide, as a result of discovering of large silver deposits, and some countries abandoning silver as a benchmark, as well as the European economic crisis of 1873, it has led to a large quantity of this metal on international markets, and implicitly decreasing its value in relation to gold.

In spite of these factors, due to the specific evolution conditions, in Romania the silver was overestimated by law, the structure of the money mass evolved to increase the number of silver coins at the expense of gold ones, the Romanian state issuing, with one exception, silver coin.

Several reasons have led to decrease the availability in gold:

- gold was exported and treasured up as a commodity with a price expressed in silver;
- the decline in the export of agricultural products by which gold was obtained (1883-1884);
- the external debt paid by the state exclusively in gold;
- the war in 1877.

As a consequence, it can be said that in Romania until 1873, the gold single standard functioned and after that we can talk about the silver single standard.

On June 22, 1877, for the first time, paper banknotes were issued, bearing the title of lion, constituting in fact at the same time mortgage notes created in order to guarantee with the real estate values of the state to support the too expensive efforts of the Independence War. Mortgage tickets were secured with state-owned assets and properties, which were necessary in order to replace the metal coins, which were intensely used in the payment of imports, given the fact that the exports were declining, mainly exports of agricultural products.

Through this issuing, the state tried to conceal the name of paper money with the ambiguous one, ”mortgage” bills designed to create confusion about the production of mortgage tickets as well as banknotes, there were ample provisions regarding the guarantees underlying the issue of mortgage tickets" (Kiritescu, 1997, p. 228).

By the Law for the establishment of an "account and circulation bank" (http://www.bnr.ro/Istoria-BNR-1052.asp) in April 1880, the axis of the modern Romanian financial-banking system, the National Bank of Romania, a credit institution, which had the exclusive privilege to issue banknotes. The new bank which had a privileged statute was from the beginning a Romanian private bank owning a third of the bank's capital, the rest of it belonging to Romanian private people.

”It is true that in 1880 the state was the strongest shareholder, because it held one third of the shares. It was not, however, the most consistent shareholder since in 1900 the state sold its shares to the Association of National Bank Shareholders. In 1925 it returned as a holder of one-third of the NBR's shares and in 1929 sold some of his shares again, keeping only 10% until the end of 1946 when the bank was staged by the Communist government, led by Petru Groza" (https://www.zf.ro/).

The National Bank of Romania, through the mechanism of monetary issuance, in the beginning of the Romanian capitalism, has greatly contributed to the formation of pecuniary capital through large-scale crediting of the market and the state.

Since its foundation, the Central Bank created the premises for the development of the Romanian banking system from a bank, in 1874. to four, in 1881 and in 1913, to 187 banking companies.

Central Bank had the obligation to administer a gold and silver stock that would overtop a third of the value of the issued banknotes with the purpose of guaranteeing the banknotes in circulation. The metal reserve of the Central Bank did not correspond to the bimetallistic base of Romania's monetary system, initially silver had a bigger share than gold. This fact was emphasized until in 1883, when the Central bank owned a metallic stock only composed of silver which had a small value, as an effect of total conversion of the gold stock.

The large increase in exports from 1890 until 1892 brought large quantities of gold in the country, which led to a slower shift to gold monometalism.

Due to the economic context, the National Bank of Romania, together with the Romanian government, contributed in the years 1890-1892 to the creation of the legal framework to a single monetary rate by giving up bimetallism in favor of gold monometalism.

In 1892, through the new monetary law, gold monometalism was adopted by the removal of silver as a benchmark. Thus, 1 leu was the equivalent of 0.3226 g gold with the title 900 ‰.

In relation to the most important foreign currencies, the situation was as follows:

- 1 French franc = 1 leu;
- 1 Swiss franc = 1 leu;
- 1 pound = 25.25 leu;
- 1 dollar = 5,18 lei.

Monetary law at that time respectively imposed Central Bank to cover a minimum of 40% from the banknotes volume in circulation. Still, in special cases, specified by the law there was a reduction of a third from this coverage.

The Central Bank in the time of its foundation until the beginning of the First World War financed Romania's economy by the volume of the credits and maintained a reduced level of the bank rate. Although between 1900 and 1925 the state withdrew from the shareholders, the Central Bank's statute was kept as a bank with all its previous responsibilities.

4.2. The International Reserve and the Romanian Monetary System during the First World War and the beginning of the Interwar Period

The foreign capital infusion in Romania until de beginning of the First World War. due to domestic insufficiency, were very big, being vulnerable for the country, taking the form of loans granted to the state, banks, commercial or industrial entities. The situation was as follows:

”Regarding the state loans, it is clear that in 1914 the Romanian kingdom owed Germany 903 075 000 lei, France 483 790 000 lei, and Belgium, the Netherlands and Switzerland together 64 505 000" in relation to the domestic public debt of 177 390 000 lei, where the National Bank of Romania remained the most important domestic creditor. In the banking sector, out of the total of 176,392,010 lei, which were available for the eight commercial banks, the amount of 106,800,000 lei, meaning 60%, belonged to the capital of Germany, France, Austria, Hungary, England and Belgium in 1914. In industry, on the eve of the First World War of the total capital of anonymous societies, which is part of the so-called large industry and amounts to 636 556 546 lei, the foreign capital was worth 511 019 236 lei, meaning 80.2%" (Constantinescu *et al*, 1997, p. 334). It is possible to conclude the extremely important role played by the foreign capital in the economic life of Romania before the war, and this is because, as an economist of this period, Victor Slăvescu wrote in 1915, *a maximum profitability*, as he noted, which he could obtain in Romania.

The size of the First World War and the fact that, unlike other military conflicts, weapons were created in the industrial period, it generated very large funds to support it. It can be confirmed with certainty that that this war cost a great deal of money, surpassing all the costs of the conflicts from XIX century. (Saizu *et al*, 1997, p. 38). Because of this fact, the governments of the belligerent states were financially supported by their national banks in the global conflagration. The National

Bank of Romania did not make an exception to this, for which the war started in the summer of 1914, when the financial support was requested.

Since the beginning of the century, the governments of the belligerent states have triggered an unprecedented arms race, which Romania has not been able to achieve, due to its low economic and financial capacity to make such an effort. The two years of neutrality until August 1916 were not enough to recover the gaps in Romania's military training for a war of this magnitude. On the other hand, along the years of neutrality Romania concentrated its efforts for the influence on the Romanian economy by the countries which were part of the Antanta and the Central Powers intensified and it manifested by large oil and grain imports, loans granted to the Romanian state, mass purchases of shares in the banking and industrial companies. These efforts affected the inversion of the domination of the German and Austro-Hungarian capital from the beginning of the century in Romania at less than half in favor of the French, British, Belgian, Dutch and American capital.

After Romania's entry into the First World War, the economy of this young country was severely affected by the war effort.

During the war, the Romanian government obtained successive loans from the Central Bank. This aspect led to an increase in paper money, resulting in higher inflation, as British economist David Ricardo said: „The amount of money in circulation must be determined by the sum of the commodity values, each country having to use an amount of money corresponding to its national wealth" (Brailean, 1998, p. 35).

The repeated loans that were received by the state from the Central Bank led to the danger that the issued banknotes which were in circulation could not be covered by the regulations in place at that time. To foresee this risk, the Romanian state gave up a part of the gold and foreign currencies which were under administration of the foreign banks to the Central Bank of Romania.

The situation that was created along with the forecasts regarding the devaluation of the banknotes issued without coverage, determined the Central Bank to ask the Ministry of Finance that a third of the loans granted to the state to be repaid in gold by using the cashed in amounts of the state from the export taxes. Despite all efforts to increase its gold and gold reserves, it has grown more modestly compared to the nominal value of banknotes put into circulation, which demonstrates the depreciation of the leu.

Along with the increase in military spending in inflation increased due to internal circulation of civilian goods also, as most of the industry worked for the army and not for the population, and consequently the prices of the consumer products increased greatly.

The unfavorable evolution of the military events forced the Romanian authorities together with the central management heads of the National Bank of Romania to take refuge in Iași.

The National Bank of Romania and the Romanian Government have since decided to transfer the metal reserve covering the monetary issue, also called the golden treasury, first in Iasi and then in Moscow in Russia being the only allied state with which Romania had a border.

In Iași the representatives of the Romanian state, of the Central Bank signed a document with the representative of the Russian Empire, which ensured the Russian Government's transport, storage, as well as return to Romania. Thus, in December 1916, the central bank's gold was transferred to 1735 gold coin tapes, 3 boxes of gold ingots, and 2 Queen Maria jewelry, all of which was inventoried and stored in Moscow at the Russian State Bank.

In the uncertain situation from the summer of 1917, when a strong military offensive was awaited by the Central Powers, it was decided to make a second transport from the Romanian Treasure to Moscow in July 1917. This time the total value of the second transport was 7.5 billion lei, compared to the first transport of 320 million lei. The second transport contained the values of the National Bank of Romania valued at 1.5 billion lei (575000 lei representing gold) and the rest belonged to other institutions.

The two transports totaled a quantity of gold that constituted Romania's international reserve kept at the Central Bank of 91.48 tones of fine gold.

Although the gold came out of the management of the National Bank of Romania being transferred to Moscow, it remained for a long time kept in the bank's balance sheet. After the exhaustion of the remaining resources, the gold treasury bills were used by the Central Bank.

Due to the fact that the Central Bank used the gold treasury bills in its stock to cover the banknotes issued by it, as a result of the numerous authorizations given by the Government of Romania, this fact was also a cause of the strong depreciation of the leu.

In the circumstances of the heightened treasury tendencies, but also due to the intensification of speculative practices, led to almost total disappearance of metal coins in circulation, their place being taken by paper money. This resulted in suspending paper money convertibility in June 1917.

The establishment of a forced exchange rate for the leu, the use of gold treasury bills in covering stocks of banknotes issued, maintaining the non-convertibility of the leu led to a strong imbalance of the exchange rate. As C. Kirițescu also said, the growth without an economic base for the monetary mass in circulation has broken the balance created the almost spontaneously between the demand for currency of the economy and the volume of money circulation. (Kiritescu, 1996, p. 220).

Given that the volume of commodities on the internal market severely declined, the massive increase in the amount of paper money in circulation led to a strong inflation. The first inflation since the creation of the leu as a national currency made the entire Romanian society feel the negative effects of the war with the whole range of social reactions.

Between 1916 and 1917 the war has caused a great disruption in public finances, budgets have not even been drafted, state spending grew strongly exceeding the revenue several times. In order to cope with such a situation, the state has increased the taxation and made other loans from the Central Bank reaching the end of 1918, to increase by 3.5 times the pre-war period to almost 1.6 billion lei.

For the occupied territory of Romania, the authorities of the Central Powers issued occupational banknotes made in Berlin with the title of new lei, in order to be able to operate them economically as quickly as possible, and then they were put into forced circulation.This paper money was emitted on 17 December 1916 and put into circulation in early 1917 by the old Romanian General Bank, a bank with German capital, existing since 1897. New lei were considered to be covered by a fictitious cash deposit at Bank of the German Empire in Berlin.

The lei we emitted from the Romanian General Bank was a lever at the disposal of the occupation authorities with the clear purpose of economically draining Romania's occupied area by buying national goods, Romanian shares and other values. In these circumstances, Romania had a circulatory power of three coins issued by the Ministry of Finance, the Central Bank and Romania's General Bank.

Also, with the aim of ensuring domination, German occupation authorities ban undertook a forced depreciation of the leu through the huge issue of 2.2 billion lei without gold coverage. The money in circulation was twice as large as the total value of the Romanian banknotes in circulation in 1916 of 1.03 billion and more than the total value of the loans received by the Romanian state from the Central Bank until the end of the war

New *lei*, issued by the Central authorities' powers, circulating along the old lei issued by the Central Bank, deeply disorganized monetary circulation, raising inflation to quotas unseen in Romania until that moment.

The intentional devaluation by the occupying authorities of the leu had an effect over time on the inflation of the national currency after 1918.

Prior to 1918, in the territories inhabited by Romanians from Transylvania, Banat, Bucovina, which belonged to the Austro-Hungarian Empire and Bessarabia belonging to Russia, it circulated foreign money, owned by these states.

After the Great Union of 1918 it was compelling to replace the new *lei* issued by the Central Bank these currencies that circulated in these provinces integrated to Romania. This was accomplished with the monetary unification of 1920 where Austro-Hungarian crowns, Romanov and Lwow rubles, and the lei emitted by the Romanian General Bank were converted into lei that would become convertible only on February 7, 1929, with the new monetary law. It redefines the gold coverage of the new national currency: 1 leu = 10 mg. gold with the title 900 ‰. Beginning with 1920 until 1921 "during the unification process a supplementary banknotes emission of 7,5 billions lei was realized" (Stoica *et al*, 2003, p. 124). The conversion was made late, which allowed the smuggling of large amounts of money into the country, with a strong inflationary effect. In order to remedy this situation: "the measure of stamping foreign money in circulation will be taken by the governors only to create the illusion for the people of taking some protective measures against the invasion of deprecated foreign banknotes” (Turliuc *et al*, 2013, p. 107).

The new authorities of Russia, who took over the power after the Bolshevik Revolution in the autumn of 1917, confiscated the treasury of the National Bank of Romania. This has seriously affected Romania’s monetary equilibrium during the war period.

With the monetary stabilization of February 7, 1929, the assets of the National Bank of Romania’s balance sheet, the gold stock transferred to Moscow recorded as *litigious claims on foreign assets*, kept in with the hope of re-entering into possession, following the promise of pressures on Russian authorities, by the Allied Powers. However, the Central Bank’s balance sheet symbolically left the *gold* account in Moscow for memory until 1943.

5. Conclusions

Efforts to support the war have diminished to full exhaustion the international reserve of the National Bank of Romania.

After the war we witnessed the attempts of the national authorities to rebuild the international reserve, to restore confidence in the national currency. but also the restoration of the disorganized public services. This was also facilitated by the new resources acquired through the new territories included in the borders of the Romanian state.

The dissolution of the Austro-Hungarian Empire, immediately after the war, led to the disappearance of a number of institutions of the empire located in the geographical area of the newly emerged states. This is the case of the Austro-Hungarian Bank, whose immovable from Banat and Transylvania were taken over and transformed into the headquarters of the National Bank of Romania.

By the end of 1918, following the inflation phenomenon, the real average salaries were a quarter from the average salary identified in the beginning of 2016. During the war the speculation of strict necessity products intensified, but also value titles from the industrial and banking sector. The destruction caused by the war in the industry was borne by the Romanian state, which in turn covered them through taxation, leading to deeper economic and social contradictions.

“The costs of preparing the army and supporting the war along with the costs needed to supply the country, impoverished after the years of occupation, the need to bring disorganized public services into operation, to resume production and to achieve monetary unification, and on June 30th, 1922, its value reached 12,339,249,230 lei” (http://www.bnr.ro/1919---1939--1055.aspx).

By virtue of the fact that in ancient times the regions that were to be included in Romania after the Great Union and the Old Kingdom developed favorable economic relations economic integration was very easy, so in the next period, the national economy will develop quickly, with all the losses suffered in the war.

Following the Union in December 1, 1918, Romania having a rich and varied heritage with a strategic and important economic potential of 295 thousand square kilometers, and a population of over 15 million, acquired an average position on the continent and the first place in South-Eastern Europe.

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