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# Romania during the Interwar Period: an Economic Approach

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## *Abstract*

In the following paper I want to succinctly present the main characteristics of the Kingdom of Romania during the period between 1918 and 1940, representing the two decades after the end of the First World War (World War I, The Great War) also known as the interwar period.

The scope of this endeavor is twofold: firstly, I intend this to be a useful and brief synthesis for the economic and social status of Romania during the twenty years following the great union of 1918, and, secondly, I want to shed some light on a period in our national history that's too often shrouded in myth, exaggeration and hyperbole. In doing so, I will highlight and discuss the main indicators of the interwar Romanian economy, synthetic indicators, aggregated at the macroeconomic level (GDP, National Income, GDP per capita) as well as at social level (life expectancy, infant mortality) also taking into account the European context of the time.

I've chosen the interwar period immediately following the unification because of two main reasons. First, it's the sole period when all the Romanian speaking people shared the same country, together with all the implied social, cultural and economic consequences, and, not the least, because the interwar period played a major role in shaping the future of Romanian throughout the 20<sup>th</sup> century until the present day.

*Keywords:* Romania, economic history, Greater Romania, interwar period

*JEL Classification:* N14, O11, E01

## **1. Introduction: Romania after World War I**

The Kingdom of Romania entered the war starting from August 14, 1916, by declaring war solely to the Austro-Hungarian Empire. Ten days before, Romania had entered the alliance with France, England and Russia by means of a treaty mentioning as its sole goal the unification with the Austro-Hungarian territories

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inhabited mostly by Romanians: Transylvania, Bukovina and the Banat. The huge enthusiasm of the population and of the army, motivated by the national ideal of unification, boosted the successful Romanian offensive in Transylvania, but after initial successes against the Austro-Hungarian Army, the Romanian army was repelled, mostly by German forces, in the second part of 1916 and retreated back to the old borders.

But the changing fortunes of war, following the Russian revolution of 1917, made the Eastern front crumble and, although at times fighting almost with bare hands, the Romanian army was forced to retreat to Moldavia, together with the administration and the democratic institutions temporarily installed in Jassy. In a letter to Queen Mary of Romania, in February 1919, King George V of Great Britain acknowledged that "no ruler and government were ever placed in a more difficult position than which then faced Ferdinand and his Ministers."

After casualties of more than half a million military and civilians because of the war and the subsequent, raging typhoid epidemic, an exhausted Romania made peace with the Central Powers in April 1918. This peace was prefaced by the intentional self-destruction of almost all oil-plants and the burning of its own oil-rich fields, to answer a final request of its allies. The Peace of Bucharest with the Central Powers (which was never ratified by King Ferdinand, so it had no official recognition) was a historical landmark of harshness.

The course of war changed again because the allied offensive in the Balkans, and the subsequent defection of Bulgaria, and especially because of the victories on the western front, the Austro-Hungarian retreat from Italy and the French offensive against Germany, forced to call for peace on October 29, 1918. Just one day before, Romania re-entered the war together with its allies, the army setting foot into Transylvania again, and rapidly advancing amidst popular joy and acclamation. The fortune change seemed almost miraculous.

After the Paris Peace Conference validated the civic option of unification expressed by the popular will of the people from all provinces, Romania's territory and number of inhabitants practically doubled. Thus, the population increased from 7,7 million to 15,7 million, while the territorial gains went from 137 000 km<sup>2</sup> to 295 000 km<sup>2</sup> (Murgescu, 224). Consequently, the economic potential of the newly expanded country was considerably larger than that of the former "old kingdom". On the other hand, the negative economic impact of the First World War on the interwar Romania cannot be overstated.

Romania lost almost 0.7 million people during the World War I, consisting of 250 000 military casualties and 430 000 civilians, meaning 14% of its total population before entering the war (Murgescu, 222).

The country almost doubled in size and population by gaining not only the aforementioned former Austro-Hungarian territories (Transylvania, Bukovina and the Banat) but also Bessarabia, whose integration into what was now called the Kingdom of (Greater) Romania was never acknowledged by the Soviet Union, with dire future consequences: the annexation of Bessarabia by the USSR in 1940, encouraged by the Ribbentrop-Molotov pact signed the preceding year, in august 1939.

## 2. Romania during the interwar period (1919-1940)

Even if this period is still seen as an almost ideal “golden age” in the collective consciousness of the Romanian society, historians and economists alike are quite categorical regarding the two decades between the two world wars; e.g. the decades from the outbreak of the First World War to the aftermath of the Second, was an Age of Catastrophe for the European society. For almost forty years Europe has stumbled from one calamity to another (Hobsbawm, 6). Not so much for Romanian historians, who thought no more no less that Romania had all the preconditions of becoming an Oriental Belgium (Bulei, 144), a position contrary to that of foreign historians who are usually more critical and objective about interwar Romania (Hitchins).

The reasons for this “rosy” vision in the Romanian mindset are multiple: besides the obvious and natural nostalgia regarding the past, the fact is that the interwar period was the era of Greater Romania, the highlight of national unity, only moment in time when all the Romanian people were living inside one single border, all the cultural accomplishments that were fulfilled during these decades, and not the least the fact that the communist regime that followed was arguably worse, and so on.

For example, in a poll placing the 1918-1940 period in the greater context of the economic history of Romania, the results were not unexpected and quite illustrative, even amongst professionals.

**Tabel 1.**

	1 <sup>st</sup> place	2 <sup>nd</sup> place	3 <sup>rd</sup> place	4 <sup>th</sup> place
History students (% of responses)	56,6	20	6,6	16,6
History teachers (% of responses)	66,6	11,1	11,1	11,1
Teachers of other disciplines (% of responses)	80	20	0	0
High school students (% of responses)	100	0	0	0
Overall total (% of total responses)	69,5	15,25	5,08	10,17

Source: Murgescu, B., 2010, p.212

The overwhelming majority ( $\cong 70\%$ ) of respondents placed the interwar era as the best in terms of economic and overall development in Romanian history.

One of the key metrics used in assessing a country's economic performance is the GDP: Gross Domestic Product. GDP is defined as "the value of all final goods and services produced in a country in 1 year", according to the IMF. GDP measures the monetary value of final goods and services (those that are bought by the end user) produced in a country in a given period of time (usually a quarter or a year). GDP counts all of the output generated within the borders of a country and it is composed of goods and services produced for sale in the market and also includes some nonmarket production, such as defense or education services provided by the government.

For instance, considering Angus Maddison's estimations – \$1258 in 1926, \$1144 in 1932, at the height of the economic crisis, and \$1242 in 1928, all values in Geary-Khamis dollars adjusted for inflation – we can easily observe that the GDP per capita for the interwar Romania stayed more or less the same throughout the 20-year period (Maddison, 100). Meanwhile, according to other authors (Harrison, 253) Romania had a GDP/capita of \$1237 in 1937, compared to Poland's \$1372, \$1948 in Czechoslovakia or \$1599 in Hungary.

**Tabel 2.**

Year	Geary-Khamis 1990 US Dollars
1926	1258
1928	1225
1929	1152
1930	1219
1933	1184
1936	1194
1938	1242

Source: Maddison, A., 2006, p.100

According to other researchers (Good, Bairoch) in the year 1913 Romania's GDP per capita represented only 0.63 of the European average, in 1929 that value decreased to 0.58, while in 1938 it was only 0.51 (half of the GDP/capita of the others European countries) and 0.2 compared to the American value (Good & Ma, 111). This means the growth rate for the Romanian economy was slower than that of Europe's, once again pointing out that the gaps between the developed industrialized Western countries and Romanian realities (Good & Ma, 113).

**Tabel 3. Appraisal of GDP per capita in various European countries in 1937**

Country	International US Dollars 1990	% of UK GDP/capita
Czechoslovakia	1948	0.54
Hungary	1599	0.44
Poland	1372	0.38
Yugoslavia	1275	0.35
<b>Romania</b>	<b>1237</b>	<b>0.34</b>
Bulgaria	1148	0.32

Source: Harrison, M. 1994, p. .253

Besides the GDP, which is a metric that appeared relatively late in economic history studies, another indicator widely used in the interwar era was the National Income (Venitul Național) understood as the total amount of money earned within a country (Murgescu, 216). Like other measures, the estimates for national income per capita of 1938 Romania varies quite significantly, the most reliable value being that of \$76 (Dobre, 1996). The disparities between Romania and the rest of (Western) Europe become obvious (almost 4 times lower than the income/capita for Belgium, half of that of Czech value).

**Tabel 4.**

Country	National income per capita (USD) in 1938
United Kingdom	378
Germany	338
Denmark	318
Belgium and Luxembourg	285
France	237
Czechoslovakia	174
Italy	127
Hungary	111
Poland	104
Greece	80
Romania	76
Bulgaria	68
Average for 20 European countries	222

Source: Murgescu, B., 2010, p.217

But nominal indicators like GDP, GDP per capita or National Income per capita tell us only half the story, more a more exhaustive approach we should also take

into consideration other criteria regarding the quality of life, like daily food intake, meat consumption and social metrics (life expectancy at birth, infant mortality).

**Tabel 5. Average consumption per capita in Romania vs. other European countries (1938)**

Country	Food (total daily calorie intake)	Meat (kg/year)	Electric power (Kwh/year)
United Kingdom	3100	60	539
Germany	2960	51	808
Denmark	3420	75	302
Belgium	2970	44	662
France	2880	52	500
Czechoslovakia	2720	33	263
Italy	2640	20	355
Hungary	2770	36	121
Poland	2710	26	115
Romania	2760	18	58
Bulgaria	2900	22	37
Yugoslavia	3020	21	71
Average level	2860	39	441

Source: Murgescu, B., 2010, p.218

Again, there's a severe 1:2 gap between Romania and the average for 22 European countries in matters of average consumption.

Lastly, the social metrics complete this somber imagine of Romania at the dawn of World War II, as shown below.

**Tabel 6.**

Country	Life expectancy at birth (years)		Infant mortality	% of illiterate people
	Men	women		
United Kingdom	58,74	62,88	55,5	...
Germany	59,86	62,81	59,8	...
Denmark	62	63,8	58,7	...
Belgium	56,02	59,79	81,3	5,6
France	54,3	59,02	65,6	3,8
Czechoslovakia	51,92	55,18	109,6	4,1
Italy	53,76	56	106,3	21,6
Hungary	48,27	51,34	131,4	6,0
Poland	48,20	51,40	139,8	23,1
Greece	49,06	50,89	99,4	40,8

Romania	40,20	41,40	182,5	54,3
Bulgaria	45,92	46,64	144,4	31,4
Yugoslavia	41	42	140	45,2

Source: Murgescu, B., 2010, p.219

Infant mortality represents the number of children (of 1000) dead under the age of 1. The differences between Western, on one hand, and Eastern and Southern Europe, on the other, become starker, especially regarding the infant mortality or the literacy rate. Romania had the highest infant mortality rate and most numerous illiterate population of all Europe, more than half of the total population not being able to read or write. One should not forget that the structure of the population remained almost the same as before the Great War, the peasants representing the vast majority of the population, approximately 82% in 1939 (Axenciuc, 74).

Like most countries in the Central and South-Eastern Europe, Romania was, until the Communist regime and its forced industrialization, and despite the interwar economic progress, predominantly a peasant society (Radu & Schmitt, 2). Even though during the interwar decades, the demographic potential of Romania increased by 28%, the population reaching almost 20 million inhabitants in 1939 (Axenciuc, 75) this human resource has never truly accomplished its maximum potential.

**Tabel 7.**

**Total, active, rural population, arable surface and installed capacity in the industry, per selected years, 1862-1947**

Years <sup>1</sup>	Population			Share of rural population %	Arable surface		Engine power in the industry	
	Total thousand inhabitants	inhabitants per km <sup>2</sup>	Active persons thousand		thousand ha	ha per 100 inhabitants	thousand kw	kw per 100 inhabitants
1	2	3	4	5	6	7	8	9
1862	4019	33	2243	82.8	2982	74	—	—
1882	4688	36	2616	82.8	5145	110	—	—
1900	6045	46	3373	81.2	5980	99	38.9	0.6
1914	7771	56	4334	82.0	6327	81	146.6	1.9
1920	15541	53	9076	77.8	10695	69	(390)	2.5
1939	19934	68	11641	81.8	13384	67	1250	6.3
1942	13486	69	7878	78.6	8437	63	1155	8.6
1947	15893	67	9885	76.6	9094	57	1521	9.6

Source: Axenciuc, V., Georgescu, G. 2018, p.74

The reduction of the arable surface per capita mostly due to population increase, in the conditions of maintaining the traditional production processes with manual labor and handling and low yields, led, after the second decade of the 20th century, to an absolute reduction of the contribution of the agricultural potential, of its production to economic growth, and to its final results, the GDP (Axenciuc, 75).

Discussing trade, the two main categories of export goods for interwar Romania were cereals and oil and its derivatives. But, although in quantitative terms, the overall trend was of growing quantities, the value collected from these exchanges has diminished over time, mostly because of the increase in grain supply (and the prices' drop) on the foreign markets on which Romanian was so dependant.

**Tabel 8. Romania's exports of cereals (indices, multiannual averages)**

Interval	Quantity	Value
1924-1928	100	100
1929-1933	159,1	60,8
1934-1938	97,6	46,3

Source: Murgescu, B., 2010, p.236

Thus, while the decade following World War 1 cereals dominated Romania's exports, after 1930 and until the end of the World War II oil has overtaken and maintained that role (Botescu, 4). By contrast, in 1913 Romania delivered 8% of the world's wheat exports (Berend, 32).

**Tabel 9. Cereal production of interwar Romania (million tonnes)**

Period	Total	Wheat	Maize	Other cereals
1911-1915	11,7	3,9	5	2,8
1919	9,2	2,7	4,5	2,0
1920	9,1	1,7	4,6	2,8
1926	12,1	3,0	5,8	3,3
1928	8,7	3,1	2,8	2,8
1929	13,6	2,7	6,4	4,5
1930	12,1	3,5	4,5	4,1
1933	11,0	3,2	4,5	3,3
1935	9,9	2,6	5,4	1,9
1938	11,8	4,8	5,1	1,9
1939	12,3	4,4	6,1	1,8

Source: Murgescu, B., 2010, p.226

Compared to other European countries, Romanian agriculture was plagued by low productivity per capita and poor overall outputs.



**Tabel 10. Average wheat production in different European countries (100 kg/ha)**

Country	1908-1912	1920-1922	1934-1938
Romania	11,7	8,9	10,3
Denmark	31,0	29	30,4
United Kingdom	21,4	20	23,1
Germany	18,5	17	22,0
Czechoslovakia	...	15	17,1
Austria	...	11	16,7
France	13,2	14	15,6
Italy	9,6	10	14,4
Hungary	...	11	14,0
Poland	...	10	14,6
Bulgaria	10,3	12	12,5
Greece	7,0	7	9,0
Spain	9,4	9	9,6

Source: Murgescu, B., 2010, p.228

**Tabel 11. Farm size in interwar Romania (1930-1935):**

Ha	% of total number of farms	% of total arable land
<1	18,6	1,6
1-3	33,6	11,1
3-5	22,8	15,3
5-10	17,1	20,0
10-20	5,5	12,0
20-50	1,7	7,8
50-100	0,3	4,5
100-200	0,2	4,0
200-500	0,1	6,7
>500	0,1	17,0

Source: Murgescu, B., 2010, p.229

Over a half of rural households had less than 3ha and three quarters of them less than 5ha, the lower limit for the subsistence of a medium-sized family.

Work productivity in agriculture in various European countries in 1938 (USD per person working in agriculture).

**Tabel 12**

United Kingdom	560
The Netherlands	500
Sweden	470
Denmark	440
Belgium and Luxembourg	400
Germany	290
France	280
Czechoslovakia	200
Norway	200
Austria	160
Hungary	150
Italy	130
Poland	130
Finland	110
Bulgaria	110
Romania	80
Average for 18 countries	210

Source: Murgescu, B., 2010, p.241

After 1930 oil surpassed cereals as the most valuable Romanian export product, as seen in the table below – the value share of cereals and oil in Romania's exports.

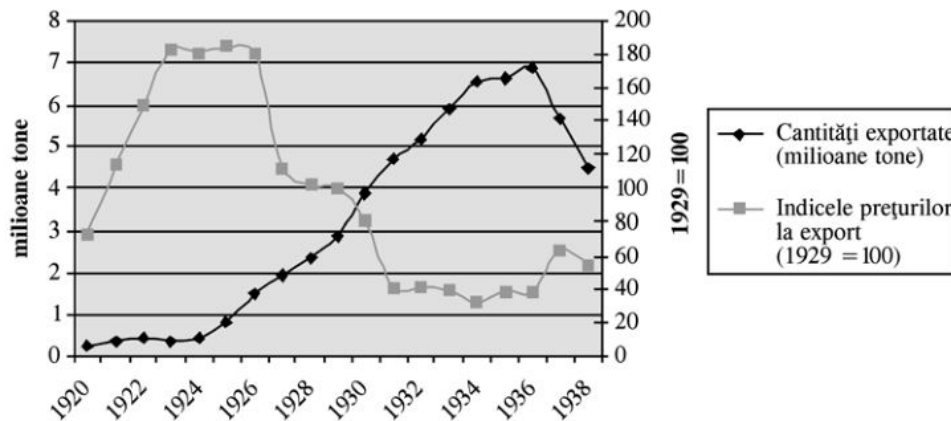
**Tabel 13**

Year	Cereals	Oil products
1920	67,2	19,1
1926	36,8	24,7
1930	36,5	36,6
1933	26,9	55,3
1936	35,1	41,3
1938	29,5	43,5
1939	31,9	41,9

Source: Murgescu, B., 2010, p.245

But likewise in the case of agriculture, Romania insufficiently exploited its oil potential, selling more oil when its prices were low on the international markets (1931-1936) and smaller quantities when the prices were high (1923-1926), even though Romania, together with Russia, was one of the main European oil producers (Berend, 31).

Figure 1



Source: Murgescu, B., 2010, p.246

The causes for the relatively poor economic performance of interwar Romania are multiple, deep and complex, and thus any causal explanations warrant future in-depth analysis in order to be able to answer to the question “why wasn’t Romania capable to close the gap separating it from the rest of more developed European countries?” For instance, the losses and destructions suffered by Romania in the war and the damage compensations paid following the World War I, to which the dire effects of the 1929-1933 economic crisis were further added, led to a slower economic growth during the two decades after 1919 compared to the previous 1862 – 1914 period (Axenciuc, 77). Therefore it’s not at all erroneous to say that the 20 years after 1918 were not so favorable to economy as the ones before the Great War.

The evolution of the gross domestic product, in lei 1913, in dynamic and per capita, averages of the selected years, period 1862-1947, according to Axenciuc and Georgescu.

Tabel 14.

	1862- 1866	1911- 1914	1920- 1924	1935- 1939	1940- 1944	1945- 1947
I	2	3	4	5	6	7
<b>Total gross domestic product, million lei</b>	861	3363	5466	8508	5665	4045
<b>Dynamics (%)</b>	100	391	635	988	658	470
<b>per capita, lei</b>	211	458	345	436	420	256
<b>Dynamics(%)</b>	100	217	162	207	199	121

Source: Axenciuc, V., Georgescu, G. 2018, p.80

Gross domestic product, total and per capita, in lei 1913, in USD PPP 1913 and 2000, and indexes, averages of the years, 1920 – 1947.

Tabel 15

Averages of the years	GDP in lei 1913		GDP in million USD			GDP per capita, USD		
	total mil.	per capita lei	currency 1913	PPP 2000	indexes	currency 1913	PPP 2000	indexes
1920-1924	5466	344	1055	14351	100.0	66	897	161.9
1925-1929	6995	411	1350	18365	128.0	79	1070	193.1
1930-1934	7398	408	1428	19424	135.3	78	1054	190.2
1935-1939	8508	436	1643	22338	155.7	84	1144	206.5
1940-1944	5665	420	1094	14873	103.6	81	1102	198.9
1945-1947	4045	256	781	10621	74.0	49	672	121.3

Source: Axenciuc, V., Georgescu, G. 2018, p.83

### 3. Conclusions

We can conclude that, at the end of interwar period, Romania was one of the poorest and least developed countries in Europe, with the lowest socioeconomic indicators. Furthermore, the gaps between Romania and most European countries seem to have widened during those twenty years. The economic growth between 1919 and 1940 was slower than the growth in the four decades before World War I (1862 – 1914).

Regarding foreign trade, the overall structure of Romanian exports during the interwar period was, generally speaking, unfavorable to the long-term sustainable economic development for our country, given the fact that the unprocessed and low-processed products accounted for over 90% of total exports. The downsides are quite obvious: 1) the Romanian was highly vulnerable to external fluctuations and 2) lacking considerable amounts of domestic capital, Romania was unable to manufacture and export expensive and labor-intensive industrial products (like cars or railroad material) during these two decades, instead relying on the two main stable products: oil and cereals.

Moreover, there were still deep gaps regarding the economic development and quality of life between the urban and rural sphere, the latter overshadowing the former by sheer number. The middle class was small, less numerous, lacking capital and thus failed to play a major role throughout the interwar period.

Finally, we can safely assert that the supposedly remarkable economic development and progress of interwar Romania is largely a myth that appeared and grew decades

after, and the misconceptions and embellishments which surround it should be further clarified and expanded in future studies.

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