

MIHAIL KOGĂLNICEANU'S CRITICISM OF THE CUSTOMS CONVENTION CONCLUDED WITH THE AUSTRO-HUNGARIAN EMPIRE

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Abstract:

The controversy regarding the Romanian foreign trade policy took place for a half century, from 1859 to 1814, between the supporters of free trade and those of economic protectionism. The customs convention concluded with the Austro-Hungary in 1875 was the expression of first ones doctrine and it marked Romanian commercial relations for more than twenty years. Contemporaneous with this act and also directly involved in preparation of Romanian foreign policy, Mihail Kogălniceanu countered the convention from his position of Minister, Member of Parliament and industrialist. Theoretical arguments and useful examples he proposed placed him between the maintainers of the real Romanian modernization.

Key words: protectionism, industrial development, customs policy, economic liberalism, free trade.

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The extensive changes which took place in the Western European economy and economic thinking during the 18th and 19th centuries called for the expansion and profound study of the Romanian economists' theoretical approach of the foreign and international trade.

The main theoretical model was offered by the classical school of economics represented by A. Smith, D. Ricardo, J.B. Say and others based on the analysis of England' historical evolution. The main points of this doctrine advocated the limited intervention of the Government into the economic activity and a development based on the citizens' individual interest together with the adoption of the free trade as a manner of carrying out international trade relationships. This policy was successfully observed in countries such as England, Belgium, France (starting with 1830) and originally in Germany.

As an expression of the various historical conditions in which it was manifested, the economic thinking had a number of peculiarities in various states of the world. The West conveyed the idea that, for the countries who had headed towards modernity latter than the others, the surest and shortest way to follow was to imitate the experience and practice of the area where modernity had already been institutionalized and it was estimated that this was an efficient method. At its eastern proximities, i.e. the Romanian Countries, things were more complicated, and opinions were divided: the traditionally privileged people tried either to hinder the progress of the Romanian society towards modernity, or to selectively adopt disparate elements of modernity, such as the foreign policy of free trade, when they identified some opportunities offered by the Western markets to the cereal exporters from the East. The authentic adopters of modernity and modernization of the Romanian society admitted that the general trend of the development of the Romanian Countries was the same as the development trends manifested by the West, but they had serious doubts about the actual way and methods of achieving modernity, given the huge differences between them and the fully developed West, including their mutual relationships, which did not allow for the effective use of the exact methods previously applied in the western countries.

This impossibility was related both to the large differences in the pre-modern history of the two categories of countries, and to the significantly different international context in which the modernization was to take place in the Eastern European countries which laid at the periphery of the Western strongly developed “centre”, as compared to the context of “Western centre” itself, a few centuries before. For example, in addition to the fact that the Eastern European countries had an economically weaker middle class less capable to stimulate the creation of an industrial market, the development of which could lead to the employment of peasants to the emancipation of this class, the external environment exercised various influences on them. The Tsarist and the Ottoman Empires supported the conservative forces from within Eastern European countries, whilst the Western countries supported the fight for modernization in these countries, with certain reservations, only insofar as the results of this fight agreed with their own interests. (1)

The break-up of empires, a process that was extended in Eastern Europe for two centuries, did not automatically lead to the liberation of the nations in this area, but to a new form of dependence, only this time it was a dependence upon western metropolises. This process was called by author Ilie Bădescu “the change in the suburbs axis (the Romanian Countries pass from the empire suburbs to the metropolis one).(2)

The countries neighbouring modernity, among which there were the Romanian Countries had mainly disadvantages in their effort to join modernity, to be synchronised with the development of the modern economic order “centres”, due both to the imperialist oppression to which they were subjected and which limited or even annulled the autonomy of their political and economical decision-making, as well as to the negative economic events of this long-term oppression, i.e. the drain to the exterior of a significant part of the economic surplus created by the native population, by means and through mechanisms invented and/or used by the privileged classes of that age.

Under these circumstances, it was only normal for the supporters of the trend towards modernity from the areas neighbouring this modernity, including the Romanian Countries, to create another hierarchy of the general and economic policy priorities, as compared to their predecessors from the “centres” of modernity, and especially from Western Europe.

For the supporters of modernity in the Romanian Countries, the most urgent problems were the declaration of the autonomy of the Romanian nation and the creation of a unitary own state. The modern unitary national state was a imperative and urgent necessity, not only in order to put an end to the foreign domination in the Romanian Principalities, but also due to the fact that, in the absence of modern and efficient political institutions, the economic and social changes meant to provide for their transition to modernity would have been difficult to implement.

The solution of these two major priorities was the foundation of a new economic mechanism, with objectives, instruments and performances similar to those in the modern West.

In principle, all economists of that age agreed that the strategic objective of the Romanian economy was its modernization and development, by making good use of the available human and material resources of the country, and by aiming at limiting the gaps between them and the economically viable European countries. With good reason, in order to find as many arguments in favour of the options and proposals for the economic growth of the country, Romanian thinkers studied both the economic literature from the more developed Western countries, as well as their more recent or ancient economic history (3). In this context, two significant opinions on Romania’s economic development strategy stood out, i.e. the opinion of the supporters of the theory “Romania – a preponderantly agricultural country”, and the other opinion supported by the advocates of industrialization and protection of the Romanian

economy (4).

The adhesion of the Romanian economists to one of the above-mentioned economic thinking trends, or the other, was determined by the more extended (national), or more limited (group, or party) interests they defended, and the theoretical motivation of the expressed economic policy options was influenced by the preference for one of the economic thinking trends present at the European level (liberalism, protectionism, socialism, Marxism and others) (5).

At the Government level, the decisions concerning the change in the national economic structure were made against the background of the confrontations between the two political parties governing by turns: the National Liberal Party (mainly supporting the interests of the industrial middle class, and promoting the protectionist economic policy) and the Conservative Party (which was closer to the theses of the classical economic policy and supporting a slower evolution of social and economic modernization – political conservatism), of the arbitrage made by King Carol I and then by King Ferdinand.

With the purpose of supporting these decisions, the economists of that time, some of whom were also prominent politicians, aimed at clarifying the causes of Romanian's regression and at developing solutions meant to overcome it and to stimulate the economic and social progress. While, in what the economic regression was concerned, all thinkers agreed that it was overwhelming and led to ruin, and that it had to be eliminated as soon as possible, in relation to the its causes and methods that had to be used in order to overcome it, there were significant differences.

The supporters of economic liberalism believed that Romania would have benefited from its status of a country with a preponderantly agricultural economy, due to the fact that it had natural good conditions for agriculture, and agricultural activities had always been Romanian's traditional occupations. At the same time, they claimed that the stimulation and protection of the Romanian industry would lead to the decrease of the agricultural production, as a result of the labour's reorientation towards industrial activities and to the trade of domestic products more expensive than imported products on the domestic market, since the Romanian industry did not have available capital and skilled labour, required in order to achieve high performance. If the free trade had been promoted in the international trading relationships, the industrialization of the country would not have been unlikely, but in their opinion, only industrial activities that were complementary to the agricultural ones and especially those related to the processing of agricultural products, were possible and beneficial.

The conservative economic thinking trend which supported the theses of economic liberalism, by promoting the free trade in the international trading relations and by stating the priority of agriculture within the Romanian economy, proposed a slower pace for the development of modern economic, social and political structures, thus avoiding social tensions. Within the conservative trend, an important role was played by the Junimist group in the definition of certain principles and concepts related to the social, economical, and political problems.

The commercial convention between Romania and Austro-Hungary was the expression of the concept of free trade of products among countries. Adopted by the Assembly of Deputies and the Senate in 1875 and promulgated by Prince Carol in 1876, the Commercial Convention between Romania and Austro-Hungary regulated the merchandise trade between the two states for ten years and was the basis of commercial agreements concluded by Romania in the following years.

By adopting this act, Romania renounced its recently set autonomous customs tariff and adopted a system of customs duties based on concessions and mutual advantages.

In what the commercial policy was concerned, the fundamental option of the

Conservative Party, in power at the date of the negotiation and conclusion of the Convention, was the provision for a close market for the Romanian agricultural – cereals, livestock, and animal products which, in the years preceding the Convention, had represented up to 80% of the total volume of the Romanian export.

The way in which this option was achieved consisted of an agreement reached with the Austrian party on the import and export customs duties for various groups of goods so that the various Romanian products might benefit from free entrance on the territory of the neighbouring state. Romanian negotiators taking part in the Convention mainly renounced duty free Austro-Hungarian manufactured products imported in Romania.

In order to justify the provisions of the Convention, its supporters used as an excuse the lack of a national industry which they did not feel the need to support, although they did not oppose to it. Consequently, the industrial products necessary to the Romanian market could only be obtained by imports and for this our country needed the guaranty of a large market for its agricultural products.

Consequently, conservatives chose a development based on the natural internal evolution of the Romanian society, with no economic and especially political overthrows.

Their economic arguments come from a part of the western political economy which promoted fully free trade without the intervention of the Government into the economical processes, as well as the international division of goods production according to the specificity of each country.

The promoters of the conservative idea thus provided a doctrinal support to their party most members of which were landowners and traders representing the middle class.

The answer to the conservative doctrine was given, in those times, by the radical liberal trend, subsequently referred to as “economic nationalism” (6), represented by thinkers such as: Mihail Kogălniceanu, George Barițiu, Ion C. Brătianu, Dionisie Pop Marțian, Bogdan Petriceicu Hasdeu, Petru S. Aurelian, Vintilă I.C. Brătianu, Emil Costinescu, Ion N. Angelescu and others

The promoters of protectionism (radical liberals) noticed the fact that a country with a preponderantly agricultural economy depending on imported industrial products was disadvantaged in its relationships with the other countries, and that, at the same time, its perspectives of diversifying its economical activities and improving the quality of work were limited. Romania was in this situation in the last part of the 19th century. The structural causes of the poor development of the national economy (the rudimentary character of the division of labour inside the country, the survival of certain feudal remainders in agriculture, the incomplete use of the country’s national resources, the poor involvement of the Government in the economy and the inappropriate inclusion of Romania into the international division of labour (7) had negative effects on the economic and political evolution of the country both on a domestic level, as well as at the international level. In order to increase the economic potential and to improve Romania’s international status, strong measures were required for the stimulation and protection of the industry. Many economists and politicians used various arguments (not only economic and political arguments, but also social and cultural ones) in favour of the importance and urgency of Romania’s industrialization.

The supporters of the economic protectionism stated that, following the incentive measures taken for the stimulation of the national economy, there would be a better use of resources, the domestic labour would develop, the national wealth would grow, and there would be an increase in the efficiency of the economic activity, and especially in the labour productivity, and also that the country would hold a higher economic position within the world market.

Mihail Kogălniceanu argued that purely agrarian nations would starve. Consequently, as far back as 1860 he stated: “I will insist that the newly-born trade and national industry, which need special care from the Government, should be protected” (8).

Unlike conservative and moderate-liberal economists who advocated a free trade policy, the supporters of protectionism did not ignore the fact that the western countries themselves had used severe protectionism in the period when they had started to develop their industry and that they had started to favour the free trade only when they had built a strong, industry, competitive on the world market (9). In this respect, M. Kogălniceanu’s statements concerning the free international trade are conclusive: “The free trade is a theory contemplated especially by those nations who have already become industrial leaders, who no longer have competitors in this field and who consequently need to open new markets, new outlets for the products made by their factories and manufactures” (10).

The meaning of the notions free trade– protectionism is also inferred by Kogălniceanu from the nature of Romania’s commercial relations with Austro-Hungary, after the conclusion of the convention with this monarchy in 1875: “We could say that Austro-Hungary imposed the imports of its industry in Romania under the name of free trade. The export of our products is impaired and prevented by an ever stronger protectionism.” (11)

The criticism of the radical liberals addressed to the conservative thinking trend included an important argument into the disadvantages created by the Commercial Convention of 1875 concluded between Romania and Austro-Hungary to the Romanian economy.

M. Kogălniceanu managed to create, together with other intellectuals a trend in the public opinion that was strongly hostile to the Austro-Hungarian policy and, consequently, to prevent its renewal after expiration. The negative results of the policy from 1875 proved that the forecasts made by Kogălniceanu had been correct.

Times and again, in his interventions against the convention with Austro-Hungary, during its application, the politician insisted on highlighting the situations created and which fully confirmed the stand he had taken in 1875: “ We gave the Austro-Hungarian industry everything and the Empire gave us almost nothing.” (12)

By analysing, one by one, the industries deemed as protected by the Convention by high customs duties at the import for the respective products la from Austro-Hungary mentioned in Annex B to the convention, as well as the Romanian duty-free agro-zootechnical products benefiting from the right to be imported in Austro-Hungary (cereals) or from the Most-Favoured Nation-Clause, he reaches the following conclusion: “The so-called mutual advantages granted to us are nothing but fiction, because there is no equality whatsoever in terms between the contracting parties.” (13)

In relation to the trade in livestock, the second branch of the country’s welfare after the cereals, Kogălniceanu believed that their import duty in Austro-Hungary was in favour of our country, due to the fact that, by this convention, the duty was decreased by half. However, Romania did not enjoy this favour for long, as “they closed the borders entirely”. (M. Kogălniceanu, cf. Texts, p. 333)

An extremely important branch or the Romanian agricultural industry was that of wines. Kogălniceanu proves the lack of reciprocity in charging this product. For example, whilst for the Hungarian wines, the duty was decreased from 7.5% to 5%, the Romanian wines benefit by the Most-Favoured-Nation Clause, paying for one quintal a specific duty of 2 florins and a half – the equivalent of half a gold coin, which represented an ad valorem customs duty of 100 %.”Well, do you think that, under these circumstances, the export of our wines will grow? Is this reciprocity? Is this protection?” (M. Kogălniceanu, cf. Texts, p. 327)

Kogălniceanu stressed the fact that, in what the Romanian cereals are concerned, they are granted the right to be exempt from duties when they are imported in Austro-Hungary, but the increase in the Austro-Hungarian rail transport tariffs is the equivalent of a true customs duty.

On the other hand, the Austro-Hungarian cereals were duty free when they were imported in Romania. In addition, the Austro-Hungarian flour and pastry were duty free, but the Romanian ones did not enjoy such when they were imported Austro-Hungary. The consequences of this lack of real reciprocity shall be that: “our mills, which represent a quite widespread industry, since there are currently more than 3,000, will receive a lethal blow. The same fate, or even a quicker destruction, awaits the numerous large and small pastry factories”.

An industry using cereals as raw material is the liquor industry. Until the coming into effect of the Trading and Customs Convention with Austro-Hungary, the foreign liquors, with the exception of the original rums were not allowed to get into the country. This prohibition is abolished by the conclusion of the convention, in which duties of 25% are specified for liquors. M. Kogălniceanu believe that this protection was inefficient, due to the fact that the Austro-Hungary sugar factories manufactured doubtful quality liquors at very low costs, and even if customs duties of 25% were paid for their import into the country, they were imported at very low prices and were thus a ruining competition for the Romanian liquor manufacturers.

Another branch of the Romanian industry affected by the convention was the oil industry, due to the fact that the convention provided for reciprocity only for crude oil. While the refined Austro-Hungarian oil was duty-free when it was imported in Romania, the refined Romanian oil could only be imported in Austro-Hungary by paying duties.

The convention also aimed at protecting apiculture. But Kogălniceanu failed to see any protection in the increase of the customs duty from 7.5% la 8% for the raw wax and to 10% for the processed wax, because during the application of the convention, apiculture stopped being practiced: “Where are the renowned Vaslui honey and wax, which used to be included into the mandatory gifts given to the Sublime Porte? Even if we increase customs duties, we will no longer have anything to protect; because we manufacture very little wax these days. Nowadays, wax comes from Austria and Russia.” (M. Kogălniceanu, cf. Texts, p. 330)

In what stearin candles were concerned, for which a customs duty was stipulated in Annex B to the convention (25 francs for 100 kg) which was the equivalent of an ad valorem customs duty of 8%, M. Kogălniceanu found that this protection was insufficient. On the other hand, the stearin and olein necessary for the manufacturing of the woollen cloth are duty free when entering Romania, whilst the Romanian stearin and olein shall pay taxes when entering Austro-Hungary. The consequence was the bankruptcy of the Romanian stearin factories.

In relation to the protection granted to woollen cloth and other similar cloths, the customs duty was set to 58 francs for 100 kg which was the equivalent of a percentage tax of 3% or 3.5% if transport costs were also included, according to the calculations made by M Kogălniceanu, which represented an insignificant protection.

The leather industry was not better protected either. The import of low quality leather from Austro-Hungary was taxed with 40 francs per 100 kg, i.e. the equivalent of 8% ad valorem, whilst the processed leather was taxed with 45 francs per 100 kg, and up to 90 francs for the finest one. The specific duty was 90 francs per 100 kg of fine leather for gloves and boots and represented just an ad valorem duty of 3%, much less than in the period prior to the convention.

M Kogălniceanu concludes that, in reality, there was no industrial protection for the Romanian industry. This convention concluded “between two states, one state that

has only agriculture and would also like to have some industry, and another big state which has a fully developed agriculture and has started to have strong industry” (14) served the economic interests of Austria, the industrial products of which competed with those of France, England or Germany, and therefore needed an outlet market. Consequently, Romania granted a Austria the right to export its entire industry in our country, because some of the items were duty free, others paid a specific duty the equivalent of which represented an average ad valorem duty of 7%, whilst Austro-Hungary granted us, in exchange, the right to export Romanian duty free cereals, as well as livestock with a lower duty than the one before the convention, in its states.

However, under the pressure put by Hungarian growers, the governments of Austro-Hungary sought to block the application of the convention, especially in the case of the livestock imports from Romania.

The trade between the two countries was confronted, from the very beginning, with the different political structure and economic interests of the two states of the Hapsburg Empire. In its economic relations with Romania, Austria did not share the interests of Hungary; for the former one, our country was an outlet for its industrial products, whilst for Hungary, Romania was an agricultural competitor. In order to defend its interests during the application of the Commercial Convention with Romania, Hungary used the insufficiently clear wording of its Article V in order to apply prohibitive measures against the Romanian livestock export, at its discretion.

The text of the Convention stipulated, as a general measure, that any import, export or transit prohibition was forbidden, with the exception of the ones expressly mentioned. Nevertheless, one of the two exceptions from this rule allowed each state to intervene into the transactions by sanitary police measures, compliant with its national rules. The main shortfall of this Article V of the Convention was that it did not regulate the extent of the respective sanitary measures in a sufficient manner that it did not establish a common set of rules to indicate the products that were to be subjected to the prohibition.

The discriminatory provisions applied based on this article strongly impaired the Romanian livestock export in Austro-Hungary. At the same time, according to the Hungarian economist Alexander von Matlekovits, the author of the “The History of the Austro-Hungarian and German Customs at 1868” and also one of the negotiators who took part into the talks for the extension of the Convention in 1885, “By customs manipulations and by all the other trading opportunities, Romania granted the Hungarian trade complete safety, in compliance with the treaty” (15).

The sanitary prohibitive measures were initiated ever since the first years of the application of then Convention and were gradually increased as Hungary was confronted with more difficulties in the sale of its own cattle. Those difficulties should have been eliminated while also keeping a loyal attitude towards the Romanian state, as the claim that there were epizootics was just a pretext and the sole purpose of the elimination of the Romanian cattle from the markets of the monarchy was to increase and maintain high prices in the Hungarian cattle.

Another disadvantaged branch of the Romanian industry was the wood industry, because the similar Austrian wood products (furniture, carts, wagons, agricultural instruments, etc.) were allowed to be imported without paying duties or by paying only up to 2%.

The newly born Romanian chemical industry received a strong blow from the Convention by exempting from duties the import of chemical materials from din Austro-Hungary.

M. Kogălniceanu also criticised Article II of the Convention which stipulated practicing various occupations by the citizens of both states without paying any taxes or duties, due to the fact that this provision seriously affected Romanian waggoner’s trade

by the strong Austrian competition. This Romanian waggoner's trade is going to become the monopole of the Transylvanian Saxons living in Braşov." (16)

Article X of the Convention which stipulated that the export duty would never exceed 1%, not even in the case of products the export of which was too be limited, was also harshly criticized by Kogălniceanu.

Article XXIV on the registered brand mark ownership did not provide us with any advantages, because, since we did not have any acknowledged brand marks, we could not benefit from the reciprocity granted by Austria for the insurance of brand marks.

Due to the deceitful and discriminatory political behaviour of Austro-Hungary M. Kogălniceanu's conclusion was that: "By this convention, we condemn ourselves to become nothing more than wheat growing and raw material manufacturing population. This is the economical whole advantage obtained by us." (17)

The imports per se do not disfavour the national economy of one country, if they are given a productive purpose. But it all depends on the industrial development of the country in question. By importing manufactured products, Austro-Hungary was replacing Romania in its function of industrializing Romanian products by turning wheat into flour, the wool into cloth, raw skins into footwear, and by reselling them, in our country, with an important increase added to their cost value. Thus, a slow exploiting economic annexation of Romania was made, since, even if our country did not lack any of the industrialization prerequisites, it delayed the development of a more complete and more differentiated national economy.

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