
The Struggles for the Establishment of the National Bank of Moldavia In Light of the Theory of Political Entrepreneurship

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At the middle of the XIX century, the historical provinces of Moldavia and Wallachia had simultaneous and coordinated plans to establish two national banks, one for each province, as state-sanctioned, official, central banks. While the plan for the Wallachian central bank was thwarted by the ouster of Prince Barbu Dimitrie Stirbey in 1851, the plan for the National Bank of Moldavia was finally realized by Prince Grigore Alexandru Ghica, in 1856, when the international developments weakened the grip that the Russian Empire had over Moldavia. The first Romanian National Bank was, however, a short-lived initiative. In this paper, we will look at the way it was established.

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Introduction

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We are going to look in this article at the National Bank of Moldavia as a specific case of banking with state privilege, carried by politically connected entrepreneurs in partnership with statesmen from the local and foreign governments. We will show that it is an early illustration of political entrepreneurship at international level.

We want to emphasize from the outset the distinction between the two separate categories of action: political and economic. Using the criterion of private property, we can say that the economic actions are free market actions, in which the entrepreneurs aim to fulfill the demands of their clients as expressed on a voluntary basis. On the other hand, political actions are directed toward the accumulation of profits from unwilling clients that are forced directly or indirectly by (legally sanctioned) systematic aggression to accept the redistribution of their income (Block & DiLorenzo 2000). In both categories, the entrepreneurial element can be described as the employment of resources in pursuit of novel directions that bear the promise of profits, either of the political or economic type (DiLorenzo 1988: 64; Hülsmann 2003: 418). In the remainder of the paper whenever we refer to supply, demand, production, consumption, entrepreneurship, etc. without qualifications, we imply the economic, voluntary interpretation of these concepts. When we qualify it here with the term political, we refer to the systematically aggressive, involuntary notion of the concepts³.

The XIX Century Economy in Romanian Principalities

³ We have to acknowledge here that by doing this, we use a categorical, theoretical distinction between economic and political means, and that by this we do not deny the historical concept of politics and things political as in matters that concern the *polis*, that can and usually does leave room for legitimate political actions. In other words, we agree that often we encounter uses of the term “political” that can encompass references to both actions that respect private property rights and actions that do not. For further conceptual clarifications and discussions, see Topan and Smirna (unpublished); McCaffrey and Salerno (2011)

The emerging capitalist market in the Romanian Principalities was developing as the industrial revolution was generating increased demand in the West for Romanian products and was sending its accumulated capital to look for new investments and profit opportunities abroad.

Parallel to this trend we see a great battle of state powers to either maintain or gain hegemony over the Romanian Principalities, with influence being transferred by means of war and diplomacy from the Ottoman Empire, to the Russian Empire, then to the Austrian Empire, before the unification and the accession to power of a local elite with French political support and then, with the enthroning of King Karl of Hohenzollern, also with a more significant Prussian support.

The battle for influence was of course not as schematic as described above and had specific local and international manifestations. A case in point is the struggle for the establishment of the National Bank of Romania, in 1856.⁴

Banking in the Principalities

At the middle of the XIX century, the banking sector in the Principalities was in a state of natural backwardness when compared with the West. Namely, it was operating with commodity money, whereas the West was already operating with paper monetary substitutes. These substitutes, while not pernicious in themselves, gave the banks issuing them the very profitable opportunities that came

⁴ For a vivid and remarkable description of the tense and multifaceted diplomatic fights that surrounded the Sublime Porte on the question of the unification of the Principalities and the larger question of what international power gets to control the natural riches of the two Danubian countries, see Riker (1927)

with fractional reserve banking and increased circulation on a much wider scale than with commodity money.

It is this political profitability that was pursued by the entrepreneurs and statesmen who wanted to establish the first National Banks in the Romanian Principalities.

The attempts at a privileged bank in one or both of the Principalities can be discovered back to the 1830's right after the Treatise of Adrianople that gave the Principalities the perspective of a greater liberty from Ottoman hegemony.

The emergence of the capitalist economy led also to the development of the monetary and financial sector, where, after 1830, we see money changers acting as credit intermediaries and then commerce houses fulfilling the same role on a bigger and international scale. As the economy of the Principalities starts to grow, we see a secular transfer of wealth and properties and the clash of the entrenched classes of rich boyars and landowners with the new capitalists of financial, commercial, agricultural and industrial background.

Early proposals for privileged banks

The early attempts at the establishment privileged banks are usually initiated by foreign investors that have the capital. They seek the support of the political decision makers, usually enrolling the support of the Prince and of the boyar elite.⁵

⁵ We note here that because the banking sector was not so developed with fractional reserve banking, it was not fragile and there was not a need for a central bank as a lender of last resort and a monopolist issuer of banknotes. See Hülsmann (1997) for a description of the central bank as the fulfillment of the progression of the fractional reserve principle.

We can thus see the National Bank as an artificial Western import, a form without essence. The financial sector was indeed suffering from fixed exchange rates between the different types of commodity money and from other administrative sources of uncertainty that increased the

Thus we see in 1832 a request for a national bank from the National Assembly to Consul Kiselyov, the Russian overseer of the Principalities during the Organic Statutes period. The justification for its establishment is the dearth of capital, the high level of interest and the ruin that it brings to the landowners. (Romaşcanu 1932: 34-35)

In 1834, again, an “amortization bank” is proposed, and another initiative asks for a “Banque de Moldavie a Galatz”, without paper money issuing rights. Another proposal is dated to 1883-1834 and regards the establishment of a mortgage bank, for the development of agriculture and industry, with a capital of 200,000 ducats from abroad (Slăvescu 1941: 5-8).

We then see again proposals in 1838, from *Comis* Leonte Radu in Moldavia and in Wallachia from the representatives of the Bell & Anderson Company in Bucharest.

In 1847, Hospodar (Prince) Gheorghe Bibescu in Wallachia and a group of big landowners in Moldavia, ask for the intermediation of the German businessman Reineke to source German capital for a credit institution that could offer lower interest than the officially sanctioned rate. It is interesting to note here that the signatories of the letter addressed to the German businessman argue that they would have already founded themselves such a credit institution with their own means, but special difficulties were of such a nature as to oppose to the liquidity of their landed wealth. Thus they were willing to let the German investors take the initiative in this regard⁶ (Slăvescu 1941: 10-11).

interest rates to as much as 24% and even 30% on the market. The solution was not a privileged bank of issue, but a repeal of the regulations.

⁶ We have to note here the notoriously high time preference of a significant number of these landowners, who mortgaged their lands at a high interest rate and then spent their money lavishly in the capitals of Europe. The fact that in spite of their incapacity of paying their debts

In 1848, the revolutionary groups include in their requirements a national bank. Nicolae Bălcescu publishes in 1851 the project for a national bank in his *Question économique des Principautés danubiennes* from 1851 (Romaşcanu 1932: 37-41).

The Nulandt proposals

Beginning with 1850, we see the attempt by German businessmen Nulandt and Oeschlager to establish privileged banks in Wallachia and Moldavia. This attempt is the first in a series that will eventually culminate in 1857 with the establishment of the National Bank of Moldavia. The businessmen, with the help of the investor Sinna from Vienna and, more importantly, the Prussian Consul Meuserbach, started negotiations both with Prince Barbu Ştirbey of Wallachia and with Prince Grigore Alexandru Ghica of Moldavia.

They wanted to open a bank of discount and issue, not destined to deal in mortgages and insurance. The proposed capital was 3 million conventional florins and, the charter was given for 21 years and the bank was to be put under the jurisdiction of the Prussian consul (Romaşcanu 1932: 42).

The negotiations were stopped by a dissatisfied Prince Ştirbei in Wallachia and, while Prince Ghika agreed with the terms, he was defeated in 1851 by the opposition of the bankers of Iaşi, in their majority under Russian jurisdiction, and by the refusal of St. Petersburg (Slăvescu 1941: 13).

In 1852, another attempt by the same businessmen is cloaked as a charter given to boyar Petru Mavrogheni, minister of public works, for

they were backed by the state apparatus in avoiding liquidation and the transfer of property is a serious explanation of the immense difference between the legal interest rate of 10% or 12%, and the interest rates asked by the *zarafi*, the „usurious” money lenders that offered their capital at rates as high as 30%.

a national bank and the request is advanced to the Russian authorities. The proposed statute of the bank is similar to the previous proposals (Romaşcanu 1932: 51).

The argumentation for the profitability of the bank is remarkable here, given that the prime objective was to keep the interest rate at a very low level. The source of profitability is the issuance of paper substitutes that can be multiplied above the value of the commodity money in the vaults. Thus, by doubling the “capital” available for investments, the initial creditors would be rewarded by an interest of 16% and even 20% (Romaşcanu 1932: 51). This is a clear example of the rationale for fractional reserve banking: money creation *ex nihilo* and credit expansion at lowered interest rates, to increase the profitability of the bankers and their stockholders.

The governing body (the Divan) adopted the proposal in its unanimity but it was, again, faced with resistance from the Russian authorities. The reply letter of Russian statesman Séniavine to representative Khaltchinsky, from 26 June 1852 is significant, because it analyses the proposal and dismantles the points where the Prussians would have gained privileges. In this letter we can see more clearly how the international powers were struggling to secure by political means the control over the present and future wealth of the Principalities.

The letter argues, among other things, that the possibility of the initial capital funds being brought from abroad disagrees with the well understood interests of the country. The Russian authorities ask for the weight of foreign capital to be less than a third of the total capital. Moreover, such an international initiative must be submitted and harmonized with the international policies and agreements of the Porte.

The Moldavian government must be aware of the implication of placing the bank under foreign jurisdiction, attracting the meddling of foreign powers in case of a disputed bankruptcy.

Besides this political concerns, the letter objects to the many and conflicting objectives of the bank, i.e., to credit both the industry and agriculture, and the government. Also, it warns that the circulation of low denomination paper money substitutes could bring about the replacement on the internal market of commodity money with “assignats” of dubious quality (Slăvescu 1941: 54-57).

We can see that the Russian Empire, as long as it had the Principalities under their protection and de facto rule, were keeping at bay the intrusion of other states. The Moldavian prince is however not abated by the Russian resistance and continues with the preliminary arrangements for the establishment of the bank. However, the advent of the Crimean War and the occupation of Moldavia by the Russian Army thwart his plans. They are renewed only with the defeat of the Russian Empire and the signing of the Treaty of Paris in 1856 that gave the Principalities more liberty from the Russian and Ottoman Empire.

Intervention of Austrian interests

The new power arrangement that was being still negotiated between Austria-Hungary, England, France, Prussia, the Ottoman Empire and Russia has its consequences for the National Bank of Moldavia.

Frederick Ludwig Nulandt renews his proposal for the establishment of the National Bank of Moldavia, but now Prince Ghica has to choose between him and his Prussian backing and the competing proposal of the Viennese banker Weichersheim, representing Austrian and English interests.

It is important to mention here a series of articles published in Viennese journals by a Professor von Stein, whose arguments are a clear statement of the main thesis of the article. Namely, that it is in the interest of the Austrian Empire to seize the opportunity of conquering the Principalities, not by army but by political means. He was bringing forth a *lebensraum* type of argument. The Danubian countries are a necessity for the development of the Austrian Empire. It was therefore important to extend to a maximum the Austrian consular jurisdiction, to secure monopoly of navigation on the Danube, to make the internal rivers navigable, to link them to Austria by railways, to exploit the mines and the forests through privileged companies, to engage in tax farming, and to heavily invest in and colonize the countries. (Băicoianu 1932: 216, vol I, partea I)

With the Austrian Army stationed in Moldavia, Weichersheim has pulled all the political levers to gain the banking privilege. It has made on the prince direct pressures that were pushed to the brink of violence (Romaşcanu 1932: 54). With no results, Austria has made pressures in Constantinople. They asked how it was possible for the Prince to give the privilege with only a few months left to reign.⁷

Prince Ghica in his turn sent to Constantinople Eduard Grenier, his personal secretary, with the Consul Meuserbach to insure that his position is defended, and the final result was that the Austrian interests did not succeed there either.

It is interesting to mention here that there was an opposition among the local political elite about the provenance of the capital for the bank and for the development of the Principalities in general. The mercantilist and protectionist view that all foreign capital is destined to

⁷ However, they have no qualms in obtaining the privilege from Prince Barbu Stirbey of Wallachia, only to see him dethroned five days after and their plans again thwarted (Romaşcanu 1932: 54-55).

impoverish and disown the locals is embraced by the revolutionary nationalists grouped around the liberal party, while the conservatives are at least neutral with regard to the role of foreign capital.

At an informal meeting with the political elite in Iași, held at the house of Finance Minister Mavrogheni in May 1856, Weicheshheim tries to appeal to the nationalists in offering to establish a bank with a lower contribution of foreign capital, and a higher participation of local capital, as opposed to the offer of Nulandt that relied heavily on foreign funds (Slăvescu 1941: 24). The boyars are unimpressed by the proposal and thus manifest their de facto preference for foreign funds, in spite of the nationalist rhetoric of a good part of them. They ask for significantly better conditions from Weichershem if they are to consider his offer over Nulandt's.

It is interesting from the political entrepreneurship perspective to point here that Weicheshheim did not have the liberty to increase the offer on the spot and asked for a delay, whereas Nulandt did not have such problems and that his plans were perfected for years.

On May 7, 1856, the charter for the bank is given to Frederick Ludwig Nulandt by Prince Ghica, at the pressure of the Prussian consul.⁸ The statute is similar to the precedent proposals. The stock is being undersigned and in July to August 1856, the directors and employees of the new bank arrive from Germany and other European countries.

Aside from the fact that the initial capital is increased to 10 million thalers, the statute of the bank is similar to the earlier propositions. Prince Ghica attaches to his decision a letter where he boasts with the

⁸ Another famous privilege given by Prince Ghica is the Magnan concession offering a French group of entrepreneurs the monopoly of navigation on two tributaries of the Danube. This privilege, in contrast to Nulandt's, was revoked before having any effect, again at the insistence of Austria and England (Riker 1927: 235).

new institution that he sees as a step toward the modernization of the state and the integration into the Zollverein (Romaşcanu 1932: 69).

The Austrians did not give up after the fact and, by having their ally Teodorita Balş receive from Grigore Alexandru Ghica the princely status in August, they blocked the activity of the newly established National Bank of Moldavia, when only 10% of the capital was deposited and the price of the stock was rising to 120% on the stock exchange, giving it a serious blow. Caimacam Balş has conditioned the continuation of operations on the formal agreement by the Porte.

Conveniently for the bank, Balş died suddenly in a few months, in February 1857, and he was succeeded by Conachi Vogoride, who immediately gave his approval for the continuation of the activity.

Unfortunately, the approval came too late for the bank that was already too fragile to face the crisis of 1857, „the first world-wide commercial crisis in the history of modern capitalism” (Hughes 1956: 194) and its aftermath. As if the global crisis that was sweeping the financial centers of United States and Europe was not enough, the National Bank of Moldavia is a clear and short case of exemplary mismanagement. Suffice to say here that the bulk of the capital was forsaken for the long term in the form of mortgages to a handful of landowners that were as a rule the richest, most illiquid and the highest ranked boyars in the political elite of Moldavia (Romaşcanu 1932: 91-92).

The direction of the National Bank of Moldavia suspended payments and resigned in March 1858. On June 14th, 1858 the charter was revoked and the National Bank was declared bankrupt.

Conclusion

In this paper, we have argued that the struggle for the establishment of the National Bank of Romania was a competition between political entrepreneurs that were seeking to secure a very lucrative privilege for them and for the countries whose representatives they sometimes were. This privilege was brokered and used for personal gain by the indebted and illiquid boyars that were members or had an influence over the government or the Principalities.

In offering this verdict, we concur with the XIX century nationalists and later authors who condemned foreign investors and hegemonic powers, but for different reasons. The rule in the Romanian economic literature from XIX and XX century is to judge the matter based on mercantilist and protectionist ideas.

For example, the three authors on whose research we have drawn mainly in this article are all against foreign investment. Romaşcanu (1932: 64) quotes favorably an anonymous author who in 1857 was accusing foreign capitals of robbing the country of its riches, to the detriment of the local owners. Slăvescu too, is commenting without qualifications against foreign investment (Slăvescu 1941: 26). Băicoianu (1932: 217, vol I, partea I) also argues that the needs of a country ask for the public supply of cheap credit and for this a national bank with national capital is necessary. They thus suggest that nothing is wrong with a privileged national bank, but there is a problem with foreign capital and foreign entrepreneurs. The accent is stressed on the national versus foreign distinction, rather than on the power versus market distinction that we described at the beginning of the article. The verdict, both of the contemporary thinkers and of later economists is that the National Bank of Moldavia was not desirable and was doomed to fail because of the origin of capital, and this

project will have succeeded only later, when executed as a nationalist project with evident protectionist aims.

In contrast, we understand the importance and beneficial role of foreign capital as an engine of local development. The problem that we accuse in this specific case is the fact that the invested foreign capital was not economic capital, but political capital, seeking monopoly privileges for political profits that increase the welfare of the local and international political entrepreneurs while decreasing the welfare of the receiving society.

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