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

Dominique TORRE*     Elise TOSI†

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Abstract

This paper reexamines and discusses the causes of the failure of the French economic missions in implementing a sound monetary and financial system in Romania between 1928 and 1933. Banque de France Deputy Governor Charles Rist, also professor of Economics at Sorbonne University, was the leading personality of the delegation which also comprised, among others, Roger Auboin as permanent Conseiller Technique (adviser) near National Bank of Romania. We remind the objective of the missions and the economic and political context of Romania in 1928-1929. Then, from the study of official documents and correspondences between the members of the French mission, we point out a first bundle of reasons explaining the failure: (i) the ex-ante under evaluation, on the French side, of the difficulty to reach stability by monetary measures only, (ii) the incapacity from the Romanian public officers and political personnel to understand the necessity to accept the temporary restrictive consequence of an increased discipline in Public Finance to provide more credibility to the Leu. This statement meets the immediate analysis of Rist: the reasons of the monetary failure of the French mission are not to be found directly in the strict monetary management of the Romanian situation but in the Financial component of the running policy mix. Going beyond, we present also a second level of diagnosis, more associated with what we learned since Rist of the successful rules for an relevant monetary policy. We argue that the combination soft peg / absence of financial market / reciprocal independence of monetary policy and fiscal policies is not generally sustainable. In a country like Romania in the inter war, especially after 1931, it was rapidly devoted to the observed failure. We discuss rapidly the nature of the alternative options that could have been considered if Rist and the French advisers had been more modern Money Doctors.

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*University of Nice Sophia-Antipolis - GREDEG(DEMOS) - CNRS, 250 rue Albert Einstein, 06560 Valbonne, France., E-mail: dominique.torre@gredeg.cnrs.fr
†CERAM EAI, E-mail: elise.tosi@cote-azur.cci.fr
1 Introduction

This paper reexamines and discusses the causes of the failure of the French economic missions in implementing a sound monetary and financial system in Romania between 1928 and 1933. These missions are decided jointly from the Romanian part by the Liberal administration of the period 1923-1927 under the leading influence of Ion(el) Bratianu, and from the French part by the Poincaré government then mainly involved in the stabilization of the French franc. From the end of 1927, the French Governor of Banque de France Emile Moreau is associated to the project which includes progressively all the French advisers and decisional staff of the Banque. The missions are a joint component of a program of loans from French market, banks and Government to the Romanian economy. They consist in advisory tasks near the National Bank of Romania and the Central Government. The period is decisive for Romanian economy. Political and financial authorities, already influenced by the French model, are involved in the stabilization of the Leu at a lower parity than during the pre-war period. The sequence \{depreciation - stabilization - return to convertibility\} has been adapted from the French opportunistic experience. The application of the model is initially a success: the Leu resumes pegging to Gold at a new parity and reaches months after months to maintain its convertibility. Then, as soon as the French mission begins its work near the National Bank and the Central Government, it appears that it will be difficult to reach for the Romanian economy 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 does not improve with time: from mid 1932, French Money Doctors recognize officially that they have failed and explain that the Romanian authorities are fully responsible of the situation.

Our analysis of this failure takes as a starting point the intentions of the French mission, as Kenneth Mouré relates them in its highly documented article: “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 Center 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 as soon as they have been in charge of the mission. Some of them are young officers, in search of experiences and successes able to promote their future career; other are confirmed advisers and have nothing to win in a mission of which the official economic content would have been \textit{a priori} considered as irrelevant. If the intentions of the French Money Doctors have to be taken seriously, the reasons of their failure must also be considered with attention. The argument of this paper is
that many causes converge to explain the bad results of the mission. Some of them are consensual. For instance, a global misunderstanding appears hence rapidly between the Romanian officers and politics from one part and the French technicians and economists from the other: the political changes in Romania which promote the Peasant Party to the decisional functions of the country, face the French mission to sceptical and few attentive partners. The period 1929-1933 is characterized by the contagion of the Great Depression to 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 does not contest the reality of their effects on the Romanian economy. Other motives of the failure are however less consensual. The French reports of 1931-1932 to the Romanian administration contributes in this category. These reports provide a dark picture of the maintained budgetary and financial practices of Romanian authorities. Obviously, these reports are not fully acceptable by the Romanian politics and officers who begin consequently to question the interest of extending indefinitely the cooperation between the two countries. At no moment, the difficulties they face make the partners doubt the relevance of the monetary regime they have chosen. As we suggest it, this regime could however be challenged in the context of Romania in the inter-war period.

The rest of the paper is then 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 present them. Section 4 points out the part of the Great Depression in the bad performances 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 concludes.

2 The mission and the troops

In the aftermath of WWI, Romania has to take an important long term decision: the choice and the design of a development strategy that would guarantee the economy’s recovery and sustain an ailing industry. Inflation is also to be controlled and financial disorders to be overcome. This strategy must be compatible with the changes that had been occurring on both the political and social grounds. A heated debate takes place between the Liberal, supporters of West-European ideas and styles, who put technology and progress on the forefront, the conservative who promote the defense of the Romanian society rural roots, rejecting the Western values, and the Agrarians who argue that agriculture, rather than industry would come first as the engine of economic development (Vasilescu and Popescu year ?, p.1). After a period of political alternation, the National Liberal Party reaches to develop its project and shapes the "by ourselves" development strategy between 1922 and 1926. This political option leaves a large room to the development of international financial relations in the restoration of a sound industry: the resort to foreign financial capital is then considered as a key determinant of the early stages of Romanian economic expansion. However, this activity must remain under the control of the government, from the point of view of the nature of the funds and of the invested amounts. The argument is that foreign funds would allow Romania to initiate a physical capital accumulation path that would later be put in the hands of Romanian entrepreneurs. Stefan Zeletin and I.N. Angelescu economists, and Vintila
Bratianu, Romanian Ministry of Finance, are the leading architects of such a project involving a kind of “nationalization” of the industry. Yet these ideas are given a concrete expression through a series of laws that aim at controlling foreign financial contributions in the industry and trade sectors: natural resources are publicly owned, companies that are allowed to benefit from private funds are obliged to appoint Romanian managers in their governance. As a result, oil and steel industries perform very well at the end of the decade, but Romania remains fundamentally a rural country.

On the monetary side, the National Liberal Party unsuccessfully tries in 1925 to restore the Leu at its pre-war parity and a new attempt is planned for 1928. As pointed out by Mouré, this stabilization is not a goal in se for Ion(el) Bratianu and The Liberal administration. It however appears progressively that it will be the good way to generate the level of confidence able to allow the issuance of international loans. The first idea of Romanian politics is to conclude a loan near the League of Nations, the second to ask UK financial market and banks. The third potential partner is France. The discussions between Romanian delegates and French Central Bankers begin from 1927 as attested by this “long talk” on 28 December 1927 and related by Moreau, “with Antonescu in presence of Rist and Quesnay. We find an agreement. The Romanian Government will ask a mission of French engineers to study the situation of Romanian railways the bank of Romania will ask us to mandate M. Quesnay to precise the monetary and financial situation of Romania” (Moreau, 1954, p.461). A French-American agreement was necessary to stabilize the Romanian Leu. Rist and Quesnay go to New York to obtain this agreement of Benjamin Strong, the influential 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 are not fully exhausted: “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 saying 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 want to avoid the isolation of Banque de France on this point, one hopes that all central Banks could participate. One member of the Fed is in mission in London to decide Norman to participate” (6 April, p. 531). Contacts between Siepmann and Quesnay end up to dampen the hostility of Norman. Moreau visits also Governors Schacht in Berlin and Volpi in Italy to exchange on the point of the stabilization of the Leu. Schacht is reserved on the reliability of the Romanian part (Moreau, 1954, p..... ) and Volpi seems quite disappointed by his previous contacts with the Romanian administration but however agrees to join the Central Bank partners of the mission (Papiers Charles Rist, 1928, 23-7, p. 4).

Ion(el), then Vintila Bratianu choose finally to conclude with France, and, under the recommendation of Rist, to stabilize before issuing the loan. Finally, nothing is done before 1929, when the Romanian government decide to implement a new style of monetary and financial management in order to respond to rampant inflation and to restore the confidence of creditors. The “Monetary Act” aiming at monetary stabilization is finally passed in February 1929: its conception has 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% stabilisation loan” devoted to the settlement of the government’s debt, it is also aimed at rendering easier short run domestic credit operations and to restore asset liquidity. National railway company would also have benefited from extra funds to finance productive investment and to pay up a fraction of its debt. From the point of view of the conduct of economic policy, the principles of balanced budget, public sector restructuring and Central Bank independence serve as guidelines. Rapidly, the gold convertibility of the Leu is restored and it becomes able to fluctuate smoothly around its theoretical parities as any stable currency. The French mission can 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 is finally appointed as the Head of the delegation and Roger Auboin as the resident *Conseiller Technique*: both of them have limited decisional prerogatives, less than those of the commissioner-general of the League when this last was required to intervene near a Government of a Central Bank. The staff was completed by two Inspectors from the *Banque de France* near Auboin and an Inspector of Finance near the Romanian Treasury.

The main members of the French mission:

**Charles Rist:** Charles Rist is Professor of Economics at University Paris Sorbonne. He is the author with Charles Gide of *Histoire des doctrines économiques depuis les physiocrates jusqu’à nos jours* in 1906, with many subsequent editions. Other books and articles as *Les finances de guerre de l’Allemagne* in 1921, *Le retour de l’or* in 1922 or *La déflation en pratique* in 1924 made Rist the leading voice among French academics on monetary questions. In 1926, he is proposed by the French Ministry of Finance Joseph Caillaux and the New Governor of *Banque de France* Emile Moreaux. He became the main protagonist of the French stabilization and, given his intellectual influence on French Central Bankers, politicians and academics, the leader of the French “Money Doctors” until the WW2. He will be later the author of *Histoire des doctrines relatives au crédit et à la monnaie de John Law à nos jours* in 1938: the book was still used in French Universities as one of the more original textbook in Monetary Theory in the early 1960. It is now considered as one of the more interesting defense of Tooke’s positions (from a ‘pragmatic’ adept of metallism).

**Roger Auboin:** Roger Auboin is the *Conseiller Technique* near the National Bank of Romania during the period. He is installed by Rist but seems to be appreciated as well by the Romanian Bankers and officers due to its reliability and its sense of diplomacy. As Quesnay, he will become General Manager of the BIS from 1938 to 1958. Thanks to his correspondence with Rist, we are able to access to the exchanges within the French mission in Romania.

**Emile Moreau and Clément Moret:** Emile Moreau is Governor of *Banque de France* from 1926 to 1930. His own technical limitations are compensated by his political feeling, his propensity to delegate and his pragmatism. His name is associated to the French stabilization of the *Franc Poincaré*. He chooses to devote two chapters of his memories to the Romanian problem. Clément Moret succeeds Emile Moreau in 1930, during the period of the French missions.
Pierre Quesnay: Pierre Quesnay is a Charles Rist student at University Paris Sorbonne. He serves to the League of Nations, then follows Rist at Banque de France where he leads the Department of Analyses and became one with Rist and Moreau one of the trio responsible of the stabilization of the French Franc. In 1928, Rist plans to propose him the charge of permanent counselor near the Bank of Romania. He is however appealed quite simultaneously by the French Bankers - then chosen in 1930 - as the first General Manager of the Bank of International Settlements at Geneva where he remains until his accidental death in September 1937. He is involved in the stabilization of Polish zloty when Rist and Auboin are in Bucharest. He is the author of L’Internationalisme monétaire et ses conditions d’application in 1932.

Jean Bolgert: Jean Bolgert is one of the more active member of the French mission. He is rapidly aware of the difficulties of the stabilization plan and is not inhibited to present to Rist his views, far less indulgent than those of Auboin, on the capacity of the French mission to succeed. He will become Directeur Général of Banque de France. Henri Guitard and Poisson are other members of the French mission.

The Romanian partners of the French Money Doctors:

Constantin Argetoianu: Constantin Argețoianu, one of the more prominent political personality of the Interwar in Romania was Finance Minister of Nicolae Iorga government from 1931 to 1932. Resolute in its decisions but versatile in its political and personal sympathies, he suffers with his administration the criticisms of French mission regarding the poor improvements of Public Finance and budgetary procedures in his Ministry. Simultaneously, he becomes very unpopular in Romania by his decisions to liquidate agricultural holdings and, further, to cease the payment of civil servants.

Virgil Madgearu: Virgil Madgearu was an Agrarian, one of the leading members of the National Peasant Party and an opponent to the Ionel and Vintila 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 were few years before dominated by his populist opposition to the unchallenged influence of Liberals on financial and monetary National decisions (“[If the Peasants’ Party is to be victorious in 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 chooses, like the rest of the family, to study in France. Back to Romania, he joins the National Liberal Party, then serves as Minister with diverse attributions before being Prime Minister for the first time in 1909. He then participates actively to the postwar discussions on the new frontiers of Romania and becomes a now charismatic Prime Minister from 1922 to 1926, then in 1927. He dies in office in November.

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

Mihai Popovici: Mihai Popovici is the Finance Minister in many governments dominated by the Peasant Party. He is the main (not fully 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 is a member of the People’s Party, a populist force competing with the Peasant Party and led by General Alexandru Averescu who has been Prime Minister in the immediate after-war. In 1931, Manoilescu becomes Governor of the National Bank. The relations between Manoilescu and the French delegation are not characterized by serious conflicts.

Between 1929 and 1932, Romania repeatedly takes loans from foreign markets. The major part is from France. The Development Loan is concluded at the beginning of the cooperation phase between Banque de France and NBR, additional loans from Banque de France or French commercial banks. Another loan is taken in 1932 with a contribution of UBS and other Swiss banks (see Stoinescu and alii 200., p. 11). Everybody expects in Romania that these contributions will restore confidence and improve the financial position of Government, Public companies and Central Bank. In reality, they only generate suspicious reactions of the public and counterproductive consequences on the balance sheets. Year after year, the Romanian Government finds more and more difficult to service the debt and decides in April 1933 to cease the payment, then in 1934 and after negotiations, to reschedule the redemption and to recalculate the annual coupons. L. Ureche-Rangau (2003, 2008) recently proposed an analysis of the market expectations of these decisions which ended up with the definitive suspension of payments in 1941. This period and the Public Romanian Debt default are then still considered as one of the more interesting in the modern history for the observation of the respective effects of fundamentals, signals, announces and expectations on the assets price. The French mission propose a more detached diagnosis of the situation.

3 The immediate causes of the failure

The immediate causes of the failure of the French mission are twofold. Secondarily, they are linked to the bad climate of the working relations between the French delegation and the Romanian politics and officers. From the French mission views, the failure is however mainly and more fundamentally the consequence on the poor improvement of banking, budgetary and financial practices between 1928 and 1933. We develop these points in this section.

3.1 The climate of the relations

All conditions are present to create a good contact between French Money Doctors and Romanian Officers and Politics. One part of the political staff is by tradition culturally
oriented to France. Rist reports during his stay in 1929 that when he was invited at an official or a private diner, he was impressed by the good practice of French language and the level of the French culture of all the participants to the diner. All the working meetings are also in French (without any special mention from the members of the French delegation: this was considered as natural!). The personal or public contacts between the members of the French delegation and the Romanian staff are also frequently friendly: Auboin becomes progressively a popular figure in the country (Paunescu 2004). The correspondence of Rist and the memories of Moreau confirm also the good reputation of Romania in France, probably historically associated to the cultural and political options of the National Liberal Party. For the moment Rist and the mission are installed in Romania, it appears however rapidly that the working relations between the two partners will lack from mutual consideration and confidence, while these two qualities are generally the fuel of international cooperation. Some examples to illustrate this situation:

Rist relates for instance the conditions in which he is obliged to impose Auboin as a participant to the first meeting of the Board of the Governors of the NBR in which he is the only member of the delegation officially invited (Papiers Charles Rist, 1929, 23-10, Relation from the 14 February 1929). he notes in the same relations that the Governor made no welcome speech for presenting the French delegation whereas an answer have been prepared by Rist to this expected address. The general atmosphere depicted by Rist seems at least to reflect the reluctance of the Bank staff to admit Auboin (who is already known as the permanent member of the advisory team) as a consultative member of the Council when Rist would be back to France. It is probably also the sign of the desire of Romanian authorities to remain free from any control from the French mission over the decisional councils of the Bank. The relations between the Treasury and the French delegation are even more distant and cautious.

The notes and correspondence of the members of the French mission proves other reciprocal lack of sufficient consideration of the Romanian staff by the French Doctors. Rist dictates rapidly to his secretary very negative impressions on his Bucharest environment: “we are surrounded by people who do not understand anything, know anything, anticipate anything, and are not able to accept any rule” (Papiers Charles Rist, 1929, 23-10, Relation from the 14 February 1929, p. 21). Low regards 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 head: loans and expenses, loans for the hungry, loan for the forty thousands Madeconians 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 complains about the ignorance of the Central Bank officers: “their opinion is that the entry [of external loans] are 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 have to prevent today currencies inflows. It is against this kind of arguments that I am struggling everyday” (Papiers Charles Rist, 1929, 23-10, Relation from the 9 March 1929, p. 24). Other pages continue to express the same deception of Rist faced with his new environment on Bucharest. Auboin has another way to express his views, more moderate and patient that the French Deputy-Governor. Despite his constant tendency to balance
in the same developments his points of contentment and critics, his general feeling of his environment is not really contrasted with the definite first impressions of Charles Rist first.

This sum of incomprehension, misunderstandings, mistrust and approximations has probably complicated the task of the French mission. The French Doctors were not prepared to work in this new environment as were Romanian officers not ready to accept that their initiative could be controlled by other than themselves. These coordination problems are however nothing near the maintained difficulties for the French mission to obtain the respect of orthodox rules of monetary and financial management. Those difficulties appear as the main immediate causes of the French mission 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 the views of the French mission. The first 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”. It is from the late 1931 or the early 1932. It has a general content but comments openly from the point of view of a Central Banker. We will refer to it by (1931-1932 Anonymous Report, p. . . ). The second is signed by Rist (but Auboin, Bolgert and the rest of the mission probably contribute, at least on the materials) and dated from May 1932. It is adressed to Argetoianu in charge of Treasury; it is mainly concerned by Public Finance issues and labelled “Rapport sur les Finances Publiques de la Roumanie” . We will mention it as (Rist, 1932-Report, p. . . ). If we skip long developments on points of detail which, moreover in the May 192 report, attests that French mission takes its work seriously but also without much indulgence, four lines of critic appear in the statement of the French Money Doctors.

These motives can be distributed in three items: (i) the excess of accomodation of the National Bank, (ii) the lack of financial orthodoxy from the Government, (iii) and the weakness of the economic development program.

Excess of accommodation from the National Bank: During his Winter 1929 stay in Bucharest, Rist notes after a talk with Bolgert, that the balance-sheet of the National bank is “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 endorse them. As it is well known, it is however an elementary principle for a Bank of Emission to avoid discounting Financial Paper” (1931-1932 Anonymous Report, p. 3). The National Bank seems also not being sufficiently cautious when it is faced to 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 reached to impose a real and progressive reorganization and desimmobilisation plan to these banks” (1931-1932 Anonymous Report, p. 3).

This excess of accommodation increases the risk of the monetary system as a whole. It is associated with the mute observation by the Bank of the inefficiency of the loans, associated with the bad uses of the available liquidity. “If the 1929 loan did nor increase internal currency, it is that as 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 great loan could have been used partly as a way to increase residents portfolios labeled in external currencies. The author of the Anonymous Report remind then 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 is however light when compared to the pages devoted to the bad budgetary practices.

Lack of financial orthodoxy from the Government:  This lack of financial orthodoxy refers to two sort of practices. From one hand, the Government cannot contain structural deficits. From the other hand, it uses external loans to repay old loans and not to generate productive uses.

The structural form of Public deficits has many forms: some receipts are over evaluated, some expenses underestimated or unexpected. Overall, the political successive administrations in charge seem not having as a goal to contain and dampen the Public deficits. These problems are expected by Rist from 1929, then confirmed in the correspondence of Auboin and exposed largely in the 1931-1932 and 1932 reports. The anonymous reports remind that “M. Rist accepted to be in charge near the National Bank under the commitment that Public Equilibrium will be reached. Now, the three laws of Finance of 1929, 1930 and 1931 have been adopted in deficit” (1931-1932 Anonymous Report, p. 7). Each year, the initial deficit is initially very large, and reduced during the year after insistent remarks of the Conseiller Technique and many interactions between the Finance Ministry of other officers and the French Counselors. In 1929, the expected deficit is Lei 4 billiards, and then reduced during the fiscal year by additional taxes and expenses restrictions. In 1930, the expected deficit is yet greater. The level of expenses reduces by more than 2 Lei billiards during the year but the amount of taxes is also finally smaller by Lei 5 billiards than expected. In 1931, after a more strict control of public expenses, the expected deficit is only 500 millions of Lei; but, during the year, unexpected expenses and reduced fiscal receipts increased this deficit to Lei 2.5 billiards. Including the uncovered engagements of 1930, the 1932 report evaluates the total engagements of 1931 to 37.3 billiards whereas the resources are only 29.0 (Rist, 1932-Report, p. 11). Free of the initial engagements, the level of public deficit is expected to 3.5 billiards by the 1932 anonymous report of the French delegation. The 1932 report reveals that public arrears from 1929 or from older years remain in the books in 1932. According May 1932 report, they correspond partly to new unexpected amounts or to regular expenses initially removed by the Law of Finance (Rist, 1932-Report, p. 10). The 1932 report chooses the example
of the year 1931, showing that the all Ministries engaged at the end of 1931 "the more
credit as possible and exceeded largely the amount of the engagement resulting from the
monthly order of distribution of credits" (Rist, 1932-Report, p.10).

In 1932, Rist raises also forbidden reporting practices as engagements without order,
unpaid orders and many cases where the Government commits itself as collateral in
private contacts and prefigures future increases of Public Debt. It is the case with the
position of the Government as collateral 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 losses that could suffer the National Bank in its portfolio
of "agricultural" assets (these loses were estimated to several Lei billiards by Rist in
1932) fall 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 if the Public Debt in hands of the Bank, this last could continue
managing the long-term part of this Debt but only by delegation of the Government.
Rist deplores that the Government would have chosen to intervene repeatedly in this
long-term management of the Debt by discounting its own position or cancelling its own
debt.

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

The use of stabilization Loans to refund old arrears is one financial practice that
completely goes against the academic conceptions of Rist. On the 1932 report, he notes:
“A stabilization loan of Lei 6 billiards 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 by now obtaining new loans without a strict commitment to
restrict Public Expenses to the level of Public Receipts” (Rist, 1932-Report, p.7). More
generally, Romanian are suspected by the French Doctor to use systematically the new
loans to extend the maturity of their old engagements, without taking the opportunity
to plan new ways to increase the efficiency of their economy.

Weakness of the economic development program: The members of the French
Mission are more involved in Monetary Policy issues and Public Finance than in Devel-
opment program and in the “real economy”. Many remarks of 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 is an important challenge for Romania during this period,
given the necessity to create the necessary infrastructure of a country fully economically
dependent on agriculture and oil fields. The anonymous authors of the 1931-1932 report
note however that “the stabilization program planed to reorganize the administrative and financial management of Railways. It suggested the creation of an autonomous management of the network, recommends to reform 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 year to year 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 hope obtaining rates of interest of at most 10 or 12%), (ii) a system of short term advances on harvests. With such a architecture, Rist and the French Money doctors hoped attracting foreign investors to intervene in Agriculture in Romania.

These motives are probably sufficient to explain the failure of the French mission. However, they are probably not the only one and the only responsible from the situation of Romania in the mid-thirties. The Great Depression does not spare Romania, first its banking system, then the rest of the economy.

4 The Great Depression effect

Like in other continental European countries, the effects of the Great Depression are only sensible after few years. No track of any international recession of financial contagion in the first month of the missions. However, the depression affects Romania from 1931. Rapidly, “the entire Romanian economy was affected. Prices of agricultural produce dropped owing to bumper domestic crops. Later on, under the influence of the worldwide depression, the phenomenon spread out to other products as well. Export-oriented goods were particularly affected, which led to an increase in the amount exported. At the same time, prices of imported products went up” (Stoenescu and alii, 2007).

The attempts of a monetary rehabilitation soon takes place in a context of financial turmoil and economic difficulties. Prices of agricultural products start falling in 1929 as a result of an over-production crisis at the world level. At the outset of Great Depression, the crisis in agriculture is rapidly followed by a general economic contraction but the balance on trade improves as a result of the simultaneous decline in export prices and increase in import prices. However, Romania is rapidly affected by the consequences of the bank crisis that hit the countries of Central Europe an especially Germany and Austria: it results in massive cash withdrawals (with a peak in June 1931), credit supply contracts and the National Bank is obliged to rediscount assets, thus endangering its own reserve amounts. The banking sector is not spared by the crisis and even the largest Romanian banks such as Banca Generala a Tarii Romanesti (June 1931), Banca Bercovitz (July 1931), Marmorosch Blank Bank (October 1931) failed. An important correspondence between Rist, Auboin, Bolgert, Manoilescu among others relates these episodes and the attempts of the Romanian staff and the French mission, intimately associated in their goals, to save the sounder part of the Romanian banking system. In this context, the money borrowed from abroad is, without any other possibility, diverted from its expected use to sustain economic development, and employed to pay back the government short
term debts or to absorb financial losses. The National Bank of Romania is therefore obliged to mobilize its reserves in foreign currency whose amount diminishes substantially and outflows of money largely outweigh inflows. The credit crunch that follows the crash of the largest Romanian banks has new bad consequences of Public accounts in increasing the budget deficit to 10 billion Lei in 1932.

5 Conclusion

The immediate causes of the failure of the French mission are now well listed (if no comparatively evaluated by econometrics). One question remains however open: Is the solution that Romanian and French staffs chose jointly to stabilize, the best they could adopt and the more secure in the middle term? It is probably inconvenient - when one considers the success of the French stabilization of 1928 - to discuss this point outside the context of the thirties and the motivations of the partners. It is however evident that France and Romania are not the same economies in the late twenties. In one case, France is an developed economy with an active financial market and a sound banking system. Depreciating the French Franc and returning to Gold after a devaluation is an opportunistic solution, given the rather simple regulations of the foreign exchange market when this market is limited to the main International currencies. French economy is able to cover its own financial needs without any clear interaction between the monetary situation and the situation of Public Finance. The immediate consequences of the external value of the French Franc is only, in the short term, the level of the external balance and the direction of the Gold movements. This situation disconnects, to some extent, the choice of the monetary regime and the financial policy of the Government. Romania is, in the late twenties, submitted to the conditions of the external market (the external loans) to refund its Public deficits: it is not then possible to disconnect the financial internal Public balances and the external value of the Leu. The original sin of Romania would have probably to limit the choice of this country to a corner solution: an external stronger link with French Franc or another international currency, or (but was it feasible?) the adoption of a flexible regime without any reference to Gold but a strict monetary orthodoxy as Sweden managed its own regime at this time.

References


