Charles Rist and the French missions in Romania, 1929-1933. Why the "Money Doctors" failed?

Dominique Torre, University of Nice Sophia-Antipolis - GREDEG - CNRS
Elise Tosi, CERAM Business School

Abstract: The paper reexamines and discusses the causes of the failure of the French economic missions to implement a sound monetary and financial system in Romania between 1928 and 1933. *Banque de France* Deputy Governor Charles Rist, also professor of Economics at La Sorbonne University, was the leading personality of the delegation which included, among others, Roger Auboin as permanent *Conseiller Technique* (adviser) at the National Bank of Romania. We recall the objective of the missions and the economic and political context of Romania in 1928-1929. Then, from the study of official documents and correspondence between the members of the French mission, we propose a first set of reasons explaining the failure: (i) the French side underestimated the difficulty of reaching stability by implementing monetary measures only, (ii) the Romanian Central Bankers and Public Officers found it difficult to admit at the time the necessity of applying stricter discipline in Public Finance in order to restore Leu's credibility. This statement meets the immediate analysis of Rist: the reasons of the monetary failure of the French mission are not to be found in the strict monetary management of the Romanian situation but in the financial component of the policy mix. Then, we present a second-level diagnosis, more in line with what we have learnt since Rist about the successful rules for a relevant monetary policy. Despite its delayed effects, the Great Depression deeply affected the Romanian economy and its financial system. This is one cause of the failure of the Romanian authorities to stabilize the economy and this cause was underestimated by the French Money Doctors. Last, we consider the obstacles to a successful introduction of a soft peg in a country like Romania, without a developed financial market and an adjusted policy mix. We discuss briefly the alternative options that more modern Money Doctors than Rist and the Banque de France advisers would have considered.

Key words: Monetary Stabilization, Romania, Charles Rist, Money Doctors

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Introduction

This paper reexamines and discusses the causes of the failure of the French economic missions to implement a sound monetary and financial system in Romania between 1928 and 1933. These missions were decided jointly by the Liberal administration of the period 1923-1927 under the leading influence of Ion(el) Bratianu on the Romanian side, and on the French side, by the Poincaré government which was mainly involved in the stabilization of the French Franc. From the end of 1927, the French Governor of Banque de France Emile Moreau was associated with the project bringing together French advisers and decision making staff of the Banque. The missions were a central element of a program of international loans granted by banks and governments to the Romanian economy. The missions aimed at providing advisory services to the National Bank of Romania and the Central Government. This period is decisive for the Romanian economy. Political and financial authorities, already influenced by the French model, were involved in the stabilization of the Leu at a lower parity compared to the pre-war level. The sequence depreciation - stabilization - return to convertibility was adapted in line with the French opportunistic experience. The application of the model was initially a success: the exchange rate for the Leu was again pegged to Gold at a new parity and managed on a monthly basis to maintain its convertibility. Then, as soon as the French mission began its work at the National Bank and the Central Government, it appeared that it would be difficult for the Romanian economy to reach a stable equilibrium only with the contribution of the external loans program and without adopting structural reforms concerning the budgetary practices and the economic objectives of the Government. The situation failed to improve over time: from mid 1932 French Money Doctors thought that the stabilization attempts had failed and tried to demonstrate in two complementary reports that the Romanian authorities were fully responsible for the situation.

The origin of the missions was the desire of the French Central Bankers and politicians to back the international loan granted to Romania on the active intervention of French advisers: "Experts made their case for expertise on the grounds that financial and economic orders should be restored through the mobilization of objective, technical expertise, outside the subjective terrain of intense political rivalries and animosities in postwar Europe… Effective financial supervision required more than simple advice. “French technical advisers supervising the Romanian stabilization program found that, without power over loan disbursement, they could have little influence on policy" (Mouré, 2008, p. 139). The memories of Emile Moreau (1954, see notes of 4 November and 12/13 December 1927, pp. 419 and 447 to 449) and other archive documents from French Central Bankers attest that the political objectives of Poincaré, Briand or other French politicians were indeed to extend the influence of France in Central and South-Eastern Europe or to contain the parallel initiatives of United Kingdom, Germany and even Italy. Moreau himself "meet[s] the views of Poincaré who tries to substitute, in Central Europe, the influence of the *Banque de France* to this of the Bank of England" (Moreau, 1954, p. 442). This was not the motivation of the Money Doctors at the time they first took up the mission. Some of them were young officers, in search of experience and eager to promote their future career; others were experienced advisers and had little to expect from a mission whose official economic content would have been *a priori* considered as irrelevant. The perception of the situation by the French Money Doctors (some of whom, but not all, being involved in the strategic plans of the Banque de France) could have been different from the intentions of the French politicians: the analysis of the reasons of their failure must account for this component.

Many causes converge to account for the poor results of the mission. Some of the reasons for the failure made consensus in the direct perceptions of the actors and the subsequent literature. For instance, greater distance was soon created between the Romanian officers and politicians themselves then between the French technicians and economists concerning the way to manage the situation: the political changes in Romania which promoted the Peasant Party to the decision-making functions within the country enabled more pragmatic persons, but also more suspicious of the French mission, to be put in charge than would have been allowed by the preceding Liberal administration. The period 1929-1933 was characterized by the contagious influence of the Great Depression on the Central and South-Eastern Europe countries. Nobody can ignore the influence of these events on the economic situation of Romania in the 1930. The French mission did not contest the reality of this depression but clearly minimized its effects. Other motives of the failure are even less consensual overall when we consider data now available on the extent of the crisis in the agriculture and the extraction sector. In contrast, the French reports of 1931-1932 to the Romanian administration enumerated a long series of inadequacies in budgetary and monetary practices of the Romanian administration. While some considered that they were facing a crisis of an exceptional gravity, others referred to monetary and budgetary lack of orthodoxy of the authorities to qualify the reasons for the failure. Obviously, the French reports could not be acceptable to the Romanian politicians and officials. The Money Doctors probably expected that in return, the Romanians would renounce to extend indefinitely the cooperation between the two countries. It is amazing to observe that despite their growing dissension, at no moment did the difficulties they faced make the partners doubt the relevance of the monetary regime they had chosen. We argue that this regime could however be challenged in the specific context of Romania in the inter-war period.

The rest of the paper is organized as follows. Section 2 presents the motives of the mission and the protagonists at work. Section 3 develops the immediate causes of the failure as the French mission presented them. Section 4 points out the role of the Great Depression in bad performance of the stabilization policy in the final slump of the Romanian economy. Section 5 challenges the nature of the monetary regime chosen by the protagonists for a country like Romania in the inter-war period and Section 6 provides concluding remarks.

2. The mission and the troops

In the aftermath of WWI, Romania faced an important challenge: the country had to devise and implement the development strategy able to guarantee the economy's recovery and to sustain an ailing industry. At the same time, the country had to stabilize domestic currency and to overcome important financial disorders. The strategy to adopt had also to be compatible with the changes that had been occurring on both the political and social grounds. A heated debate took place between the supporters of European ideas and styles, who put technology and progress on the forefront, the more traditionalist thinkers who promoted the defense of the Romanian society rural roots, rejecting the Western values, and the National Peasant Party who argued that agriculture, rather than industry would come first as the engine of economic development (Vasilescu and Popescu, p.1). After a period of political alternation, the National Liberal Party took the power and shaped the “by ourselves” development strategy in-between 1922 and 1926. It left a large room to international financial relations in the restoration of a sound industry, the resort to foreign financial capital being considered as a key determinant of the early stages of Romanian economic expansion. However, this activity had to remain under the control of the government, from the twofold point of view of the nature of the funds and their invested amounts. The argument was that foreign funds would allow Romania to initiate a physical capital accumulation path that would be later put in the hands of Romanian entrepreneurs. Stefan Zeletin and I.N. Angelescu economists, and Vintila Bratianu, Romanian Ministry of Finance, were leading architects of such a project involving a kind of “nationalization” of the industry. Yet these ideas were given a concrete expression through a series of laws that aimed at controlling foreign financial contributions in the industry and trade sectors: natural resources became publicly owned, companies that were allowed to benefit from private funds were obliged to appoint Romanian managers in their governance. As a result, petroleum and steel industries performed very well at the end of the decade, but Romania fundamentally remained a rural country.

On the monetary side, the National Liberal Party unsuccessfully tried to restore the Leu in 1925 to its pre-war parity and a new attempt was planned for 1928. As Mouré points out, this stabilization was not a goal per se for Ion(el) Bratianu and the Liberal administration. It however increasingly seemed that it would be a good way to generate the level of confidence favoring the issuance of international loans. The first idea of Romanian politicians was to apply for a loan to the League of Nations, the second one was to resort to British financial market and banks. The third potential partner was France. The discussions between Romanian delegates and French Central Bankers began in 1927 as attested by the “long talk” of the 28th of December 1927. Moreau wrote “…with Antonescu in presence of Rist and Quesnay. We found an agreement. The Romanian government will give a mandate to a mission of French engineers to study the situation of Romanian railways and the bank of Romania will ask us to appoint M. Quesnay for the analysis of the monetary and financial situation of Romania” (Moreau, 1954, p.461). Due to the skeptical position of the Bank of England, a Franco-American agreement seemed necessary to stabilize the Romanian Leu. Rist and Quesnay went to New York to obtain the adhesion of Benjamin Strong, the influent Governor of The Fed of New York. “MM. Rist and Quesnay have a good feeling on the mood of Strong concerning the Romanian Question” (Moreau, 20 March 1928, p. 514). The previsions of Moreau did not fully come true: “Rist and Quesnay are back from New York. They obtained a difficult adhesion of Strong to the Leu stabilization program. Strong wrote me a personal letter to tell me that, under the approbation of the Federal Reserve Board, he could provide an US contribution to the stabilization for an amount of 10 millions of Dollars. However, in New York, if one wants to avoid the *Banque de France* to be left isolated on this point, one hopes that all central Banks could participate. One member of the Fed is in mission in London to convince Norman to participate” (6 April, p. 531). Contacts between Siepmann and Quesnay ended up dampening the hostility of Norman. Moreau visited also Governors Schacht in Berlin and Volpi in Italy to exchange views on the objectives and the methods of the stabilization of the Leu. Schacht sounded very doubtful as to the reliability of the Romanians (Moreau, 1954, pp. 549-552) and Volpi seemed quite disappointed by his previous contacts with the Romanian administration but he finally agreed to join the Central Bank partners of the mission (*Papiers Charles Rist*, 1928, 23-7, p. 4).

Ion(el), then Vintila Bratianu finally chose to conclude with France, and, following Rist's recommendation, to stabilize before issuing the loan. In 1929, the Romanian government decided to implement a new style of monetary and financial management in order to respond to a rampant inflation and to restore the confidence of creditors. The "Monetary Act" aiming at monetary stabilization was finally passed in February 1929: its conception had been largely influenced and approved by a pool of foreign banks led by the *Banque de France*. Charles Rist and Pierre Quesnay, Banque de France's representatives and Gaston Jeze, expert in public finance were the main contributors to Romania's monetary and financial recovery plan. It comprised an international borrowing, the "7% stabilization loan" devoted to the settlement of the government debt. It was also aimed at facilitating short run domestic credit operations to permit asset liquidity. National Railways Company would also have benefited from extra funds to finance productive investment and to pay up a fraction of its debt. In terms of implementing economic policy, the principles of balanced budget, public sector restructuring and Central Bank independence served as guidelines. Soon, the gold convertibility of the Leu was restored and it was able to fluctuate smoothly around its theoretical parity as any stable currency. The French mission could then be installed. As explained by Mouré, "Romania acquiesce[s] to the requirement of a technical adviser with great reluctance, insisting that his role be strictly limited" (Mouré, 2008, p. 156). Rist was finally appointed as the Head of the delegation and Roger Auboin as the resident *Conseiller Technique*: both of them had limited decision-making prerogatives, lesser than those of the commissioner-general of the League when he was required to intervene near a Government of a Central Bank. The staff was completed by two Inspectors of the Banque de France who worked with Auboin and an Inspector of Finance at the Romanian Treasury.

The members of the French mission and their environment:

Charles Rist: Charles Rist was a professor of Economics at La Sorbonne, a Paris University. He authored the *Histoire des doctrines économiques depuis les physiocrates jusqu'à nos jours* (A History of the Economic Doctrines from the Physiocrats to nowadays) with Charles Gide in 1906, with many subsequent editions. Other books and articles as *Les finances de guerre de l'Allemagne* (the German War Finance) in 1921, *Le retour de l'or* (The Return of Gold) in 1922 or La déflation en pratique (Deflation in Practice) in 1924 made Rist the leading voice among French academics on monetary questions. In 1926, he was nominated by the French Ministry of Finance Joseph Caillaux and the new Governor of *Banque de France* Emile Moreau as deputy Governor of the *Banque*. He soon became the main protagonist of the French stabilization program and, given his intellectual influence on French Central Bankers, politicians and academics, the leader of the French "Money Doctors" until World War 2. He would later be the author of *Histoire des doctrines relatives au crédit et à la monnaie de John Law à nos jours* (1938) (History of Monetary and Credit Theory From John Law To The Present): the book was continuously used in French Universities as one of the most original textbooks in Monetary Theory in the early 1960. It is now considered as one of the most interesting defenses of Tooke's positions (from a 'pragmatic' adept of metallism).

Roger Auboin: Roger Auboin was the *Conseiller Technique* (technical advisor) at the National Bank of Romania during the period. He was appointed by Rist but it seems he was also appreciated by the Romanian Bankers and administrative officers due to his reliability and sense of diplomacy. Like Quesnay, he would become General Manager of the Bank of International Settlements from 1938 to

1958. Thanks to his correspondence with Rist, we are able to access the exchanges within the French mission in Romania and especially to the detailed correspondence of Auboin.

Emile Moreau and Clément Moret: Emile Moreau was the Governor of the *Banque de France* from 1926 to 1930. His own technical limitations were compensated by his political feeling, his propensity to delegate and his pragmatism. His name was associated to the French stabilization of the *Franc Poincaré*. He decided to devote two chapters of his memories to the Romanian problem. Clément Moret succeeded Emile Moreau in 1930, during the period of the French missions.

Pierre Quesnay: Pierre Quesnay was one of Charles Rist’s students at La Sorbonne in Paris. He served in the League of Nations, and then followed Rist to the *Banque de France* where he headed the Department of Analyses and, with Rist and Moreau, formed the trio in charge of the stabilization of the French Franc. In 1928, Rist planned to designate him for the position of permanent counselor at the Bank of Romania. He was however appealed almost simultaneously by the French Bankers and he was finally then appointed in 1930 as the first General Manager of the Bank of International Settlements at Geneva where he remained until his accidental death in September 1937. He was the author of *L'Internationalisme monétaire et ses conditions d'application* (Monetary Internationalism and its Conditions of Application) in 1932.

Jean Bolgert: Jean Bolgert was one of the most active members of the French mission. He soon became aware of the difficulties of the stabilization plan and never hesitated to present his views to Rist. He was far less indulgent than Auboin about the capacity of the French mission to succeed. He would later become *Directeur Général* of the *Banque de France*. Henri Guitard and Poisson were also members of the French mission.

The Romanian partners of the French Money Doctors:

Constantin Argetoianu: Constantin Argetoianu, one of the most prominent political personalities of the interwar period in Romania, was the Finance Minister of Nicolae Iorga’s government from 1931 to 1932. Resolute in his decisions but versatile in his political and personal sympathies, he suffered from the criticisms of French mission regarding the poor improvements of Public Finance and budgetary procedures in his Ministry. Simultaneously, he became very unpopular in Romania after he decided to liquidate agricultural holdings and stop payments to public officers.

Virgil Madgearu: Virgil Madgearu was one of the leading members of the National Peasant Party and opposed Ionel and Vantilla Bratianu National Liberal Party. He was the Agrarian Finance Minister of the Romanian government from the end of 1929 to mid-1930, then from 1932 to 1933. His views on Central Banking had been dominated a few years before by his populist opposition to the unchallenged influence of Liberals in the field of financial and monetary national decisions ("[If the Peasants' Party is to win the elections] the shape of things would be changed. The National Bank would no longer be the economic fortress of the Liberal oligarchy", Aurora, 1924).

Ion(el) Bratianu: Elder son of Ion Bratianu, the historical leader of the National Liberal Party, he decided, like the rest of the family, to study in France. Back in Romania, he joined the National Liberal Party, and then served as Minister with various attributions before being appointed Prime Minister for the first time in 1909. He then contributed actively to the postwar discussions on the new frontiers of Romania and finally became a charismatic Prime Minister from 1922 to 1926, then in 1927.

Vintila Bratianu: Vantila Bratianu was the brother of Ion(el) Bratianu. He also studied in France before returning to Romania and becoming - as the other members of the family - a member of the National Liberal Party. After the death of Ionel, he was appointed as Prime Minister but was rapidly forced to resign in 1928 after the victory of the Peasant party.

Mihai Popovici: Mihai Popovici was the Finance Minister in many governments led by the Peasant Party. He was the main (but not totally appreciated) interlocutor of the French mission from the end of 1928 to the end of 1929, then from mid-1930 to mid-1931.

Mihail Manoilescu: Mihail Manoilescu was a member of the People Party, a populist force competing with the Peasant Party and led by General Alexandru Averescu who was the Prime Minister immediately after the war. In 1931, Manoilescu became Governor of the National Bank. The relations between Manoilescu and the French delegation were not marked by serious conflicts.

Between 1929 and 1932, Romania repeatedly benefited from international loans. The bulk of the loans originated from France. The Development Loan was negotiated at the beginning of the cooperation era between the *Banque de France* and the National Bank of Romania; it was supplemented by additional loans from the *Banque de France* and some French commercial banks. Another loan was granted in 1932 with the contribution of UBS and other Swiss banks (see Stoenescu and alii, 2006, p. 11). Everybody expected that those contributions would restore confidence and improve the financial position of the Government, public companies and the Central Bank of Romania. In reality, they only generated public suspicion and counterproductive consequences on the balance sheets. Year after year, the Romanian Government found it more and more difficult to manage the debt and decided in April 1933 to cease repayments. In 1934, following rounds of negotiations, the government was allowed to reschedule the redemption date and to recalculate the annual coupons. L. Ureche-Rangau (2003, 2008) proposed an analysis of market expectations of these decisions which ended up with the definitive suspension of payments in 1941. This period, rich of events like the default of payment of the Romanian government is still considered as one of the most interesting periods in the modern history for the observation of the respective effects of fundamentals, signals, announcements and expectations on asset prices. The French mission proposed a more detached diagnosis of the situation.

3. The immediate causes of the failure

The immediate cause of the failure of the French mission was twofold. To some extent, it was linked to bad work climate and poor work relationships between the French delegation and the Romanian politicians and officers. The French mission’s viewpoint supported the idea that the failure was however principally and more fundamentally the consequence of the poor improvement of banking, budgetary and financial practices between 1928 and 1933. These points will be further elaborated in the text below.

3.1. The climate of workplace relations

All conditions were met for the establishment of a good contact between the French Money Doctors and the Romanian officers and politicians. A significant part of the political personnel was traditionally culturally oriented towards France. Rist reports that during his stay in 1929, when he was invited at an official or a private dinner, he was impressed by the mastery of French language and the knowledge of French culture of his hosts. All the work meetings were also held in French, without any special mention from the members of the French delegation: this was considered natural! The personal or official contacts between the members of the French delegation and their Romanian interlocutors were also rather friendly: in time Auboin became well known in the country (Paunescu 2004). The correspondence of Rist and the memories of Moreau also confirm good reputation of Romania in France, probably as a result of the cultural and political options of the National Liberal Party. At that time Rist and the mission were installed in Romania, but the work relationships between the two partners would deteriorate rather rapidly, because of a lack of mutual consideration and confidence - two qualities that are generally the fuel of international cooperation. Here are some examples that illustrate this situation:

Rist related for instance how he was obliged to impose Auboin as a participant to the first meeting of the Board of the Governors of the NBR, where he was the only officially invited member of the delegation (*Papiers Charles Rist*, 1929, 23-10, Relation from the 14th of February 1929). He noted in the same relations that the Governor delivered no welcome speech to introduce the French delegation whereas a reply had been prepared by Rist to the expected address. The general atmosphere depicted by Rist seemed at least to reflect the reluctance of the Bank staff to admit Auboin (who was already known as the permanent member of the advisory team) as a consultative member of the Council when Rist would return to France. It is probably also the sign of the wish of Romanian authorities to remain free from any control from the French mission over the governing councils of the Bank. The relations between the Treasury and the French delegation were even more distant and suspicious.

The notes and correspondence of the members of the French mission showed other reciprocal lack of consideration between the Romanian staff and the French Doctors. Rist dictated rapidly to his secretary very negative impressions about his environment in Bucharest: “we are surrounded by people who do not understand anything, know anything, anticipate anything, and who are not able to accept any rule” (*Papiers Charles Rist*, 1929, 23-10, Relation from the 14th of February 1929, p. 21). Low consideration also for Popovici, the Finance Minister of this period: “yesterday at 9 am, Popovitchi [Rist or his secretary russifies the name] visited me. He had a lot of plans in his head: loans and expenses, loans for the hungry, loan for the forty thousand Macedonians that have been quartered among Bulgarians of Dobroudja, in the same houses and who are naturally fighting with them. Loan to buy greatcoats to the soldiers, for raising a Mint; use of the funds of the Great Loan to enlarge the Universities of Bucharest and Jassy Clug” (*Papiers Charles Rist*, 1929, 23-10, Relation from the 9 March 1929, p. 23). The same day, Rist also complained about the ignorance of the Central Bank officers: “their opinion is that the entry [of external loans] is to be controlled because, one day, when these loans will come to maturity, the repayments will generate outflows of currencies; then, to avoid these outflows, one has to prevent today currencies inflows. It is against this kind of arguments that I struggling everyday” (*Papiers Charles Rist*, 1929, 23-10, Relation from the 9th of March, 1929, p. 24). Other pages express the same disappointment of Rist facing his new environment in Bucharest. On many occasions and since the early weeks, the Deputy Governor was considered by his Romanian partners as arrogant, with little propensity to dialog and ability to convince the people. In a letter dated June 15th, 1929 (*Papiers Charles Rist*, 1929, 23-10), Rist complained that “there, they continue to consider me as a dictator. The German Berbvertszeitung wrote few days ago that I am exerting here *“eine Vertschalichen terror”*: it’s completely me! But the few measures they took under my inspiration to avoid catastrophes were astonishingly rigorous to the”. Auboin had another way to express his views, more moderate and patient than the French Deputy-Governor. Despite his permanent tendency to balance points of contentment and criticisms, his general feeling was not much different compared with the first impressions of Charles Rist.

These misunderstandings, mistrust and approximations probably complicated the task of the French mission. The French Doctors did not show sufficient awareness of the Romanian reality and were not prepared to work in this new environment. On their side, Romanian officials were not ready to accept that their decisions and actions had to be controlled by other than themselves. These coordination problems were however nothing compared to permanent difficulties of the French mission in obtaining the respect of orthodox rules of monetary and financial management. Such difficulties appear as the main “immediate causes” of the French missions’ failure.

3.2. Non orthodox monetary and budgetary policies

Two reports written by the French delegation present in a synthetic way the fundamental reasons of the failure of the stabilization program according to the views of the French mission. The first one is anonymous (probably authored or approved by Auboin) and labeled *Rapport sur les deux premières années d'application du programme de stabilisation et de développement économique* (Report on the first two years of implementation of the program of stabilization and economic development). It can be dated to late 1931 or early 1932. It has a wide reach but it clearly adopts the point of view of a Central Banker. We will name it “1931-1932 Anonymous Report”. The second one, dated May 1932 and labeled “Rapport sur les Finances Publiques de la Roumanie” (Report on the public finances of Romania) is signed by Rist; however Auboin, Bolgert and the rest of the mission probably contributed to its elaboration. It is addressed to Argetoianu who was in charge of the Treasury and mainly concerns Public Finance issues. We will mention it as “Rist, 1932-Report”. Now, we skip lengthy developments about points of detail especially the ones contained in the report of May 1932: they attest that the French mission did its job seriously but without any indulgence and compassion. Three lines of critique emerged in the statement of the French Money Doctors: the French mission underlined (i) excessive accommodation of the National Bank, (ii) the lack of financial orthodoxy from the Government, (iii) the weakness of the economic development program.

Excess of accommodation from the National Bank:

During his Winter 1929 stay in Bucharest, Rist noted after a talk with Bolgert, that the balance-sheet of the National bank was “illegal since the Bank incorporates as liabilities the bills issued in counterpart of the convertible currencies bought on the free market, while those assets have been withdrawn to the bank by the Government to realize its October payments” (*Papiers Charles Rist*, 1929, 23-10, *Situation de change et programme d'émission*). In their Anonymous Report of 1931-1932, the French Doctors add new remarks. “The [Central Bank] portfolio is far from having the mobility required to a Central Bank. Many assets are renewed at maturity even when only assets to 3 or 9 months can be held by the bank. Discounted assets are simply replaced at maturity by other assets, in such a way that it is not to the final creditor that the credit is made but to the bank that endorses them.

As it is well known, it is however an elementary principle for an Issuing Bank to avoid discounting Financial Paper” (1931-1932 Anonymous Report, p. 3). The National Bank also seems insufficiently cautious when faced by the local banks: “the situation of many local banks to which the Romanian National Bank lent remains very precarious. In particular, the National Bank never managed to impose a real and progressive reorganization and dis-immobilisation plan to these banks” (1931-1932 Anonymous Report, p. 3).

This excess of accommodation led to the increase in the risk of failure of the entire monetary system. It was associated with the observation made by the Bank of the inefficiency of the loans, associated with the misuses of the available liquidity. “If the 1929 loan did not increase internal currency, it is because when the borrowed funds were used and put into circulation, one has observed a new demand of external currencies which absorbed all the excess liquidity” (1931-1932 Anonymous Report, p. 5). The loan could have been used partly as a means to increase residents’ portfolios labeled in external currencies. The author of the Anonymous Report then recalls that “there is no other ways to improve the current state of affairs but working to straighten up the economic situation of the country by enforcing in the long way the free entry of external capital with really productive goals, and by limiting to strictly necessary the non-productive expenses” (1931-1932 Anonymous Report, p. 5).

The weight of the negative remarks addressed to the RNB was however light when compared to the pages devoted to the bad budgetary practices.

The Lack of Financial Orthodoxy of the Government:

This lack of financial orthodoxy refers to two kinds of practices. On one hand, the Government was not able to compensate structural deficits. On the other hand, it used external loans to repay existing loans, thus sacrificing productive uses.

The structural form of Public deficits was diverse: some receipts were over-estimated; some expenses were under-estimated or unexpected. Overall, the successive administrations did not seem motivated by the management of public deficits. These problems were anticipated by Rist from 1929 and confirmed in the correspondence of Auboin and stated widely in the 1931-1932 and 1932 reports. The anonymous report recalls that “M. Rist accepted to be in charge at the National Bank under the commitment that the public balance would be reached. Now, the three laws of Finance of 1929, 1930 and 1931 have been passed with a deficit” (1931-1932 Anonymous Report, p. 7). Every year, the initial deficit was very large, and it got reduced in the course of the year as a result of persistent remarks of the Conseiller Technique and a series of interactions between the Finance Ministry, various officers and the French Counselors. In 1929, the expected deficit was 4 billions Lei and it got reduced during the fiscal year thanks to additional taxes and expense restrictions. In 1930, the expected deficit was larger. The amount of expenses was cut by more than 2 billions Lei during the year but the amount of taxes was finally also smaller than expected by 5 billions Lei. In 1931, after a stricter control of public expenses, the expected deficit was only 500 millions Lei but during the year, unexpected expenses and reduced fiscal receipts brought this deficit to 2.5 billions Lei. By including the uncovered commitments of 1930, the 1932 report estimates the total commitments of 1931 to 37.3 billions Lei whereas the resources only amounted to 29.0 billions Lei (Rist 1932-Report, p.11). Free from the initial commitments, the expected level of public deficit was 3.5 billions Lei (1931-1932 Anonymous Report).

The same report also reveals that public arrears from 1929 or from previous years remained mentioned in the books in 1932. According to the May 1932 report, they corresponded to new unexpected amounts or to regular expenses initially removed from the Law of Finance (Rist, 1932-Report, p. 10). The 1932 report takes the example of the year 1931, showing that all the Ministries granted at the end of 1931 “as much credit as possible and they exceeded largely the amount of the commitments resulting from the monthly order of distribution of credits” (Rist, 1932-Report, p.10).

In 1932, Rist pointed out forbidden reporting practices as commitment without order, unpaid orders and many cases where the Government committed itself as guarantor in private contacts and this prefigured subsequent increases in the public debt. This was the case in the commitments of the Treasury towards *Banque Nationale Coopérative*, Romanian Academy, the civil hospitals of Bucharest, the *Société de Crédit Foncier Rural*, the *Banque Hypothécaire Rurale* and the banking consortium *Solidaritatea*. The (billion Lei) losses the National Bank could incur in its portfolio of “agricultural” assets fell also in the category of the risky positions taken by the bank. Among other remarks, Rist also regrets that the Government and the Bank decided jointly in 1929 that, given the structure of the public debt in the hands of the Bank, this institution could continue managing the long-term part of the debt but only by delegation of the Government. Rist lamented that the Government would have chosen to intervene repeatedly in the long-term management of the debt by discounting its own position or cancelling its own debt.

The 1932 report also presents many other descriptions of bad budgetary practices: bad interpretations of public accounting rules, over-valuation of taxes (Rist mentioned there the difficulty to estimate the taxes due to the cyclical nature of harvests in an agricultural economy as Romania), expenses not included in the Budget, too many specific budgets, constant changes in the presentation of the Budget, inexperience of Treasury officers. He then suggested the adoption of precautionary uses. “We could, for instance, take systematically the amount of the previous year and apply to it only a given proportion. If a surplus is realized, this surplus could be added to a fund devoted to the clearing of past commitments” (Rist, 1932-Report, p.20).

The use of stabilization loans to refund arrears was a financial practice that completely opposed the academic conceptions of Rist. In the 1932 report, he notes: “A stabilization loan of 6 billions Lei refunded the arrears of previous loans. This amount is far larger than the equivalent used in Hungary and Austria to pay off their deficit. It is unrealistic to expect new loans without a strict commitment to restrict public expenses to the level of public receipts” (Rist, 1932-Report, p.7). More generally, Romanians were suspected by the French Doctor of systematically using new loans to extend the maturity of their previous commitments, thereby neglecting any opportunity to increase the efficiency of their economy.

The limited scope of the economic development program:

The members of the French Mission were more involved in monetary policy and public finance issues than in the development program and “real economy”. Many remarks in the reports are however related to the lack of ambition, realism and consistency of the real part of the Romanian public programs.

Investing in the railways was an important challenge for Romania during this period, given the necessity to provide infrastructure for a country fully economically dependent on agriculture and oil revenue. However, the anonymous authors of the 1931-1932 report note that “the stabilization program planned to reorganize the administrative and financial management of railways. It suggested the creation of an autonomous management of the network, recommends the reforming of accounting and reporting practices, proposes to remove gratuities and discounts and to introduce control of management practices to rationalize the use of human resource” (1931-1932 Anonymous Report, p. 14). Despite these recommendations, the deficit of railways increased from 1929 to 1931. More generally and according to the French doctors (1931-1932 Anonymous Report, p. 16), two institutions were able to restore the economic situation: (i) a Bank specialized in financing Agriculture (the authors of the report hoped to obtain rates of interest of at most 10 to 12%), (ii) a system of short term advances on harvests. With such a system, Rist and the French Money Doctors hoped to attract foreign investment in the agricultural sector.

These motives may be sufficient to explain the failure of the French mission. However, they were probably not the only determinants of the situation of Romania in the mid-thirties. Overall, Romania was not spared the Great Depression: first it hit its banking system, then the rest of the economy.

4. The Great Depression effect

Like in other western European countries, the effects of the Great Depression were felt after a few years. No trace of any international recession or financial contagion during the first month of the missions. However, the depression started affecting Romania from 1931. Soon, “the entire Romanian economy was affected. Prices of agricultural products started falling in 1929 as a result of an over-production crisis at the world level. At the outset of the Great Depression, the crisis in agriculture was rapidly followed by a general economic contraction but the balance on trade improved as a result of the simultaneous decline in export prices and increase in import prices” (Stoenescu and *alii*, 2007).

The attempt at monetary rehabilitation took place in a context of financial turmoil and economic difficulties. On the financial ground, Romania was rapidly affected by the consequences of the bank crisis that hit the countries of Central Europe, and especially Germany and Austria: it resulted in massive cash withdrawals (peaking in June 1931), credit supply contracted and the National Bank was obliged to rediscount assets, thus endangering its own reserves. The banking sector was not spared by the crisis and even the largest Romanian banks such as *Banca Bercovitz* (July 1931), Marmorosch Blank Bank (October 1931) failed, while other banks as *Banca Romaneasca* were in difficulty. An important correspondence between Rist, Auboin, Bolgert, Manoilescu among others relates the various episodes and the joint attempts of the Romanian staff and the French mission, to save the sound part of the Romanian banking system. Among these texts, a manuscript letter from Bolgert to Moret[1] written on the 24th of September complains about the rescuing of the Blank Bank by the NBR - a pure loss. Bolgert also denounced the counterproductive influence of the freshly created syndicate of commercial

[1] As it is frequently the case from the resident members of the mission, the letter is formally addressed to *"Monsieur le Gouverneur"* but probably wrote to be read by the Deputy-Governor: this kind of correspondence is not available with the papers of Moret but with those of Rist in the Banque de France archives.

banks and the negative effect of the intervention of King Carol who incited Auboin, Argetoianu and Manoilescu to save Blank, despite the collective opposition of the French mission, the Treasury and the National Bank itself. (*Papiers Charles Rist*, Bolgert to Moret, 24-2, p. 1-2). Few days later, another letter to the same correspondents related the project of a large merger of commercial banks to avoid Blank’s liquidation. These attempts generated a divergence of views within the French group, separating the orthodox line of Bolgert and the more flexible position of Auboin. Finally, the French Doctors had little influence only on the decisions of the NBR.

In the context of bank failure, the money borrowed abroad was inevitably diverted from its expected destination, economic development, to pay back the government short term debts or to absorb financial losses. The National Bank of Romania was therefore obliged to mobilize its reserves in foreign currency whose amount diminished substantially and finally, outflows of money largely outweighed inflows. The credit crunch that followed the crash of the largest Romanian banks had further consequences on public accounts as the budget deficit amounted to 10 billions Lei in 1932.

5. Too harsh or not enough

In the previous sections we presented and discussed the “usual” causes of the failure of the French mission in Romania. However, one question remains open: Was the monetary stabilization plan chosen by the French and the Romanians the best and the safest one? Obviously, even if Romania had chosen the return to the gold standard with the economic fundamentals of the US, UK or French economy, it would have been forced to abandon it after speculative attacks against the domestic currency due to the asymmetry of the effect of the slump between 1929 and 1936. But Romania did not have the same economic fundamentals as those countries and some of these differences could have mattered in deciding the return to the gold standard.

The comparison with France is particularly interesting. France was a developed economy with an active financial market and a sound banking system. Depreciating the French Franc and returning to Gold after devaluation was an opportunistic solution, given the rather simple regulations of the foreign exchange market, limited to the main international currencies. The French economy was able to cover its own financial needs from internal sources. In this case, there was no global interference between the monetary situation and the management of Public Debt. The immediate consequence of the external value of the French Franc was only to restore in the short term the level of the French external balance and to modify the direction of the gold movement line. This situation disconnected to some extent the choice of the monetary regime and the financial policy of the government. In the late twenties, Romania was not in the same situation. It was under the sway of the external market conditions (access to foreign borrowing) to refund its public deficits: at that time it was not possible to separate the sustainability of the internal deficits from the external value of the Leu. The original sin of the inter-war Romania naturally limited the number of viable monetary solutions open to its administration in power.

Two possibilities, very different in their content, could have been considered. The first one consisted in choosing a more flexible system, able to absorb some internal shocks without encouraging discretion. The second solution was a more rigid system able to generate both the discipline in implementing the Romanian policy mix and confidence of foreign lenders in the Romanian economy.

(i) The first solution would have consisted in adopting a more flexible regime without any reference to gold or reserve currencies. This kind of regime was not really popular during the inter-war period. It had however been experimented by Sweden, a country which never attempted any return to Gold after World War 1. The successes of the Riskbank’s monetary options are nowadays considered as the result of its discipline in implementing what some contemporary experts had named the “Wicksell rule”. This rule consisted in applying discount rates proportionally to the level of inflation. Had this rule been applied by the Central bank able to impose its decisions on the Government, it would have generated stabilizing effects on the economy and compensated the deficit of confidence stemming from the lack of gold-convertibility of the domestic currency. Obviously, this discipline also assumed that the Bank could not be used as a means to grant advances to the government. One must concede that these conditions are too numerous to be easily fulfilled by the international creditors of Romania. The good solution for Sweden was not easily applicable to Romania.

(ii) At the time, the countries of the Balkans did not form an optimal currency area. In other circumstances, other motives could have pushed them towards the monetary union: for instance, the wish to constitute a strategic bloc and increase their bargaining position at the core of the European economic and political relations. The failure of the community they had constituted before World War 1 under the guidance of Austria definitively excluded this solution. The dollarization option, with the English Pound or the French Franc circulating freely and officially in Romania, was neither technically nor politically feasible. This possibility would have however precluded any opportunity to use monetary policy to accommodate the lack of discipline of the Treasury or to refund the failing banks during the 1931 crisis. A good substitute to dollarization, with additional financial advantages for the NBR (the receipts from seignoriage) would have been to implement a Currency Board. This solution would have left intact the national symbol of the Leu and would have maintained a possibility of exit or a change of nature of the reference currency. At that moment, Romania chose to obtain a loan from a consortium of banks with French intermediaries as main partners; the solution which could have improved confidence was the choice of the French Franc as reference currency. However, this solution would have surprised the partners. Was it politically acceptable to other Central Banks, partners of Banque de France, to grant loans to the Romanians? It would probably have required Benjamin Strong to once more convince Norman that such solution was reasonable, free of danger to the British Pound! In any case, it would have avoided both the budget ‘unorthodoxy’ and would probably have helped Romanian government find an acceptable way to restructure its national debt when the Great Depression hit the Romanian economy.

6. Conclusion

Historians and economists have recently underlined the role of Money Doctors during the interwar period (Flandreau, 2003). This paper aims to contribute to this work and especially to the discussion opened by Mouré about the mission of the *Banque de France* economists at the Romanian Central Bank and Treasury. The correspondence of Rist and other members of the French mission is informative on the background of the partnership between Romanian politicians and officials and their French counsellors. As for the Romanian case itself, there is more work yet to be done. For instance, econometrics could establish the (ir)relevance of our working assumptions concerning the causes of the failure of the Romanian stabilization plan. Other sources of archive material (from the Romanian

Central Bank or the Treasury, for instance) could also be cross-referenced with the French sources to complete our evaluation of the origin of the decisions and the way Romanian politicians and officials evaluated the nature of the crisis and the role of the French Money Doctors before, during and after the mission. Finally, these different works have to be completed or cross-referenced with contemporary works by political scientists and historians of international relations. Their contribution is essential to our understanding of what the partners did and could do within the framework of international missions of economic cooperation during the inter-war period.

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