VICTOR PLACE AS EARLY ADVOCATE OF FRACTIONAL RESERVE CENTRAL BANKING IN ROMANIA

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Abstract

This article discusses two early documents on the theory and policy of money and banking in Romania. They are authored by Victor Place, a French diplomat and Consul in the Principality of Moldavia, whose role in the institutional transformation of the country cannot be underestimated. The two documents analyze the design and the problems of banking in the Principalities. The author's attempt to offer a systematic treatment gives me the opportunity to show his errors and contradictions in light of modern theory. In order to understand what were the other available policy alternatives for the emerging Romanian state, I will also put his analysis in contemporaneous Western perspective.

Keywords: central banking; free banking; fractional reserves; government policy; crisis

JEL Category: E5, F54, G01, G28, N23.

Victor Place was a French diplomat born in 1818, having served in St. Dominique and Mossul before being appointed at the Consulate of France in the Principality of Moldavia, in September 1855. He served as Consul until April 1863, having thus been a witness and involved actor in the transformations brought about by the 1859 unification of Romania. In fact, his role in the

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unification process and in other matters of institutional design in the new state was far from negligible (Bârgoanu, 2011). Although his career took him afterwards to Turkey, Madagascar, India and the United States, he married a Romanian and later returned to live at his brothers in law in Moldavia, where he also died, in January 1875 (Băicoianu, 1932a, p. 252).

In counselling on finance and banking, Victor Place was involved with the planning and creation of the National Bank of Moldavia (Smirna, 2015; Smirna & Topan, 2015). Also, sometimes between July 1859 and November 1859, Prince Alexandru Ioan Cuza asked the French government to offer Place the necessary leave to act as delegate for the negotiation of the foreign public credit of 60.000.000 francs in Paris and to arrange for the minting of a national money. Victor Place was entrusted by Cuza with other important tasks in the institutional design of the new regime. Băicoianu presents him as the arch-strategist of Prince Cuza for the reorganization of the new Romanian state based on French blueprints (Băicoianu, 1932a, p. 235)

TWO RELEVANT DOCUMENTS FOR THE SHAPING OF MONETARY AND BANKING POLICY

I am going to present and comment on two documents written by Victor Place about the design and problems of banking in the Principalities. They can be found in the Annexes of Băicoianu's *Istoria politicei noastre monetare și a Băncii Naționale*: in Annex 47, *Notes pour une banque roumaine de Moldavie*, and Annex 48, *Restauration de l'ancienne banque de Moldavie sous le nom de Banque Roumaine* (Băicoianu, 1932b, pp. 624-639).

The importance of these documents is crucial, because they relate directly the plans for the creation of a central bank in Romania with a minute argumentation of the economic principles that such a bank should be based on. To my knowledge, these two reports are a virtually singular systematic treatment that this problem has received in the Romanian intellectual environment shortly before 1860.

The first document seems to be written for instructing the laymen and, specifically, the stockholders of the National Bank of Moldavia, on the principles of credit and banking[1]. The author starts by describing barter and the advantage that indirect exchange has over it. Besides the usage of money, another step toward economic development is credit. It is the impulse of credit that commerce in the Principalities lacks. Presently, credit is used

> *without method, without rules and ineffectively. The syncopated oscillations of money's rate, the high level of interest and discount, usury without shame and limit, all these are of the most serious kind. […]*
>
> *The Credit being thus recognized as the most effective money in developing the public wealth in a country, a National Bank for Circulation and Discount, as a basis and regulating instrument for credit, is also as indispensable as the foundations of a building. I will not insist here on this truth that has come to be considered an axiom in the financial world […].*[2] (Băicoianu, 1932b, p. 624)

Place begins his demonstration of the benefits of credit with a simple example of a loan operated by short term promissory note for a reputable businessman. The supplier that acted initially as

[1] Unless otherwise stated, the concepts and views described in this section belong to Victor Place, and not to me.

[2] Original: "*sans méthode, sans règle, sans efficacité. Les oscillations saccadées du taux de l'argent, l'élévation de l'intérêt et de l'escompte, l'usure sans pudeur et sans limite, sont là pour constituer un des plus sérieux. […]*

Le Crédit étant donc reconnu comme l'argent le plus efficace du développement de la richesse publique dans un pays, une Banque Nationale de Circulation et d'Escompte, fondement et instrument régulateur du crédit, lui est aussi indispensable que les fondations à un édifice. Je n'insisterai pas sur cette vérité qui est passe à l'état d'axiome dans le monde financier […]."

creditor also needs funds, and, using his and his debtor's recognition, he uses the note to obtain credit from his supplier. With this step repeated several times, the author tries to argue that the effect of credit is multiplied. This multiplication, he says, is the reason for the great distance that separates economies that use financial paper from the ones that only use cash for payments (Băicoianu, 1932b, p. 626).

This type of instrument, however, has a serious drawback: the issuers must be recognized by the receivers, and this constitutes a problem when exchanges take place beyond small communities or industries. Greater distances attract higher delivery costs. Also, the commerce intermediated by such instruments is restricted to the fixed amount of the instrument and very often even the last businessmen to accept need to liquidate before term.

The problems related to lack of information, costs and insecurity are solved by the banker, because he is an intermediary specializing in gathering knowledge about businesses and businessmen. He accepts the notes and offers a letter of exchange or adds a guarantee to the promissory note. He thus offers the businessman the option of early liquidation of his claim and creates economies of scale in transfer and transmission of information. The banker charges for these services a commission and the relevant discount or interest (Băicoianu, 1932b, p. 627).

Place argues that through his emergence, the banker multiplies further the beneficial effects of credit. The economy is described as a ladder between primary resources and the final product. On the higher rung sits the banker.

> *Trust is the basis of Credit and fiduciary paper its instrument [...]*
>
> *Where capital is scarce, and this is always the case in a country where they only use cash, interest is considerably*

> *great and it grows naturally into usury.*[3] (Băicoianu, 1932b, p. 630)

Moreover, the creditor asks for other goods as collateral guarantees, and this is an additional, non-monetary cost. The only solution is:

> *[T]o introduce in this country another circulation value, that is so much more elastic and powerful than cash, and supplement it in such proportion that the interest of capital finds itself diminished by the quantity of this value. Yet, the value discussed is but the credit, because each time that the Banker issues an exchange bill for a promissory note, what he borrows actually is his credit. But the effects of this loan are so efficient that they have introduced the use of 8% interest as a commercial rate and, in some moments and some countries, as Holland, for example, the rate falls to 2%.*
>
> *The Banker being the issuer and propagator of credit, we understand how come he is responsible for the normalization of interest, and not the more or less big volumes of circulating monies. Thus, in the countries I talk about, the proportion of money in circulation is not higher, when compared to the level of trade, that in the Principalities. But the bigger part of the values is fiduciary and it thus competes with specie in lowering the rate.*[4] (Băicoianu, 1932b, p. 630)

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[3] Original: "*[L]e Crédit a la confiance pour base et le papier fiduciaire pour instrument […]*

Lorsque le capital est rare, et cela a toujours lieu dans un pays où l'on n'opère que sur numéraire, l'intérêt est considérable et tourne naturellement à l'usure."

[4] Original: "*[D]'introduire dans ce pays une autre valeur de circulation, qui [est] bien autrement élastique et puissante que le numéraire, y supplée dans une proportion telle que l'intérêt du capital s'y trouve diminue de la quantité même de cette valeur. Or la valeur en question n'est rien autre que le crédit, car chaque fois*

It's not a sufficient condition for bankers to exist in a country for the interest rate to reach a minimum. In Moldavia they exist, and without them the interest would be even higher, but they do not "parviennent", and the role of a national bank is exactly that of making them become something more than simple usurers, through the introduction of a superior credit, that finishes their work on the interest of capital.

Although it's hard to believe that the world could see anything superior to the banker as regards the supply of credit, extreme progress is presented by Place as embodied by the institution of the national bank that is for the creditors what they themselves are for the businessmen. The banker's action has its limits determined by his limited knowledge. He is not infallible. What he lacks is absolute and undisputed morality, infallibility in the choice of papers accepted and the breadth of his relations (Băicoianu, 1932b, p. 632).

The national bank is called to fulfill these demands. It is a general bureau of credit, created with private funds, but with the consent and supervision from the state. National banks receive a unique privilege, that of issuing commercial paper, banknotes that circulate at par with money.

> *Morality, being the foremost requirement for a trust bureau, reaches its maximum in this kind of banks.*[5] (Băicoianu, 1932b, p. 632)

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que le Banquier émet une lettre de change pour un billet à ordre, ce qu'il prête en réalité c'est son crédit. Mais les effets de ce prêt son si efficaces que ont introduit l'usage de 8% d'intérêts comme taux commercial et que dans certains moments et dans quelques pays, comme la Hollande par exemple le taux tombe à 2%.

Le générateur et propagateur du crédit étant le Banquier, on comprend dès lors comment c'est à lui qu'est dû la régularisation de l'intérêt et non pas à une plus ou moins grande masses des espèces circulantes car dans les pays dont je parle, la proportion du numéraire en circulation n'est pas plus forte, relativement à la somme des affaires que dans les Principautés. Mais la majeure partie des valeurs est fiduciaire et fait assez de concurrence à l'argent pour en abaisser le taux."

[5] Original: "*La moralité qui est la première des exigences pour un bureau de confiance atteint son maximum dans ces sortes de banques*."

This results not from the superiority of the individuals that operate it, but from the many systems of control, internal and governmental. Moreover, its public status expose it to the public opinion through regular publication of a report of its activity. In the rare occasions when such a bank has failed, it was often a case of governmental negligence, with authorities responsible towards the affected stockholders.

The extent of the national bank's relations is thus the greatest and this confers it a very high degree of infallibility. The example of the Bank of France shows that, historically speaking, national banks are the most secure.

> *It is only thus, by fiduciary credit and paper, that we can succeed in making the money rate fall and in beating usury; these two plagues no law, be it the most rigorous, can fight.*[6] (Băicoianu, 1932b, p. 635)

As distinguished from private banks, the national bank has unlimited sources of credit, because of its absolute guarantees of good management. Thus, it can keep the interest rate below reasonable levels. This normalization of interest is one of its principal functions, because these banks become veritable reservoirs of capital in times of abundance and thus sources for the country in times of crisis and calamity.

It elicits capital from being unproductive and also avoids precipitous liquidation, thus keeping a relative stability and level that protects the country from sudden changes in interest, that are the main cause of ruin. The special instrument that decouples the force of the national bank is the banknote.

The exchange bill has the advantage of circulating without endorsement from a multitude of businessmen. But it has a term and it still has to be endorsed by private or national banks. The

[6] Original: "*Ce n'est qu'ainsi, par le crédit et le papier fiduciaire qu'on peut arriver à faire tomber le taux de l'argent et à abattre l'usure, sur ces deux plaies les lois mêmes les plus rigoureuses ne peuvent rien.*"

banknote is, however, a special kind of bill, because they are both a promissory note and an exchange bill, payable at the issuer and anywhere else. Also, it has extra advantages over the aforementioned instruments: it is not nominal and thus avoids waiting and loss of privacy; and it is not limited by a maturity, thus being redeemable now or in twenty years. Thus, banknotes are themselves money.

How are banknotes used? The national bank offers them in exchange for commercial paper. It thus extends not money or monetary metals, but a very special credit, based on guarantees so high that everybody accept it as if it were money (Băicoianu, 1932b, p. 636).

The volume of banknotes issued cannot be, however, higher than the volume of short term commercial paper the bank holds.

> *A bank is thus capable to liquidate in three months. at the latest, whatever are number and scope of its operations*
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> *The role of the National Banks thus being clearly established with privileged bearer banknotes, it would follow that these same banknotes should suffice it to fulfill its function as general creditor and that it should not need metallic money in any other terms but as founding capital. Without any doubt, if we can speak about their morality as absolute, we can associate complete infallibility to it.*[7] (Băicoianu, 1932b, p. 637)

Place goes on to explain the effects of fiduciary credit. He offers the example of the Bank of France that operates with very

[7] Original: "*Une banque est donc en mesure de liquider dans le terme de trois mois au plus tard, quels que soient le nombre et l'étendue de ses opérations.*

Le rôle des Banques Nationales, avec billets au porteur privilégies, étant ainsi bien établi, il s'en suivrait que ces mêmes billets devraient lui suffire à remplir sa fonction de créditant général et qu'elle ne devrait pas avoir besoin d'espèces, en d'autres termes de capital de fondation. Sans aucun doute si à leur moralité qu'on peut rendre absolue pouvait s'ajouter une infaillibilité complète."

low reserves and finances the state. He criticizes the backward opinions of the Romanians, who consider that a bank without metallic money reserves is useless or endangered.

> *I insist on this point because it serves me to correct an error that is widespread in the United Principalities. There is a stubbornness in viewing the National Bank but a vault always open for specie payments. The custom, for so many years in these countries, of only using cash or personal notes, draws the assumption that if a Bank hasn't got pieces of specie in its deposits, then it is good for nothing or it is in danger.*[8] (Băicoianu, 1932b, p. 637)

He also gives the example of England, where the ratio of money supply to trade is very small. Good management is what matters, not the quantity of barren gold in the vaults of the bank. The bank is a portfolio, not a vault. It is childish to establish a bank and to simultaneously attempt to restrict the quantity of banknotes issued, its singular reason to exist.

Place criticizes the local plans for banks that limit the volume of banknote issued at two time the value of capital[9], when in other countries the circulation is six or eight times the value of capital. The fear of banknotes, he observes is derived from the confusion between them and paper money (*papier-monnaie*) that lacks any backing. People imagine that the bank has a hidden press somewhere and it manufactures banknotes that can be thrown on the market without any rules or measure. The bank is considered similar to a needy state that tries to save itself from default by

[8] Original: *"J'insiste sur ce point car il me sert à rectifier une erreur fort répandue dans les principautés unies. On s'obstine à ne voir dans une Banque Nationale qu'un coffre-fort toujours ouvert pour donner de l'argent. L'habitude de n'opérer depuis tant d'années dans ces pays qu'à l'aide de l'argent comptant ou d'obligations personnelles, fait supposer que si une Banque n'a pas des monceaux d'espèces dans ses caisse elle n'est d'aucune utilité ou se trouve en péril."*

printing paper money day and night, thus leading to inflation and to the eventual default (Băicoianu, 1932b, p. 638).

The banknote, asserts Place, has only a formal resemblance to paper money. The difference is given by the fact that banknotes are covered with commercial paper that the bank accepts with its capacity to generate general trust in exchange for limited trust. The national bank does not speculate in its own right, it has no debts and its issues are naturally limited by the level of the instruments it has on its balance.

The bank's capital is just the guarantee for delinquent debtors, calculation errors, and the occasional bank run demands.

> *Thus, to the extent that we demand it to have always in its vaults such sums as to cover the integral value, or a little less, of its notes in circulation, we express an absurdity, because it would have rather put these inert money to good use than to go to the trouble of engraving and printing these notes.*[10] (Băicoianu, 1932b, p. 639)

In the last part of this document and most of the report titled *Restauration de l'ancienne banque de Moldavie sous le nom de Banque Roumaine,* Place comments on the causes that led to the failure of the National Bank of Moldavia. Rather than being based on wrong principles, the bank suffered from management problems, lack of personal integrity from the chartered founders

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[9] Place does not define his use of the term "capital". From the context, I can understand that he uses the term to mean alternatively one of several things: the set of production goods that an economy has at its disposal, the sums of money that command the use of such goods, the endowment that the stockholders offer a company or stock society (using sometimes the expression "social capital"), specifically the bank, that it can use to run its operations, and also the specie reserves that the bank keeps for the backing of its banknotes.

[10] Original: "*Aussi lorsqu'on demande qu'elle ait toujours dans ses caves de sommes représentant la valeur intégrale ou à peu près de ses billets en circulation, on dit un non sens, car elle aurait plus tôt fait de se servir de cet argent inerte que de prendre la peine de faire graver et de faire imprimer des billets*."

and defective supervision by the state. The fractional reserve principle and the monopoly privilege in issuing banknotes are considered sound principles. Again, Place accuses the backwardness of public opinion in banking matters:

> *I know very well that the strangest of prejudices reign here about the role of the Banks and that they want to see it rather as a deposit than as a portfolio. It is not a reorganizing government that which will want to base its regeneration on stupid prejudices; Credit means confidence and confidence springs from good administration and not from cash that is only too quickly depleted when badly managed.*[11] (Băicoianu, 1932b, p. 649)

However, he states that there also was a wrong principle in its design: the fact that it planned to be both a circulation and a mortgage bank. Despite the failure, Victor Place pleas for a restauration of the privilege, under certain conditions related to capital endowment and operation restrictions. Reestablishment of the charter would put Moldova among the countries of Europe. For this reason, the state should be involved more in the control of the bank and even become a stockholder. On the other hand,

> *[…] it is very important to establish that this fact will not constitute another right than that of a stockholder and it will never authorize it to transform the National Bank in a State Bank, that is, into an establishment directly managed by itself. It is a fundamental principle, accepted by modern science, that private management will always do better, faster and with more economy than a*

[11] Original: "*Je sais bien qu'il règne ici les plus étranges préjuges sur le rôle des Banques et qu'on veut plutôt y voir une caisse qu'un portefeuille. Ce n'est pas un gouvernement réorganisateur qui voudra baser sa régénération sur des préjuges insensés ; Crédit veut dire confiance et la confiance vient d'une bonne administration et non pas du numéraire qui ne s'épuise que trop vite quand il est mal géré.*"

> *Government. Moreover, let's not forget that the Bank is the grand regulator of Credit, trust, and that the financial world knows that there is no Government, as prudent as can be, that cannot be driven to adventures.*[12] (Băicoianu, 1932b, pp. 651-652)

The National Bank of Moldavia has never regained the note issue privilege and it only continued to exist as a private bank.

ANALYSIS OF PLACE'S PROPOSALS

The author makes the case that the issuance of credit through the banking system takes the economy through what I call several transcendent steps, that give it powers and possibilities that cannot be achieved by far otherwise.

The claim that a repeated credit operation among businessmen is multiplying capital is obviously erroneous. Instead of multiplying it, it transfers the capital from the ultimate possessor of the bill towards the initial debtor and partially, towards the other parties that had the bill for part of the term. I call this assertion, and the great difference that it is claimed to make, the first order of transcendence that Place wrongly attributes to credit.

The banker is presented in the author's demonstration as the facilitator towards what can be deemed the second order of transcendence. This again is erroneous, to the extent that it

[12] Original: "*[...] il est bien important d'établir que ce fait ne lui constituerait pas d'autre droit que celui d'actionnaire et ne l'autoriserait jamais à transformer la Banque Nationale en Banque d'État, c'est-à-dire, en établissement administré directement par lui. Il est un principe fondamental, accepté par la science moderne, c'est que l'administration privée fera toujours mieux, plus vite et avec plus d'économie qu'un Gouvernement. D'ailleurs n'oublions pas que la Banque est la grande régulatrice du Crédit, de la confiance, et que le monde financier sait, qu'il n'y a pas un Gouvernement, si prudent qu'il soit, qui ne puisse être emporté à des aventures.*"

presents the banker as a generator of extra saved capital. Through his overview of the economy and the specialized services that he offers, he makes himself and his counterparties better off, but he is not acting in a manner categorically different from the last businessman accepting the note. He is not offering credit additionally, but takes over part of an existing debt. He, too, is an intermediary of credit.

Another error in the author's argumentation is his ambiguous use of the credit concept. Whereas he used the word "credit" to mean transfer of funds from saver to debtor, at an early point in his exposé he starts using the word with the different meaning of "reputation" or trust of repayment. He then uses interchangeably the two meaning with misleading effects.

The national (central) bank, the recipient of the privilege to issue banknotes represents, in Place's opinion, the third evolutionary advance that would constitute another order of transcendence. Again, here, the reasoning is evidently erroneous, as it commits the realist fallacy – offering the state qualities that the set of individuals comprising it do not seem to possess. Moreover, in saying that banknotes cannot be circulated beyond the volume of short term commercial paper, he is contradicting his statement that the national character gives the bank capacity to issue unlimited credit.

A question arises about the limited role of specie reserves: why can the bank not pay even in the extreme cases of delinquency, calculation error or widespread panic with its own banknotes? And, what happens in case of a trust crisis and bank run, since, obviously, there is not enough coverage for the banknotes?

To add to the inconsistencies in his argumentation, Place asserts that the high reserves of the Bank of France are not its capital, which is invested in government titles that can be sold in 24 hours, but sums deposited with it or payed at maturity for the redemption of circulating banknotes.

I must also note that, besides monetary and banking errors, the statement about the superiority of private management over the state's administration once again turns the whole argumentation on its head. How come is the state such an unsurpassed and quasi magical source of trust if it cannot manage better and stay away from "adventures" in running a national bank? In fact, Place claims that, should the state surpass its role of control and supervision, it may even destroy public trust and lead to the risk that banknotes become paper money (*papiere monnaie*). Again, a change in nature of the instruments is possible and even probable with a mere change in public opinion.

Victor Place offers a confused view of banking, because he does not distinguish between deposit banking and credit intermediation. He confuses money substitutes with credit instruments. The bank's ability to issue virtually costless monetary substitutes – with partial coverage in money proper (monetary standard metals) – and to lend them as cheap credit, thus lowering the interest or discount rate, is not due to the credit-as-trust that the state is seemingly able to bestow magnanimously, but to the above confusion.

Thus, we see in Place a crude adherent of the doctrine of fractional reserves and of monopoly central banking, a system whose role was to create fiduciary media and to expand fictitious credit for the purpose of aiding businesses and the state in creating general prosperity. We can understand in hindsight that the main effects of such an institutional arrangement are inflationary redistribution, the business cycle and the unlimited growth of governmental debt, leading eventually to sovereign default (Mises, 1980).

However, the shaping of the Romanian banking system was governed generally by the ideas exposed in these two documents. My purpose so far was to bring them to light and show that they can be criticized with modern banking theory and the theory of the business cycle as exposed by the Austrian School in works such as Mises (1998) and Rothbard (2004). Another question, that

I will try to answer below, is: were there alternative ideas available to guide the Romanians in designing differently their nascent banking system? What was the background from which Place's ideas were coming? Were there other contenders for acceptance in the ideas marketplace?

To put Place's ideas in correct perspective I look at economic thinking in the West, as it was the foremost source of inspiration for the Romanian elites, and I follow authors such as Smith (1990) or Huerta de Soto (2010), who discuss XIX century banking theories through the filter of a couple of binomial concepts: central banking versus free banking and inflationism versus restrictionism, with the latter being more precisely defined as 100% reserves versus fractional reserves.

THE THEORETICAL CONTEXT OF THE PROPOSALS

To be fair to Place's ideas and intentions, I must note that the state of thinking on these matters in France, and in the rest of the West, was not much more advanced than his. At the time of his writing, which can be reasonably placed around 1860, the banking debates were only about to produce their more interesting and coherent results.

Ever since the English Parliament's Bullion Report from 1810, the most conservative position of the makers of banking policy was that there must be a privileged monopoly in the issuance of banknotes, that convertibility must be assured at all times and that it was the role and task of the directors of the central bank to issue the right amount of money substitutes that the commerce needs and, at the same time, to avoid inflation and depreciation of the exchange rate. There scarcely was in literature a systematic discussion about the right level of reserves or the issuance of money substitutes. The official mind and public opinion seemed only to fear the extreme banking experiences of

John Law, of the *assignats*, or of paper money in the American Colonies. (Horner, 1810; Ricardo, 1810)

We can see in Place's argumentation the same needs of trade doctrine propped by the banking school, according to which the extent of credit that the banking system can expand is limited by the trade level, with any overissue being limited through reflux. Also, and related to the above observation, Place exposes the real bills doctrine supported since Adam Smith, according to which a bank can issue money substitutes as long as they are backed by either money proper or short term credit instruments.

In France, the central bank control of banking started from 1800 and was further strengthened in 1848 (Smith, 1990, pp. 29-33). And, as inflationist as his proposals seem to be, Victor Place rather belongs in the conservative, restrictionist field. He can be assimilated to Cieszkowski, mentioned by Vera Smith as a representative of the accepted wisdom in term of banking policy in France, or Isaac Pereire and Maurice Aubry, who defended what Vera Smith calls the Napoleonic doctrine, namely that the main function of the banks of issue is to keep the interest rate down and stable – at 3%, to be more precise, in the case of Pereire (Smith, 1990, p. 98).

The restrictionist or royal view was however contended by Courcelle-Seneuil in 1840 and later by Couquelin starting with 1844. Courcelle Seneuil and Coquelin were inflationists and they defended free banking for this reason, espousing a restrictionist theory of crises. Du Puynode also defended free-banking and limited liability in 1853. The debate took a greater dimension only after the 1857 crisis and the subsequent raise of interest or discount rate (Smith, 1990, p. 95).

Henri Cernuschi is the first to clearly stipulate the need for certificates as opposed to fiduciary media, but his arguments came only in 1865. Modeste, in 1866, and Coullet, in 1865, held similar positions (Smith, 1990, p. 105).

Vera Smith also claims that the first systematic discussions on the advantages of free competition in banking in the Anglo-American world were hosted by *The Economist* between 1845 and 1847, in defense of the system in Scotland. It lulled afterwards for another decade (Smith, 1990, pp. 88-91). In Germany, the discussion and proposals for 100% banking came also only after the crisis of 1857, therefore it was at best contemporaneous with Victor Place's proposals (Smith, 1990, p. 65).

As to the question of the existence of possible contending views by Romanians or other local thinkers, businessmen or politicians, I can only state that to my knowledge, at the time of these writings, there were no elaborate statements. But I consider remarkable that there was a public opinion on these matters, as Victor Place states twice. From his point of view, the locals held backward ideas about what money and banking should be. I can say that, from a sound money – 100% reserves – credit as saved capital – point of view, these popular ideas were essentially correct and, in any case, better than what he proposed.

Indeed, there were local voices and opinions on money and banking matters that were raised later in the 1860's in the hot debates on the new monetary system and the one-time injection of land-backed paper money, but their discussion is beyond the scope of this paper.

CONCLUSION

These two documents authored by Victor Place are a good synopsis of Western – and especially the French – view on banking at the middle of the XIX century. Its main traits are – described in modern terminology – fractional reserve banking, the confusion between money substitutes and credit instruments, and the need to have a monopoly central bank with the privilege of issuing banknotes according to a policy of low and stable interest rates. Far from creating prosperity, we now know that this institutional arrangement was designed to create inflationary redistribution, financial crises, and the business cycle (Mises, 1980).

As I stated elsewhere, in the creation of the National Bank of Moldavia and later in creating their modern banking system, the Romanians were consistently importing – to borrow the often quoted words of Titu Maiorescu – a form without substance. Only this time it literally – and not just metaphorically – was without substance: a national bank designed to create credit unbacked by prior saving. A central institution aimed at loaning present titles to capital goods that were not yet created.

As for what France was exporting through Victor Place and its other functionaries, it can be summed as the Napoleonian ideal for a central bank, namely to keep the interest rate low and stable:

> *[T]he words of Napoleon written to his Minister of Finance, Mollien, in 1808 [were]: "Ce que vous devez dire au gouverneur de la Banque et aux régents, c'est qu'ils doivent écrire en lettres d'or dans le livre de leurs assemblées ces mots: Quel est le but de la Banque de France? D'escompter les crédits de toutes les maisons de commerce à 4%."* (Smith, 1990, pp. 97, n23)

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