

NICOLAE XENOPOL ON THE BEGINNING OF MANAGEMENT AND THE ROMANIAN ECONOMY IN THE FIRST DECADES OF THE 20th CENTURY

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ABSTRACT

The purpose of the following paper is that of exploring Nicolae Xenopol's assessment of the Romanian economy from a century ago. The first section of the study is dedicated to an analysis of the state of agriculture, thought to be the key for economic prosperity in the beginning of the 20th century. In this respect, Nicolae Xenopol manages to provide some key insights. He also gives an insightful perspective on the strategies Romania should employ regarding industrial production. The next section of the paper is dedicated to this aspect. I conclude with an exploration of the contemporary character of Nicolae Xenopol's analysis for present-day Romania.

KEYWORDS: *Nicolae Xenopol, agriculture, economic development, industry.*

JEL CLASSIFICATION: *N0, O10.*

1. INTRODUCTION

One century has passed since the death of Nicolae Xenopol, the founder of the Bucharest University of Economic Studies, and the problems that Romania has are still unsolved. The purpose of the following study is that of exploring and analyzing the lessons that Xenopol laid out 100 years ago regarding Romania's economic chances of prospering and to see whether some of those lessons are still applicable in the present.

Today, the solution needed to resolve these economic issues are rather similar to the solutions that Nicolae Xenopol, an economist who studied Philosophy in Berlin and Law in Liege, proposed. For him "Romania is undoubtedly the richest country in Easter Europe" (Xenopol 2013, 21). We could say the same thing today, even though different opinions are gaining strong ground. What Xenopol says, on this aspect, is quite realist: "The soil, especially fertile, rich underground resources like oil, mines, quarries of stone, salt mines, fisheries, woods (still unexploited), they all are natural riches beyond compare. The Danube River, which is a natural border in the Southern part of the Kingdom, represents an extraordinary means of transporting goods; Constanța, a harbor at the Black Sea, is a gateway for other harbors of the world. Romania also has an industrious rural population, prosperous towns in which, every year, new factories appear and powerful finance and banking institutions which are a testimony for the judicious and entrepreneurial spirit of Romanians. These are all premises for prosperity (2013, 21).

An economist could say that, due to defective management strategies, the woods have been destroyed, factories which underwent serious transformations during the Communist period were not able to be modernized and restored to their previous owners (or to their heirs) and that the infrastructure is in a bad state, so on and so forth.

If we were to observe these realities we could say that the century that just passed changed the situation in Romania. Regarding resources, they were badly exploited, with a faulty managerial approach, destroying the premises of prosperity.

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2. XENOPOL ON AGRICULTURE AND PROSPERITY

Nicolae Xenopol wrote during the most prosperous period of Romanian history, when "the wealth and riches of the country doubled and even tripled in a relatively short time frame" (2013, 21). Being a realist, he also noticed the terrible poverty in the rural part of the country. The premises were positive, however, and poverty could become a thing of the past. The optimism of the political class in his time was shared by many, and the solutions for development are still discussed today, even though a century has passed and we live in a period with different economic realities. For example, even today the idea that the first step for prosperity should be the development of agriculture is being expressed by economists and politicians.

A century ago, agriculture had the biggest weight in the formation of national wealth. It was a period when Romania, through its exports of grains, was one of the leading players on the agricultural market worldwide (Xenopol 2013, 22). However, exporting grains is not now, and it sure was not then, a viable factor of economic development, because the added value is small and it is always against the interest of agrarian countries.

Moreover, the increase of the agricultural output in the beginning of the 20th century was achieved through extending the cultivated surface, not really through the usage and implementation of mechanization and chemical fertilizers. Nowadays, the situation is the same. Romania exports agricultural raw materials and imports agricultural products manufactured outside the country. Agricultural productivity used to be then, and it still is now, under the median productivity that Western countries have. However, Romanian wheat used to be, and it still is, one of the best cereal grains in Europe.

**Table 1. Average productivity (in quintals) for wheat in Europe.
The beginning of the 20th century**

	Country	Average quintals
1	Denmark	32,6
2	Belgium	25,7
3	Netherlands	24,5
4	Germany	21,3
5	Great Britain	21,2
6	Sweden	21,2
7	Switzerland	21
8	Norway	16,1
9	Austria	13,6
10	Hungary	13,6
11	Romania	12,2

Source: adapted from Xenopol (2013, 24)

As we can see from Table 1, in comparison to other countries Romanian agriculture was not efficient. In order to increase efficiency, Nicolae Xenopol argued in favor of more efficient ways of cultivating the fields, organizing the irrigation infrastructure and using chemical fertilizers which could, in his opinion, increase the productivity by at least 50%. Even a century after Xenopol proposed these solutions, we still face similar problems.

He focused on the fact that chemical fertilizer usage was scarce: "Our country is one in which chemical fertilizers usage is very low. Also, we have only one factory for producing such fertilizers, in Mărășești, and the imports are also low." (2013, 24-25).

Moreover, Xenopol seems again to be our contemporary when he says the following: "The decline in the number of animals will lead to a situation in which the quantity of natural fertilizers will also decline. This will compel us to use, in the future, more chemical fertilizers." (2013, 25). Giving up on chemical plants will determine the people involved in agriculture to import chemical fertilizers.

Back in Xenopol's time, grain exports were mostly limited to wheat and corn. He was not an advocate of this policy: "The excessive production of these two grains is a clear sign that our agriculture production is badly organized. This type of organizing production neglects the production of raw materials for industry and continued to expand the amount of cultivated land to the detriment to fields and pastures. If producing wheat is explicable on the basis of the high price of wheat on external markets, the excessive production of corn, taking into account the small price of this product, can only be explained in virtue of the fact that the Romanian peasant tends to focus on cultivating this plant. We should strive for a future when wheat and potatoes will replace corn in the diet of the Romanian peasant." (2013, 28)

Nowadays, when a significant part of the rural population emigrated in the EU, the problem of nutrition in the rural area is not as pressing as it used to be, as a wide array of food products are imported. An alarming phenomenon with possibly dangerous consequences for the future is the selling of land to foreigners. There is a big difference between the regimes of property rights nowadays, in comparison to Romania during Xenopol's time. For example, according to article 7, paragraph 5 of the Romanian Constitution (modified on October 13th 1879), only Romanian citizens can acquire land in Romania.

During the first decade of the 20th century Romania's budgets were running on a surplus due to good agricultural crops. It was the time when the price of grains on the external markets was rising and this was an advantage for agrarian countries. The prosperity of the country, considered Xenopol, and the strength of the banking industry, the force and the future of Romania were dependent on the progress that the rural population made.

3. THE FUNDAMENTAL ROLE OF INDUSTRY

Regarding industry, Xenopol wrote that "it does have an important contribution to the prosperity of the country, but this prosperity belongs only partly to Romanians. It mainly feeds foreign capital. The country does make a profit on industry, but we have to admit that the Romanian factor is present in a minority in these types of activities. An important number of chambers of commerce, some big financial institutions, while advantageous for the country, are for the benefit of foreign capitalists. The instrument of national wealth is represented only by agriculture" (2013, 34).

Some might think, after reading Xenopol's assessment, that Romania entered in the 21st century unchanged. Those who consider that agriculture can ensure a sustainable economic development would not only contradict Xenopol, but also most economists. It is in industry and manufacture that we can find the key for economic prosperity on a long term. He's reading of the situation is still correct: "we should encourage especially industries which process raw agricultural material. It would be useful to obtain in our country the raw materials necessary for a wide array of industries, like the leather manufacture, silk, wool or furs. Moreover, it would be best if we would start cultivating, on a bigger scale, flax and hemp in order to be able to manufacture locally the textiles that we need. If we would create new industries we would increase the production of the industries which are connected to agriculture, like milling, sugar factories, beer factories and distilleries. We would increase local consumption of agricultural products and we would manage to export them in an easier manner" (2013, 34). The solution of industrializing Romania is a quintessential one. Current conditions are different than a century ago, for sure, but the economic principles are the same.

The management of a country is a responsibility of politicians, and their economic training is important, were they to find the most efficient solutions for prosperity. Is this always the case? This is a recurring question. We know from history that, to ensure the development of industry we need adequate regulations. Free trade tends to advantage the more developed countries.

Like in the case of other countries, Romanian politicians learned from their mistakes. In the first century after gaining independence, due to the politics of free trade, Romania's industry was hurt. Only after renouncing this policies did the preconditions for the development of the national industry came into place. This also meant adopting laws and regulations in favor of our national industry. Such a law was adopted on April 21, 1887. It granted a wide array of advantages to citizens who wanted to set up a factory, on condition that they had a capital of at least 50.000 Lei and hire at least 25 persons. Here are the main advantages of this law (Xenopol 2013, 49):

1. the lease of a 1 to 5 hectare plot of land on the domains of the state, localities or Crown domains;
2. tax exemptions for 15 years from local or national authorities;
3. exemption from customs and duties for the import of machines, machine parts and accessories;
4. exception from customs and duties for raw materials, if those raw materials could not be found locally/or in an insufficient quantity
5. the reduction of transport tariffs on railways for manufactured goods, from the factory to the destination.

Xenopol was a proponent of reducing the export of wheat and corn and of the development the milling industry. In order to develop this industry, Romania needed a good infrastructure. Western countries used to buy grains made in Romania but they had no particular interest in other goods manufactured here. This is why they did not search for other routes in the East. Egypt was, in the beginning of the 20th the main importer of flour made in Romania. Xenopol though highly of the law facilitating industry adopted in 1912. "This new law has a number of advantages for: 1) factories that, besides administrative and technical staff, have at least 20 workers and machines with at least 5 horsepower; 2) craftsmen and artisans who hire at least four apprentices; 3) craftsmen and artisan associations with a capital of at least 2000 Lei which hire at least 10 workers; 4) cooperative associations from villages or enterprises that hire at least 20 workers in the domestic industry"

Industries that buy their raw materials from agriculture or from a derivate of agriculture or from Romanian ground or underground will benefit, for 30 years, from the following advantages: 1) selling the necessary land up to 5 hectares by the state, county or locality; 2) the free use of rivers; 3) tax exemption from duties and tariffs for importing machinery or machinery parts; 4) smaller costs for transporting goods on railways; 5) tax exemption from any direct tax; these taxes are to be replaced with a contribution from the benefits, in favor of local and county authorities: 3% in the first 10 years, 4% in the next 10 and 5% in the last.

Industries that buy their raw materials from agriculture or from a derivate of agriculture or from the ground/underground and that manage to export a quarter of their production will benefit, for 30 year, from a bigger reduction in the costs of using the railways and from a reduction of the profit tax, on top of the 5 points mentioned earlier.

Factories that import most of the raw materials will only benefit from the advantages of the law for 21 years. These factories will pay a tax on their profit in the following manner: 4% in the first 7 years, 5% in the second and 6% in the last.

In exchange for these advantages, 75% of the workers and 75% of the administrative staff should be made out of Romanian citizens. The technical staff should also be at least 25% Romanian in the beginning of the second part of the stimulus period, and 60% by the beginning of the last period." (Xenopol 2013, 49).

The import of industrial products continued, however. The local textile industry was unable to ensure national necessities. Romania used to import high end products from Germany, Austro-Hungary, England, France and Italy. With regards to the logging industry, Xenopol did not agree

with the import of "goods that we could produce at a national level, through a better exploitation of our woods, like wood for constructions...It will be difficult to fight with high-end furniture...We should not forget, however, that high-end furniture is bought by rich people with rich tastes. There have been some attempts to manufacture expensive and luxury furniture in Romania, but it will be impossible to compete with France or England" (2013, 68)

Another focus for Xenopol is the development of the paper industry, an industry advantaged by cheap wood. With regards to metallurgical industry, this has to ensure the necessary machinery for the extraction and exploitation of oil, another valuable resource on the world market. He argued in favor of establishing a petroleum trading company with Romanian capital (it should be exclusively Romanian, he thought). The state would have to make available the land with the underground resources and it would be a business associate and it would be able to control the production of fuel. Regarding oil refining, he thought that it should be conducted by a company with a mixed Romanian-foreign capital.

Nicolae Xenopol identified himself as a liberal from an economic standpoint. He criticized the Romanian politicians (like the National Liberals) who wanted to establish a monopoly in the oil industry. He considered that the state has been proven time and time again to be a bad administrator: "the state is already too powerful here. If the state manages to set foot in one of the most prosperous and important industries then it would hinder progress and kill entrepreneurship in Romania" (2013, 71)

Last but not least, Xenopol thought that, in the future, we should also focus on developing a national arms and weapons industry

4. CONCLUSIONS

Back in 1917 Nicolae Xenopol asked his fellow countrymen the following question: "Which are, now, the sources of Romania's prosperity? By what means are we able to achieve our commitments and pay our debts?" We could ask the same question even in the present.

In order to pay our imports and other payments we do not have any capital placed abroad, we do not have a strong commercial navy or foreigners willing to spend their money here. The main resource to ensure prosperity is still agriculture. The national industry, while booming, manages to ensure only a part of the needs of our national market. With the exception of the oil industry it does not have a big impact when it comes to foreign exports. This is a problem because exporting goods and services is our main way of paying for our foreign debt. From Nicolae Xenopol's arguments, only one does not hold water nowadays: a lot of Romanian workers go westward in order to find work. It is not a mistake to say that, judging him by his arguments, Nicolae Xenopol is a contemporary of ours!

REFERENCES

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