

New Europe College
Ștefan Odobleja Program
Yearbook 2016-2017



ANDREEA CHIRIȚĂ
ADRIAN GOR
DAN-ALEXANDRU ILIEȘ
MARIA IROD
CLAUDIU OANCEA
MIRCEA-LUCIAN SCROB
TUDOR GHERASIM SMIRNA
ADELA TOPLEAN
RADU TUDORANCEA

Editor: Irina Vainovski-Mihai

This volume was published within the Human Resources Program – PN II, implemented with the support of the Ministry of National Education - The Executive Agency for Higher Education and Research Funding (MEN – UEFISCDI), project code PN–II– RU–BSO-2016

EDITORIAL BOARD

Dr. Dr. h.c. mult. Andrei PLEȘU, President of the New Europe Foundation, Professor of Philosophy of Religion, Bucharest; former Minister of Culture and former Minister of Foreign Affairs of Romania

Dr. Valentina SANDU-DEDIU, Rector, Professor of Musicology, National University of Music, Bucharest

Dr. Anca OROVEANU, Academic Coordinator, Professor of Art History, National University of Arts, Bucharest

Dr. Irina VAINOVSKI-MIHAI, Publications Coordinator, Professor of Arab Studies, “Dimitrie Cantemir” Christian University, Bucharest

Copyright – New Europe College
ISSN 1584-0298

New Europe College
Str. Plantelor 21
023971 Bucharest
Romania

www.nec.ro; e-mail: nec@nec.ro

Tel. (+4) 021.307.99.10, Fax (+4) 021. 327.07.74



TUDOR GHERASIM SMIRNA

Born in 1976, in Focșani

Ph.D., Bucharest University of Economic Studies

Thesis: *Central Bank Theories. Analysis of the Suffolk System and the National Bank of Moldavia*

Assistant Professor, Faculty of International Business and Economics,
Bucharest University of Economic Studies

Research Fellow, The Ludwig von Mises Institute, Auburn. Alabama, U.S.A.,
2002

Romanian Academy – Iași Branch (2014-2015)
Universidad Rey Juan Carlos, Madrid (2014-2015)

Participation to international conferences in Romania, Spain, China

Articles on business cycles, monetary theory, central banking, balance of payments theory, economic history, history of economic thought, pension systems, methodology

ROMANIAN ECHOES OF THE *CURRENCY VERSUS BANKING* DEBATE – FROM UNIFICATION TO THE CREATION OF THE NATIONAL BANK

Abstract

In this paper we take a new look at how the modern Romanian monetary and banking system took shape between the Unification of the Principalities and the founding of the National Bank of Romania in 1880. We are primarily interested in showing that the ideas that influenced its creation were richer than previous historical accounts imply. For this purpose, we first take a look at the Western debates between the Currency School and the Banking School, and in particular at the ideas of French participants. Against this background, we will then evoke the Romanian echoes of this great 19th century controversy.

Keywords: Currency School, Banking School, central bank, free banking, gold standard, bimetallism, fiduciary media, paper money.

Western liberalism was spreading worldwide during the 19th century, and the Romanian Principalities were no exception. The emancipation of commerce and production from privilege and control was a slow and bumpy but inevitable process – led by ideas of personal rights and liberties that were permeating political and commercial elites.

The great 19th century Currency versus Banking debate

In the monetary field, the establishment and international alignment of gold, silver or bimetallic standards was a secular Western evolution. In the field of banking, progress was slower to take hold than in other areas of economic life. In contrast to the long trend towards free markets, initial

freedom of banking in England, France, or Prussia was later replaced by monopoly, restricted plurality and a return towards centralization.¹ Thus, the institution of the monopoly central bank that was first established shortly before the beginning of 18th century in England survived and later spread to other countries – continental Europe included – despite the triumph of classical liberal ideas. The great debate between the Currency School and the Banking School can be understood as a struggle of economic thinkers disentangling themselves from error, but not yet ready to apply their findings to money and banking. This debate that spanned a century and the whole Western world can be seen as the long demystification of some of the most difficult subjects in the discipline.

It intensified in England around the turn of the 19th century, and it then moved East and West, to Europe and the United States. What started with the Bullionist controversy² over the return to convertibility of Bank of England notes has later, in the 1840's, turned into the currency versus banking debate – that led to the enactment of Peel's Law in 1844, a landmark for the ill-fated triumph of currency principles' incoherent application – and it continued in the following years and decades.³ In France, our area of interest – given its influence over the Principalities and later Romania –, the debate was substantial after 1840 and especially heated after the crisis of 1857, around the time Romanian Principalities entered their phase of momentous change. One main point of contradiction in these debates was the just or proper level of the interest rate. Since recession was usually accompanied by a surge of the market level of the interest rate, there were, on the one hand, parties clamoring for the intervention of the state to regulate a low level of interest.⁴ And there were, on the other hand, advocates of letting the market decide that level.⁵ In trying to solve this problem the writers and respondents engaged in discussions related to fundamental economic principles and to the right architecture and mechanisms of the monetary and banking institutions. There were questions pondering on what is a crisis, if there are general causes to crises, and if there is the case to distinguish between commercial and financial crises. Also, the thinkers were asking if there is a lack of capital or a lack of money in crises. Or, what is the effect of international trade and its dynamics on national crises?

On the subject of money and monetary standard there were questions on whether an economy should be based on a metallic or fiduciary money, or if it should have a mixed money supply. Then, what would be the role of metallic money in such a mixed supply? Should there be a unique metallic

standard or a bimetallic standard? Also, should the bimetallic standard be based on a fixed or a free exchange rate between the two metals?

There were also inquiries into the definition of interest: is it the price of money or of credit? Is there only one factor of the interest rate, or are there several components of the interest rate?

When it came to the field of banking, there were questions about the monetary substitutes issued by the banks. Are banknotes economically equal to deposits, or not? Should there be a monopoly of the issue of fiduciary media, or not? And, should we have a central bank or a free banking system? If we should have a central bank, how extensive should the role of such a bank be? Should there be regional banks with roles similar to the national central bank, or should the central bank simply have territorial subsidiaries?

In France⁶ the supporters of a theory of crises caused by underexpansion or restriction were Coquelin and Du Puynode. They, together with Courcelle-Seneuil and Garnier defended an extension of the *laissez faire* regime to money and banking, where the stockholders of the bank had limited liability and were free from all state interference. Chevalier and Horn were also in this camp,⁷ although they were in favor of maintaining some degree of legislative intervention. Mannequin and most of the above defended free banking with the needs of trade argument employed earlier by the English counterparts of the Banking School: notes cannot be issued in excess, otherwise they would return to the issuing banks through market processes, and thus free banking would not engender crises.

On a somewhat more conservative position was Lavergne, who advocated for a system of regional department banks with more autonomy than in the past. Clement Juglar also held an intermediary position in which the Bank of France played a central role in a network of banks.

Isaac Pereire, Maurice Aubry and Paul Coq held the Napoleonic position⁸ that the interest rate should be fixed at a low level – 3% in the case of Pereire –, and on this ground they attacked the Bank of France for raising the interest rate.

The defenders of the status quo – a prevalence of the royal prerogative in money and banking – like Bonnet and Wolowski, wanted to see a continuation of the monopoly of the Bank of France and its control by the state. But it was not purely on political grounds that they defended the monopoly. Bonnet argued that the existence of only one bank of issue is optimal, whereas the existence of a plurality of banks would have both undesirable inflationary effects and not enough flexibility in

war times. They were defending the importance of a flexible interest rate in equilibrating supply and demand of bank credit. Their theory of crises was inflationist: too much credit can lead to imbalances and crises.

Others argued, like English authors before them, that banknote holders would not be able to discriminate among the banknotes and this would lead to a proliferation of low quality paper money and all the subsequent negative consequences. In trying to make sense of the diversity of opinions, we can categorize the authors following two criteria:

By the banking structure criterion,⁹ we can distinguish the following categories, from the most centralist to the most *laissez faire* thinkers: proponents of a state owned central bank, monopoly of central bank theorists, duopolists, central bank and regional banks advocates, unlimited liability free bankers, limited liability free bankers.

By the inflation criterion, from the strictest to the most flexible, we can distinguish these categories: monetary certificate advocates, real bills moderates, fixed fiduciary issue moderates, and fiduciary media enthusiasts.

Some thinkers were advocates of the same institutional means for opposite goals. Courcelle-Seneuil and Horn wanted free banking but were not inflationists or low interest rate advocates. And Laveleye, for example, was against the expansion of credit, but he considered that a free banking setting would be less expansionist than a monopoly central bank setting. Also, Henri Cernuschi was against the central bank monopoly but he also famously considered that free banking would imply irresponsible banknote issuance followed by public distrust and abandonment of banknote use.¹⁰ Victor Modeste also criticized fiduciary media and wanted a pure money certificate regime, i.e., where all banknotes are backed by specie all the time.¹¹ Couillet was for a central bank architecture for reasons similar to Cernuschi's: freedom in banking would lead to inflationary redistribution and bankruptcies that would then attract public distrust. Centralization offered more advantages than disadvantages from his point of view.

Are there Romanian echoes of the debate?

The Romanian period of classical liberalism¹² largely overlapped with the period of French classical liberalism. An interesting question is, then, to what extent was the spectrum of ideas debated in France and the

West imported into the Romanian discussions on the subject of money and banking?

The progress of countries that adopted free markets and capitalist modes of production from the West was sped up by the export of innovations and the capital accumulated by these economies.¹³ In monetary and banking matters, as in others, the Romanians felt compelled to speed up the process, and were helped by Western investors who wanted to profit from the rapid modernization of emerging economies.

The history of modern Romanian banking is essentially a history of how the central bank came to existence. It is normal, given the historical context, to see a drive for its adoption by Western imitation and less debate about its nature, scope, functions and utility. But, since the controversy was still alive in Europe at that time, and since a lot of the leading political and economic figures were educated in Western academic centers, it is legitimate to ask if there was a local money and banking debate mirroring the one in the West.

Historical setting

Around 1860, the monetary landscape in the Principalities consisted of a multitude of gold, silver, and copper coins. There were no paper money substitutes circulating. The banking sector was also in a state of backwardness when compared to France and the West. There were private local money changers turning fast into full-fledged bankers (they were mainly Jews), and foreign banks¹⁴. The growing international trade that consisted mainly in exportation of cereals and animal produce and the importation of manufactured goods was operated through cash and bills of exchange drawn on important hubs of international commerce.

The monetary situation until the reform of 1867 and even afterward can be described in three words: chronic Gresham effects.¹⁵ The practice of regulated exchange rates – preexistent since the Organic Statutes and before – for different kinds of money led to perpetual imbalances, speculation, uncertainty and violent money movements to and from the territory, according to the evolution of the international market rates. These problems existed since the first days of the new Romanian state and until after the end of the discussed period. Egregious examples include the order of the Minister of finance from Moldavia, Eugen Alcaz, forbidding embezzlement by tax collectors through substitution of bad money for

good¹⁶; the extremely profitable international arbitrage described by Moruzi;¹⁷ or the inundation of the Romanian market with overvalued silver rubles after the War of Independence.¹⁸

Nicolae Suțu offered a good description of the state of credit and banking. Succinctly put, there was legal uncertainty with exorbitant interest rates. In a banking law justification, written in 1852¹⁹, Suțu identified the lack of credit as the chief problem related to banking in the Principalities. It was not so much the state that was complaining at the time for the dearth of credit, as were the private landowners. Suțu wrote that landowners were eager to invest and increase production after new opportunities for export began to open up from 1829. They did not understand how interest works and, also, they took advantage of the legal tolerance that their class enjoyed. As a result, relates Suțu, almost all were on the brink of ruin at the time of his writing.

He looked at the interest level in the West and accused the high interest in the Principalities, but he was also offering an explanation for the very high local levels (which were officially capped at annual rates of 10 or 12 percent, but were available on the market only at levels of 24, 30 or even 36 percent). Suțu observed that creditors had little certainty of seeing their claims repaid. Justice was discretionary, slow and costly. Years after term, and after interminable legal hassle, the creditor would obtain a much lower real interest than stipulated in the contract. It could be 10 percent or even less. Suțu stated clearly what later economists called the risk premium as a component of the interest rate:

L'intérêt légal est de 10% dans le pays. Les emprunts garantis par l'hypothèque se font quelquefois à ce taux, et plus communément au taux de 12% ; mais l'agiotage fait le plus souvent monter l'intérêt à 18 et même à 24 et au delà. Cette hausse désastreuse de l'intérêt est toujours le résultat du défaut de sûreté et de l'incertitude où se trouve le prêteur, de toucher ses fonds ou même ses intérêts au terme convenu. Le revenu de l'argent est alors composé de l'intérêt proprement dit et d'une prime proportionnelle au risque que court le créancier ; mais cette espèce de dédommagement produit un cercle vicieux vu qu'il ne tend d'un autre côté qu'à augmenter les difficultés du débiteur. Ainsi, que d'embarras, que de démarches et de temps perdu pour le prêteur jusqu'à ce qu'il parvienne à se faire rembourser [...]²⁰

In the bank law project of 1852 he went on to say that the solution for this critical situation was a credit institute and lower interest rates. The

credit supply can be increased by the expansionary powers of fractional reserves. Through this procedure of multiplication, the bank can offer a low interest rate to borrowers while giving high return on capital to stockholders:

La Banque peut émettre des billets pour une somme équivalente à son numéraire ; le crédit de ces billets est constitué sur la base suivante : en prêtant cent mille ducats p. ex. en numéraire, la Banque conserve, dans ses caisses, des hypothèques d'une valeur supérieure à ses débours. Elle peut dès lors émettre pour cent mille ducats de billets qui représentent les valeurs en caisses et sont garantis par elles ; ces billets qui représentent les valeurs en caisses et sont garantis par elles ; ces billets sont de plus réalisables à tout instant par la Banque. C'est ainsi que d'une part les capitaux du pays ont doublés par la circulation de valeurs inactives et que de l'autre, l'actionnaire voit doubler ses intérêts qui ne sont plus de 8 mais de 16%.²¹

Suțu's position on money and banking is interesting because it defines early on the general perception of the problem – lack of credit –, its rationalization – the naiveté and privilege of the boyars²² that led to over-indebtedness –, and the solution – a privileged bank that would multiply capital, lower the interest rate, and fecundate the national economy.

Initiatives in money and banking

Before 1860, there were numerous attempts at having a monopoly bank of issuance in the Principalities. They were systematically thwarted by either the Ottoman or the Russian authorities. In 1856, Prince Grigore Alexandru Ghika has succeeded in establishing the ill-fated National Bank of Moldavia.

The state of finances, money, and banking during the unification process is characteristic for the decades that followed. Immediately after the double election of Prince Cuza in 1859, the emerging state had a series of momentous problems. Lack of funds was one of the main worries of the statesmen from the two provincial governing bodies and this turned out to be a chronic plight. Since taxation or borrowing – local or international – did not bring in enough revenues, inflation through a central bank was seen as a promising solution.

There are a few landmarks in the money and banking history of the period. We note here a 1859 proposal for a national bank by C. Steriadi, minister of finance; the 1860 proposal for the unification of money rates and the introduction of a new national money; the 1860 proposal for a national bank by Ion C. Brătianu, as finance minister; the 1861 proposal for a new privileged bank, Banca Română; the 1862 bank project by Ioan Polichroniadi et. Co.; the 48 million lei loan floated in 1864 on the London market; the 1864 founding of the CEC deposit bank; the 1865 charter for the privileged Banca României controlled by Adolphe Hertz and Jacques Löbel, a short-lived and fruitless initiative of the besieged Cuza regime; the 1867 projects for Banca României Limitată and for a Land Bank advanced by Ladislav Zmoyski; the monetary reform of 1867; the 1871 request for a Banca Națională și de Credit Funciar a României by Eugene Bosquet Deschamps; the 1873 national bank project advanced by Jacques Poumay, D.S. Rodocanachi, Menelas Ghermani, S. Ioanidi, Petre Christu and Achille Zerlendi; the 1873 creation of the Creditul Funciar Rural; the 1874 central bank project advanced by minister of finance P. Mavrogheni; the 1877 bank proposal advanced by P. Buescu; the 1877 law for the issuance of 30 million land notes or State scrip notes; and finally the 1880 law for the enactment of the National Bank of Romania, an initiative of the Brătianu Cabinet.

We will analyze below the most interesting contributions related to these developments.

The Central Commission Money Project

Economist and biographer Victor Slăvescu credits Suțu with the authorship of the proposal for a new national money, dated 1860 in Focșani.²³ The signatories of the project were in fact Suțu, I. Cantacuzino, I. Docan, Al. Moruzi, and L. Steege, all members of the Central Commission.

Suțu *et al.* accused the Organic Statutes for legislating a fixed price between gold and silver. Then, they observed that there were in Moldavia three different regulated (or “nominal”) exchange rates: one in Galați (Danube port and main Moldavian foreign trade hub), one for all commerce in the rest of the country, and one at the Treasury in Iași. They were all three different from the exchange rate in Constantinople and the real market exchange rate in Moldavia.²⁴

This state of affairs led to severe effects carried on by the “agiotars”, or “zarafi”. Gold and silver was exported to Vienna or Constantinople and the local market was inundated with copper-silver “parale” (or, in French, *billon*).²⁵

They, therefore, proposed to give up the fictitious monetary unit of *leu* and adopt a silver standard, and suggested France as a model of metallic standard. But, quoting Michel Chevalier, they stated that Romania should have avoided a bimetallic standard for the problems that the fixed exchange rates between the two metals could bring about, as the cases of France and Belgium proved. They went on to state that it was also impractical, at least at the time being, to replace all circulating foreign monies with the new national metallic standard. Suffice it to just give a silver definition to the new national money, mint it in Paris for the sum of 100 million francs, and leave all existing money to circulate freely in the new country.

Thus, we can see that already in 1860 the new Romanian state had an economically sound project for the monetary unification – that it would enact into law only 7 years later, and with the main disadvantage of keeping bimetallicism in place.

Suțu’s last publication is a report of the state of the economy in 1866.²⁶ There, as in his earlier project for a land mortgage bank we can find proposals anticipating the mortgage notes that were issued by the Treasury in 1877 and were backed with public lands.

Place, Moruzi, Strat, Ghica

Besides Nicolae Suțu, we have other four remarkable authors who contributed substantially to the discussions on money and banking in the era: Victor Place, Alexandru D. Moruzi, Ioan Strat and Ion Ghica. For lack of space, we decided to leave out a detailed discussion of their contributions and will only mention their positions in the conclusions.

The Parliament Debates for the Monetary Law of 1867

This law was Romania’s de facto entrance into the Latin Monetary Union. This integration with the monetary systems of France, Belgium, Italy and Switzerland had its virtues and its drawbacks. The virtues were

related to the adoption of a standardization in money minting, along with the decimal system, and thus the abandonment of discretion in money regulation. The *leu* became the name of a certain quantity of silver or gold, instead of an abstract unit of account subject to arbitrary regulation.

The drawbacks were related to the contradictions embedded in the constitution of the monetary union itself. Its conventions included two layers of fixed pricing that could only lead to several Gresham effects. First, the Union kept bimetallism in place at a fixed conversion rate of 15.5 units of silver to one of gold. Second, there was a silver to silver fixed ratio generated by defining the 5 franc unit as a 0.900 purity silver quantity and the 1 franc unit as a corresponding quantity of only 0,835 silver purity.²⁷ Third, there was the paper to metal (either gold or silver) definition – and implicit fixed parity – that could not be defended permanently with less than 100% reserve backing – and the same would apply to any other substitute created by the bank, such as deposit entries.

As we have seen, fixed bimetallism was already rejected by Suțu or Moruzi, but Romanian lawmakers chose to adhere to the Latin Union despite its perceived drawbacks. In the debates occasioned by the law, D. Sturdza discussed the problems of fixed bimetallism that created disequilibrium between gold and silver. G. Ghica also objected to the idea of giving a fixed rate for gold and silver, since it would lead to strong fluctuations. However, bimetallism was adopted with the argument that civilized countries had bimetallist regimes as a rule.²⁸

The State's lack of gold and silver opened two alternatives to lawmakers: minting symbolic quantities or using brass. V. Boerescu highlighted the benefits that Cantillon redistribution would bring to the Romanian state when minting brass or even nickel monies of little metal value but high nominal price.²⁹

The Parliament Debates for the Mortgage Notes Law of 1877

Brătianu nurtured the idea of issuing State paper money for a longer time,³⁰ and the impending Independence War finally provided the opportunity and the need³¹ for such instruments to be floated in Romania. It was after all a precedent set by Western states to issue such instruments in times of emergency, as was the case with the *assignats* and with the Prussian state money during the Napoleonic Wars. The plan was to have 30.000.000 lei worth of state notes issued,³² with backing in land assets

of the State. These notes would be redeemed in the span of 5 years as the state lands would be sold.

Gr. Vulturescu argued that the dire condition of state finances and the need to keep a strong army pushed the state to adopt the solution of issuing state notes. His justification is interesting because it is a summary of the options available for managing the budget problem. One option consisted in lowering state expenses – not realistic in the given circumstances. Another option was to increase revenue by raising taxation, but here again was a problem because real collection was already halved. Another source of revenue, borrowing from the Romanians or from abroad, was considered equally unrealistic. Therefore, inflation was the last resort. Vulturescu called it “a forced loan.”³³ He underlined the unjust character of the measure – the receivers did not get interest and faced the risk of a later devaluation of the notes – but claimed that it was an extreme, emergency solution.

E. Grădișteanu retraced succinctly the state’s history of debasing metallic money and manipulating paper money into hyperinflations. He criticized the notes as a type of asymmetric tax and underlined the distinction between paper money – the notes that were discussed at the moment – and money paper – the banknotes redeemable in gold.³⁴ He predicted the sharp devaluation of the former.

Em. Pache Protopopescu evoked the examples of John Law’s inflation and of the *assignats* to vehemently reject the proposal. He too defended the idea of paper notes backed by metal and issued by institutions capable of redeeming them on demand. He quoted Courcelle Seneuil to condemn paper notes as an apanage of uncivilized nations. He suggested that raising taxes would be better since it would induce a spirit of economy in the population.

V. Maniu brought patriotic arguments to support this measure that he and D.I. Ghica called a necessary evil. V. Fleva made the point that Austria, Russia and even France have resorted to suspension of payments as an emergency measure and that this was similar to issuing paper notes. He stated that the credit of the Romanian state was in good standing and had bright perspectives, therefore the value of the notes issued would be stable. In support of the measure, he brought the examples of England during Napoleonic War, and United States during the Civil War. He cited Victor Bonnet to criticize Adam Smith’s obsolete condemnation of financing war with paper money.³⁵ Fleva appears to be situated on a Banking School position. He supported the well-known needs of trade

argument that there is a certain degree of inflation that can be absorbed by the economy without negative consequences.

P. Buescu advanced the idea of a central bank while strongly criticizing the land notes initiative. He highlighted the advantages of fiduciary media issued by a bank and quoted from Gustave du Puynode and Courcelle-Seneuil to support his proposal. One thing to notice here is that both these authors were critical of the central bank and are advocates of free banking. On the other hand, Buescu criticized paper money. He based his arguments on Bonnet, showing that he is opposed to state-issued money and extracted the history of *assignats* from Joseph Garnier. Buescu underlined the importance of metallic reserves that back banknotes, while he diminished it when he defended his bank project.

N. Ionescu also considered that paper money was a barbarous institution, brought by Mongols. His solution was, too, the creation of a central bank based on assets of the state. George Cantilli was also against the issue of these notes because they would have pushed Romania on the path to further inflation, redistribution and crises. He took a position that reminds of Bastiat:

I believe that a state must not be concerned with immediate effects when proposing measures, but with the effects that will take place later, in a further moment; to see if the results of this project that may be momentarily flattering will not be accompanied by financial catastrophe later.³⁶

Cantilli mustered knowledge from Anselme Batbie, Maurice Block, Courcelle-Seneuil, Joseph Garnier and Bonnet³⁷ to show the problems of paper money and his adamant opposition to a measure that promised to grow worse and become impossible to eradicate later.

One astute observation he extracted from Victor Bonnet was the difference in duration between crises under regimes of fiduciary media backed with fractional reserves and crises under regimes of paper money. The first were much shorter, and he offered the example of the 1857 crisis that was liquidated in one year despite being serious and worldwide.

He decried the lack of public discussion of such a piece of legislation and its intempestive introduction even among the members of Parliament.

Ion Brătianu defended the law with a revelatory intervention. First, he considered that the comparison with Law's system was misplaced. Our lands are not like the wilderness of Louisiana. According to Brătianu, Law was a genius, his idea of a bank was good, but he exaggerated – like all

geniuses do. After defining money, he stated that even the Tartars needed and used it, suggesting thus that paper money was not a barbarous but a universal institution. In amalgamating all preexisting kinds of media of exchange with modern means of payment, he committed a sophism: it was not the concept of money that his critics were attacking, but paper money. However, according to him it was the other way around: gold and silver were already obsolete and modern societies needed paper instruments. And, because Romania was not yet sufficiently developed, a bank needed the legitimacy bestowed by the state through monopoly privilege to circulate its banknotes.

He described how banknotes are issued against bills of exchange and how, during crises, it is impossible to redeem them with gold on demand because the money is gone to the debtors of the bank. Thus, there was a problem that no civilized society could solve yet: the suspension of payments and the forced circulation of unbacked banknotes. This solution was not ideal, but it acted like a bitter yet healthy pill. Implicitly, he equated the land notes with this emergency situation. Despite this observation, a few lines later he objects that if the state is meddling with the metallic deposits of the bank, either in normal times or in emergencies, it is committing a delict against property. The bank, in other words, was allowed to use depositor's money as it wished, but not the state.

The *assignats*, in his opinion, are a constitutional creation. Brătianu stated the Banking School opinion that inflation of the money supply is acceptable to a certain degree, up to the superior limit that society needs and accepts the increased supply.

Since the option of an external credit was too costly or downright impossible under the circumstances, the one-time issuance of the 30.000.000 land notes was a necessary yet temporary measure in anticipation of the central bank enactment.

[E]ver since I returned from abroad I have tried with all my powers to found a bank. Ask if I didn't implore all bankers to give me their support in 1867 and 1868 [...]; but some on the right were too backward and some on the left were too advanced, like Mr. Buescu, who wanted to jump immediately to the ideal credit, free credit...³⁸

Brătianu finally considered that there was no author who could not support the need for some form of inflation over the metallic stock:

I challenge you, Gentlemen, to come up with one author who states that a society can move forward satisfying its needs only with metallic money, without the need of paper. What does any economist say? He says that first paper should be issued to suit the needs of exchange, and second that it should be managed so that the exchange can be done *al pari* and that the paper is backed by secure guaranties.³⁹

Senate talks

In the Senate, Dimitrie Sturdza is remarkable for his Currency School position: he argued for strict metallic money stocks and against the manipulation of money and credit – in a “separate opinion” where he defended his own distinct law proposal, conceived as a micro course in monetary and banking economics. His arguments were then restated during the polemics.

He considered the law of the highest importance, because it signified the switch from metallic currency to paper money – “a pure fiction.”⁴⁰ He began with a thorough overview of the financial situation and immediate obligations of the Romanian state. Faced with this situation, he asserted, the state has three ways to pay: either new taxes, new debts or by selling its assets. Thus, he did not consider inflation as an option.

It is impossible that a state pays its debts by multiplying the media of exchange. This belief is founded on the idea that a government can create money or currency at its will. This idea is as erroneous and it has the same basis as the idea that someone could create wealth without labor, without effort, only by pure will.⁴¹

Sturdza proceeded to define money as strictly the metallic stock of gold and silver and show that an economy cannot accept a quantity over its needs.⁴² He went on to correctly state Say’s law without identifying it as such: production of goods and services will create a demand for money.

Gold and silver are a commodity that must be exchanged against other commodity, and it can only come where it is needed. If we do not have anything to sell, or if what we have to sell we cannot sell in certain moments, like the one we are in now, where would that billion come from? [...] In no country there is more money than the country needs.⁴³

Next, he made an imprecise inference: a growing economy, i.e. an economy that produces and trades more, will need higher quantities of money.⁴⁴ These growing needs, he stated, are met in developed economies by financial innovations such as checks, banknotes, warrants and clearinghouses. But these do not diminish the quantity of gold and silver. On the contrary, metal stocks increase in such economies, because they alone are money, the only solid ground for all circulation. He quoted from Wolowski to show that the Western states are on a path of returning from the error of unbacked paper money.

Without describing the 100% reserve principle in these exact words he came the closest among Romanians of the time to doing so:

Banknotes base their credit on a certain existing quantity of precious metal, and they are received by the public with more or less loss the more or less close is the metallic stock to the quantity of issued notes. Where there is knowledge that banknotes can be converted at any time and without contestation in sound money, there they have the same value as the metallic money without doubts from anyone, for everyone senses that this substitute of money is not just a fiction, but can become a reality in a minute. The less the metallic stock or the more uncertain it is, the lower is the value of the banknotes.⁴⁵

Besides not stating the principle precisely, Sturdza stated here too much. This positive description needs more premises than the simple normative observation that banknotes should be backed at all time by 100% reserves. It was often the case that banknotes circulated with full nominal value while only backed by one third in metallic reserves (the golden rule of the real bills doctrine) or less.⁴⁶

While he immediately conceded the usefulness of fiduciary circulation in well-established economies, thus contradicting the statement quoted above, Sturdza suggested that in practice the principle of full reserve was rather the rule. The same discounting principle applies to gold and silver money: "A gold or silver coin has the value of the pure gold or silver comprised in it." Any alteration will be reflected in its market value.

Sturdza also understood correctly the status of token money. These coins that have a nominal value higher than their monetary metal content cannot have but little circulation; they are the metal correspondent to paper banknotes imprinted with a value unrelated to their content.

He then identified the land notes or State scrip that was proposed in the legislation as *fiat* money: because it had no backing whatsoever. He thus made the clearest distinction between this paper money and the fiduciary media that other debaters have called money paper.

Gold is gold and land is land. Gold and land are two different goods. Land can be transformed into gold, or cotton, or iron, but it needs time and people willing to buy. But paper that wants monetary status cannot be realized in a moment, because properties cannot be sold in a moment, and this is why paper money based on land sale cannot be money, because it cannot be converted immediately into gold and silver⁴⁷

Moreover, he called out the impropriety of naming the notes “land notes” since there was only a general and vague backing for them. The state stood to lose through their coming devaluation and Sturdza warned that it was not just a one-time affairs, more notes would be issued in the future. Moreover, to the extent that they would be imposed at nominal value, the gold and silver would disappear from the market. The effect of the state notes is chaotic movement of prices, the loss of the “compass of values” and ultimately the general disturbance of transactions.

In observing the unequal impact of the notes on society, Sturdza also identified the Cantillon effect,⁴⁸ the redistribution of wealth from fixed income categories, usually the lower classes, to the variable income categories, usually the higher classes –, but he stated that not even the latter have a secure means of escaping their negative effects.

Moreover, the differential in value between specie and paper would be increased by a “premium that the seller appropriates for even higher devaluation in the future. This premium being subject to variation according to the different constellations of the moment, the price of paper will be subject to a fluctuation and it will be itself a new source of depreciation”⁴⁹ If Suțu before him identified the risk premium in the interest rate, Sturdza is the first, to our knowledge, to talk here about the price premium in Romanian economic literature.

The increased prices, he warned, would affect import, export and production and will generate a spiral of increasing impoverishment that the state will find very hard to extricate itself from. While fiduciary media could ultimately resort to the 45-day-maturity instruments it is backed with, the proposed unbacked currency could not find anything to convert to and the state would have a limitless incentive to issue more notes.

He cited or quoted from “men of theory” such as Courcelle Seneuil, Turgot, John Stuart Mill, Talleyrand, Thiers, Paul Coq, Stein, Michaelis, Tellkampf, Adolf Dagner, Rau, Max Diolh, Bergius, Umphenbach, Bamberger, Say, Goschen, Carey, and from other “men of practice”, to support his points. He concluded that the issuance of State notes is the modern equivalent of the old practice of debasement – the solution of dishonest or desperate states, a form of counterfeiting.

Sturdza proposed instead the creation of a mortgage institution that would have issued long term interest bearing debt instruments and the sale of state lands over the span of 8 years to repay these instruments.

V. Boerescu accused Sturdza’s argumentation and proposal of being impractical. He also criticized his adherence to the currency principles: metallic money was a medium of the past from his point of view. It is credit, and not money, that intermediated exchanges in the present.⁵⁰ He invoked Wolowski and Bonnet to support his defense of fiduciary media and paper money.

N. Drosu rejected the law project, proposing increases of taxes and decreases of spending. P.P. Carp also attacked paper money and saw the solution in the establishment of a privileged bank of discount and circulation. He considered that 50% of estates should be confiscated for the creation of the central bank.

There were other proposals of little interest here and the amended proposal of the Cabinet was finally voted – after being again discussed in the Deputies Assembly –, despite such articulate opposition.

Debates occasioned by the law for the creation of the National Bank

The typical bank for discount and circulation was considered to be built on the “one third – real bills – two times capital” rule: the banknotes issued by the bank would be backed by a one third reserve of gold and silver and, to the full of their value by short term credit instruments – up to 90 days – representing secure commerce operations. Also, the total issuance of the bank would not exceed two times its initial capital. Since banknotes were backed by the portofolio, the bank only needed its initial capital as a redundant guarantee that was only important initially and could later use it to buy state or other long term titles. This view was held by many Romanians among which Moruzi, Strat, Boerescu or Brătianu.

The Mavrogheni initiative

In 1873, conservative finance minister Petre Mavrogheni intended, once again, to establish the central bank. From the justification of the law, we find out that the institution was an imported design from the Belgian central bank. It was considered an optimal model that resulted after great experience and deliberation. The state offered the privilege of exclusive right to issue banknotes to a concern of foreign capitalists represented by a banker named Leithner, but retained control over the bank because it was a beneficial, yet perilous instrument:

Is there anyone not seeing that such an exorbitant right as that of issuing banknotes, in other words of introducing a fiduciary circulation besides the metallic circulation, cannot be granted without the intervention of the government to insure that the issuance of banknotes is not made in the exclusive interest of the stockholders, but in the interest of commerce and industry; and, besides, there is so much disruption, so much disorder that can be brought over commercial transactions and generally over the value of all things though exaggerate emission or through irresponsible restriction [...]⁵¹

The Mavrogheni initiative was fiercely criticized by Brătianu, who is credited with leading the efforts of hampering its enactment.⁵² Brătianu's thought on banking matters is cursorily presented in his speech at the Atheneum on the bank project and in his subsequent open letters to Mavrogheni, published in *Românul* in January – February 1873. Brătianu reveals extensively in these pages his wall to wall opposition to foreign investment rather than his conceptions on banking, but we can understand that he favored a strict delimitation between short-term banking (the discount and circulation bank) and long term banking (the land bank). On the other hand, he asserted the futility of the latter for helping the landowners without the expansion of fiduciary media made possible by the first. Brătianu spoke of the foreigners that "at any price, want to grab the Romanian credit organized through institutes, and then to exploit us with our own resources, to expropriate us and conquer us."⁵³ This privilege, he warned Mavrogheni in his open letters, is reserved for Romanians. Indeed, in 1880 Brătianu led the effort to finally enact the Bank.

The Buescu initiative

In the interim, there was another attempt to pass a law project, in 1877. This project was conceived under the supervision of Finance Minister P. Buescu and his cabinet, although the inspiration is again stated to be the Belgian central bank. It is remarkable because of its Banking School leanings and even its socialist, Saint-Simonian undertones. The statement of reasons⁵⁴ for the law is constructed as again a micro course in monetary and banking matters, developing from basic observations in a step by step manner. The preamble stated that capital exploited land and labor through high interest. The discount and circulation bank was the only effective means that we have for the bad financial state of the country. Crises occur because money happens to leave the country with too much ease. These movements bring distress and ruin, even to the wealthy few that usually control the metallic stock. There is little use of land banks⁵⁵ if their titles are discounted on the market and the properties have depressed prices. For this reason an agency should exist to counter these movements with a flexible supply of money.

The bank offers to substitute bills of exchange and other short term commercial paper – that cannot circulate on the market – with its own paper that can circulate because it is a promise to pay metal on demand. Again, we notice in this statement the seminal asymmetry that lays at the foundation of fractional reserve banking: the backing of immediately redeemable instruments with instruments of less liquidity. The demonstration goes from this assumption to logically show that, since the banknotes are backed by the public credit instruments they are exchanged for, the initial capital raised for the funding of the bank is only of symbolic value. For this reason, the proposal only stipulated a need for 10 million lei as initial capital, and, for this reason also, there was no need for private capital – the less so for foreign capital.

But, going back to basics, the report traces the historical evolution of money from the barter economy to its present state. Gold and silver have been chosen for their functions in an evolutionary process. However, metallic money proves to be insufficient for present needs and this is where the banknote enters the scene as a complement to money. While the author⁵⁶ does not dismiss metallic money altogether – the banknote can only be redeemed in gold or silver –, he stresses the crucial role of the banknote in economizing on uses of the scarce and expensive metallic stock.

There are limits to what a bank of this kind can do: it must buy good quality credit titles that do not jeopardize its security and trust. It must balance selling and buying of such titles, it must keep a fraction of its portfolio in metallic reserves for usual net withdrawals, and it must have some capital and other reserve funds to use in case of losses. Metallic reserves are usually stipulated by law to not be lower than one third of the banknotes outstanding, but the experience of America and Scotland has shown that much lower fractions are sufficient and the proposal of the Romanian legislator is to leave this question to be settled in the statutes. The bank in fact, if it is well administered, does not need the initial capital or other funds besides its portfolio of secure short-term paper – to back the banknotes. It does not even have to redeem all banknotes on demand. Should it be faced with demands exceeding its metallic stock, it must be allowed to wait for the maturation of its assets and ultimately to cede onto the public its short term credit instruments. While not as good as gold or silver in terms of immediate liquidity, they would eventually mature in the span of 90 days at most.

And, since the bank fulfills such an important public function without the need of private owners, why should it be exploited by a monopoly of private owners? It should belong to the public, although it should be independent from the state – that only provides the administrative personnel – and the proceeds should be returned to the public. The solution here is the mutualist principle: the public gives credit, the public takes credit, and the speculators are kept away. Otherwise “isn't it evident that this is a usurpation of common law?”⁵⁷ Thus, without the speculating private capitalists as stockholders of the bank, the interest rate can be kept permanently low.⁵⁸

Another remarkable fact is that this proposal does not revere Western experience. If the central banks of the great nations are currently organized on commercial principles, the reason is that they are antiquated. There is a long time since their establishment, and their commercial architecture was at the time adopted only because of the defective application of the supposedly good principles of John Law's bank from 1720. In the present, the report argued, knowledge about money and credit had advanced sufficiently so as to justify a new organization of the central bank, but there are great private interests that oppose the change.

During the discussion of the new law proposal in 1880 Buescu again suggested the mutualist solution and the elimination of intermediaries.⁵⁹

The proposal of 1880 and the final enactment of the bank

In 1880 the legislators began again discussing the preceding two proposals, of Mavrogheni and Buescu, and came up with a third one – again taking the Bank of Belgium as an example. After introductory considerations related to the opportunity of such an institution, the statement of reasons⁶⁰ asked whether it should be based on monopoly or should any bank have the liberty to issue banknotes. Starting from Bonnet's argument about the utility of the Bank of France during and after the Franco-Prussian War and on the tendency of most states to adopt a monopoly, the issue was settled in favor of this arrangement.

Also, following Bonnet's judgement, the bank should have some limitations similar to the Bank of France: to always keep one third in metallic reserves and to not issue banknotes over two times the bank capital (30 million lei this time, not just 10 million as in the case of Buescu's project). The stockholder structure would include a one third ownership by the state and two thirds by private owners. This was considered a good compromise between the disadvantages of a private monopoly – or even free banking – and the situation of a pure state ownership. While the private owners give it capital and efficiency, the state gives it credibility – a credibility that was shattered by recent financial scandals and failures.⁶¹

There were discussions on different details of the law, some of little economic importance and others remarkable. Alexandru Lahovary intervened repeatedly with critical remarks. First, he objected that the state should not own any part of the bank, thus changing its nature. This is a moot point, since the state was also supposed to control the institution by other means – the privilege itself and the legal tender that it offered banknotes being the most evident. But he had a point in raising the same objection on the ground that the state budget is not in such good shape as to afford its participation in the bank. Then, to the arguments that the bank would multiply capital and lower the interest rate, Lahovary replied astutely that the country needs real, and not fictitious, capital:

[I] complained about the multiplication of fictitious capital, of fiduciary money, that cannot have other result than the decrease of real capital, of gold and silver money.⁶²

He went on to develop his argument criticizing the land mortgage notes, showing that they are a type of surreptitious taxation, and the banknotes issued by the bank would have the same effect:

The man buying his daily bread, the housewife buying her pound of meat for the family, they pay this agio in a hidden and indirect way, but they do pay it.⁶³

In fact, Lahovary did not oppose the idea of a central bank, but he warned about its possible effects. He stated that, absent the one-third restriction, the bank would become a “paper money factory”⁶⁴ and that this would anyway happen later on. He insisted that the bank should be restricted from issuing low denomination banknotes, again, for anti-inflationary reasons.

G. Vernescu, on the other hand, suggested a free banking alternative would have been more just and he doubted the monopoly would have been efficient if the bank did not enjoy public trust. Like Lahovary, he criticized the participation of the state as owner of the bank, because the state has the bad habit of using it for its own needs, especially in emergencies.

When the State cannot satisfy its needs anymore with taxes or other regular means, then it resorts to these discount and circulation banks.⁶⁵

Vernescu made a plea for submitting banking to the general rules of commerce and let the sector free.⁶⁶ He echoed the old requirements of Suțu and Strat: as long as the payment of debts is enforced and there is social stability, there is no need for a privilege or any other measure. However, he suggested that the statutes are written and approved by the legislators, just like the law.⁶⁷

G. Chițu warned that a multitude of banks would issue a multitude of banknotes and he concluded that chaos would ensue from such a situation. He defended the one-third requirement against the higher liberty of the bank to issue banknotes. G. Cantilli considered that free banking would be too dangerous to tolerate and quoted from Peregrino Rossi who compared the production of banknotes under such a regime to the production of gunpowder in the middle of a city.

N. Fleva brought again the argument of Buescu about the redundancy of capital and reserve in a plea to not stipulate the one third minimum reserve requirement in the law. Buescu himself restated his socialist ideas and suggested that the capital be all invested in state titles.

Vasile Boerescu, the foreign affairs minister at the time, defended the law from a Banking School position: the bank could never issue banknotes in such number that they would depreciate. Since there was a demand from the public, the issuance would be limited by that demand.⁶⁸ Historically, he stated, such depreciation only happened when the bank was forced by the state to overissue its credit. In passages reminding of Places's argumentation, he stated that the central bank, by being a public institution, represented a categorical leap from the private banks. Its credit is backed somehow by the whole society and only it can multiply capital and lower its price. In a statement typical of the Banking School, he sustained the mysterious capacity of the bank to create value indirectly through the simple act of issuing banknotes.

The bank does not create values; its banknotes are only instruments that exchange other commercial or industrial value. They do not hold real value by themselves, they are only the instrument to discount a different, already existing value. Therefore, these banknotes are not new values exceeding the old ones, but they just cause the creation of other industrial and commercial value.⁶⁹

Boerescu defended the limitation at 7% maximum of the interest rate, arguing consistently with his position that the bank profits from issuing credit in high volumes, not from increasing the price. Like him, Câmpineanu supported such a ceiling suggesting that otherwise the bank could become greedy and provoke crises. He can be thus deemed a supporter of the restrictionist theory of crises.

Menelas Ghermani took an opposite position on the interest rate issue, arguing that it is essential for the bank to be able to increase it when it wanted to limit credit expansion or gold and silver drainage. Also, he suggested that the limitation of bank issuance not be related to the metallic reserves available, but to capital – making it in this way more predictable. For the same reasons related to the risk of inflation, he advised that the banknotes not be issued in denominations smaller than 50 francs. Another astute observation of Ghermani was that a bimetallic reserve, given the fixed exchange rate between gold and silver, would in fact lead to a purely

silver composition of the bank reserves. He suggested that the bank should only accept gold, thus anticipating the switch to the gold standard.

In the Senate, Theodor Rosetti complained about the lack of a public discussion on such a momentous institution. In his extensive discussion, he made the case that Romania did not need a discount and circulation bank at the moment, because there were no specific short term industrial or commercial needs for it. His demonstration follows closely Say's thoughts on the matter, although he does not explicitly reference Say.⁷⁰ Moreover, the proposal to buy the 1877 state scrip land notes with the new banknotes was contradicting the short term purpose of fiduciary circulation. His conclusion about the bank resembles Titu Maiorescu's protest against "forms without substance:"⁷¹

I believe [...] that first of all such a law should have been the object of the most serious study, either by the Cabinet, or the Parliament [...]. What is good in France or Belgium may not be so on the shores of Dâmbovița, and the sharpest and most perfect institutions that proved to be useful abroad can become bad or even dangerous when transplanted into circumstances where the premises, the foundations [...] are absent.⁷²

Since others used to compare the utility of the note-issuing bank to the railroads he concluded that introducing a central bank here would have been like building railroads through the Sahara desert. Moreover, argued Rosetti, since the bank had the state's backing its increased legitimacy could generate ampler crises.⁷³

Ion Ghica intervened cursorily in favor of the bank proposal, supporting the idea of banknote circulation with the observation that the land notes are indeed in high demand and do not circulate at a discount.

Brătianu intervened in the Senate in favor of a bimetallic reserve for the bank, arguing that there was not enough gold in the country to support such a movement. The quantity of banknotes would be severely limited in such a case. Boerescu intervened again on this subject, considering that gold reserves would "constrain the bank with an iron ring" and citing Wolowski and other authors to the effect that abandoning bimetalism would create a sudden deflation.⁷⁴

Conclusion

Our economic historiography suggests that the path forward in money and banking was clear in the illuminated minds of the time and, after notable struggles against reactionary forces, the country was led to the right institutional end. However, a closer look shows a different picture. We have grounds to say that our authors, thinkers and politicians can be classified, just like their more illustrious Western counterparts, into the Currency School and the Banking School. Alternatives to *fiat* money or the central bank were acknowledged and their advocates were not less clear minded or knowledgeable than their opponents.

It is a source of puzzlement that the richness of arguments and the breadth of knowledge displayed in the parliamentary debates are not also found more frequently in the pages of books, reports, brochures or the press. One possible explanation is that it was – in the perception of our elite – not a problem of principle, but a problem of political expediency. From this perspective, we can suspect that the discussions in the Parliament were rather the exception to the rule that the Romanian society is not going to start analyzing the progress of the West, but import it wholesale as quickly as possible, for its own good. Vasile Boerescu's declaration during the parliamentary debates for the bank law is symptomatic:

Indeed, these men say that banking must be free, that there is no need for regulation, no need for the participation of the State, no need of a privilege for the issuance of banknotes. Mr. Vernescu is criticizing this principle that is admitted and practiced with great success in all Europe and he expects us, a people that is just starting to see the light of economic life on the shores of the Danube and the Dâmbovița, to teach old Europe [...] ⁷⁵

But we find good knowledge and fine understanding of the issues. Suțu is the first to make – already in 1838 – a reference to J. B. Say to the effect that the quantity of money in a country is irrelevant.⁷⁶ Then we see in his writings grounds for understanding the fundamental reasons for the unusually high interest rates, such as the risk premium caused by regime uncertainty. Suțu has a classical liberal worldview generally, but on subjects related to money and banking he is an advocate of interventionism and inflationism. He wants the state or a private monopoly under de supervision of the state to expand credit, especially through a land mortgage bank operating on the principle of fractional reserve banking. His liberal

stance is also weakened by his late writings where he advocates state interventions for the development of agriculture (quoting from Passy and Coquelin to support his position). The monetary law project from 1860 looks like an exception to his general disposition on banking matters.

Victor Place authored two documents where he gave a systematic treatment to the subject of the privileged bank, trying to demonstrate step by step the evolution of banking to its highest state: that of a monopoly operating on fractional reserves and issuing paper banknotes.⁷⁷

Moruzi, like previous authors, offered the prospect of a privileged bank of issue that would have universal crediting functions, not just a circulation and land mortgage bank as in the case of Suțu. Being against a central bank, he said, was being an enemy of the country.⁷⁸ Despite believing in a sort of magical power of circulation credit, he offered pages of lucidity and humor where he criticized the spending behavior of Romanians, who, he said, used their wealth to import luxury consumption goods instead of bringing in productive goods useful for investment. He compared this behavior to that of primitive people that ceded their valuables in exchange for trinkets. And, in a page that contradicted many of the assertions about cheap credit, he stated that ultimately it was the abolition of regulation and monopolies that created prosperity; he showed that the only kind of useful equality is equality in liberty – not in wealth.⁷⁹

Ion Strat is another remarkable author. He was repeatedly accused of lacking originality for writing a treatise titled and conceived after Say's treatise, but he thus offered extensive treatment in Romanian language of the subjects at stake – and with more rigor than the much better appreciated Ion Ghica. Although he finally had little to say about the central bank, his discussion of money and banking followed closely – but not identically – Say's. He is thus rather a skeptic of the central bank, he is against free credit, the control of the interest rate,⁸⁰ and surely an adamant enemy of debasement and *fiat* money, despite various inconsistencies.

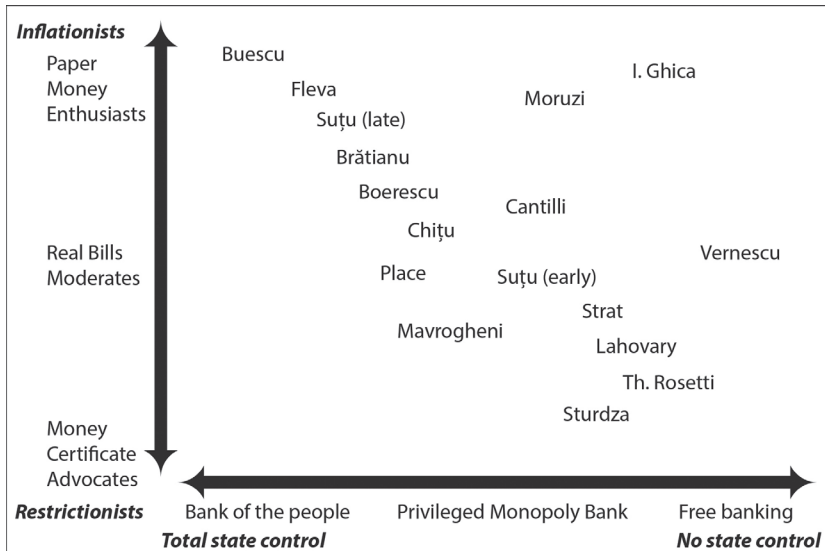
We can safely assert that Ion Ghica is our first writer that can be squarely put in the ranks of the Banking School. Moreover, Ghica is a free banker, not disturbed by Proudhon's ideas of free credit. Everybody in Scotland has access to credit, he stated, and a lot of people became rich because of it. Romania needed something similar, but, unfortunately the lack of liberty and justice prevented the importation of such institutions.⁸¹ Liberty of banknote issuance, he noticed, has almost accomplished the ideal of some socialists by driving the interest down to almost zero. He

understood, like the most astute members of the Banking School the essential equivalence between banknotes and deposits.⁸²

In the Parliament debates we discover that politicians were knowledgeable of economic arguments and some of them very well read. Dimitrie Sturdza is a surprisingly systematic member of the Currency School.⁸³ His positions place him among the most conservative advocates of the real bills doctrine in banking, and a vehement critic of paper money. He is the closest among Romanian writers to explicitly state the principle of 100% reserve coverage for banknotes. Cantilli can be also placed next to Sturdza, and so can Pache Protopopescu, G. Vernescu or Alexandru Lahovary.

In the Banking School camp we find the more illustrious Brătianu, Boerescu, Fleva, accompanied by the more eccentric P. Buescu.

According to our earlier classification we can group the most important authors like this:⁸⁴



Another dimension that could not be reflected in this graphic representation is the openness or animosity towards foreign capital. Conservatives were as a rule open to a bank with foreign initial capital while liberals were as a rule opposed.

Although it may seem at a distant look that the central bank was imported from abroad on a clean slate, we can see upon close analysis that we had serious and chronic monetary problems that called for a solution and that the central bank was eventually imposed as solution. The paternalist conception about the value of money – the insistence of authorities and legislators to fix the official value of different coins circulating, and thus to engender perennial Gresham effects – kept the business environment in constant disarray. These imbalances called for a free market at least in circulation if not in production of money. Instead, in another historical case of the dynamic of interventionism, the reaction to the effects of one bad measure was not the removal of the cause – namely, the manipulation of money – but further interventionism, in this case the introduction of a central bank in an attempt to extract money and credit from the reign of scarcity. This further denial of economic law would not amend the state of affairs, but make it worse.

NOTES

- ¹ Smith, V. C., *The rationale of central banking and the free banking alternative*, Indianapolis, LibertyPress, 1990, 10
- ² Ricardo, D., *The high price of bullion, a proof of the depreciation of banknotes*, 2d ed., London, Printed for J. Murray, 1810
- ³ Rothbard, M. N., *An Austrian perspective on the history of economic thought*, 2 vols., Aldershot, Hants, England ; Brookfield, Vt., USA, E. Elgar Pub., 1995
- ⁴ Smith, *The rationale of central banking and the free banking alternative*, 40
- ⁵ Bonnet, V., *L'Enquête sur le crédit et la crise de 1863-64*, Paris, Guillaumin, 1866.
- ⁶ We include here authors that were active in the French debates although they were not French.
- ⁷ Chevalier, M., *Cours d'économie politique*, Paris, Capelle, 1842
- ⁸ See Wolowski, L., *La question des banques*, Paris, Guillaumin et cie., 1864, 69-70
- ⁹ For a different classification along similar lines, see Huerta de Soto, J., *Moneda, Creditul Bancar și Ciclurile Economice*, Iași, Editura Universității Al. I. Cuza & Institutul Ludwig von Mises România, 2010
- ¹⁰ Cernuschi, H., *Contre le billet de banque*, Paris, Lacroix, 1866; *Mécanique de l'échange*, Paris, A. Lacriox, Verboeckhoven et cie, 1865
- ¹¹ Modeste, V., «Le billet des banques d'émission et la fausse monnaie,» *Le Journal des Économistes* 3(1866)
- ¹² One good treatment of the subject is offered by Eugen Demetrescu. In his doctoral thesis written under the coordination of V. Madgearu he presents and criticizes from a protectionist point of view the influence of classical liberal thinkers in 19th century Romania. Demetrescu, E. and V. Rizescu, *Influența școalei economice liberale în România în secolul al XIX-lea*, Ed. a 2., rev. ed., Gândire politică românească, București, DominoR, 2005. Another notable source is Turczynski, E., *De la iluminism la liberalismul timpuriu: vocile politice și revendicările lor în spațiul românesc*, București, Editura Fundației Culturale Române, 2000.
- ¹³ Mises, L. v., "The Plight of Underdeveloped Nations", in *Money, Method and Market Process: Essays by Ludwig von Mises*, Boston, Kluwer Academic Publishers, 1990.
- ¹⁴ There is an interesting discussion here about the situation of the local money changers and bankers, since many of them were under jurisdiction of foreign powers through the agency of local consulates.
- ¹⁵ These effects are a particular manifestation of the more general law of fixed prices. Whenever a maximum is imposed on the price of a good, that good will face an excess of demand and a penury of supply. In the case of two money types being exchanged for one another, a fixed exchange ratio would lead to overvalued money driving out undervalued money.

- ¹⁶ Slăvescu, V., *Finanțele României sub Cuza-Vodă*, București, Editura Fundației Culturale Magazin Istoric, 2003, 80
- ¹⁷ Moruzi, A. D., *Progrès et liberté*, Galatz, Typographie Frédéric Thiel, 1861, 113
- ¹⁸ Băicoianu, C. I., *Istoria politicei noastre monetare și a Băncii Naționale*, vol. II, partea II, București, Cartea Românească, 1932, 70
- ¹⁹ Suțu, N., «Projet de loi sur la banque Moldave», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, ed. Victor Slăvescu, București, Monitorul Oficial, 1852; reprint, 1941.
- ²⁰ Ibid., p. 446.. L Likewise, «Nevoia de credit în Moldova și necesitatea unei bănci de amortisare», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, ed. Victor Slăvescu, București, Monitorul Oficial, 1855; reprint, 1941, p. 474.
- ²¹ «Projet de loi sur la banque Moldave», p. 447.
- ²² See also Zane, G., *Economia de schimb in Principatele Române*, București, Editura Casei Școalelor, 1930, 405
- ²³ Suțu, N., «Expunere de motive și textul proiectului de lege privitor la înființarea unei monete naționale», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, ed. Victor Slăvescu, București, Monitorul Oficial, 1860; reprint, 1941.
- ²⁴ We can see that, in fact, Moldavia was operating with three different currencies: the Galati leu, the Moldavian leu and the Treasury leu, all of them without a concrete presence on the market, but, by the different regulated exchange rates, positioned as different currencies. Further confirmation of this state of affairs can be found in Rosetti, R., *Amintiri*, București, Humanitas, 2013.
- ²⁵ Suțu, «Expunere de motive și textul proiectului de lege privitor la înființarea unei monete naționale», p. 504-506.
- ²⁶ «Aperçu sur l'état économique du pays et sur les besoins les plus pressants», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, ed. Victor Slăvescu, București, Monitorul Oficial, 1866; reprint, 1941.
- ²⁷ Henry Parker Willis talks about popular criticism of a “third value” for the frank. Willis, H. P., *A history of the Latin Monetary Union: a study of international monetary action*, Economic studies of the University of Chicago, Chicago, University of Chicago Press, 1901, 72.
- ²⁸ Willis suggests that the Union was orchestrated by Napoleon III for political interests, but the acceptance of foreign money and the standardization was already a de facto process that predated the first Union Convention of 1865, as Bamberger shows. Ibid., 55-60.; Bamberger, L. and R. I. G. Lévy, *Le métal-argent à la fin de XIXe siècle*, Paris, Guillaumin et cie, 1894, 13.
- ²⁹ Before being able to mint its own coins, Romania accepted all silver and gold coins from the Latin Union and a selection of others.

- 30 Since 1866. Brătianu, I. C., *Acte și cuvântări*, vol. I/2, București, Cartea Românească, 1935, 330
- 31 Vulturescu declares in Parliament that the state was close to default, and Sturdza demonstrates it. Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 368, 417
- 32 The gold and silver stock existent at the time in Romania was estimated at 50.000.000. Ibid., 386.
- 33 Ibid., 310.
- 34 His position is usual for the place and time: banknotes should be redeemable at any time in reserve metal, but reserves should be fractional, otherwise it would not be possible to expand credit and lower the interest rate. Ibid., 313.
- 35 Ibid., I, partea II: 323 - 327.
- 36 Our translation here and below, unless otherwise stated. Ibid., II, partea II: 336.
- 37 Cantilli is outstanding among the others because he refers the authors with publication date, edition and page number, whereas the others quote without details, and some of them, like Pruncu, even quote from authors without giving their name.
- 38 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 360
- 39 Ibid., 384.
- 40 Ibid., 414.
- 41 Ibid., 418. He reiterates this distinction between money and credit later in the discussions. See pp 460-461.
- 42 There is a subtle observation here: this argument proves correct when it is formulated in term of gold and silver, like it is the case here; and wrong or imprecise when formulated in terms of money substitutes.
- 43 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 466
- 44 That is not necessarily so. The same quantity can service a growing economy. In this case, the price system will be the adjusting factor.
- 45 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 420 The next quote is on the same page. He makes a similar statement at page 466.
- 46 Nevertheless, it is remarkable to see it uttered in Romanian discussions just like this.
- 47 The state cannot create money, in other words. Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 465
- 48 Clearly describing them but not expressly naming them Cantillon effects.
- 49 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 425

- 50 Brătianu intervened in the same vein. Ibid., I, partea II: 477, 515.
- 51 Ibid., II, partea II: 132-133..
- 52 Murgescu, C., *Mersul ideilor economice la români: epoca modernă*, Ed. a 2-a ed., 2 vols., Colecția Biblioteca Băncii Naționale, București, Editura Enciclopedică, 1994, 174-175
- 53 Brătianu, *Acte și cuvântări*, I/2, 323-361 . We can see that Brătianu held the typical Banking School view that the circulation bank would not create inflation, because its role would only be to replace weaker credit instruments with a general type of accepted titles.
- 54 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 138 ff
- 55 As the ones instituted in 1873 and 1874.
- 56 The report is signed by Buescu.
- 57 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 152
- 58 The raising of the discount rate by the Bank of France from 4% up to 8% after 1848 is attributed to the greed of its private stockholders. Ibid., 152-153.
- 59 Ibid., 201.
- 60 Ibid., 159.
- 61 Sociatea Financiară, Bank of Brăila, National Bank of Moldavia. Ibid., 204.
- 62 Ibid., 179-180.
- 63 Ibid., 182.
- 64 Ibid., 220.
- 65 Ibid., 198.
- 66 However, his position is contradictory because he only objected – while pleading for complete liberty – to the participation of the state in ownership of the bank, and not to the monopoly privilege. Ibid., 199.
- 67 Rather than being inconsistent, he was probably trying to avoid increased control by the Cabinet as opposed to the elected bodies.
- 68 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 241, 261.
- 69 Ibid., 260.
- 70 Say, J. B., *Traité d'économie politique*, Paris, Guillaumin, 1861, 301
- 71 Maiorescu, T., «În contra direcției de astăzi în cultura română [Against Today's Direction in Romanian Culture]», in *Opere [Works]*, 1868
- 72 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 255
- 73 See also Slăvescu, V., *Istoricul Băncii Naționale a României : 1880-1924*, București, Cultura națională, 1925, 21
- 74 Băicoianu, *Istoria politicei noastre monetare și a Băncii Naționale*, II, partea II, 291-292

- 75 Ibid., 199.
- 76 Suțu, N., „Aperçu sur l'état industriel de la Moldavie”, in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, ed. Victor Slăvescu, București, Monitorul Oficial, 1838; reprint, 1941, p. 203.
- 77 Smirna, T. G., “Victor Place as Early Advocate of Central Banking in Romania,” *Review of Social and Economic Issues* 1, no. 3 (2016).
- 78 Moruzi, *Progrès et liberté*, p. 127
- 79 Ibid., p. 163.
- 80 Strat, I., *Tractat complectu de economia politica*, Bucuresci, Imprimeria Statului, 1870, p. 303
- 81 Ghica, I., *Convorbiri economice, volumul I*, București, Socec & Comp., 1879, p. 103-107
- 82 Ibid., p. 233.
- 83 We think we do not err too much saying that in Sturdza we have our own Henri Cernuschi.
- 84 With the amendment that this two-dimensional classification is necessarily reductionist and shows tendencies rather than unequivocal positions in most cases. The description is further complicated by the inconsistencies of persons discussed.

References

- BAMBERGER, L., and R. L. G. LÉVY, *Le métal-argent à la fin de XIXe siècle*. Paris, Guillaumin et cie, 1894.
- BĂICOIANU, C. I., *Istoria politiceii noastre monetare și a Băncii Naționale*. Vol. II, partea II, București, Cartea Românească, 1932.
- BĂICOIANU, C. I., *Istoria politiceii noastre monetare și a Băncii Naționale*. Vol. I, partea II, București, Cartea Românească, 1932.
- BONNET, V., *L'Enquête sur le crédit et la crise de 1863-64*. Paris, Guillaumin, 1866.
- BRĂTIANU, I. C., *Acte și cuvântări*. Vol. I/2, București, Cartea Românească, 1935.
- CERNUSCHI, H., *Contre le billet de banque*, Paris, Lacroix, 1866.
- CERNUSCHI, H., *Mécanique de l'échange*, Paris, A. Lacroix, Verboeckhoven et cie, 1865.
- CHEVALIER, M., *Cours d'économie politique*, Paris, Capelle, 1842.
- DEMETRESCU, E., and V. RIZESCU, *Influența școalei economice liberale în România în secolul al XIX-lea*, Gândire politică românească. Ed. a 2., rev. ed. București, DominoR, 2005.
- GHICA, I., *Convorbiri economice, volumul I*, București, Socex & Comp., 1879.
- HUERTA DE SOTO, J., *Moneda, Creditul Bancar și Ciclurile Economice*, Iași, Editura Universității Al. I. Cuza & Institutul Ludwig von Mises România, 2010.
- MAIORESCU, T., "În contra direcției de astăzi în cultura română [Against Today's Direction in Romanian Culture]", in *Opere [Works]*, 1868.
- MISES, L. v., "The Plight of Underdeveloped Nations", in *Money, Method and Market Process: Essays by Ludwig von Mises*, Boston, Kluwer Academic Publishers, 1990.
- MODESTE, V., «Le billet des banques d'émission et la fausse monnaie», *Le Journal des Economistes* 3, 1866, 15.
- MORUZI, A. D., *Progrès et liberté*, Galatz, Typographie Frédéric Thiel, 1861.
- MURGESCU, C., *Mersul ideilor economice la români: epoca modernă*, Colecția Biblioteca Băncii Naționale, 2nd ed., 2 vols, București, Editura Enciclopedică, 1994.
- RICARDO, D., *The high price of bullion, a proof of the depreciation of banknotes*, 2nd ed., London, Printed for J. Murray, 1810.
- ROSETTI, R., *Amintiri*, București, Humanitas, 2013.
- ROTHBARD, M. N., *An Austrian perspective on the history of economic thought*, 2 vols, Aldershot, Hants, England; Brookfield, Vt., USA, E. Elgar Pub., 1995.
- SAY, J. B., *Traité d'économie politique*, Paris, Guillaumin, 1861.
- SLĂVESCU, V., *Finanțele României sub Cuza-Vodă*, București, Editura Fundației Culturale Magazin Istoric, 2003.
- SLĂVESCU, V., *Istoricul Băncii Naționale a României: 1880-1924*, București, Cultura națională, 1925.

- SMIRNA, T. G., "Victor Place as Early Advocate of Central Banking in Romania", *Review of Social and Economic Issues* 1, no. 3, 2016.
- SMITH, V. C., *The rationale of central banking and the free banking alternative*, Indianapolis, LibertyPress, 1990.
- STRAT, I., *Tractat complectu de economia politica*, Bucuresti, Imprimeria Statului, 1870.
- SUȚU, N., «Aperçu sur l'état économique du pays et sur les besoins les plus pressants», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, edited by Victor Slăvescu, București, Monitorul Oficial, 1866. Reprint, 1941.
- SUȚU, N., «Aperçu sur l'état industriel de la Moldavie», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, edited by Victor Slăvescu, București, Monitorul Oficial, 1838. Reprint, 1941.
- SUȚU, N., «Expunere de motive și textul proiectului de lege privitor la înființarea unei monete naționale», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, edited by Victor Slăvescu, București, Monitorul Oficial, 1860. Reprint, 1941.
- SUȚU, N., «Nevoia de credit în Moldova și necesitatea unei bănci de amortisare», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, edited by Victor Slăvescu, București, Monitorul Oficial, 1855. Reprint, 1941.
- SUȚU, N., «Projet de loi sur la banque Moldave», in *Vieața și opera economistului Nicolae Suțu, 1798-1871*, edited by Victor Slăvescu, București, Monitorul Oficial, 1852. Reprint, 1941.
- TURCZYNSKI, E., *De la iluminism la liberalismul timpuriu: vocile politice și revendicarile lor în spațiul românesc*, București, Editura Fundatiei Culturale Române, 2000.
- WILLIS, H. P., *A history of the Latin Monetary Union: a study of international monetary action*, Economic studies of the University of Chicago, Chicago, University of Chicago Press, 1901.
- WOŁOWSKI, L., *La question des banques*, Paris, Guillaumin et cie., 1864.
- ZANE, G., *Economia de schimb in Principatele Române*, București, Editura Casei Școalelor, 1930.