

BABEȘ-BOLYAI UNIVERSITY
FACULTY OF HISTORY AND PHILOSOPHY
CLUJ-NAPOCA

**Bucharest Stock Exchange
(1882-1914)
Beginnings, evolution, economic perspective**

Scientific coordinator:
Prof. Univ. Dr. Rudolf Gräf

PhD Candidate:
Paul Cristian Tătar

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Key words: Bucharest Stock Exchange, 1882-1914, legislation, fixed income securities, variable income securities, state loans, municipal bonds, lettres de gage foncières, oil companies, assurance companies, banks.

The multidisciplinary approach of history is a timely matter which subscribes into the general scientific movement of the present days of studying old issues through new methods and research angles that can provide image completeness to the research studies.

My doctorate thesis tries to respond to this challenge, framing a scientific approach based on a double perspective: historical and economical. Using the economical apparatus was undoubtedly a must, since the subject of our study is the evolution of a financial institution, the stock exchange.

Since the establishment, in 1882, Bucharest Stock Exchange was meant to be a mixed one of commodities and stocks. Only since 1929 through the Madgearu Law the two of them were separated as two types of institutions.

The lapse of time chosen is 1882-1914. Our set measures are easy to follow and understand. 1882 is the year when Bucharest Stock Market opens and in 1914 the First World War starts. The war marks the end of an era of development for the Romanian state and afterwards substantially modifies its territorial, demographic and especially economic structure, producing a series of major changes in the structure and evolution of the Bucharest Stock Exchange.

The thesis is structured on two levels/parts: one is the analysis of the stock exchange regarding the organization and the activity, with strong emphasis on the legislation, and the other one concerns the listed values at the Bucharest Stock Exchange, through the mentioned period of time.

As we mentioned, the first part deals with the organization, the microstructure of the stock exchange and the way in which the transactions were taking place. Here I underlined the following aspects: the legislation regarding the stock market, the characteristics – self regulated stock market or the state controlled stock exchange, the

jobbers, types of allowed transactions, the clearing, the liquidation, the access in the building of the stock exchange, brokers warranties, the costs of the transactions, etc.

The second part, regarding the listed securities was surely a must mainly because, if not approached, some important questions would have been left behind. The simple analysis of the stock market dealing only with the institution's organization would have been without truth if we did not concentrated on the visible part of the stock market, to which any reader will automatically respond meaning stock and bonds. So, in order to describe these securities we must first know the emitting entities.

Coming back to securities and their issuers, in their presentation we tried to point out the following important issues: stock market liquidity, the financial situation of the issuer, the economical field and the structure of the interest.

So, we tried to emphasis the microeconomic aspects and not the macro ones, we shifted from the macro statistical data to the activity and the financial data of several companies and institutions listed at the stock market. For example, instead of accepting a general affirmation such as "the foreign capital controlled the majority of the oil companies in Old Kingdom" we tried to find out exactly which were these foreign entities investing these capitals, and which was the capital structure of each of the mentioned companies.

Surely, the research was shortened to show the main economic actors, the most representative companies for each economic branch following the available data. A detailed analysis of all the issuers at the Bucharest Stock Exchange Market couldn't possibly be made in the three years dedicated to these research (in 1914, 52 stocks and over 60 bonds and other debentures). An important criterion which we took into consideration was the liquidity – we emphasized the importance of securities that had a higher liquidity level. Is it not, the liquidity is the main criterion of success or insucces of a stock exchange.

Our historical endeavor did not stay only on microeconomic grounds since an important part of the listed securities were issued by the state and the public authorities, and so a series of compulsory explications were made about the general economic context, internal and external.

The chapter organization of the paper matches the structure mentioned above. After a short introduction where we presented the actual research history related to the stock exchange, we passed on to the first chapter dedicated to the economic context, internal and international. The economic evolution of the Old Kingdom and the financial and monetary aspects were the center of the discussion regarding the internal context. In this part of the paper we talked about the adherence to the Latin Monetary Union of the Old Kingdom in 1867 and to the Gold Standard in 1890. Also, we analyzed a problem less debated by historians, that of the gold agio which appeared after the gain of independence and the issuing of the first banknotes by the National Bank of Romania (institution founded in 1880). The monthly evolution of this agio, which was eliminated in 1890, is graphically exposed using the data collected from the Official Price List of Bucharest Stock Exchange.

Internationally, the 1880 to 1914 (to others 1870-1914) is known in the economic literature as the “The Classic Age of Golden Standard”. Also, in the first chapter are presented the main economic characteristics of this period and are highlighted the international capital flows. We must accentuate the largeness of this phenomenon and also the part which the stock exchanges had on the leverage of investments from the financial centers to other parts of the world. The main exporters of capital are Great Britain, France, Germany and the United States of America.

The second chapter of our paper starts with a discussion of the organization and microstructure of the main stock exchanges of the time, the London Stock exchange and the Paris Bourse. The two of them are exponents of different types of organization.

If the British one is a self regulated one, founded through private initiative, and conducts itself after self made rules, the official stock exchange in Paris is state dependent one, functioning in a building set by the law, having a fixed number of members (60 agents de change) named by the government and accepting to transact only those securities allowed by the government.

The analysis of the organization of the Paris stock exchange takes us to the beginnings of the Bucharest Stock Exchange, established through a Royal Enactment in 1881, and starts functioning in December 1882.

The point of attraction of the second chapter is the study of the legislative evolution regarding the stock exchange. The most important laws and legislative attempts are analyzed. It also intercepts the transition from a monopolist stock exchange, inspired from the French legislation, to a more liberal one inspired from the Austrian legislation. The main difference between the two types of stock exchanges is that the French oriented one granted monopole on the transaction to the brokers, meanwhile the Austrian oriented one allowed direct transaction between the members of the Stock Exchange Corporation. The Stock Exchange Corporation was composed of business men in Bucharest, who most often made transactions on the stock exchange.

Also in the second chapter are discussed a series of aspects related to the actual functioning of the Bucharest Stock Exchange. The subchapters deal with certain aspects such as: Stock Exchange's Operators, Brokers Warranties, Brokers/jobbers, The access in the Stock Markets' Building, The official price lists, Spot transactoins, Forward transactions , Short selling, The Report, The Clearing, The Liquidation, Transaction Costs. These subchapters come to resume and to sistemize the information in the legislation subchapter.

In the third chapter are analyzed the most important fixed income securities listed at the Bucharest Stock Exchange, such as: state loans, municipal bonds, lettres de gage foncières, bonds of the Regional and Communal Credit and bonds of the private companies.

The state loans are of particular importance. In the subchapter regarding the evolution of the public dept the debentures of the Old Kingdom are listed. The information is collected from the *Monitorul Oficial*. Here are mentioned the nominal and the real values of the loans, the rate of exchange, their destination and the bank unions that mediated them.

Another different subchapter is dedicated to the brokers. The issue of the brokers interested us in particular, since this subject is poorly developed regarding the historic information. Although the state loans, unlike the fixed income securities, beneficiated of some attention from researcher in the past (we mention some interwar economists like: M. Gh. Dobrovici, I. Tutuc, Gh. Adam, Th. Aslan etc), their works contain very little information regarding the financial groups which placed this loans. This gap of

information was filled by our endeavor in consulting the *Monitorul Oficial*. After covering these sources we came to the following conclusions:

- The majority of the state loans, in the time between the Union of the Principalities and the First World War, were contracted outside the county.
- If the first loans were placed on the London capital market, starting the 70s of the XIX century, London was replaced by Berlin and the *Berliner Börse* becomes the primary market for Romanian state loans
- The bank group *Disconto Gesellschaft-Bleichröder*, had a virtual monopoly over the mediation of the external Romanian loans; there was only one case when the services of the group were not required- the 50 million loan from 1889, mediated by a German banking syndicate conducted by *Deutsche Bank* și *Dresdner Bank*.
- The Romanian state loans were made in other European stock exchanges that the one in Berlin, such as the ones in: Paris, Amsterdam, Brussels, Antwerp etc; they were guided to this stock exchanges in an indirect way by some local banks associated with the *Disconto* group; one of the associated banks was, for example the famous *Banque de Paris et de Pays-Bas*, probably the most powerful investment bank of the time.

In the subchapter dedicated to the municipal bonds we highlight the most important bond issuing of the Old Kingdom's cities. We must say that all these bonds were listed on the stock exchange. According to our knowledge, this problem did not benefit of any attentions from the historic researches until now. Also, in this case, our main source was *Monitorul Oficial*. We also found relevant information in the *Bursa* journal, an economic publications of that time.

Between the years 1882-1914, approximately 300 million lei municipal loans were issued (we mean debentures listed at the stock exchange) from which almost 250 million lei represented the loans of Bucharest. Other issuing cities were Iasi, Craiova, Braila, Ploiesti, Botosani, Buzau and Turnu-Severin.

Only Bucharest and Iasi entered the external markets, the rest of the cities rested upon the internal market. If Bucharest draw upon German banks for the placement of its external loans (the *Disconto-Bleichröder* group, the *Dresdner Bank*, or the banking

syndicate of *Deutsche Bank, Bank für Handel und Industrie și Berliner Handels Gesellschaft* etc.) Iasi city draw upon the romanian-belgium banking syndicate composed of *Marmorosch Blank & CO* representing de Romanian side and the *Banque de Bruxelles, Banque Internationale de Bruxelles și Banque Centrale Anversoise* representing the Belgium side.

The next subchapter is dedicated to lettres de gage foncières. These titles represented the most liquid securities operated at the Bucharest Stock Exchange in that time, covering approximately a third of the annual turnover. Here is information about land companies, institutions organized after the *Landschaften* of the Germans. We also talk about the genius mechanism through which the titles were issued.

Remaining still within the third chapter, we discuss the bonds of the Regional and Communal Credit, the main financial source of local and regional authorities before the First World War.

The last subchapter is dedicated to the bond issued by the private companies. Among them we mention: *Societății de basalt artificial, Societății pentru construirea de locuințe eftine, Societății Steaua Română* and *Casei Rurale*.

The forth chapter deals with the fixed income securities listed on the Bucharest Stock Exchange between 1882 and 1914. In the beginning of the chapter is presented the evolution of the number of companies and the capitalization of the stock exchange. The next subchapters offer information regarding the most important issuers, grouped according to the aria of activity: assurance companies, banks, oil companies and industrial companies (mostly the wood industry). We tried to present a comparative perspective on these companies, relating them to their liquidity, size of social capital, level of assets and profit, the turnover, etc. In some cases, especially the oil companies and banks, we tried to analyze the part they had in the development of the national economy. Also, the shareholders of the mentioned companies and the provenance of the invested capitals were carefully analyzed here. Among the shareholders we found some important political figures of the time such as: P. S. Aurelian, T. Maiorescu, Al. Marghiloman, E. Costinescu, I. G. Cantacuzino, C. Olănescu, B. M. Missir etc.

The last chapter is compound of the conclusions. We scanned in a brief form a series of matters debated throughout the thesis. Also, in this chapter we tried to give answers to the question of what was the part played by the Bucharest Stock Exchange in the national economy. The most important merit of the Bucharest Stock Exchange is that it has insured a permanent market for the lettres de gage foncières, which allowed the land compaies to issue titles of close value to the nominal one. In this way, the long term crediting of the wealthy land owners was assured (the bank offered only short term credits). This lead to an improvement even is marginal, in the productivity of the agriculture sector. Also, through the urban land companies some industrial and urban initiatives were credited, and so, the number of housing projects in the urban area increased.

To the five chapters of the paper adds the appendix compounded of tables with monthly listings of the most liquid securities. The prices of the last transactions of the month are registered. The stock exchange list is taken from *Oficială a Bursei București*, the official price list of the Bucharest Stock Exchange published daily in the Monitorul Oficial.

This part of the paper, which took important time to make, is in our opinion a valuable work instrument for any economist interested in the subject that wishes to enlarge the research by operating more complex econometric analysis. The aspects that can derive from this instrument are multiple. The analysis of the listed state loans, as an example cand give precious clues of the image that the Old Kingdom had among the investors, foreign of locals, throughout this period of time.