

## NEOLIBERALISM, PEASANTISM AND PROTECTIONISM IN ROMANIA IN THE INTERWAR PERIOD

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### ABSTRACT

*The objective of this research paper is to present the main trends of the economic thought in the interwar period in Romania and the influences that had the economic works of foreign authors on the theories developed by the Romanian authors. Also, are presented the original contributions of the Romanian authors, based on concrete realities and on the specificities of the Romanian economy at that time. The main economic Romanian theories in the interwar period were neo-liberalism, peasant-ism, protectionism, and the socialist ones, such as Marxism, communism and social - democracy, of which, in this paper, the focus is on neo-liberalism, peasant-ism, and protectionism.*

The interwar period was characterized in Romania, as in most of the Eastern European countries, by a first stage, between the years 1918 and 1924, for recovering the national economy after the First World War and by consolidating the newly created national state. Then, it followed a period of economic boom, between the years 1924 and 1929, in which were developed the most economic activities. The Economic Crisis between 1929 and 1933 has deeply affected the Romanian economy, in all its branches, causing a change in the economic policy applied by the State, which held that it must intervene more in the economy in order to recover the entire economic activity.

The creation of the Romanian national state led to increase the surface of the country approximately 2 times, from over 100,000 to over 250,000 square kilometers and at the number of the population at about 20 million persons, which meant a significant growth of the available resources and of the potential of the economic development. The structure of the population remained almost the same, the peasants representing the majority of the population, approximately 80% of the total.

Since the majority of the population lived in rural areas and the main economic activity was the agriculture, the agrarian reforms had a major importance in the first years of the interwar period. As a result of the Agrarian Reform in 1921, were allotted 1.4 million peasant families, which led to the development of the middle class, of the small and medium bourgeoisie from the commercial, financial and - in the second half of the interwar period - industrial field. The large landowners have lost about 6 million hectares of land and their land properties accounted only about 1% of the total. The industrial development after the Economic Crisis of 1929 - 1933, determined, in the social field, the development of the working class.

Since in that period, the Romanian economy was an agrarian – industrial economy, the economic policy measures primarily aimed to develop the industry in order to transform the national economy into an industrial – agrarian economy, which however did not mean neglecting the agriculture, but rather aimed to ensure the further development of this branch, at a higher rate than that achieved in the early years of the twentieth century.

Between the two World Wars, in Romania the political system was dominated by a few strong parties. The most important was the National Liberal Party, representing the bourgeoisie, who was supporting the idea of the self – development, based on the national forces and focused on the industry. This party held the power during 1922 - 1928 and from 1933 to 1937. Its members included prominent economists such as: Mihail Manoilescu, Stefan Zeletin and Vintila Bratianu. The second party, in order of the importance, was the National Peasant Party, founded in 1918, which initially promoted especially the interests of the peasantry, considering that this is one of the most important classes, plus the small bourgeoisie and the intellectuals.

The peasant party doctrine aimed primarily the development of the agriculture, accepting the contribution of the foreign capital by the "Open Policy". Among the prominent economists members of this party, which held the power during 1928 - 1931 and 1932 - 1933 were enrolled: Virgil Madgearu and George Zane. As an extremist left party, whose ideology was strongly influenced by Marxist ideas, was founded the Romanian Communist Party, in 1921.

The most important economic schools of thought in Romania in the interwar period were: neo-liberalism, peasant-ism, protectionism and communism. The socialism was divided into three sub-economic schools of thought: communism, socialism and social democracy. The common objective of all this theories was the realization of a better and a fairer society, they denied the progressive force of the bourgeoisie and aimed to improve the situation of the working class.

## 1. THE NEO-LIBERALISM

The neo-liberalism promoted by the National Liberal Party, aimed to create a developed capitalist national economy, promoting bourgeoisie class, seen as the only one able to perform a more effective economy, to ensure the development of the national industry. In order to achieve this goal, they wanted to encourage the Romanian capital and limiting the foreign one, to use especially the national resources, to develop the national internal market. The liberal economic policy measures combines with the protectionist ones. We can clearly observe the existence of the ideas of Friedrich List, the creator of the protectionism doctrine in the nineteenth century in Germany.

The main Romanian neo-liberal economists were: Mihail Manoilescu, Gheorghe Tasca, Stefan Zeletin and Vintilă Bratianu. Being exponents of the liberal economic thought, they have supported the development of the private property as the basis of the freedom of the economic actions, but they also promoted such protectionist measures, in order to protect and develop the national industry. The industrial development was considered a prerequisite for reducing the macroeconomic imbalances and a positive factor for the development of the foreign trade activities.

Mihail Manoilescu, Professor of Political Economy and politician, is the most prominent representative of the interwar Romanian neo-liberal thinking and he was recognized also for its preference for the Italian corporatism ideas. In his works, can be founded concepts from the French, Italian and German economic literature, which he has acquired mostly during his travels and studies abroad.

Until the year 1930, Mihail Manoilescu was an adept of the ideas of the economic protectionist policy promoted by nationalist economists. One of his most important works from this period is "The theory of the industrial Protectionism" (1929), translated into several foreign languages and considered very important work for the world economic thought. After 1930, Mihail Manoilescu became a prominent representative of the corporatism, his most important work in this area being "The corporatism century. The full and pure Corporatism doctrine" (1934). His studies had as impulse and as starting point the observation regarding the Romanian society, made by the economist J.M. Keynes in the preface of one of his works which was translated into Romanian: "it's not only messy or labor movement, but of life or death, of famine or existence - the terrible tortures of a dying civilization."

According to Mihail Manoilescu, the political economy had to serve at the analysis of the material interests, of the means and opportunities of the national economy, considered as total of the production factors and of the individual economic subjects. His analysis relates to the macroeconomic level, and the state had to have an important role in supporting the private individual initiative.

In order to overcome the Economic Crisis between 1929 - 1933, Manoilescu recommend the state reform as a prerequisite for the possibility to realize a new national and world economic order, which must adopt the corporate principles in order to eliminate all types of failures that national economies are confronted by then, by creating an organized economy in which it can have an active permanent engage, mainly subsidizing certain economic subjects and branches and also by controlling the foreign trade operations, the goal being the increasing of the purchasing power in the developing countries, the global decentralization of the industrial activities, the industrialization of the countries with agrarian economies, in order to reduce economic disparities between countries by achieving an international division of labor. Given that all the countries can procure the necessary goods in two ways: the direct way, through its own production and indirect way, through the international trade, Manoilescu recommended the direct path only when in the branch where those goods are produced the productivity is higher than the average national productivity.

Among the factors of production, Manoilescu outlined the role of the labor, idea that is also found in the works of the classical economist Adam Smith, the labor being considered the main factor of production. On this subject, Mihail Manoilescu developed one of his most popular theories, according to which the labor productivity in industry is much higher than in agriculture. With this theory, he contradicts the classical and neoclassical theories which promoted the free trade and also the theories of absolute or relative economic advantage in the international trade, indicating that maintaining the status of agricultural country leads to increase the gaps with the industrial developed countries. Mihail Manoilescu demonstrates that the added value of an industrial worker per capita is much higher than the added value of a farm worker per capita per year, which is equivalent to the fact that the industrial countries exploit the agrarian countries. In Eastern Europe this proportion reached the level 1 : 10 after the Economic Crisis of 1929 - 1933. This situation would not affect the whole country if the exchanges would be done only inside the national territory because it would not lose some cross-border added value, so the nation would not impoverish. When are made exchanges between countries, however, the gains resulted from the international trade are uneven, being dependent primarily on the productivity of labor and capital inputs, which are clearly highest in the industry.

Regarding the agricultural production, Manoilescu divided the benefits which are obtained in two categories: the individual benefit, calculated in money and real national benefit, who is more important, and who must be calculated both in money and in natural units, because it shows the real required effort to produce such goods in the national economy. According to his theory, the equation of exchange shows that when are changing equal values, the work incorporated into the merchandise it isn't equal, so the equality of the values hides an inequality of the exchanges for the labor.

As both industry and agriculture consist of several branches and sub-branches, each country must establish an order of preference for the branches that wants to develop as a priority. Based on an idea of the English economist Hobson, Manoilescu developed the "quality factor" used to assess economic efficiency. This coefficient is calculated as the product (the geometric mean) between the average labor productivity and the average productivity of capital, based on net production. Using the quality factor, we can determine and prioritize the branches and the sectors in which it can be produced a higher net value with less consumption of labor and capital. States should encourage the development of those industrial activities where the productivity is higher, should protect, by protectionist economic policy measures, the industrial and the agricultural activities where the productivity is highest, should develop economic cooperation relations with the external partners based on negotiations and mutually beneficial for all. Choosing the branches with a higher productivity leads to increase the international purchasing power for that country. Consequently, in the international division of the labor, the countries will no longer be divided into agricultural and industrial countries, but industry will grow everywhere, leading to a significant reduction of the economic and the social disparities between states, to the disappearance of the countries division in central and peripheral countries, because all will have an increasingly closer degree of civilization.

Some of his ideas have been applied in Romania even in the last decades of the centralized economy and had a major influence on the radical trends of worldwide economic thinking, such as, for example, the Latin American radical doctrine. Also, some liberal western economists, appreciated the work and the ideas of Mihail Manoilescu, as having a particular importance in shaping the international characteristic concepts of this area.

## 2. THE PEASANT-ISM

The peasant-ism doctrine promoted by the National Peasant Party, sought to create a developed economy based on the massive penetration of the foreign capital into the country and on the development of the agriculture, as the main branch of the national economy. It was recognized, for the wealthy peasants, the right to use the employment in agriculture and to lease lands that could not be cultivated by themselves. The peasant-ism was an alternative reaction to the other two major schools of thought in the interwar period in Romania, accusing the neo-liberal ideology that favored the interests of the wealthy bourgeoisie and also the socialism, or communism that neglected the importance of developing the private property.

The most important representative of the Romanian peasant thinking was Virgil Madgearu who, in his studies, was concerned to the possibility of creating a peasant state and a peasant economy. Among his most important works are: "The peasant-ism" (1921) and "Agrarianism, capitalism, imperialism" (1936). Contrary to the neo-liberal ideas, he promoted the preservation and the development of small farms, because the agriculture was a traditional economic sector in Romania, he was against the large scale industrialization, considering the first one

being the most appropriate to the structure of the population (which is why he is considered a representative of the doctrine called “populism”). From his point of view, the economic order in Romania characterizes a semi-capitalist agrarian state, which made inadequate the application of the neo-liberal principles used in Western Europe.

In his analysis, primarily on quantitative aspects of the economic activities and result of numerous studies and monographs on the state and the challenges faced by the branches and the social groups of the national economy, he showed that all these elements are very important in choosing the economic doctrine by the states. Madgearu emphasized as disadvantages, the existence of feudal remnants in the agriculture in the interwar period, as well as the existence of an agrarian overpopulation in relation to the total and the structure of the land, the existence of a low level of the technique used in the agricultural production, the existence of the difficulty of the access to credits and the weak involvement of the state in this area.

Noting that, at the time, the export capacity of the country was relatively low, he insisted on the role of developing the internal markets for the goods for consumption. The international trades had to be free developed, the state had to ensure the free movement of goods and capitals between countries. In order to improve the performances of the industrial activities, he promoted the requirement to improve the education system and the professional training of the labor.

Like most other representatives of the Romanian economic thought at the time, Virgil Madgearu argued the importance of organizing the agricultural production in agricultural cooperatives, even smaller, the importance of crop diversification, the importance of passing at the intensive agriculture, where the state had to play an important role. After the Economic Crisis, in 1933, he revised some of his concepts and started to support the industrial development as a prerequisite for maintaining the country's economic independence. He accepted the use of some protectionist measures in order to protect the industrial branches with the highest potential for growing, noting the disadvantages that had the agrarian countries in the international trade, caused by the entry of the foreign capital, compared to the industrialized countries.

Such as the economist Mihail Manoilescu, inspired by the classical theories of Adam Smith, he stresses the importance of the labor as production factor, which he considered the fundamental factor of the economic activity, whether it is physical work, whether it is the intellectual work. Those who are involved in the industrial production activities should cooperate with those engaged in the intellectual activities and also with the organizations of the consumers. In his analysis, Madgearu shows that the development of the agrarian activities and of the peasant class does not contradict the development of the heavy industry, but, on the contrary, supports it. The agricultural policies are not contrary to the industry, but complement them. An important element in the agricultural development is the development of the industry, which will increase the capital accumulation. Of course, every country in the industrialization process, will face specific problems, and this process will take longer than in the countries that developed the industry from the beginning.

To achieve these goals, Virgil Madgearu also accepted a certain degree of the state intervention in the economy through appropriate economic policy measures, even by planning the activities, mainly in industry and agriculture, showing that they do not contradict the development of the property and the private initiative. State planning should have being done only in order to coordinate the individual businesses and enterprises, to encourage and to assist them in their work.

### 3. THE PROTECTIONISM

The main representative of the protectionist thinking in Romania in the interwar period was Dumitru (Mitita) Constantinescu and his main concern was to reduce the economic imbalances that were a consequence of the fact that the branches of the Romanian economy were unequal and asymmetrical developed. To overcome these problems, he proposed some measures of state intervention in the economy. Asymmetries are divided into three categories: between the industry and the agriculture; between the private sector, based on free private initiative and the public sector, based on dirigisme; quantitative and qualitative asymmetries and imbalances of foreign trade, which entailed, in Romania, a deficit of the balance of payments.

Dumitru (Mitita) Constantinescu promoted the development of the industrial activities, the profitability of all types of businesses, idea which was reflected, in that period, in the economic policy measures undertaken by most countries with agrarian - industrial economy. In his opinion, these countries had to be focused on two main areas, called "double industrialization": the development of those sub-branches able to replace much of the

imported goods with internal products and the development of those sub-branches able to determine a significant increase of the exports. In order to achieve these goals, the state had to reorganize the internal economic activity and to review the economic policy of the commercial relations with the other countries.

One of its main works is "Rural property evolution and land reform in Romania" (1925) which analyzes the effects of the Land Reform of 1921, stressing the need to restructure land ownership and to reduce the imbalances in the agricultural production, to improve the agricultural production by increasing the quality of the production and by competitive pricing, to organize the activities within production associations and cooperatives. In his work "Contributions to the problem of raw materials in Romania" (1939), he analyzed the economic situation of Romania and he demonstrated the crucial role, for the national economy, of the rigorous provision with the required raw materials from the outside, so that it makes the national economy, by its production, to increase its role in the global economy. The most important resources for our national economy were considered to be: wood, oil, plastics, ferrous metals, natural and synthetic textile fibers that were considered to have a high potential in developing the Romanian industrial activities.

His most important work is, however, "Applied economic policy" (1943), in which the author analyzed the problems of the foreign trade, of the currency and the prices, of the rural economy, the agricultural production and the cooperation, and also of the industrial production, in conjunction with the main aspects of labor, trade and credit. The most important measures of economic policy for the economist Dumitru (Mitita) Constantinescu were: the double industrialization and the creation of the national industrial complex; improving the agricultural production; import controlling; increasing the imports of materials and supplies necessary for the national defense and civilian production; reorganizing and improving the geographical structure of the exports; achieving a uniform economic policy for the economic sectors which are interdependent. In order to solve these problems of major importance for the national economy, the state intervention was accepted and regarded as fully justified.

Among the most important ideas promoted, are included the fact that Romania was unduly depleting national resources by exporting goods at low prices, which had also great fluctuations on the international markets and by importing products with high prices, resulting from this the currency depreciation and the reduction in the standards of living. In these conditions, the economic policy of the state had to aim to reduce the imports of manufactured products used in individual consumption of households and to increase the imports for those products used for economic development in general, to develop the national production capacities, to organize and to direct the export. Thus, the products used for the consumption can be then provided from its own internal production. The author proposed, for the state, to take some measures in order to control the prices for the exported goods and to finance the exported production by providing indirect export subsidies. He also showed the importance of developing a correlation between the measures applied in the industry to those applied in the agriculture, given the close relationship between the two most important branches of the national economy.

Dumitru (Mitita) Constantinescu believed that in the agricultural development, the state must have the most important role. Due to the small size of the land properties, the state had to encourage the association of the small farmers in larger farms that could benefit from more advanced technology and greater financial resources. Like this the country will give up to the small individual production, passing to the collective production, as the basis for the efficiency of the agricultural production.

As a result of all the economic policy measures applied by the Romanian state in the interwar period, based on neo-liberal concepts, peasant-ism and protectionism, the economic agrarian - industrial activity in Romania progressed. The progress in the agriculture was relatively low. It can be observed, however, an increase of the cultivated areas, particularly with cereals, which have always been the higher weight in the Romanian exports products, but yields per hectare have remained below the average of the European values. The activities of growing domestic animals have developed slowly, resulting in higher production only for pigs and sheep. The branches of the industry that have been developed the most were: the construction materials industry, the wood processing, food, textile, metallurgy, chemical and leather. Have been developed cartel firms, which before the Second World War owned 46% of the total capital and achieved 25% of the total production in the large industry. The share of the foreign capital felt, but it continued to have an important role for the internal economic activity. The state was concerned to continue to develop the rail transportation giving them a greater attention than in the previous periods, to develop the road transportation and it opened, in 1920, the commercial airlines and the airlines for the passengers. The communications have been significantly developed, as in most European countries, which had contributed to the development of the businesses. The state had improved the budgetary and the fiscal policy instruments, so as to provide benefits and to encourage the development of the

private businesses. The state also reviewed all the national and international trade agreements in order to increase the efficiency of the trades. Visible progress had been fast, which is demonstrated by the fact that the country's trade balance had been in surplus in the most of the years.

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