

The vicious circles of development through dependence. an interpretation of the Romanian nineteenth century economy

Dan VELICU*

Abstract

In the last decades, the academic debate on the origins of the economic gap between nations divided deeply historians, sociologists and economists as well. Dependencia theorists pointed exogenous causes for Latin American backwardness while the revisionists emphasized endogenous causes. Finished the Cold War and faced with new evidence, previous conclusions are far from being complete and final. There are different issues, which were superficially investigated, or they were sometimes entirely neglected. With the intention of transcending the two opposing currents of thought the present paper aims to synthesize all the accessible and collected data up today in Romania in order to analyze the impact of the markets' integration in the nineteenth century. On one hand, the Romanian nineteenth century economy is a fertile field for study, because it transferred neither slowly nor quickly from a "world economy" to another, which permitted a short relatively autonomous development. On other hand, even Romania was object to various studies in developmental economics, the foreign researchers did not access important evidence, which can change the conclusions on the main topic. The paper will present the economic and social parameters outlined in early 1800 and how these will evolve at the pressure of the Western markets. It will also point that the markets' integration generated two major trends as long-term tendencies: the increase of land price and the increase of the rate of interest. Both were impediment to a faster development of the Romanian society and in connection with other elements like the dysfunctionality of the state they will form a vicious circle of slow development.

Keywords: markets' integration, periphery, Romania, land price, interest rate

Introduction

Understanding the way to achieve prosperity was a topic which founded practically the economics as object of debates if not the science itself. While the gap between nations is widening, the research on its causes is today no less fascinating than it was in the past. Some forty years ago, Immanuel Wallerstein, an American sociologist succeeding the works of Raul Prebisch and the Latin American dependency theory offered a unitary representation of the economic history in the modern age: the world system which grounded mainly on the relations between core countries and peripheral spaces. His well-known concept was in fact a development of the notion used earlier by Fernand

* Dan Velicu is Lecturer, PhD, at Nicholas Titulescu University, Bucharest, Romania, e-mail: dan.velicu@univnt.ro.

Braudel that of “*economie-monde*” (translated in English as world-economy). In late 1970s, the French historian developed his concept trying to points the tendencies of the “*economie-monde*” (Braudel, III, 1979, p.12). Even he did not sustain Wallerstein’s key ideas he admitted that during the early European modern history, foreign trade was increasing and the markets’ boundaries were slowly changing (Braudel, III, 1979, pp. 16-17).

The next decades let place to the revisionism of the “dependency theories” and “the world system theory” as well. This new trend assumed obviously and unfortunately a political end, because the revisionists were absolving the Western states for being the cause of poverty in the peripheries and for the enormous backwardness as well.

Only in the 1990s, in a brilliant work, Paul Bairoch demonstrated that the Western economic development and the industrial revolution didn’t ground on the raw materials imported at low price from the periphery (Bairoch, 1995, pp. 88-96), while the estimation of the GNP per capita pointed that a certain economic development occurred also in the peripheral areas and the rate of growth is probably higher than the levels estimated for the earlier centuries.

Today, the concepts as “world-economy” or “expansion of the European economy” lost probably some audience being substituted by new ones, more popular as “markets’ integration” or “globalization”. For their meaning may be different from one author to another, we feel the need to specify that by economic integration or markets’ integration, we shall understand the increasing – even slowly but sure and irreversibly on long term – of the foreign trade, which caused the adjustment of the internal market’ prices and also relevant social change.

1. The Necessity of Returning to the Data

If we study both opposed views on the effects of the economic integration or markets’ integration, we shall observe that the adepts of the “dependency theory” and the “world system theory” as well did not research the major trends generated by the integration being more interested in social change.

For example, Georges Balandier stated in the 1950s the characteristics of “the colonial situation” without providing any economic data or minimum evidence in order to understand what really happened in all these peripheral economies. Neither Frank nor Wallerstein or Chirot were interested in providing data which could prove the “development of the peripheralization” (Frank, 1974, pp. 5-10; Wallerstein, 1974, pp. 16-349; Chirot, 1976, pp. 89-112).

On the other hand, the radical revisionists did not analyze if there was a decay of the secondary sector or if the markets’ integration produced somehow effects that can upset or deformed the

peripheral economy (Haber, 1997, pp. 146-152). Some of them limited their research to pointing development impediments the lack of foreign investments, a stable national currency, a bad oriented education system, a small internal market and a lack of manpower (Lampe, 1989, pp. 200-201).

Other neutral works even they were focused on the long-term evolution did not pay attention to some key elements that could suggest in the peripheral space of world economy there was a radical change (Bulmer-Thomas, 1994, pp. 95-100).

Finally, and I should add unexpectedly, a recent monumental work whose author – famous for his research on European peripheries – had as a substantial aim to point the causes of the Eastern European states backwardness and offered in my opinion no clear answer in that sense (Berend, 2013, pp. 284-376).

On the whole, as a conclusion many scholars – especially during the Cold War – focused only on data that proved their beliefs or ideas, without referring to evidence that might relativize their conclusions or simply ignored important data for their research.

1.2. Research impediments

Finding the origins of economic gap seems to be easy, but on scientific ground it became a heavy task. The integration of Polish space in the European economy in early modern period was proved decades ago (Malowist, 1958, pp. 26-27), but it is difficult to assess the major effects of this integration, and especially to provide data just because it was a long-term phenomenon in a relatively remote past.

On the American soil, the integration superposed with the settlement of the Europeans that makes problematic evaluating hypothetical major effects in an economy outlined since the sixteenth century as an export oriented one.

In that context, the case of the Romanian principalities (or simply Romania, since 1866 until 1918) – having the same surface as England – was and could be a fertile space for research because the real integration took place slowly in early nineteenth century, and probably reached its climax since the 1860s while the railway construction started.

On one hand, we have access to significant data regarding population, economic and social structures because the principalities were modernizing their administrative system, and on the other hand, it seems that the integration didn't influenced immediately the economic development.

In all this context, I must add that some facts we shall investigate in this paper were noticed by previous researches on peripheral societies in nineteenth century without providing any data or essential conclusions. The increasing rates of interest in Venezuela's post independent era (Halperín

Donghi, 1985, p. 317) and the increase of land values and rate interest as well in Brazil (Bethell, 1985, pp. 123-719,) made me think that probably there was a socio-economic phenomenon connected to the growth of foreign trade and to the social structures. Later, the analysis on loan strategies in Greece (Dertilis, 1988, pp. 227-230) validated my conclusions on the data collected from Romanian statistics, primary sources and secondary literature.

2. Preliminary Notes

2.1. The Romanian Society in the Nineteenth Century

Taking into the account that the social and political history of Romania is not well known today by the Western scholars, we shall try to make briefly some considerations limited on the two principalities, by excluding the Habsburg Transylvania (mainly inhabited by Romanians) or the Moldavian Eastern province known under the name of Bessarabia (mainly Moldavian Republic today) which was occupied and annexed by Russia in 1812.

Therefore, in early nineteenth century, Wallachia and Moldavia were two principalities, which maintained *de jure* their autonomy in relation with the Ottoman Empire by making substantial payments to the last and being integrated in Braudelian Ottoman “*economie-monde*”.

Prima facie, the social hierarchy was similar to the Western ones. The political power was exerted by the prince (which was directly appointed by the sultan by the late seventeenth century) with the formal or informal consensus of the nobles.

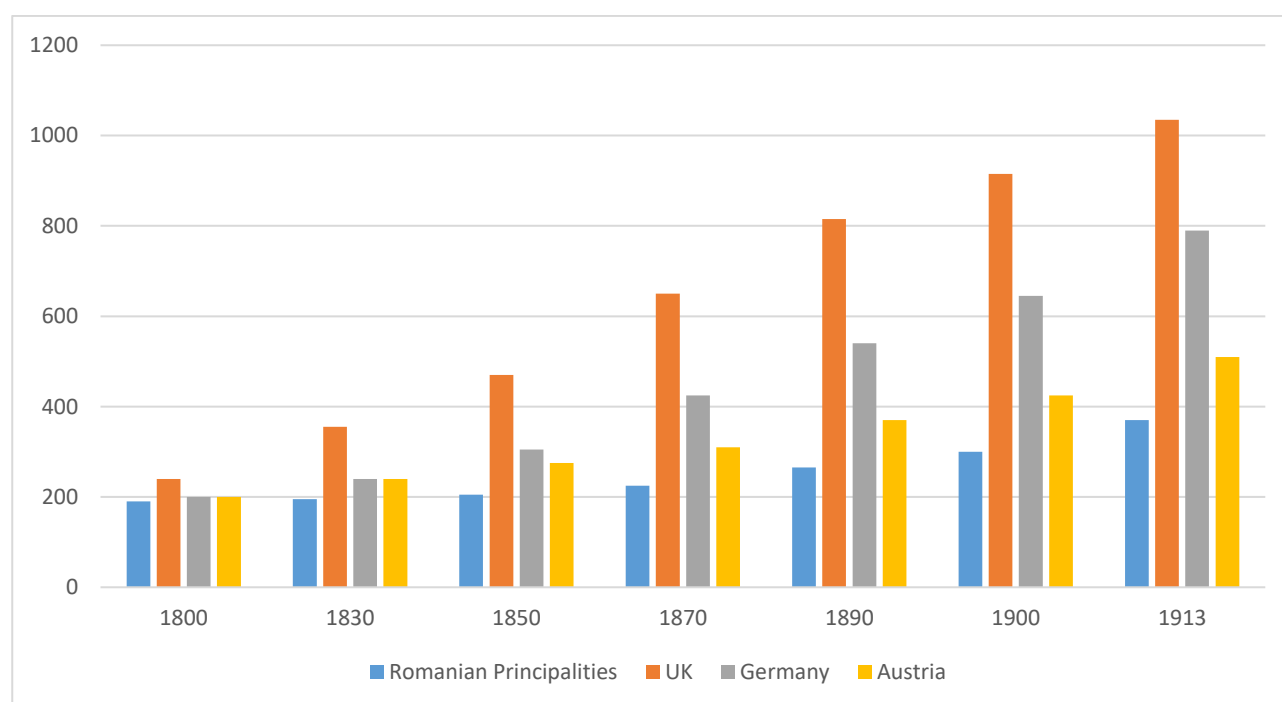
At the top of the social hierarchy some great aristocratic families formed the elite while some thousands constituted the lesser nobility (lesser as percentage than in Western societies). The fragile middle class was composed by the urban dwellers (sometimes organized by guilds) while obviously, at the bottom of the hierarchy there were the peasants which of course were the majority of the population.

Nevertheless, the society was a backward one. By comparison with the Western states – and we are referring especially to United Kingdom, Netherlands or France – the population density was historically lower (Malanima, 2009, p.15), about 30 inhabitants per sq.km in 1859 (Rothenbacher, 2016, p. 33), the cities were smaller (perhaps with the exception of Bucharest) and, as a consequence, the urban population probably reached 10% at beginning of the century (Hitchins, 1996, p. 58). These were not major signs of a backwardness, but many urban dwellers had in fact agricultural works as main occupation, while in the rural area only a few were caught in the “putting out system”, and

on the whole, all that means that the division of labour was less extensive than in the Western states mentioned above.

Nevertheless, the last data published by Paul Bairoch suggests that the economic gap was not as high as one may expect. Therefore, Bairoch's estimations and trends rises normally the question: Why the Romanian society did not improve the economic development as other backwarded neighbors?

Figure 1. GNP per capita (US dollars 1960)



Source: Bairoch, 1997, pp. 252-253

Assuming the risk to be too extended in preliminary considerations, some remarks are necessary to understand better the social situation.

First of all, the peasants were freed in Principalities from 1746-1749 (Lampe and Jackson, 1982, p. 85), so all debates about the “second serfdom” would exclude the principalities. Not being serves they can move from an estate to another and take the land by leasing contract.

Even if according to the laws, the nobles were entitled to tithes – *dijma* – and also to request labor days – *clacă* – on the estate's reserve (Lampe and Jackson, 1982, p. 84), they preferred to receive money as compensation for the labor days. Many times, the peasant paid an annual sole rent in money as compensation for all legal obligations.

In fact, at least in Wallachia, the reserve was unimportant – it accounted for under 5 per cent of cultivated land even in 1838 (Lampe and Jackson, 1982, p. 84) – while in Moldavia was increasing from the beginning of the century.

Many times, at least in the first decades of the century, the peasants acted as modern tenants paying only the cash rent for the land leased.

Being part of the Ottoman “*economie-monde*”, the exports were generally directed to Constantinople and the Balkan Peninsula. That does not mean the principalities had not commercial relations with Central European countries. On the contrary, by early nineteenth century cattle and horses were exported from Moldavia to Central Europe and corn and wool to Transylvania (Lampe and Jackson, 1982, p. 84).

In comparison with the Atlantic economy, the Ottoman “*economie-monde*” did not generate a high degree internal division of labor; the principalities exported manufacturing produces in the Ottoman Empire.

Beyond the official commercial monopoly on wheat – which was never as comprehensive as it seemed on paper (Hitchins, 1996, p. 109) – the high costs of carriage, the long route to Western markets – which compulsory traverses the Bosphorus strait – made little or no interest in grains exportation.

As the state service became the only criterion to enter and remain in the aristocratic class (Hitchins, 1996, p. 109), the nobles – who were exempted from taxes – preferred to move to the urban areas where the income generated by these services was easier and probably higher (d'Hauterive, [1787], 1902, p. 182; Constantinescu, 1985, p. 18.); this secular trend explains why the peasants became the main economical actors in the early 1800s. The latter were predominantly raising animals and their sale was the major source of income which allowed them to fulfil the numerous financial obligations in relation with the state and the landlord (Hitchins, 1996, p. 73).

After grain trade liberalization (1829), because the Western markets were demanding grains in huge quantities the peasants lost that economic role and remained producers, but through an intermediary relation (the great leaseholders, the merchants or the landed oligarchs) as Braudel described in early modern Poland (III, 1979, p. 384).

Finally, on the whole, during the nineteenth century the society didn't significantly change. If in early 1830s, some two thousand nobles formed the dominant class, one hundred years later, on the eve of 1907 Romanian Peasants' Revolt a little more than one thousand people owned 38 percent of the arable land while more than 1 million family peasants owned 41 percent (Rosetti, 1907, p. 493).

In the meantime, even the hygienic conditions slowly improved and the lifespan increased to 36,4 years up to 1900 (Ghețău, 1978, p. 142) the pasture reduced from 3,668,000 ha in 1862 to

1,969,000 ha in 1906 (Axenciuc, 1996, p. 47). As a consequence, the number of cattle per capita diminished (Axenciuc, 1996, p. 425) and the peasant diet strongly suffered: milk consumption reduced with 50% while pork with 35% (Scraba, 1907, p. 21).

2.2. The Opening of the Ottoman Straits

While the Ottoman “*economie-monde*” probably was stagnating and the political structures were undermined by different conflicts for power, since late eighteenth century the foreign merchants in principalities – *sudiți* – placed on the Romanian market low price manufactures which satisfied growing demand of the local nobles for luxury (Hitchins, 1996, p. 106).

The Russian Turkish War of 1806-1812 seemed to bring new ideas and information about the whole European context, but also the demand of grains for the Russian army which outlined the potential new incomes by exporting the grains.

Therefore, the start of the markets’ integration could be placed in the last decades of the eighteenth century or the first decades of the next century. However, all these international commercial changes even higher in value than the time before were frequently interrupted by war, revolution, riots or Turkish raids on the Lower Danube.

As a conclusion, the Adrianople Treaty, which in 1829 ended a succeeding war between the two powers, can be accepted as the conventional moment in starting the markets’ integration. By obtaining more autonomy, the freedom to export or to import and especially the access to all European harbors a new era emerged for the Romanian economy.

3. The Major Trends Generated by the Markets’ Integration

Being abolished all the legal economic limitations imposed by the Ottoman “*economie-monde*” it is a truism to say that the future was promising, even for the moment, the major part of the grains was bought by the Russian army – retreated only in 1834 – and, of course, by the merchants of Constantinople who payed prices at the international level.

The tariffs were extremely low: only 3 percent *ad valorem* for imported or exported goods and 5 percent *ad valorem* since 1850 to 1867 (Cioriceanu, 1928, p.138). Not yet fully independent the principalities must adapt their tariffs according to the Ottoman ones and, obviously great powers like United Kingdom, France or Austria had no interest in accepting their right to modify this level in the virtue of their autonomy internationally recognized.

Slowly but irreversibly, the grains were transported far away on the Western markets while industrial products were brought in change in the Danubian harbors from Central Europe, from Paris or even London. Expecting always good harvest and higher incomes the nobles' demand for luxury goods was expanding strongly since 1830s.

As the roads were in a poor condition and good harvest alternated with bad harvest the foreign trade grew slowly until the 1850s and the 1860s when, on one hand, the Crimean War was a good opportunity for the grains exporters and on the other hand, the railway network developed in the neighboring Habsburg Transylvania.

Generally, it is accepted that foreign trade supposed two stages (Chirot, 1976, pp. 121-125):

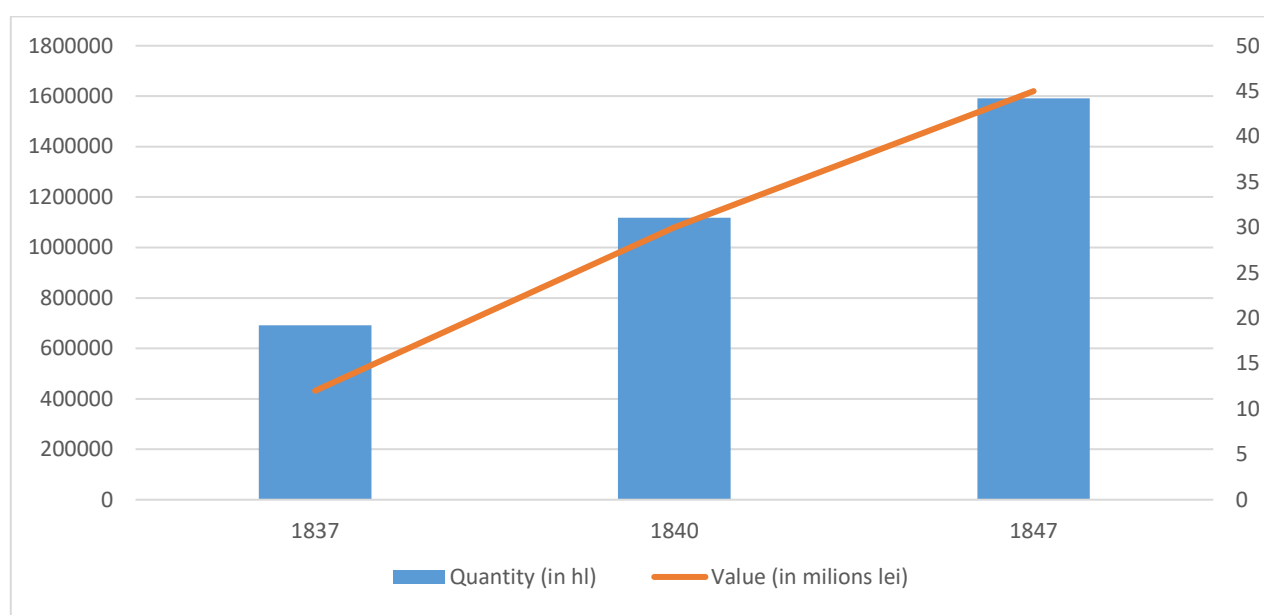
1. Between 1829 and early 1860s when the exports were on the road of specialization and the imports consisted mainly in luxury goods;

2. Since late 1860s when by the development of the national railway the imports consisted mainly in grains (and oil since 1900) while exports increased extremely and consisted also in mass consumption goods.

Figure 2. Foreign trade of the Romanian principalities (1818-1900, in millions *gold lei*)



Source: Lampe and Jackson, 1982, p. 103

Figure 3 - Moldavia Grains Exports

Source: Bușe, 1973, p. 302

3.1. Land Prices Revolution

If we retain 1829 and the opening of the Ottoman Straits as the start of the markets' integration, it seems that the major and first consequence of this complex and irreversible phenomenon was the rise of the land price.

One may say that a sort of economic integration could be outline in the very first years of the nineteenth century, but on solid scientific grounds it is difficult to prove directly this trend because of the lack or ambiguity of the sources even the interest to exploit the land (i.e., by restricting the access of the peasants) became clear. After 1829, the situation was more predictable than before and it became also obvious that the rise of the primary-product prices – in our case, the grains – will be a long-term certain effect in the context of the years 1830-1840. The prices were significantly increasing, at least on short term; an enthusiastic vision of the future generated directly a great expectation also on the incomes and in an agrarian economy as a consequence a land value increasing trend.

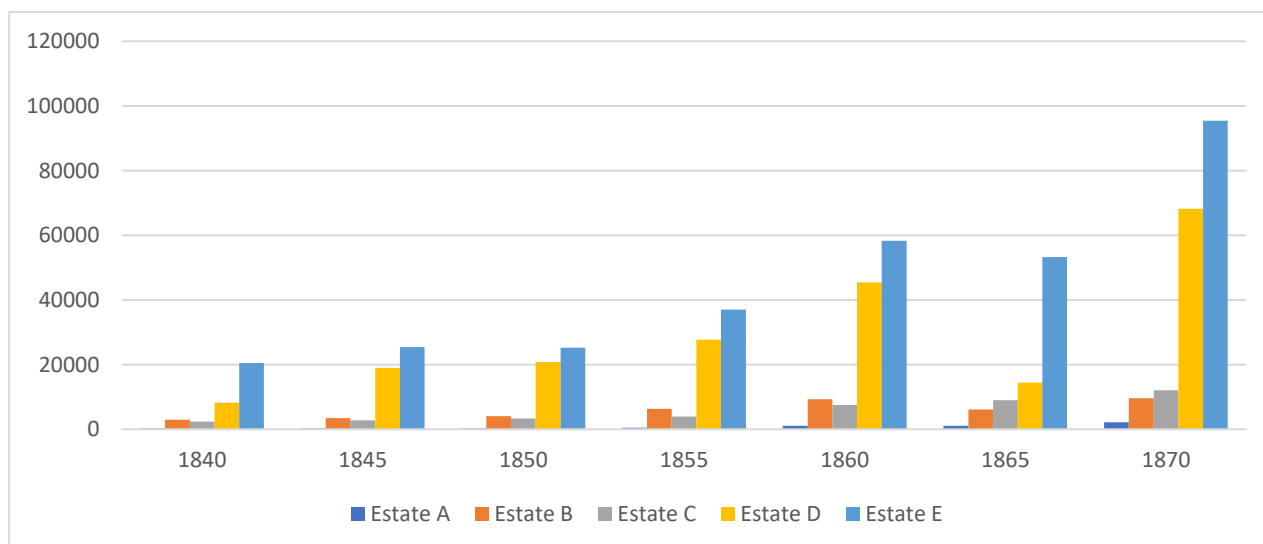
At this time, in Romanian historiography knowledge is far from being complete. Destruction or disappearance of private or public archive in the two world wars or in other moments and especially, the lack of a tax system for the aristocratic land until the 1850 marked negatively our efforts to fix and make conclusions on the long-term statistical data that could prove the evolution of land prices for the first half of the nineteenth century. More, in all this period few people were selling their estates and most of the sales were in fact sales by auction as a consequence of owners' insolvency.

Nevertheless, the land prices trend can be reconstituted taking as a departure point the lease contracts. In the 1830s, as today, it is generally accepted that the average annual rent was the equivalent of the 10% of the land price even, of course, there were many cases when the rent represented only 6% or between 15 and 20% (Constantinescu, 1985, p. 82). By 1850, the land value was considered by a contemporaneous statistician the equivalent of 15 annual rents (Slăvescu, 1941, p. 474).

On the other hand, the first unified statistics well maintained in Wallachia indicate that between 1831 and 1833 the rents doubled or sometimes tripled (Constantinescu, 1985, p. 82). This trend, we must emphasize, has to be interpreted in the political context. Finished the war and with greater autonomy the economy recovered step by step and the rents registered in 1831 were probably minimal. Bad harvest in South Russia made very interesting the exportation of the Romanian grains (Kardases, 2001, pp. 122-129). Therefore, the Wallachian production wheat was growing (Corfus, 1969, pp. 339-357) while the wheat prices were slowly recovering on the Western markets (Abel, 1974, p. 389).

From the data extracted by scholars in early 1900 we have elected by random the evolution of rents and the next figure clearly shows that the rent was increasing since 1840 until 1870. We have to add – and the explanation is also valid for Moldavia – that probably the decrease of the rents around 1865 was caused by the debates on the agrarian reform and the reform itself enacted in 1864. On the whole, the data proves that even the estates less important probably tripled their value if we calculated it using the rental price.

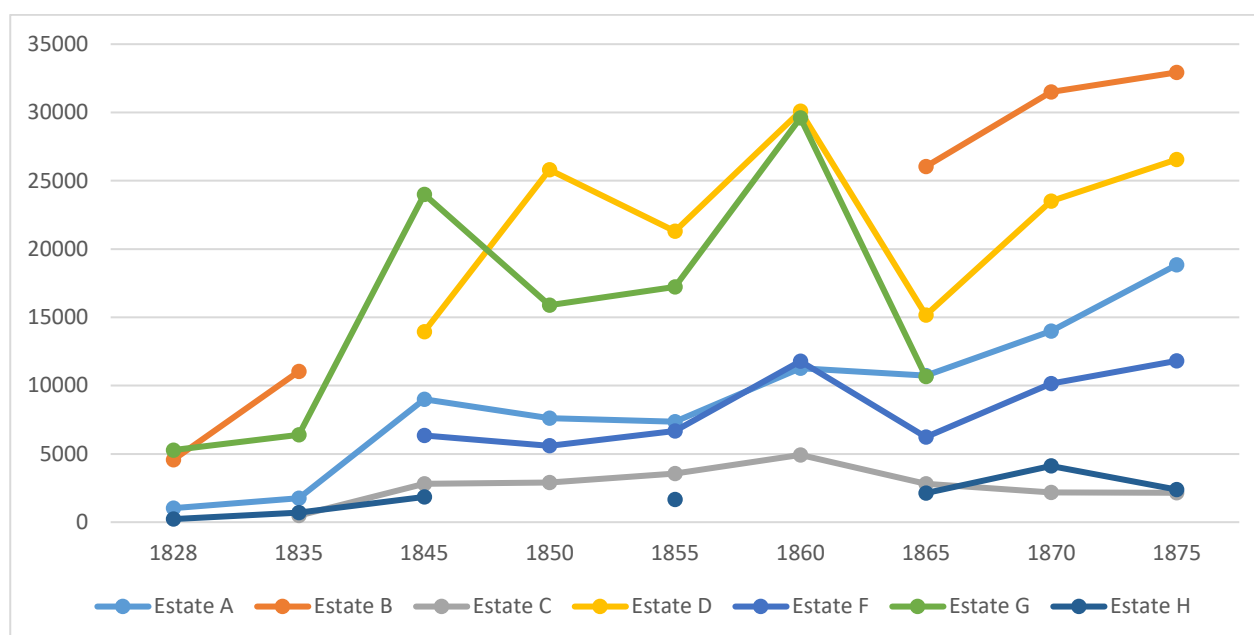
Figure 4. The Evolution of Land Rents in Wallachia (in *gold lei*)



Source: Rosetti, 1907, pp. 676-677

In Moldavia, the collected registers point a similar increasing trend of the rents (Fig.5).

Figure 5 - The Evolution of Land Rents in Moldavia (in gold lei)



Source: Rosetti, 1907, pp. 672-675

These data clearly suggest that taking also into account the increasing exportation trend and the great expectations of the landed oligarchy the land prices were increasing in the first half of the nineteenth century much more than the population of the principalities and much more probably than in the Western states (Desert and Specklin, 2003, p. 127).

In 1848, an agrarian reform was requested by the revolutionaries in Wallachia and Moldavia as well. The hypothetical abolishing of the last constraints of the peasants but especially making them owners of the field they worked focused the attention on the price of the land and allowed us knowing more about the evolution of the land prices.

On short, according to recent estimates (Axenciuc, 2000, p. 28), in 1864, the year of the agrarian reform¹, the average price of one hectare was 117 lei while in 1867 the average price seems to be 206 lei (Slăvescu, 1941, p. 411).

During the grains prices crisis, we can use the registers of the *Societatea de credit funciar rural*, the main land credit bank of the oligarchy. According to this source, the price of the arable land raised on average from 210 lei per hectare in 1873-1877, to 212 in 1878-1882, 268 in 1883-1887, 314 in 1888-1892, and finally 360 in 1893-1897 (Jormescu and Popa-Burcă, 1907, pp. 110-111).

¹ The agrarian reform of 1864 recognized the peasant individual ownership of the land which was cultivated for domestic consumption and all other work duties were abolished by paying a compensation. Commonly, the compensation amount was perceived by the nobles as the price of the land and not the equivalent of the work duties.

This substantial rise of the land prices could be retained as a normal process. After all, there was an increase of population – even in my opinion non-significant –, the grains were more and more demanded on the Western markets, their prices tended to increase so there's nothing unusual to find that all these prices revolution is grounded on the grains prices evolution.

However, it is well known that from the 1870 when immense quantities of American grains flooded the major European markets the land prices were declining in long term at least in United Kingdom and France even it is not clear to me if it was a mere collapse or just a soft descending trend (O'Rourke, 1997, p. 787).

The logic question I shall rise would be: What will happen during this grains price crisis in Romania? Did the land prices react to this negative long trend?

The data I have just presented prove that during the crisis the price trend is contrary to the Western one; not only that prices will not stagnate from the 1870s, but on the contrary, the price will continue to rise.

Did the crisis affect the Romanian agriculture?

The answer is decisively positive. Because the economy was extremely addicted to the external demand, the crisis will feel as strong as everywhere. Between 1877-89 and 1890-99 the export raised in quantities on average with 32 per cent but in value with 16.5 per cent (Gheorghiu, 1936, pp. 137-8). Therefore, if we focus on wheat, we find that its price decreased continuously from 18 lei pe 100 kg in 1881, to 15 in 1888, then reached 18 lei in 1892, collapsed again to 14 in 1896 and 12.70 in 1902 (Jormescu and Popa-Burcă, 1907, p. 122).

Though it is growing more and more, the value of cereals (in thousands of golden lei) is in constant oscillation: 381,995 in 1864, 310,116 in 1873, 422,593 in 1875, 661,591 in 1880, only in 1892 it reaches 726,833 and in 1899 it decreases to 260,241 (Axenciuc, II, 1992-2000, p. 702).

As a preliminary conclusion, even the grains prices were falling on the long term the land prices continued – as we have observed – to rise. The rent will rise also: from 20 lei per ha in 1870, to 22,56 in 1880, to 32,79 in 1890, to 36,75 in 1900, to 48, 11 in 1906 (Axenciuc, II, 1992-2000, p. 276).

More, all that situation has nothing to do with an eventual agricultural revolution. Some landlords imported agricultural tools and machines but the productivity remained low as compared to other European countries.

This situation could be considered a paradox. The market evolution does not generate the effects that can be found in industrialized economies. More, if we focus on the agrarian incomes of the landed oligarchy we will observe that during the crisis the incomes were slowly rising.

Table - Great estates incomes

years	incomes (<i>gold lei</i>)
1891/1892	164.079.311
1892/1893	165.839.090
1893/1894	168.113.566
1894/1895	176.589.346
1895/1896	169.897.172
1896/1897	202.999.638
1897/1898	206.482.907
1898/1899	208.021.828
1899/1900	210.919.919
1900/1901	211.930.346

Source: Aslan, 1905, p. 170

Obviously, there are some explanation for this paradoxical trend. Since the late 1870s, the creation of the rail system has significantly reduced the cost of transport. As a compensation, all that was lost by reducing the grains value on the harbors' docks was recovered by diminishing transport cost to the harbors. According to a recent estimation, by improving the network railways the prices diminished three and later four folds (Axenciuc, 2008, p. 61).

I have employed the notion of “revolution” in the title of this chapter. A critical reader may contest that I sustain the existence of a land price revolution in nineteenth century Romania. Perhaps, the data we obtained from various sources may permit to talk only about an evolution of land prices.

However, beyond all this data, available documents in particular case proves that the price has increased from 85 lei per ha in 1853, to 101 lei in 1864 and 225 lei in 1903 (Radianu, 1904, p. 60). There are also assertions of very important personalities belonging to the landed oligarchy like John Lahovary, who appreciated that the estates in Ilfov and Vlașca – situated in the neighborhood Danubian Giurgiu harbor and the capital of Wallachia – were sold by 1829-1830 with 6 to 12 lei per pogon, so that in 1900 the value of the pogon would rise to 450-500 lei (Angelescu, 1943, pp. 847-848). It results that the price of the land would have increased by about sixty, seventy times or even more.

On the other hand, in the United Kingdom, excluding the period of 1803-1815 affected by the Napoleonic Wars and the continental blockade, when prices doubled, until the early 1870s, there is no spectacular rise in prices even the grains demand exploded (Fischer, 1996, p. 161). By comparison and as a conclusion, in XIX century Romania there was a “land price revolution”.

The data collected on the eve of World War One pointed clearly that – despite some large estates which were mechanized – the productivity was one of the lowest in Europe (Janos, 1989, p. 345). In other words, the increasing trend had nothing to do with the any kind of “agricultural revolution”.

3.2. Booming Rate of Interest

As we have observed, the rise of cereal prices (until the 1870s) determined the rise of the land price or the rent as first effect. As we can imagine, the growth of landed wealth was an incentive for consume. As a result, the landed oligarchy taking as granted the brilliant future of the agrarian exports will consume more and more and will require more money on credit. As the loan contracts were secured by mortgaged land the local bankers promoted this consumerist behavior of the aristocracy.

Towards the end of the eighteenth century, the rate of interest was between 10 and 12% (Constantinescu, 1991, p. 227) significantly higher than in the central areas of the world economy such as the United Kingdom where the statutory interest rate was 5% (Berend, 2013, p. 152). The Moldavian civil Code (1817) and the Wallachian regulation as well (1818) imposed a legal interest rate of 10 per cent per year.

The lack of modern commercial banks and of a central bank as well were conditions for the explosion of the usury (Băicoianu, 1932, I, p. 336). In early 1830, the usual interest rate reached 12 per cent; some year later 18 per cent. Even the public loans will be contracted with a rate interest from 12 to 18% percent (Constantinescu, 1991, p. 231). The unusual high rates became slowly the ordinary custom.

While the foreign trade was continuously growing the rate of interest was rising. “The loan interest is very high”, lamented a French diplomatist at Bucharest (Colson, 1839, p. 234). Romanian economist John Ghica was also astonished by the rates which reached 18, 24, and even 40% (Ghica, 1956, p. 291) while the historian Nicholas Bălcescu noted that the interest rate which reached 50% made inaccessible the loans for peasants (Bălcescu, 1956, p.110).

By the middle of century, according to Prussian consul at Bucharest, the rate of interest fluctuated generally between 48-60% (Neigebaur, 1848, p. 290); French economic reports presented a similar situation in the 1850s (Lefebvre, 1857, pp. 11, 314-315).

In Moldavia the trend was similar. According to the economist Nicholas Șuțu the rate fluctuated in 1852 between 18 and 24 % (Slăvescu, 1941, p. 446) and in 1855 between 24 and 30 (Slăvescu, 1941, p. 482). In the 1860s, probably as an effect of the European economic crisis, the interest rate reached its climax and high rates became usual in commercial activities (Băicoianu, 1932, I, p. 249).

All this trend was perceived as a dangerous economical phenomenon from the early 1830 when are mentioned the first appeals or projects to found a central bank or discount bank as well (Băicoianu, 1932, I, p. 214).

Unfortunately, none of these became reality except the *Banca Moldovei* founded in 1856 as central bank of Moldavia, which after issuing a series of banknotes entered in bankruptcy in 1858 and lost its issuing privilege.

Too later perhaps, as a response to these levels of interest rate a group of great and middle landowners founded in 1873 the first rural credit institution whose rate of interest for loans with land mortgaged was 7% (Băicoianu, 1932, I, p. 252). Well managed it contributed to the fall of real rate of interest to 5,56% in 1882 (Băicoianu, 1932, I, p. 253). The foundation of the *Banca Națională a României* as central bank in 1880 put officially the end of the “usury era”, even the interest rate was higher than in the Western states and the discount rate oscillated between 4% and 9% in crisis period (Axenciuc, III, 2000, p.75).

It doesn't mean that the credit became much more accessible. For many, enterprises which faced the fierce competition of the Western industries the interest rates remained a serious impediment for their development or surviving.

This evolution was not unique. Even we limited our observations to Moldavia and Wallachia, in this context, we must add that in Habsburg Transylvania, where the money circulation was better regulated, the usury was a common practice in the 1850s and the local entrepreneurs were borrowing with greater interest rate than the Austrian ones. The general situation changed only in late 1860s, when emerged more than forty commercial and savings banks (Constantinescu, 1991, pp. 354-355).

4. The Oscillations of the Secondary Sector

It was generally admitted by the “dependence theory” that the increasing international commerce brought the secondary sector to collapse. It is true that faced to the fierce competition of Western goods most of the modern factories² were bankrupt in the late 1860 or early 1870 (Hitchins, 1996, p. 183) and only a few managed to survive especially by selling their goods to the state or by being subsidized by the latter.

The data indicates that the industrial development on a whole which began slowly in the 1830s confronting all financial vicissitudes was a trend that cannot be denied. Nevertheless, the rhythm was reduced by 1860s. On short, if in Wallachia there were registered 14,7 thousand craftsmen as guild members (1831) (Oprițescu, 2001, p. 86) and in Moldavia 8,530 (1845) (Platon, 2013, p. 368) the total number (adding the industrial works) will reach 137,4 thousand in 1862 and 327,6 thousand in

² We understand by factories production units with a large number of workers or using engines in order to grow productivity.

1912 (Axenciuc, II, 1992-2000, p. 24). Of course, we have to analyze carefully the numbers registered in 1831 and 1845 because the purposes of the investigation were essentially fiscal so many craftsmen avoided the officials – especially in the rural areas – in order to not be obliged to fiscal duties.

Anyway, the evidence suggested that the number of people involved in so called “industrial activities” was increasing from 1831 to 1913 as nominal number and proportion but probably the increase was quicker between 1831 and 1862. By consequence, the markets’ integration didn’t stop on the whole the growth of the industrial activities.

However, despite the emergence of modern industries subsidized by the state in the 1880s the number of the industrial workers was smaller than in the Western states, and therefore by 1913 the industrial population represented only 8-9 percent of the active population. Obviously, that data positioned Romania on the last places in Europe.

5. Returning to Theory: The Vicious Circle

The idea of a “vicious circle” which impeded the economic development in peripheral areas is not a new one. It appeared in the works of Ragnar Nurkse which developed under the name of “vicious circle of poverty”³ (1958, pp. 4-5) and will be reformulated by Paul Baran (1957, p.164-176) and completed with non-Marxist elements by Gunnar Myrdal (1957, p. 29). All these could explain at theoretical level the evolution of nineteenth century Romania, but the data I have exposed will complete the image with real facts and will focused the attention on economic and social elements neglected by the economists.

As we have just observed above the integration in the nineteenth European economy generated the two main effects.

The first one, the land price revolution affected seriously the peasants. As a consequence, having no access to loan in order to buy land the rich peasants – which were emerging in early 1800s as social strata – diminished or even vanished because their wealth consisted in cattle and common pastures were slowly reduced by aristocrats in favor of arable land. Later, despite the generous wishes of the authors, the agrarian reform of 1864 proved to be vicious for the peasant farm and consequently for its economic evolution. On one hand, by making the peasant owner only of the land he cultivated by huge compensation the ancient rights on the commons (forest or pasture) were practically lost. The peasant became totally addicted to the great estates. His land was insufficient to offer an income

³ On short, the low-income level is a result of low productivity, which is a result of low level of investments, these are low because the savings are low and their low level is determined by the low productivity.

and money to survive, to pay the increasing taxes and the compensation to the landlord. He had to lease some land from the landlords in overwhelming hard terms that added to the population growth impoverished him. His economic situation was so deteriorated in the 1880s that the foundation of County Credit Institutions or the *Banca agricolă* (1893) were real failures. Interest rates between 7 percent and 10 percent made generally inaccessible loans to improve productivity until early 1900 when the first cooperative banks were founded (Pintea and Ruscanu, 1995, p. 92).

On the whole, the peasantry became slowly a levelled class and an impoverished one. There will not be a rich class of peasant interested and able to invest in agricultural machines as it was in France, Denmark, United States or even Russian Poland; impoverished peasants in an agrarian country meant small market for industry. Only since 1900 it seemed that a small sector of rich peasants emerged (Adam and Marcu, II, p. 186).

On the other hand, moving to the urban areas was not a choice for the most of the peasants for there was no industry – at the Western level – in order to absorb the enormous rural masses and no perspective for such a industry.

The second effect, the high interest rates, shaped the Romanian economy in general at least until 1880. The landlords will lose opportunity to invest in agricultural machines or tools and therefore, no agricultural revolution took place.

Unfortunately, the high interest rates will affect strongly on long-term the industrial sector because obviously in a small market it is quite impossible to make profit when rate of interest is so high. As remarked the well-known economist Michel Chevalier, in his foreword to a report on the Wallachian economy, in this situation “it is impossible to start enterprises which need to be financed on long term” (Lefebvre, 1857, p.11).

Practically, despite real opportunities the few heroes of industrialization were paralyzed earlier or later when they needed money to invest in mechanization or to develop their enterprises. E.g., under the enormous pressure of the growing imports, encouraged by the symbolic tariffs, most of the textile modern factories collapsed in late 1860s (Hitchins, 1996, p. 183) even there were entrepreneurs or people interests in such investments, even main raw materials were abundant on local market and there was enough work force, added to the enormous pressure of the imports. The situation was the same in other industrial sectors and aggravated by the 1870s.

All these facts show that the inappetence for industrial work or industrial investments – as it was claimed in the epoch – was not the real cause of the industrial failure. Obviously, high interest rates are not the only cause of the stagnation or collapse of the modern industries. Of course, bad management sometimes contributed to such a result. Probably, there are also in particular cases other causes of lesser importance in my opinion, and if one argues that the industrial revolution in England

has occurred without a serious involvement of the banks, we must retain that in the second half of the nineteenth century the Romanian industry competed with a well-developed foreign industry whose progress was closely linked to the financial contribution of the banks.

High interest affected also the internal trade and from the late 1830s up to the 1880s. In fact, this evolution was quite normal because as Braudel suggested (II, 1979, p. 382) the investments reorient slowly to these economic activities where the rate of profit was high at least on short term (foreign trade, estates leasing, speculative finance and later the extraction of petroleum).

As a preliminary conclusion, the integration in the European economy formed with the previous economic and social structures – described above – a vicious circle of poverty which marked until 1918 the Romanian society no matter the moment we choose.

Therefore, it is an error to investigate if the causes of backwardness were exogenous or endogenous; the research have to focus on social and economic vicious circle which contains exogenous and endogenous elements.

The last topic that must be discussed is the role of the state because the state has always pointed the development path by the public policies that it can impose. From this point of view, the state formally continued to exist from Medieval Age to the present but it was in fact dysfunctional not to say a weaken one. The prince, supposed to be an absolute ruler, was assimilated to a high official of the Ottoman Empire in early 1800. Even after 1821, when the rebellion forced the sultan to elect only Romanian nobles or after 1831-2, when the Organic Statutes regulated the election of the prince by the estates, he had no authority that a Western or Central European monarch had in that time (Iorga, 1934, pp. 13-14).

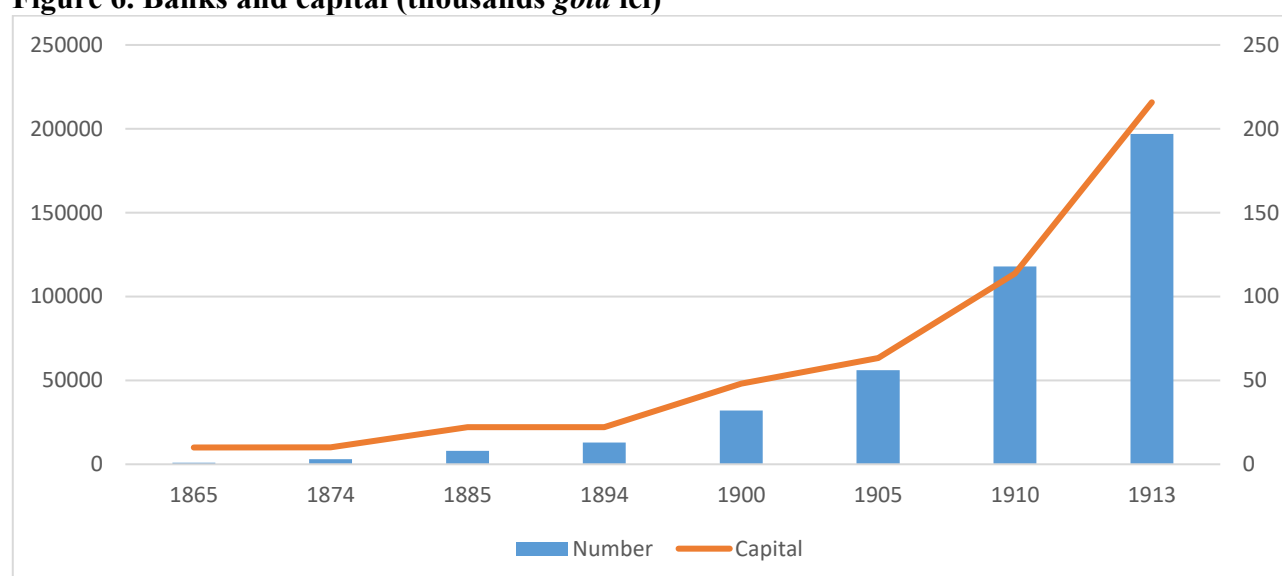
One of the main effects of the Organic Statutes was that the political power was exerted by the oligarchy. Of course, *prima facie* there were elections, there were newspapers and debates, and the public space began to be shaped, but beyond the personal disputes between the princes and the landed oligarchs there is no conflict or equilibrium. The prince acted generally in the name and for the landed oligarchy being himself a great landowner. By the failure of the 1848 revolution, the state continued to be at least until 1856 a state of the aristocracy and the constitution from 1866 didn't change significantly this fact.

Therefore, if the state was unable to implement policies other than these were favorable to the interests of the landed oligarchy, we can consider it as another element of the vicious circle. Minimal funds for public education (Aslan, 1905, p. 97) means poor educated people while minimal funds for hospitals or roads means poor public health or high price of transportation.

The general situation changed slowly only in the 1860s when prince Cuza implemented some imperative reforms – even the agrarian reform was not a success – creating modern institutions. His actions showed that the society can be reformed by above, and on a wave of nationalism the liberals

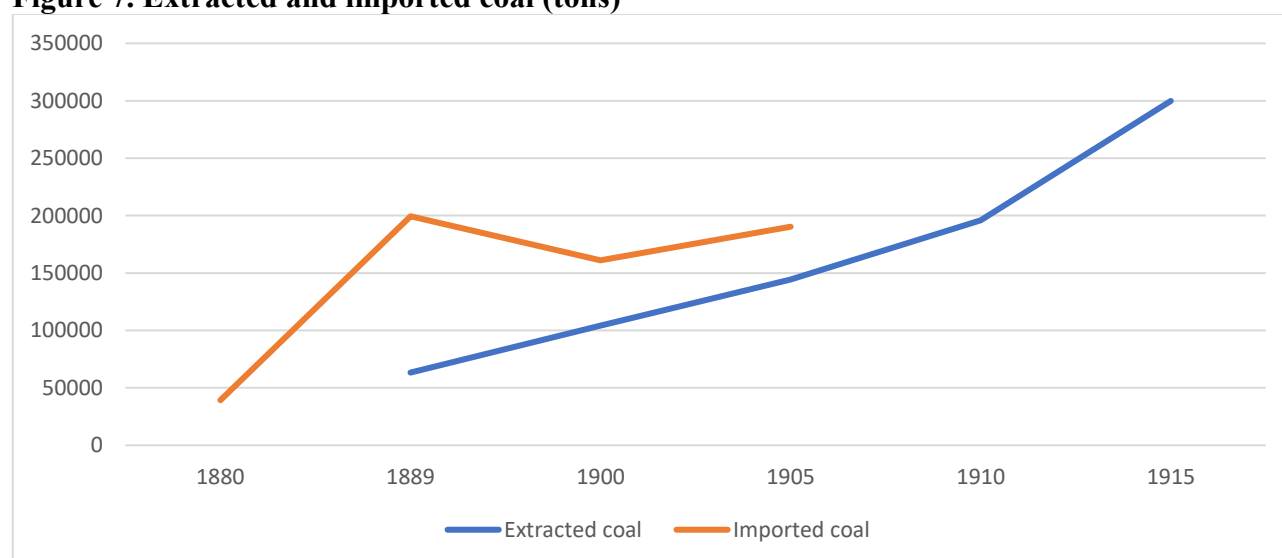
led by John C. Brătianu managed to create the economic and social institutions that Romania needed from the beginning of the century. With state and private capital, a central bank was founded in 1880 – *Banca Națională a României* – and by regulating the financial market a modern financial system was finally established (Fig.6). The state also initiated the prospecting for mineral resources which offered cheaper energy for infant industries (Fig.7) while the acquisition of the bankrupt railway network in 1878 determined the foundation of the modern Polytechnic Institute in order to have qualified personnel. More, a protective tariff, a modern commercial code and some laws to encourage the industrial investments were adopted as well and therefore by 1890s some industrial sectors (including textiles) were recovering exactly when the modern banking network was extending.

Figure 6. Banks and capital (thousands gold lei)



Source: Axenciuc, III, 1992-2000, p.96

Figure 7. Extracted and imported coal (tons)



Source: Dragomir, 'Economia energetică', in *Enciclopedia României*, III, p. 609; Axenciuc, III, 1992-2000 pp. 384-389.

Discussions

This study found that the markets' integration generated two major economic long-term effects which impeded a peripheral space like Romania to develop as an inner oriented economy like the Western states did and reduce the gap.

It made possible a complete and new image of peripheral economic evolution on the traces of other studies which didn't analyze the two issues in detail. It pointed also that the opposition between endogenous causes of backwardness and exogenous causes can be transcended because, as we pointed, the markets' integration formed with the internal economic and social structures a complex vicious circle which permitted only a slow development in strong connection with the demand from the Western markets.

The research was limited to two provinces of actual Romania because of the absence of data, but the findings can be useful for a future research which could determine if and how other peripheral spaces surpass these impediments.

Final conclusions

On short, we sustain that the collected and synthetized data prove that the markets' integration, especially since 1829, made more accessible the goods of the Western industries to the elites which changed their previous mentalities and daily behaviors. They adopted consumerism habits based on the strong but groundless expectations that their incomes will grow permanently without make any agricultural investments. This gilded future of the agriculture encouraged the nobles to spend more than they afforded and the bankers to speculate extremely their growing needs of money by practicing high interest rates.

The entire economy will be deformed by these two major trends: the land prices "revolution" and the booming interest rates. Generated by markets' integration they will form together a complex vicious circle.

The investments in mining, industries or even modern agricultural techniques were discouraged by the high interest rates while the simple land acquisition was a sure and lucrative way to act economically to say nothing about the prestige and political rights of the landowner.

The peasants, despite the Reform of 1864 will have no means to improve their lands and no agricultural revolution up to the Western standard was possible. By consequence, the population growth, the soil degradation and the decrease of the international grains prices impoverished larges sectors of the peasantry while the great landowners become richer and richer and the middle class

was in fact stagnant. In early 1900s, despite some real effects of modernization, the society was much polarized than a hundred years before.

As the state was not a functional or a consolidated one in order to answer at right time to these complex challenges – and Romania was not at least to the 1880s – the economic situation worsened and the society fell behind instead of reducing the gap and becoming a late coming in the industrial club.

As we anticipated, these conclusions have no any intention to blame liberalism as an economic ideology or international trade as an engine of growth, but to point that, in some specific cases, the markets' integration could bring competition, productivity growth and general prosperity, while in other cases it could generate peripheralization and a more polarized society.

References

- Abel, W. (1974), *Crises agraires en Europe : XIIIe-XXe siècle*, Paris: Flammarion.
- Adam, I. and Marcu, N. (1959), *Studii despre dezvoltarea capitalismului în agricultura României (după reforma din 1864)*, Bucharest: Editura Științifică.
- Alesandrini, N. (1895), *Statistica României de la Unirea Principatelor până în prezentu*, Iași.
- Alexandrescu, I. (2007), *Recensămintele României*, Bucharest: Meronia.
- Angelescu, N. (1931), *Negustorii de odinioară*, Bucharest.
- Angelescu, N. (1943), 'Renta solului', *Enciclopedia României*, IV, pp. 847-848.
- Antonescu, C. (1915), *Die Rumänische Handelspolitik von 1875-1910*, Leipzig: Verlag von Wilhelm Schunke.
- Aslan, T. (1905), *Finanțele României dela Regulamentul Organic până astăzi: 1831-1905*, Bucharest: Gobl.
- Axenciuc, V. (1992-2000), *Evoluția economică a României. Cercetări statistico-istorice, 1859-1947*, Bucharest: Editura Academiei române.
- Axenciuc, V. (2000), *Avuția națională a României: cercetări istorice comparate, 1860-1939*, Bucharest: Editura Academiei române.
- Axenciuc, V. (2008), *Formarea sistemului industrial modern în România. Etapa 1859-1914. Demarajul industrializării*, Bucharest: Editura Academiei române.
- Băicoianu, C. (1932), *Istoria politicii noastre monetare și a Băncii Naționale*, Bucharest: Cartea românească.
- Bairoch, P. (1976), *Commerce extérieur et développement économique de l'Europe au XIXe siècle*, Paris: Mouton.

- Bairoch, P. (1982), 'International Industrialization Levels from 1750 to 1980', *The Journal of European Economic History*, (11)1-2, pp. 269-285.
- Bairoch, P. (1995), *Mythes et paradoxes de l'histoire économique*, Paris: La Decouverte.
- Bairoch, P. (1997), *Victoires et déboires. Histoire économique et sociale du monde du XVI siècle à nos jours*, Paris : Gallimard.
- Bălcescu, N. (1953), *Opere*, Bucharest: Editura Academiei.
- Baran, P. A. (1957), *The Political Economy of Growth*, New York: Monthly Review Press.
- Berend, I. (2013), *An Economic History of the Nineteenth-Century Europe. Diversity and Industrialization*, Cambridge: Cambridge University Press.
- Berg, M. (1991), *Markets and Manufacture in Early Industrial Europe*, London: Routledge.
- Bethell, L. (1985), 'Brazil from Independence to the Middle of the Nineteenth Century', *The Cambridge history of Latin America*, III, Cambridge: Cambridge University Press, pp. 679-746.
- Bethell, L. (1985), The Independence of Brazil, *The Cambridge History of Latin America*, III, Cambridge: Cambridge University Press, pp. 238-241.
- Braudel, F. (1979), *Civilisation matérielle, économie et capitalisme, XVè-XVIIIè siècle*, Paris: Armand Colin.
- Braudel, F. (1993), *Grammaire des civilisations*, Paris : Flammarion.
- Bulmer-Thomas, V. (1994), *The Economic History of Latin America since Independence*, Cambridge: Cambridge University Press.
- Bușe, C. (1973), 'Le commerce extérieur de la Moldavie par le port de Galatz durant la période 1837-1847' in *Revue Roumaine d'Histoire*, (12) pp. 299-315.
- Carus-Wilson, E.M. (1954-1962), *Essays in economic history*, London: Edward Arnold.
- Chirot, D. (1976), *Social change in a peripheral society: the creation of a Balkan colony*, New York: Academic Press.
- Cioriceanu, G. (1928) *La Roumanie économique et ses rapports avec l'étranger de 1860 à 1915*, Paris: Giard.
- Cojocaru, I. (1958), *Documente privitoare la economia Țării Românești: 1800-1850*, Bucharest: Editura științifică.
- Colescu, L. (1944), *Analiza rezultatelor recensământului general al populației României dela 1899*, Bucharest: Institutul Central de Statistica.
- Colson, F. (1839), *De l'état présent et de l'avenir des Principautés de Moldavie et de Valachie*, Paris: Pougin.

- Constantinescu, I. (1985), *Arendășia în agricultura Țării Românești și a Moldovei până la Regulamentul Organic*, Bucharest: Editura Academiei.
- Constantinescu, N. N. (1991), *Acumularea primitivă a capitalului în România*, Bucharest: Editura Academiei.
- Corfus, I. (1969), *Agricultura Țării Românești în prima jumătate a secolului al XIX-lea*, Bucharest: Editura Academiei.
- Dertilis, G.B. et alii (1988), *Banquiers, usuriers et paysans : réseaux de crédit et stratégies du capital en Grèce: 1780-1930*, Paris : Fondation des Treilles/La Découverte.
- Desert, G. and Specklin, R. (2003), 'Victoire sur la disette', in *Histoire de la France rurale, III. Apogée et crise de la civilisation paysanne 1789-1914*, Paris : Du Seuil.
- Dewald, J. (2001), *La nobiltà europea in eta moderna*, Turin: Einaudi.
- Diculescu, V. (1956), *O manufactură de ceramică la Tîrgu-Jiu: 1832-1863*, Bucharest: Societatea de Stiinte Istorice.
- Diculescu, V. (1973), *Bresle, negustori și meseriași în Tara Românească (1830-1848)*, Bucharest: Editura Academiei.
- Émerit, M. (1937), *Les paysans Roumains depuis le traité d'Andrinople jusqu'à la libération des terres: (1829-1864): étude d'histoire sociale*, Paris: Sirey.
- Fischer, D.H. (1996), *The Great Wave: Price Revolutions and the Rhythm of History*, New York, Oxford: Oxford University Press.
- Garrigou-Lagrange, A. (1939), *Production agricole et économie rurale*, Paris: LGDJ.
- Gheorghiu, V. (1936), *The Foreign Trade of Roumania: from the Treaty of Adrianopole up to the Great Depression*, Bucharest.
- Ghețău, V. (1978), 'Speranța de viață, 1900-1947', *Viitorul social*, (7)1, pp .142-152.
- Giurescu, C.C. (1972), *Contribuțiuni la studiul originilor și dezvoltării burgheziei române până la 1848*, Bucharest: Editura științifică.
- Gould, J. D. (1972), *Economic growth in history: survey and analysis*, London: Methuen.
- Gusti, D., Orghidan C., Vulcănescu, M. (1938-1943), *Enciclopedia României*, Bucharest: Imprimeriile naționale.
- Halperin Donghi, T. (1985), 'Economy and Society in the post-Independence Spanish America', *The Cambridge history of Latin America*, III, Cambridge: Cambridge University Press, pp. 299-346.
- Hitchins, K. (1994), *Rumania 1866-1947*, Oxford: Oxford University Press.
- Hitchins, K. (1996), *The Romanians: 1774-1866*, Oxford: Oxford University Press.
- Hudson, P. (1986), *The Genesis of Industrial capital. A study of the West Riding wool textile industry c.1750-1850*, Cambridge: Cambridge University Press.

- Iorga, N. (1925) *Istoria comerțului românesc*, Bucharest.
- Iorga, N. (1934), *Penseurs révolutionnaires roumains de 1804 a 1830: conférence donnée a Paris, a la Société de la Révolution française : (19 mars 1934)*, Bucharest.
- Janos, A. (1989), 'The Politics of Backwardness in Continental Europe, 1780-1945', *World Politics*, (41)3, pp. 325-358.
- Jormescu, C. and Popa-Burcă, I. (1907), *Harta agronomică a României*, Bucharest.
- Kardases, V. (2001), *Diaspora Merchants in the Black Sea: The Greeks in Southern Russia, 1775-1861*, Lanham: Lexington Books.
- Lampe, J. (1989), 'Imperial Borderlands or Capitalist Periphery? Redefining Balkan Backwardness, 1520-1914', Chirot, D. (ed.), *The Origins of Backwardness in Eastern Europe: Economics and Politics from the Middle Ages until the Early Twentieth Century*, Los Angeles: University of California Press, pp. 177-209.
- Lampe, J. and Jackson, M. (1982), *Balkan Economic History, 1550-1950: from Imperial Borderlands to Developing Nations*, Bloomington: Indiana University Press.
- Maior, G. (1906), *Politica agrară la români: dezvoltarea chestiunii agrare în toate țările locuite de români din secolul XVII, XVIII și XIX: tipărită cu ocaziunea expoziției jubiliare*, Bucharest: Gobl.
- Malanima, P. (2009), *Pre-Modern European Economy: One Thousand Years (10th-19th Centuries)*, Leiden: Brill.
- Malowist, M., (1958), 'Poland. Russia and Western Trade in the 15th and 16th Centuries', *Past and Present*, (13)1, pp. 26-39.
- Myrdal, G. (1957), *Economic theory and under-developed regions*, London: Duckworth.
- Nurkse, R. (1958), *Problems of Capital Formation in Underdeveloped Countries*, Oxford: Oxford University Press.
- Obedenaru, M. G. (1876), *La Roumanie économique d'après les données les plus récentes: géographie, état économique, anthropologie*, Paris: Leroux.
- O'Rourke, K. H. (1997), 'The European Grain Invasion, 1870-1913', *The Journal of Economic History*, (57) 3, pp. 775-801.
- Oțetea, A. (1977), *Pătrunderea comerțului românesc în circuitul internațional în perioada de trecere de la feudalism la capitalism*, Bucharest: Editura Academiei.
- Oțetea, A., Adăniloae, N. and Berindei, D. (1960), *Studii privind Unirea Principatelor*, Bucharest: Editura Academiei.
- Păianu N. I. (1906), *Industria mare: 1866-1906*, Bucharest: Beer.
- Pintea, A. and Ruscanu, G. (1905), *Băncile în economia românească: 1774 – 1995*, Bucharest: Editura economică.

- Platon, G. (1995), *Boierimea din Moldova în secolul al XIX-lea. Context european, evoluție socială și politică*, Bucharest: Editura Academiei.
- Popovici, V., Anghelescu, C. and Boicu, L. (1963), *Dezvoltarea economiei Moldovei între anii 1848 și 1864*, Bucharest: Editura Academiei.
- Radianu, S.P. (1904), *Monografia comunei Văleni*, Bucharest.
- Rothenbacher, F. (2016), *The Central and East European Population since 1850*, Berlin: Springer.
- Scraba, V. (1907), *Starea socială a țăranului după ancheta privitoare a anului 1905*, Bucharest: Goebel.
- Slăvescu, V. (1924), *Creditele funciare din România*. Bucharest.
- Slăvescu, V. (1941), *Vechi încercări de organizare a Creditului în Moldova: 1834-1857 : planuri, încercări, realizări, piedici*, Bucharest: Analele economice.
- Slăvescu, V. (1941), *Vieața și opera economistului Nicolae Sutu: 1798-1871*, Bucharest: Editura Academiei.
- Xenopol, N. (1916), *La richesse de la Roumanie*, Bucharest: Socec.
- Zane, G. (1930), *Economia de schimb în Principatele Române*, Bucharest: Cartea școalelor.
- Zane, G. (1970), *Industria din România în a doua jumătate a secolului al XIX-lea: despre stadiile premergătoare industriei mecanizate*, Bucharest: Editura Academiei.
- Zeletin, S. (1926), *Burghezia română. Originea și rolul ei istoric*, Bucharest: Cultura națională.