

THE ROLE OF THE ECONOMIC GOVERNANCE IN THE CONTEXT OF THE NATIONAL OIL INDUSTRY. CASE STUDY: ROMANIA – THE BEGININGS (19TH AND 20TH CENTURY)

ROVINARU Flavius-Ioan¹, MIHUȚ Ioana-Sorina², PÎRVU Marcel³

Babeș-Bolyai University of Cluj-Napoca

Abstract

The oil industry is nowadays considered to be one of the most powerful source of economic growth and performance. Performance, whether we refer to the economic, political or institutional one, is an absolute indicator of the ability of the worldwide countries to adapt to the frequent macroeconomic changes. The main purpose of this article is to analyse the case of oil industry from Romania during the 19th and 20th century and the role of economic governance in the context of establishing an equitable proportion between the foreign and domestic capital and to evaluate the policy implications of different strategies adopted by the national institutions during that period upon this particular industry.

Keywords: *Economic governance, Romanian oil industry, foreign capital*

JEL classification: *N54, N74, Q38*

1. The pre-requisites to the formation of a national oil industry

The term *oil fuel* (păcură) - used in the literature in the field of oil exploitation in the Romanian-speaking territories since the fifteenth century – has its origins in the Latin word *picula*, which has led some authors to

¹ Associate Professor/Ph.D. Faculty of Economics and Business Administration, Babeș-Bolyai University of Cluj-Napoca, Romania, flavius.rovinaru@econ.ubbcluj.ro

² Teaching Assistant/Ph.D. Faculty of Economics and Business Administration, Babeș-Bolyai University of Cluj-Napoca, Romania, ioana.mihut@econ.ubbcluj.ro

³ Ph.D. student, Faculty of Economics and Business Administration, Babeș-Bolyai University of Cluj-Napoca, Romania, marcel.pirvu@yahoo.com

consider that oil exploitation in the current territorial space of Romania, was made since ancient times, even the Dacian time (Giurescu, Giurescu, 1971, p.120, 156). But the oldest documentary evidence about the existence of oil extraction wells, appeared in Moldova in 15th century. It is "a document from the office of Mr Ilias and Stephen, sons and successors to the throne of Alexander the Good that mentioned on 4 October 1440 the village of Lăcăcești on Tazlăul Sarat straight to oil fuel (Buzatu, 1998, p. 23).

Over time the demand for oil has increased constantly, both across internal and external markets (1), which led to an increase in oil drilling activity. Refineries, initially rudimentary appeared on the eve of 1840 in Lucăcești (Ravaș, 1955, p.28) - Bacău County - while refineries with modern facilities, for that period, came into operation only in the second half of the nineteenth century. The first Romanian modern refinery was built in 1857 in Rafov, near Ploiești, by Theodore Mehedințeanu. This refinery has obtained the exclusive right to supply lighting Bucharest with kerosene. In 1857, by replacing rapeseed oil with kerosene supplied by Rafov refinery, Bucharest has become the first city in the world integral lightened by using refined oil (Gh.Buzatu, 1955, p.24). Even if there were considerable domestic investment in mining and oil refineries we cannot discuss about a national oil industry.

Barely between 1860 and 1890 were the first attempts for industrialization of extraction and processing Romanian oil, but due to lack of domestic capital the results were not as expected. The national oil industry may develop only with the use of foreign capital investments. Recall that the first foreign-owned company formed was Valachian Petroleum Co.Ltd., in 1864, belonging to the Englishman Jackson Brown. That company was originally funded with a capital of 4 million francs (Buzatu, 1955, p.25). The inflows of foreign capital since 1895 in Romanian oil industry contributed to the economic development of this sector, the capital initially playing a positive role in achieving a modern industrialization of oil extraction and processing (2). The economic development of the country and the need to exploit oil resources for the national benefit claimed the contribution of foreign capital in terms of insufficient domestic capital.

2. Romanian oil and foreign capital

Foreign capital had without any doubt a positive role upon Romanian economy industrialization. Accepting the positive effects induced by the foreign capital in the first stage, we may not oversee also the disadvantages

generated on the national economy: the attempt to monopolies the national oil industry.

The consequences of this situation spilled in the long term, their negative effects shaping the future overall development of the country. This aspect captured the attention of the Romanian economists during World War I, as a subject of considerable debates. One of the authors that concentrated its efforts in defending the national interests was G.N. Leon.

He expressed serious concerns regarding the analysis of how non-renewable energy sources were exploited in Romania, particularly the case of Romanian oil. As noted, it was a clear fact that the author to be interested in this aspect, even more as "Worldwide, a real oil problem arose at the turn of the century 20th century, when, for the first time, derivatives obtained from black gold extraction were used as fuels" (Buzatu, 1955, p.11).

The starting point of his study is the idea that the wealth of a nation can be seen also from the perspective of its inputs/production factors that can be found in that particular geographical area. But even if a certain area was characterized by an abundance of natural production factors, this abundance does not automatically generate national wealth. Welfare is only achieved when the existing natural resources are accompanied by labor force and capital - inputs necessary for conducting and materializing economic activity.

Nevertheless, it is difficult for a country to rely only on domestic production factors as a source of economic development. The lack of inputs should be complemented by attracting new inputs, even if they have foreign origins. "The need for interconnections between inputs over territorial limits of national states derives from this. There are few countries which have provided the means of existence without a balance between the factors of production "(Leon, 1943, p.180).

In Romania it was stated that natural factors of production were characterized by abundance and variety, while the population was sufficient to add value to the natural resources. The main disadvantage of Romania in terms of development was precisely the capital as production factor. Romanian oil was exactly the case. Originally it was extracted using wells that did not exceed two hundred meters deep. This primitive operation was characteristic for a time when people were not aware of the economic and strategic importance of oil for the national economy. With increasing oil consumption, intensive exploitation of existing deposits began, since 1857 Romania starting the exploitation of oil using rigs.

The lack of sufficient capital to facilitate the development of oil extraction and refining had a negative effect. Thereby in 1943, - the time when G.N. Leon express his position - "Romania is the sixth oil producing country in the world, namely in the following order: America, Russia, Venezuela, Iran, Dutch Indies, and then Romania, with nearly 2%, meaning a production of 5800 thousand tons. Some time ago, Romania was the fourth producing country" (Leon, 1943, p.181).

For systematic oil exploitation, Romania needed capital but this was impossible to obtain only from the domestic market. This has encouraged foreign investments and the development of companies with foreign capital majority for oil exploitation. An example was the "Romanian-American" Co. with American majority ownership, or "Romanian Astra" with English and Dutch participation, companies to which the Romanian state has granted oil exploration licenses.

The focus was very much on the importance of attracting foreign capital into national economy, with its help hoping to put forward the productive force of the nation. But unconditional acceptance of foreign capital resulted, in GN Leon's opinion, in the situation in which more than 80% (Leon, 1943, p.181) of the total capital invested in the oil industry to had foreign origin. G.N. Leon was against unconditional acceptance of foreign capital, especially since the sector in matter was one of remarkable strategic and economic importance for the country.

The position of this Romanian economist was imperative: "The importance of oil as a power generator, and particularly as a means of national defense, led the foreign capitalists to transform the country's wealth into a weapon directed against Romanian interests and against other states that shareholding countries had not established agreements. In other words, oil was not a Romanian national good but an international one „(Leon, 1943, p.182). In another approach we have Tancred Constantinescu's opinion, who believed that until the World War I Romania confronted with an internationalization of its oil industry.

Early during the war period, the main sources of invested capital were: England, Austria-Hungary, Belgium, France, Germany, Italy, Netherlands, Romania and Sweden (Constantinescu, 1924, p.135).

We observe that the statement of G.N. Leon is similar to the one expressed by other economists. Of that time. Unconditional acceptance of foreign capitals could indeed generate negative effects upon the national

economy, the development of local capital would have been limited. It was a clear fact that G.N. Leon to express this attitude, especially when he identifies that the monopolization of the national oil industry by foreign investors directly affects national interests.

We also support the position expressed by G.N. Leon, especially after a statistical analysis of the shares of invested capital in Romania's national oil industry. According to Gh. Buzatu, the distribution of invested capital at the beginning of the First World War In Romania registered the following values (See table 1):

Table 1: Origins of the capitals invested in Romanian oil industry at the beginning of the First World War

<i>Source</i>	<i>Million lei gold</i>	<i>Percentage</i>
German	160	35,0%
English	115	25,2%
Dutch	60	13,1%
French	10	10,0%
Italian	45	2,2%
Belgian	10	2,2%
American	25	5,5%
Austro-Hungarian	6	1,3%
Romanian	25	5,5%
Total	456	100%

Source: Apud Nicolas Xenopol, *La richesse de la Roumanie*, Ateliers Grafiques Socec et Co., Bucharest, 1916, p.146, în Gh.Buzatu, *Op.cit*, p.29

The low share of local capital in comparison with foreign capital is clear: 5,5% Romanian, 94,5% foreign. In an industry with such a discrepancy, national interests could no longer be followed. Of course, every economic agent, through its actions, is following its own private interest. Romanian investors also had private interests, like the foreign ones, but the main difference was in the way that either of them wanted to achieve them.

Following the lines of German neo-liberalism, G.N. Leon said that the private interests of national economic agents could only be achieved through national interest (3), thus private interests did not interfere with the national ones. That opinion was no longer viable in respect with the foreign investors.

A company that was not tied to a particular geographical space would only follow personal benefit, and would mostly concentrate its attention on maximizing profits, ignoring national interests. By only following personal interests, their actions could be contrary to the national interest. Companies' private interests were not similar to national interests, except the situations when the state would subordinate these private interests to national objectives.

With the same criticism on the acceptance of uncontrolled inflows of foreign capital to Romania, G.N. Leon thought that foreign companies „were not satisfied with the benefits gained from invested capital, but tried to put pressure on State politics in areas like economic policy and Romania's foreign affairs” (Leon, 1943, p.182).

3. National oil industry development under international capital flows

G.N. Leon claimed that through an economic policy on exploitations that did not have the national interest as its main objective could seriously injure the future of the development of the national economy. By giving up on promoting national interest, negative effects would be induced, not only at the industry level, but at the overall national economy.

The negative effects of abandoning national interest from this industry's approach were explained by the author by determining their principal causes:

- unconditional acceptance of foreign capital;
- irrational exploitation of oil resources;
- non-efficient crude oil processing;
- transport and distribution of oil products following only private interests of companies (Leon, 1943, p.181-188).

From all the causes mentioned above, the most important one and also the generator of the others, was in the author's opinion unconditional acceptance of foreign capital. Our view is similar to the one expressed by of G.N. Leon regarding the chaotic inflows of foreign capital in the national economy.

The Romanian economist assumed this attitude, having a liberal approach, he was a supporter of the *through ourselves* policy, policy that had its center of gravity in putting national interest first. To highlight the logic of G.N. Leon's approach in the issue of exploiting and refining oil in mismatch

with national objective, we will conduct an analysis of the causes mentioned earlier starting from the author's opinion regarding each one of them.

4. Unconditional acceptance of foreign capital

As the author also acknowledges, the development of the Romanian economy was not possible, in the modern economic environment, just by indigenous production factors. The acceptance and attraction of foreign production factors into the local economy was a necessity.

The acceptance of production factors that were scarce on the national market should be made in certain conditions. Quantity and quality principles to filter foreign production factor should apply.

In the case of oil extraction, the conditions for acceptance of production factors started from the quantitative component that characterized the respective production factor's entry on national market.

Putting an emphasis on quantity was very important in Romania because after 1929, when giving licenses, „the main criteria was the technical and financial capacity and of course local companies could not compete with the financial capacity of American or English companies” (Leon, 1943, p.183). G.N. Leon had this motivated position in the debate on the issue of foreign capital acceptance between the liberals and the peasants' party members in the interwar era.

The subjects was already sensitive enough because the liberals had already regulated the regime of the Romanian underground resources through the Mining Law from 1924: „*Art.1.* Throughout all the stages of their development, from the surface to any depth, the deposits of mineral substances from which metal, metalloids or any other combinations of minerals can be extracted, also fossil fuel deposits, mineral waters, natural gas of any kind, and any richness of any kind from the underground are and will remain in the property of the state” (Mining Law, 1924).

The Mining Law from 1924 was a document of great economic importance, issued by the liberal government, which actually claimed state property on any underground mineral or non-mineral deposits. Also, through this law, the priority of Romanian capital in exploiting companies was established.

But the members of the peasant's party argued with the liberals' measures, saying that because of this policy, the inflow of foreign capital in the national economy was stopped. That is why, when the National Peasant's

Party came to power, they adopted the *open doors* principle, considering the fact that the *insufficiency of Romanian capital* was an important argument for unblocking foreign financial support that was absolutely necessary for the exploitation of national richness. Following this principle of *open doors for foreign capital*, through the Mining Law from 1929, all restrictions on foreign investors were eliminated.

In this situation, G.N. Leon, a hardcore liberal, thought that the acceptance of a free competition between Romanian and foreign companies would not be beneficial for national shareholders, because of their financial power mismatch.

The idea of a technical and financial criterion of eligibility for licensing oil exploitations would take away any chance for the Romanian companies to compete against their much bigger foreign competitors.

The inferiority of Romanian companies came from the fact that the national oil industry was a process in continuous transformation and few experience in comparison to multinational corporations like Standard Oil. And a young national industry without state help had no chance of survival in a fierce competition with much more experienced and more powerful players.

Without embracing the principles of economic protectionism, we believe that our point of view is rightful and finds justification not only in G.N. Leon's eyes, but also in the ideas of Friedrich List's economic protectionism: „An industry cannot grow unless its capital grows, and the capital cannot grow unless the growth is proportional with the economies that can be made gradually from its income” (List, 1973, p.180). In certain situations, the development of a national industry can't be made without certain measures that cross the boundaries of economic liberalism; these measures can be adopted when national interests demand it.

Realizing the potential danger of a total national oil extraction industry seizure by the foreign companies, on the July 4th 1924, the Romanian Parliament adopted *The Mining Law* – that brought restrictions on the way foreign investments were performed in Romania. The most important of those restrictions was about the ownership share of investing companies on the oil market: 51% local capital and just 49% foreign capital. Under this legal framework, 30% of total oil production belonged to Romanian companies in the following years (1924-1929) (Leon, 1943, p.183).

G.N. Leon considered that mine property, resources in general, and concessions were areas where national states should have a policy consistent

with their own interests. It was a clear fact that a state, if it owns certain resources, to wish to make the most of them „under certain guarantees of national exploitation, of assuring supplies for future need and overseeing national work. That is why the mining sector keeps account of these matters in most countries” (Leon, 1943, p.183).

We positively assess the attitude of the author regarding this matter. The activities of exploitation in market economy are usually based on non-renewable resources. Even if a certain state has a large reserve of resources, and intensive exploitation eventually leads to much faster exhaustion. Exploiting resources should take place only according to national interests, and also to keep into account the future evolution of the national economy.

Why should oil exploitation and refining be conducted through national labor? We believe that the answer to this question may be found in the theoretical principles of *productive forces of the nation and the development of the national economic space*, enunciated by Friedrich List (List, 1973). According to the German author, we can't put an equality mark between causes of wealth and wealth itself, in other words national wealth was not necessarily given by the trade values owned by a certain nation. Trade values could be exhausted through consumption, and the respective nation could fall into decay. Instead, both the Romanian and the German author consider true national health as *the power to create wealth*.

„The power to create wealth is much more important than wealth itself: it guarantees not only the possession and the quantitative increase of acquired assets, but also the possibility to replace lost ones. If this assertion is valid in the case individuals, it is certainly true in the case of nations, that can't survive of rents” (List, 1973, p. 183).

The noticed aspect was even more important as G.N. Leon thought that foreign capital investment inflows bring earnings especially for the owners of this capital. We can see that the author rejected the idea that foreign capital investments were only beneficial to the national economy, because even though they were made in Romania, the profits belonged to foreign companies.

If the earnings gained through the exploitation of the national economy didn't contribute to the development of the national economic framework but instead they lead to a wealth growth of capital owners, they did not play any role in the creation and building up of national wealth.

„Every single time that I searched, in an official manner, to draw attention over foreign companies on the duties they had regarding Romanian laws and economy, the answer was that the Government should not tease foreign capital, because it made great efforts to come into the country and help harness national wealth.” (Leon, 1943, 187).

A good example was the case of the „Romanian-American Company”, founded in 1904, which in G.N. Leon’s view had immense benefits after exploiting Romanian oil. We will analyze the situation of this company using Table 2, from 1904 to 1939, with data provided by G.N. Leon.

Table 2: Size and source of the „Romanian-American Company’s capital between 1904 and 1939

Year	Size of capital (lei)	Source of the invested capital external or internal (local)
1904	2.500.000	external
1906	12.500.000	external – capital increase
1914	25.000.000	from internal benefit - increase
1916	37.000.000	from internal benefit - increase
1920	150.000.000	from internal benefit - increase
1921	200.000.000	from internal benefit - increase
1939	900.000.000	from internal benefit - increase

Source: Own calculations using data provided by G.N. Leon in *Economie politică și politică economică*, at page 190.

If at first the company studied here was founded exclusively using international capital, its development over time has determined capital increase by reinvesting parts of the profit resulted after the exploitation and refining of Romanian oil. We must say that only a part of the profit was reinvested, significant sums of money were not recapitalized.

„From 1920 to 1939 inclusively, which is about a 20-year span, the company had a net profit of 2.183.282.415 lei, an average of 109.164.120 lei

yearly, and bearing in mind the fact that the company's direct investment was of about 12.500.000 lei, it seems that it had a yearly earnings of 8,37 times more than the capital it initially brought to the country!" (Leon, 1943, p.190).

The differences between net profit and reinvested total were sent back to the foreign companies. This surplus determined the development of national economies of the states from which these companies came from, to the detriment of Romania's economy. Indirectly, G.N. Leon ascribed the development of strong states development on the exploitation – with huge benefits – of other states' resources, countries that did not have own means of harnessing resources.

„This is why Romania, which needs capital for putting to good use of its immense wealth, should only open the doors to those capitals that share its same interests and that is not in the orbit of countries conquered by international capital.” (Leon, 1943, p.191).

This speech promoted by the Romanian author is very close to the acceptance of economic protectionism detrimental to absolute economic liberty. In the following we will also expose other considerations of G.N. Leon that place him on a protectionist stand, regarding the development of national space through productive forces of the nation.

5. Irrational exploitation of oil

The oil extraction, according to the author's opinion, have been made in terms of a lack of economic rationality. This non-economic exploitation was attributed to the fragmentation of the mining property as well as the 19 Article from the Constitution from 1923.

„The mining deposits as well as the underground goods are the property of the state. In this category are not included common rock masses, building materials quarries and peat deposits without the prejudices of the state rights based upon previous laws". It will be taken into consideration the earned rights, since they correspond to a validation of the underground goods and after the distinctions from the special law. The concessions for the mining exploitation, according to the current law, will be followed during the time period they were granted, and the existing mining exploitation should be done only by the owners as long as they will explore them. There will be no constantly concessions (The Constitution from 1923, Art.19, paragraphs 1,2)

This article was in line with the possession rights earned by purchasing oil fields, and through it this preserved an unfavorable condition of a rational exploitation of the underground goods.

We are facing a real *rush for oil*, highlighted by an intensive competition between those that were exploring that particular resource - especially foreign companies. "The American, Dutch and the English companies became owners of the private lands with prices below the market ones, even before the Constitutions that entitles the earned rights and by placing the probes not far away from the neighboring fields, either of the state or individuals were pumping oil from these ones." (Leon, 1943, p.185).

Despite the fact that the Mining Law from 1924, clearly stated the merging of small lands, in order to obtain a rational exploitation, during time this objective was not accomplished due to the competition and of the fact that specific companies were interested in satisfying their own goals. On the other hand in 1929 a new mining law was adopted that generated a multitude of effects with serious consequences within the national economy.

G.N. Leon stated that as a result of the competition between the oil companies, it was reached a situation where the probes were placed short distances from each other, which lead to an unequal and arbitrary exploitation of the deposits. Such exploitations determined the disintegration of the deposits, an important quantities of the oil remained unexploited.

"Some engineers found that using this method approximate. 80-85% of the resources were unexploited and only 15-20% was extracted while in a rational exploitation it can be removed about 70% (Leon, 1943, p.185).

The alarm signal raised by the author is related to the fact that the oil had and still has an economic and strategic significance. We agree to the author opinion that an irrational exploitation of the resources trigger negative effects influencing the standard of living of the next generations. The exhaustion of the resources as a result of an irrational exploitation, transforms a certain state from an oil net producer into an oil net importer.

We observe that the negative effects within the oil industry from Romania were generated by the Dutch occupation during the First World War.

The damages upon the national economy were impressive: "more than 1500 probes were blocked and more than 1000 wells were burned. There were burned tanks with a total capacity of over 150.000 m³ and more than 70 refineries were destroyed. Also more than 830.000 oil products were burned

and over 70 refineries were destroyed. The total amount of the damages in Romania were evaluated at 600 million gold-lei” (Buzatu, 1998, p. 35).

Due to the damages caused by the war, after 1918, the oil extraction in Romania registered a serious downturn. The attempt to exploit massive oil quantities encountered successive obstacles such as: the lack of the new mining activities, of the weak drilling, of the shortcomings in terms of tools and materials, the lack of electricity etc. The refineries were affected by the lack of modern technologies, the electricity or the failure to extract raw oil. Under these circumstances, the results obtained due to a superior processing of raw oil were diminished.

Furthermore the quantities of extracted oil were situated below the quantities obtained between 1916 and 18918, period when Romania was occupied by the German army. The extracted oil was orientated towards export, the authorities trying to reduce the internal consumption. Based on this framework important quantities of oil were exported towards Germany.

All the damages, the massive exploitations may be quantified in an irrational use of the Romanian oil. The national interest were put aside and the costs reflected in the internal economy. The quantitative and qualitative growth in the exploitation field and the use of oil reflected into a new important effort for the national economy and new costs, this growth targeting a longer period of time.

For example in 1991 the oil production in Romania reached a value of 1.325.743 [28] tons, overcoming the production obtained in 1920 that was of 1.109.000 tons [29]. During the interwar period however the production of oil registered an uneven growth.

Furthermore we will take into consideration the period between 1920 and 1923 highlighting the fact that within this time period there may be identified three different sub-periods in what concerns the oil exploitation industry.

During 1920-1923 the overall performances of the oil industry were not remarkable, especially due to the reconstruction period that characterized that particular industry. The second period coincide with the adoption of the Mining Law in 1924 while the ending point of it we will consider to be 1929, year when a new mining law was adopted that established the new pillars of the underground resource system. (4)

The third period was between 1930 and 1933 when new effects were triggered by the Mining Law adopted in 1929. (5)

Through the study of the different time periods, in which the exploitation and the use of oil had legislative base and benefiting from the influence of specific economic policies, we intend to determine whether G.N. Leon had reasonable arguments for rejecting the idea of free liberalization of foreign capital within the oil industry from Romania (See table 3).

The analysis upon the performances of the oil industry between 1929 and 1933 allow us to draw the following conclusion: the maximum oil production was reached in 1933 while the maximum value (in equivalent monetary units) of the oil production was in 1929.

If the oil production in 1929 was of 4.837.000 tons, adding the total value of 7441 million lei, in 1933 at a production of 7.376.000 tons a value of only 3300 million lei was obtained. In fact a reverse ratio between production and value was established in 1929. We are not in favor of the fact that, the Great Depression through its multitude of negative effects that generated, conducted to the reverse of that specific ratio, but even more importantly we rather consider that the so called *open-gate policy* triggered this paradoxical circumstance.

“In this respect the Romanian oil is exported without obtaining any significant profit for the national economy due to the fact that the actual gain starts in the moment the oil leaves Constanta” (Leon, 1943, p.191).

Table 3: The production of oil in Romania between 1929 and 1933 expressed in quantities and values

Year	Quantities		Values	
	Thousands tons	Indices %	Millions lei	Indices %
1920	1.109	22.9	740	9.9
1921	1.167	24.2	1.021	13.7
1922	1.373	28.4	1.876	25.2
1923	1.512	31.3	3.756	50.5
1924	1.861	38.5	4.584	61.6
1925	2.317	47.9	5.750	77.3
1926	3.244	67.1	7.393	99.4
1927	3.669	75.9	6.107	82.1
1928	4.282	88.5	7.346	98.7
1929	4.837	100.0	7.441	100.0

1930	5.792	119.7	6.552	88.1
1931	6.756	139.7	2.770	37.2
1932	7.348	152.0	2.927	39.3
1933	7.376	152.5	3.300	44.3

Source: Authors interpretation based on the study developed by N.P.Arcadian on the same time period presented in Romania Industrialization, National Printing, Bucharest, 1936, p.188.

G.N. Leon along with other representatives of liberalism, had from our point of view, reasons to argue against the acceptance of free capital inflows within the Romanian oil industry: "that is why Romania that needed capital for highlighting the impressive riches, should not be so open in accepting capitals only from the partners that have common interests" (Leon, 1943, p.191)

6. The context of oil processing

The refineries were considered at that time the central point of the oil industry due to the fact that they were directly influencing the gain of oil derivatives. The consumption was also strongly connected with the oil production derivatives, more exactly was interconnected with the quantitative component of the production. What G.N. Leon was referring to is the fact that the existing production technique within the Romanian refineries was an old one. Due to the lack of modern production instruments, Romania could not compete with other states in terms of economic results generated by the oil exploitation. The incomplete processing triggered an increased consumption in what concerns the production factors and a more intense exploitation of the oil resources.

"According to the data for year 1935, we notice that reporting to the entire quantity of oil obtained after processing, a value of 26% is obtained compared to a value of 40% that was obtained in America."[32]

The incomplete use of the oil is not to be neglected since we are dealing with non-renewable resource, the depletion of it generating shortage and the recession of the economic system: "One individual may be rich, meaning that he may hold values that may be exchanged; he instead may be poor if he does not have the forces to produce a greater amount of valuable goods than for its own consumption. An individual may be poor but if he has

the force to produce a quantity of goods with a greater value than the one he consumes, than he becomes rich" (List, 1973, p.121).

The only path of using the production factors at their maximum capacity is to invest in new production technologies. In order to make these investments, there is a strong need for capital, and this capital is owned by foreign companies, much more powerful than the Romanian ones. The investments of the foreign companies generated positive as well as negative effects.

It is a well-known fact that through the constantly improvement of the refineries it would have been obtained an increase of the production factors return, growth associated with a decrease of the used oil quantities in order to obtain the exact quantity of derivatives to the one previous obtained through a higher effort. From an economic perspective the continuous improvement of the technologies would have generated a more rational exploitation and use of the oil resources, which may be perceived as a great advantage. "For highlighting the enormous gap between different categories of refineries, I will argue that the largest refineries besides the fact that they produce at a lower price than other refineries, they benefit from the opportunity to make a more rational processing and make that lowest value products are transformed into products with a superior value and therefore the profits to be much higher" (Leon, 1943, p.186).

The cost associated to this is that the investments were made in refineries owned by foreign companies, in the context that Romanian enterprises could not benefit from the same conditions particularly due to the lack of capitals. While the growth trend of the Romanian companies was not so significant, the refineries with foreign capital were developing more rapidly. The foreign companies benefited from an impressive refinery capacity corroborated with new technologies and instruments of refining. "The refineries constitute the central point of the oil industry due to the fact that they are dependent variables for the oil production and consumption, both in terms of obtained quantities as well as the internal consumption" (List, 1973, p.187).

G.N. Leon considers that by improving the refineries it could be achieved a more rational capacity of oil exploitation. Through time, along with the increase of the Romanian investments, the percentage of the foreign investments increased considerable, the future path of the Romanian oil industry still being under the control of foreign companies.

G.N. Leon noticed that reality, stating the fact that the producers were highly dependent by the refineries, because those producers that did not benefit of refineries or modern refining technologies cannot deal with the competition: "from this point of view Romanian companies like Romanian Oil and I.R.D.P although important actors in the industry of oil production (I.R.D.P was producing approx. 100 cars/day) collapse due to the lack of refineries (Leon, 1943, p.187).

7. Oil transportation

The oil transportation proved to be of vital importance for the oil industry in general and for the price policy, for the crude oil and especially for derivatives. "Those that own the transportation facilities hold also the key. The private monopole of transportation is the safest way to abolish competition" (Leon, 1943, p.187).

In Romania the oil transports were seriously affected by the war. After the withdrawal of the German army the railway transports were completely paralyzed across the country. Unfortunately, there were no alternatives, for example the transport of oil through pipeline, due to the fact that Romania had in 1918 only one functional pipeline with two lines to Danube. Only by the end of 1919 a new oil pipeline was built to Constanta.

The only viable alternative for the oil transportation remained the railway. These aspect was not in line with the interests of the foreign companies due to the fact that the railway was a state property, not being subject of a private monopole and not being used only for private purposes.

"While in Romania the railway is a state property, the foreign companies tried to establish a monopole in term of the transportation from the site to the refineries" (Leon, 1943, p.187).

Indeed foreign companies orientated their strategies towards achieving some investments in private pipelines, developing private transportation and distribution oil networks, taking a privileged position in this field. G. N.Leon considered that this action was successful partly due to the foreign companies because: "the state owned only 25% of the existing pipelines, meaning approx. 680 km against the 2600 km that were owned by the foreign companies" (Arcadian, 1936, p.188)

Through developing private oil transportation networks, the foreign companies perused to abolish the main internal competitors. The result of these actions was that the national companies, that didn't have private

transportation networks, to be strongly dependent by the foreign companies. "Therefore the transport of the other producers (national companies) is depended of the foreign companies in what concerns the price and the delivery terms" (Leon, 1943, p.188).

Another important issue is triggered by the possibility that the foreign companies influence directly the price and the delivery terms of the oil products.

"When the large companies intend to raise the price, they stop the transport to other producers, When they intend to decrease the level of prices, they intensify transports to all producers... there are moments when the holdings have as their main objective to achieve price reductions" (Leon, 1943, p.188).

The oil and its derivatives have a socio-economic importance, not being short-term assets that can be substituted and for those which exists an elastic demand and a rigid supply. Under these circumstances, the existence of a limited number of large producers of that particular goods would contributed to the abolishment of the competition from the small companies and would have given them the opportunity to control a certain market.

The most affected segments due to this private monopole were the consumers but also the overall national economy. G.N.Leon proposed a radical solution to the attempt to monopolize the Romanian oil industry by the foreign companies. This radical solution, aimed at protecting the public interest against the private interest was the expropriation of the private pipelines (Leon, 1943, p.186-188).

"The state may with the accordance to the superior mining Council expropriate with a reasonable and prior compensation fixed by the justice, the existing pipelines from the sites to the stations or refineries when these pipelines may serve to a number of producers or to a number of exploitation, without affecting the transports of the expropriated company" (Leon, 1943, p.186-188).

An argument in favour of G.N.Leon statement is due to the membership of the liberal movement from Romania. Within the spirit of the *through ourselves* policy, opposite to the *open door policy* supported by the political opponents - was elaborated and adopted by the most important parties from the economic field during interwar period, that directly aimed at defending the national interest – Mining Law from 4 of July 1929, law strongly supported by G.N. Leon.

Considered by some authors as being the highlight of the *“through ourselves policy”* (Buzatu, 1998, p.184-185), the Mining Law from 1929, developing the statements of Art.19 from the 1923 Constitution, was the first regulation that enabled legal basis to the underground resources nationalization. In addition to the nationalization of the underground resources, entitled by Art.19, the law introduced some clarification regarding the distribution and the percentages that the national and foreign capital would have within the companies that would explore the underground resources - especially oil.

Through Art.33, paragraph d, they were mentioned the exact percentage that the Romanian capital should have within an oil company. The Romanian capital should represent at least 60% of the social capital of a new company, while for the existing foreign companies, that within a period of 10 years from the law promulgation should nationalize (6), the capital proportion would be reduced to 55%.

By this law was tried a reversal of the percentages hold by the national and foreign capital in the mining field. It appears that the nationalization was a practice developed by the liberal governments from that time, for the purpose of attributing a national character to the investments within the Romanian economy. Therefore, G.N.Leon was in favour of the nationalization in order to pursue some national interests. Despite the fact that, from a Romanian liberal perspective, the socio-economic practices in the mining field introduced by the Mining Law from 1924 became general rules, we cannot take into consideration the fact that this particular law raised a serious of debates and interpretations. The adverse reactions were from the origin states of the foreign companies with investments in the mining filed from Romania.

All these critiques have not determined G.N.Leon to change its point of view, the author perfectly correspond to the description developed by M.C.Demetrescu in respect to a Romanian liberal: "The liberals accepted the critiques, were true patriots...they accepted very strong critiques and they didn't accept any compromises." (7)

What was really impressive, in the context above, was the firmness of the liberal governments from Romania during 1924-1929 in maintaining their points of view in protecting the national interests against the foreign ones and especially in what concerns the oil exploitation.

1. Gh.Buzatu considers that the first oil exports from Romanian countries to Austria and Turkey dated back in 1780 (Gh.Buzatu, 1955, p.24).
2. Even in the circumstances that the investments in the Romanian oil extraction and processing were more attractive for the foreign investors, the capital invested by those did not prove to be sufficient for the developing of a modern national oil industry. In time due to the lack of investments in Romania, G.N.Leon observe that there is a stagnation in what concerns the oil extraction and the production of derivatives.
3. Within the German capitalist model, the economic liberalism, the individual is placed within the group, from the interest's perspective. The interests may be achieved optimally only within a national framework, and by national interests, the actions of those cannot be orientated against the national goals.
4. In our opinion the period between 1924 and 1929 coincides in the field of mining industry with implementation of the main principles of the *through ourselves policy*, the national economy and that particular sector being managed by the economic liberalism representatives.
5. The period between 1920 and 1933 was governed by the Peasant's Party, of the adoption of a new system for underground resources as well as the policy of open doors for foreign capital.
6. Through nationalization we refer to the reverse of the percentage within the social capital of the foreign companies against Romanian capital.
7. Paragraph from the interview from 2000, along with prof. Gheorghe Popescu to M.C.Demetrescu.

8. Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 "Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain".

9. References

- Anuarul statistic al României, anul 1912.
- Art.195 din *Legea minelor* publicată în *Monitorul oficial*, Nr.143, Imprimeriile Statului, București, 4 iulie 1924.
- Giurescu, C.; Giurescu, D. (1971) *Istoria românilor din cele mai vechi timpuri și până astăzi*, Editura Albatros, București.

- Buzatu, G. (1988) *O istorie a petrolului românesc*, Editura Enciclopedică, București,
- Ravaș, G. (1955) *Din istoria petrolului românesc*, Editura de Stat pentru Literatură Politică, București.
- Leon, G. (1943) *Economie politică și politică economică*, București.
- Leon, N. (1943) *Dreptul de expropriere*, Tipografia Dacia, Iași, 1918 și în *Economie politică și politică economică*, București.
- List, F. (1973), *Sistemul național de economie politică*, Editura Academiei R.S.R, București,. Constituția din 1923, Art.19.
- Arcadian, N. (1936) *Industrializarea României*, Ediția a II-a, Imprimeria Națională, București,.
- Constantinescu, T. (1924) *Legea minelor cu expunerea de motive*, Imprimeria Statului, București, *Legea minelor*, publicată în *Monitorul oficial*, Nr.143, Imprimeriile Statului, București, 4 iulie, 1924.