

ASPECTS OF FINANCIAL HISTORY IN ROMANIA. REFORM AND REFORMERS. THE FINANCIAL TAX REFORM ACCOMPLISHED BY NICOLAE TITULESCU

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Abstract: *This paper presents a brief history of the financial reform designed by Nicolae Titulescu at the beginning of the 1920's. His tax reform law was formulated after thorough research of other European tax systems. He tried to implement it while he was Minister of Finance. Even though the law was adopted, it was never enacted. It met a certain amount of controversy in the Assembly of Deputies. The analysis made also tries to explain the cedular tax system.*

Key words: *finance, income, cedular tax, direct tax, indirect tax, tax reform.*

1. Introduction

Although he is primarily known for his brilliant diplomatic skills, being an appreciated public speaker and politician, Nicolae Titulescu was also concerned with the economic-financial field, no less important for the evolution of Romania, because of the novelty of the proposed changes and of the impact on economic realities with social, political, scientific and didactical aspects.

He pointed out the interdependence between law and economics [1], he drew attention upon the dynamics of the social life and the fact that the regulation of social transformations is the meaning of all legal provisions. He pleaded for the humanistic interpretation and application of law and in this regard he stated:

“...renovation and real guidance of legal sciences will not rule for the common good until the day that everybody understands that it is people who move under the abstraction of the law, and that sacrificing them to a logical excess equates to saying that man is made for the law, and not the law for man, which is nonsense.” [2]

From July 1917 until January 1918, Nicolae Titulescu was the Minister of Finance. After his return from France, where he attended the peace conference as a member of the Romanian delegation, Titulescu was called for a second term of office as Finance Minister, office which he held from June 1920 to October 1921. During this period, he devoted himself to developing a new and modern tax system in Romania.

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2. The shaping of Titulescu's reform.

The political, economic and social context

The idea of promoting financial reform germinated in his mind since he was in Paris, so he made great efforts to prepare it. He collected information about the principles and technical content of the future reform, sought a huge documentary material and consulted many financial experts in the West, so in 1920 he wrote to his friend, Take Ionescu, "I've worked hard here in the direction of finance, I do not know what it is worth, but I have a whole program. But I cannot harness something like that only after a certain time and only in a government that can work and not just plot." [3]

Titulescu understood the necessity of financial reform in the conditions of the Romanian unified national state, reform that had to be part of a wider set of measures meant to create a uniform basis for organizing and managing business, financial, social and political matters in Great Romania. The purpose of this reform was to achieve a uniform system of taxes, valid for all provinces of Romania, so it would be coordinated and monitored more easily from Bucharest. The newly created state needed the support of modern and healthy public finance, which was not possible under the conditions that four financial and tax systems coexisted within the same territory. The planned unification of the tax reform sought to establish an average level of taxes by increasing the existing ones in the Old Kingdom and reducing tax burdens in other provinces. The financial and fiscal reform designed by Titulescu was the boldest and most ample reform of its kind designed by a Romanian minister, having not only a strong national character, but also a social one, as it proposed the allocation of fiscal duties in compliance with the principle of

equity and downsizing privileges dominating the fiscal field. [4] Tax obligations were to be set by the size and source of income, differentiating between from labour income and capital income.

The financial and fiscal reform was all the more necessary as the economy in Romania suffered as a consequence of the war, finances being in debt, with tens of billions of Lei to be reimbursed. With lots of courage and honesty, Titulescu presented the true state of the economy, the disorder in public finances, lack of fairness of the tax system, its undemocratic character. While internal and external credit was almost impossible, a way to create state revenue was "to take advantage of Romania's immense natural wealth." [5]

Here Titulescu thought that the financial reform in the broader context of economic reform had the following goals: balance the state budget through ordinary means, use as little as possible credit and try to find other sources for the budget, use the foreign exchange policy as a tool to balance finances, the stimulation and support of exports, the establishment of a strategy of economic reconstruction for a period of seven years with the contribution of all political parties, a strategy that should be protected from changes that occur on the internal political scene - a genuine economic constitution.

But a reform of such magnitude requires a long time, Titulescu took the first step by establishing the direct tax reform, not without encountering opposition from those who advocated a tax system that had a significant share of indirect taxes. Keen observer and knowledgeable researcher, Titulescu noticed the hypocrisy of indirect tax that ignored the taxpayer, operating more on commodity items than on non-commodities, affecting low-income taxpayers, which become impoverished rather than those with higher incomes,

leading to higher prices and reduced production. “For decades we have taken taxpayers money in the most hypocritical way, as indirect tribute. For decades we have not dared to present a frank tribute bill directly for fear of losing our popularity” - Titulescu said in support of his reform in the Assembly of Deputies in 1921. Therefore, Titulescu drew attention to *the direct tax reform* that had to ensure the most important part of the ordinary resources of the state.

To achieve a thorough reform, void of amateurism, Titulescu carried out a comprehensive research work of tax systems in Western countries, establishing a veritable monograph of tax in England, Germany, Italy, France, the United States, Belgium, Austria, Greece and Switzerland. Starting from the idea that the tax is not an immutable economic category, but a historical one, the great Titulescu studied the evolution of tax in these states over two hundred years, in order to highlight the effects of the measures taken. With the same thoroughness, he studied tax laws of the provinces of Romania, both approaches prompting him to conclude that the *introduction of tax-free subsistence level and progressiveness of the income tax on non-exempted gains are the main conditions for a democratic system of taxation*. [6]

3. Income category tax or *cedular tax*

Building on research of over two centuries of economic theory and fighting arguments of those who claimed the inefficiency of direct contributions in times of crisis, Titulescu determined seven categories of direct taxes, called *cedular tax (elementary tax)* [7], depending on the source of revenue, as follows:

1. Tax on revenue on unbuilt properties.
2. Tax on revenue on built properties.
3. The tax on farm income.

4. Tax on industrial and commercial revenues.
5. Tax on income from noncommercial professions and occupations.
6. Tax on wages, pensions, salaries, and life annuities.
7. Tax on income securities, receivables, deposits, securities, warranties.

In order to correct certain inaccuracies in the *cedular system*, for example the inability to attract all the income for taxation, income tax was introduced as a tax placed on all income of a taxpayer, in an aggregate income or global single income that had certain deductions.

Revenues were taxed according to the source of production, as well as to the acquisition means, the biggest tax was on the income from capital [8], unlike labour income which was taxed at lower rates. Taxation was achieved in accordance with the *principle of progressiveness*, meaning the tax rate increased in the scale and volume of the accumulated wealth.

Revenues from production activities enjoyed the protection of the legislature, especially those derived from agriculture. A *minimum existence* or *non-taxable minimum* was established and considered an obligation of the state, involving the tax exemption for establishments for baths and mineral waters, for war invalids' pensions, for family responsibilities, tax cuts on the revenue for the municipal companies building of cheap housing, low taxes for journalists and writers, and other exemptions and discounts.

Titulescu classified contributions by size of annual revenue, total taxes varying depending on the acquisition means – work or capital - as follows:

- Needy ones with income of up to 30 000 lei - between 2-5% total tax;
- Middle ones with income between 30,000 and 100,000 lei - between 8-20% total tax;

- Wealthy ones income between 100,000 lei and 300,000 lei - total taxes between 10-30%;
- Rich ones with income above 300 000 lei - between 16-40% total tax.

Titulescu's reform concerned the capital accumulated in wartime. He taxed them so high that in some cases the tax amounted to a real confiscation of capital.

The Reform Act included provisions related to the wealth of public officials, *a percentage of 92% of the wealth that could not be justified would be confiscated and passed into state ownership.*

By means of the tax law reform, Titulescu also aimed to remove the old tax regime on inheritance, removing the stamp duties and registration tax placed on inheritance, and replacing it with a "statistical fee and a control moderate and progressive charge". [9]

For example, an inheritance of 50 million gained by a descendant in direct line was taxed at 30%, while a value of 1,000 lei was taxed at only 2.50%. To avoid fraud and tax evasion, the author assimilated donations to inheritance.

The tendency of the reform was to achieve a fair distribution of taxes on taxpayers, to democratise the public finance and to reconcile with the modern fiscal developments, to put order in public finance. Aware of the socio-economic impact of the reform, Titulescu called for a broad debate in the Parliament for the proposed measures.

As a result, the reform generated lively debate, controversy, created a tense atmosphere, through "the complicity of ignorance, ease and interest" [10], and the author of the reform faced powerful opponents who challenged the usefulness of change, but Titulescu responded caustically and allusively, "I'd rather be guilty by law than no law." [11] However, Titulescu enjoyed the support of many

leading politicians, such as Nicolae Iorga, so that the Titulescian point of view prevailed, the law reform was adopted with a majority on the 1st of August 1921.

Although adopted, the existing law was not applied because of tax excessiveness and on March 28th 1923 The Law of direct contributions was adopted. This new regulation preserved the principles of Titulescu's law (cedular taxes, global tax, progressiveness), but exemptions, deductions, reductions were depleted and tax rates reduced, including those applied to the revenue of limited liability companies.[12] *The principles of financial reform carried out by Titulescu constituted the foundation of the financial system in Romania until 11 June 1948, when nationalization took place.*

4. Conclusion

The reform of direct contributions was the last important action taken by Titulescu in Romania's domestic politics. Upon completion of his finance minister office in late 1921, Titulescu was concerned to a lesser extent with domestic politics, he left the internal political stage and devoted himself to diplomacy and international politics, or, as the great public speaker himself said, "not inside where arguments are noisy, but outside where the battles are tough." [13]

Despite the fact that he was not an economist, Titulescu realized that a significant part of the domestic and international politics regard economic and financial categories, his entire existence being guided by a generous humanism, the idea of justice and success through labour. Herald of Peace, which he viewed as an instrument of multilateral development for peoples, he campaigned to replace *the law of force by the force of law.* [14] In all of his activity, he was considered to open new horizons for the service of humanity.

References and notes

1. As a means of perfecting the multilateral training of lawyers, Titulescu proposed completing the educational program of the Faculty of Law with a second year dedicated to the study of political economy, consecrated to Romanian issues, he emphasized the usefulness of a course on the sociology of the history of economic doctrines and the need for departments of history of law and the need for a department of *law history and comparative civil and commercial law*.
His proposals are still timely, especially since the communist years have eroded respect for the private property, fair business and fair competition, so now we face the need to disseminate the culture of free market and democracy. With great foresight and concern, Titulescu anticipated contemporary economic theory for the relationship between man, culture and economic performance, suggesting the sociology of the history of economic doctrines which today we call *economic sociology* or *behavioural economics*.
2. Titulescu, N.: *Observațiuni asupra reorganizării facultăților de drept*. *Cronica* newspaper, 9, 10, 11, 13, 14, 15th July 1904, quoted by Marinescu, I.: *Pe traiectoria devenirii economico-financiare. Studii și evocări*. Piatra Craiului Publishing House, București. 2000, pp. 82-83.
3. Oprea, I., M.: *Nicolae Titulescu*. Scientific Publishing House, București. 1966, p. 63.
4. In support of the proposed measures, Titulescu stated in his speech in the debate in the Assembly of Deputies on 10th of June 1921, relating to financial reform,

“A tax system where the most general tax, the tribute, is equal for both the rich and the poor; one regime in which man pays the State a tax equal to that of the wealthy, free of any charges; a system that takes the burden through property tax, and movable property, under the pretext of developing our national economy, grows under our very eyes very threatening, almost guarded from the Exchequer; a regime in which high labour income earners, the professional ones, do not pay anything, and the largest labour ... are completely exempt, when the humblest wage is hit by a tax of 3%, such a tax system must be destroyed if we do not want it to tear us down, especially at a time that gives strong voice to universal suffrage which demands justice ...”.
5. Titulescu, N.: *Debates in the Assembly of Deputies*. 2nd of July 1921.
6. Titulescu, N.: *Proiectul de lege pentru reforma contribuțiilor directe* – Law project for the reform of direct contributions p. 5, quoted by Oprea, I., M.: *Nicolae Titulescu*. Scientific Publishing House, București. 1966, p. 70.
7. In Law Project for the direct tax reform, Titulescu explained that most states have abolished the single income tax and he split into categories called *cedule*.
8. The heated debate was caused by the proposition of legal persons tax, i.e. limited liability companies (limited companies) tax, most of them were credit institutions (banks). Global tax of natural persons was replaced by the tax on the reserves that shareholders do not partake in, as it was sharply criticized on the resulted tax burden.

9. Titulescu, N.: *Expunere de motive la legea impozitului pe succesiuni – Arguments in favor of the tax on inheritances*. p. 1, quoted by Oprea, I., M.: *Nicolae Titulescu*. Scientific Publishing House, Bucureşti. 1966, p. 75.
10. Oprea, I., M.: *Nicolae Titulescu*. Scientific Publishing House, Bucureşti. 1966, p. 63.
11. Titulescu, N.: *Universul* newspaper, 13th December 1937.
12. Rădulescu, S.: *Nicolae Titulescu*. in *Diplomaţi iluștri I*. Political Publishing House, Bucureşti. 1969, p. 39.