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FOREIGN CAPITAL IN POLAND 1918 - 1939

INTRODUCTION

The problem area of foreign capital is very extensive and complicated. Its complexity springs from several causes, among which we can number firstly, the difficulties involved in giving a precise definition of the very notion foreign capital, secondly, the lack of suitable statistical data, and thirdly, the multiplicity of interwoven issues.

At first glance, the notion foreign capital would seem to be quite clear. However, when we go into the problem more deeply, it turns out that this is not the case. For what are we going to regard as foreign capital? The issue is quite clear if the capital has come from abroad from a citizen of another state, permanently resident in another country and not possessing Polish citizenship. But will for instance capital belonging to a Polish citizen of German nationality be foreign capital? And how should we treat the inflow into Poland of capital from a Pole, but one who has lived abroad for years and who no longer even possesses Polish citizenship? And what do we do with capital which seemingly appears in the statistics as Polish capital, but which in reality is known to have come from abroad? In order to answer each of these questions, and their number could be significantly increased, one would have to examine each case in detail. In practical terms

this is impossible. Hence the need to adopt some practical solution, which in the face of precise scientific analysis might of course give rise to a number of doubts. Correctly speaking, the most appropriate way would seem to be to regard as foreign all capital administered from abroad, irrespective of whether or not it officially appears as Polish capital, of whether its official owner is a Pole or foreigner.

Of course, these methodological difficulties have a bearing on the statistical data, which we must of necessity employ in the absence of any others. Inter-war Poland statistics regarded as outside capital all capital which was declared as foreign. Division of this capital into national groups was based on the same deceptive criterion. For not at all infrequently there were cases where the owners preferred to conceal the true "nationality" of their capital. It also happened that foreign capital preferred to appear in Polish guise, and Polish capital in foreign guise.

Research on the share of foreign capital in Polish enterprises was undertaken at a relatively late date, and for this reason, for the first years of the Second Republic we have no statistical information at all. Considerable difficulty, too, is caused by the wide variety of forms in which outside capital flowed into the country. Among the most easily perceived were loans granted by foreign creditors to the state and to local government. It was more difficult to get an idea of the share of foreign capital in the joint stock of industrial, banking and other firms. But the greatest difficulties were posed by the question of the dependence of concerns operating in Poland of foreign countries, which dependence was based on the provision of long- and short-term credits. In many cases—on account of lack of confidence in the permanence of the Polish state—foreign capital was rather afraid of purchasing shares which it was often difficult to sell again in order to regain one's money. It was considerably easier to regain capital invested in the form of loans—and easiest of all where short-term credits were involved. Thus it was quite often the case that foreign capital did not form part of the joint stock of Polish firms; but made it totally dependent through the granting of credits. For the withdrawing of credits entailed the danger of bankruptcy for the business, thus the owners had to comply with the demands of the

foreign creditors. This dependence could exist in the case of every form of loan. At the present time we are not in a position to give an accurate definition of the role played by this form of rendering the Polish economy dependent on foreign financial centres. But we do know that this role was a vital one. We know too of course how much credit Polish enterprises received from abroad, but we do not know which loans led to the economic dependence of a given firm on an outside creditor. It is also worth mentioning that such dependence often came about through the granting of credit by a bank operating within Poland, but itself dependent on outside capital.

The third difficulty of research on the problem of foreign capital stems from its multi-faceted nature. For what is important to an understanding of the problem? One should know the attitude of Poland to the inflow of foreign capital, and this attitude was subject to significant fluctuation, and sometimes differed as between government circles and among private owners. It was not only the attitude of the Poles which exerted an influence on the inflow of capital to the country, but also—and to a greater degree—foreign views on the advisability of making investments in Poland. Views on this question varied greatly at different times and in different countries; and it was seen in one way by private capital, whose decisions were guided by the desire to obtain a large profit and security for its investments, and in another way by governments, who examined the issue from the point of view of immediate or long-term political interests.

1918 - 1921

The partitioning of the Polish state meant that capital from the three partitioning powers could flow in unrestricted amounts into their respective sectors. Thus in Galicia a significant role was played by Austrian capital, and in the Prussian sector—by German capital. In view of the fact that the Polish state did not exist during the partition era, this capital could not be regarded as foreign. Alongside this capital, that of other nations also accrued to Poland.

In consequence of the weak state of Polish capital, this foreign capital was most prominent—apart from Silesia—in the Kingdom of Poland: operative here was German, Austrian, French, Belgian and other capital. Foreign capital also played a large role in the Galician oil industry, which enjoyed the participation of American, English, French, German and other capital.

So that at the point when Poland regained her independence, foreign capital already played a very considerable role in Polish industry and banking. Its role in agriculture and transport was a good deal less significant. However, in view of the lack of data, it is impossible to answer the question of how great a share foreign countries had in industry and the banking system, or of how its national make-up was shaped. The latter went through quite considerable changes during this period, since German capital tried to hide behind the cover of other states. This phenomenon was particularly pronounced in the oil industry. Only in Pomerania and in Great Poland were the Polish banks able to effect a real repurchase of certain industrial and commercial concerns from the hands of the Germans.

The difficulties with which the Polish authorities were confronted in consequence of the destruction of the country, the weak state of home capital, and the government's financial troubles, meant that particular cabinets—irrespective of their political colouring—regarded the inflow of foreign capital to Poland as a fundamental condition for the country's reconstruction and development. Some went even further and maintained that without the securing of foreign aid, it would not only be impossible to carry out reconstruction, but even to improve the country's financial situation. Successive governments were interested both in securing foreign government credits for the state, and in encouraging the inflow of private capital to various branches of the domestic economy. J. Moraczewski, Prime Minister in the first administration, and members of his Cabinet spoke in favour of the need for Poland to secure foreign aid in the form of loans. The treasury minister was charged with the task of drawing up a plan for the negotiating of loans abroad, and of sending a mission to the coalition states for the purpose of conducting appropriate talks. I. Paderewski's government made increased efforts in this direction.

The Prime Minister himself voiced the view that first and foremost Poland was in need of "a large foreign loan [...] a vast amount of foreign credit".¹ At a session of the Council of Ministers it was resolved to invite representatives of foreign banks to Poland for the purpose of initiating loan talks. At the same time Paderewski appealed to the chairman of the peace conference in Paris with a request for the granting of a loan to Poland as an advance payment in respect of compensation for war damage. This activity was supported by Polish businessmen, who also made their own efforts to secure the inflow of foreign capital.

However, these efforts produced little effect. For both private business circles abroad as well as the governments of other states were afraid to invest in a country which was in a position to guarantee repayment neither of interest nor of capital. Account was taken abroad of the possibility of social revolution within Poland, as well as of major perturbation connected with the fixing of the borders: the latter might lead to the outbreak of local military conflicts.

The chaos which reigned in the area of seeking out foreign capital only increased the difficulties involved in securing such capital. Almost every ministry acted on its own account. In one country at the same time, several Polish economic missions would be active without knowing of each other's existence. Everyone was attempting to buy as much as he could on credit. As a result, the treasury did not have an accurate picture of the overall extent of the liabilities being incurred.

Preparations for war with Soviet Russia brought about further increased interest in securing loans abroad. For both the purchase of military equipment and the country's food supply depended on them. Loans were also of vital significance in providing factories with machinery in short supply as well as raw materials, which was a necessary condition for increased employment and for the maintenance of peace within the state. During this period economic circles exerted increased pressure on the government to facilitate the inflow of foreign capital to private businesses and

¹ From a speech by the Prime Minister, I. Paderewski, in the Sejm. Verbatim report of the session of the Sejm on 26 March 1919, col. 1111.

institutions. The government acceded to the demands of the businessmen and very much relaxed the regulations governing the functioning of foreign capital within Poland. The Ministry of Foreign Affairs informed its representatives abroad of the significance of the changes introduced, in the following manner: "The decision taken by the Ministerial Economic Committee represents a departure from previous practice relating to foreign capital. News of the decision, communicated orally to our envoys [...], met with the best possible response".²

The retreat of the Polish army in the summer of 1920 gave rise to further pressure to seek foreign financial aid. One effect of this was the adoption by the Ministerial Economic Committee on 20 August 1920 of a draft decree by the Council for the Defence of the State concerning the negotiation of a foreign loan. Never before—and never since either—had the Polish government offered such far-reaching privileges and concessions in exchange for foreign financial aid. Namely, it was established that in order to secure the projected loan of one milliard francs, the Treasury Minister could "enter into an agreement for the sale of mineral oils and derivative products and of sugar, concede to foreign capital joint participation in exploitation of the tobacco monopoly and of state monopolies in general, put state coal-mines out to lease, sell exclusive mining rights to foreign governments and private consortia, and grant authority for the prospecting and extraction of minerals reserved by law to the state, grant rights for the construction and exploitation of new railway lines, give permission for the exploitation of new shipping lines, airlines, water-power, forest tracts, grant licences for the exportation of timber, and in general bestow exploitation rights, as well as the right to found and run joint-stock companies, insurance societies and manufacturing concerns, enter into agreements concerning the sale of state coal-mines and iron- and zinc-works in Upper Silesia, to

² Z. Landau, J. Tomaszewski, *Kapitały obce w Polsce 1918 - 1939. Materiały i dokumenty* [Foreign Capital in Poland, 1918 - 1939. Materials and Documents], Warszawa 1964, pp. 65 - 67.

the extent that that territory will be granted to Poland, and finally, negotiate trade conventions".³

The attempts made by the government to attract foreign capital to Poland originated not only in economic needs, but also in political ones. Thus it was expected that if foreign capital began to invest in Poland, it would be interested in the development of the country. Among other things, this gave birth during the years 1918 - 1919 to the concept of securing the interest of capitalist circles among the western powers in the granting of Eastern Galicia to Poland in exchange for privileges relating to the exploitation of the oil reserves to be found there. Following this, attempts were made to interest western capital in the granting of Upper Silesia to Poland. The Republic's envoy in Great Britain, J. Ciechanowski, alluded to interest on the part of French and English capital in concessions in this area. "Envoy Ciechanowski regards the interest of England and France as a vital condition for a successful outcome to the Silesian question, as something in the form of a bribe".⁴

The government decided to follow this line of thinking. The task of conducting negotiations was bestowed on A. Benis, who wrote of the authorization granted to him in the following manner: "I received authority then to offer the Entente powers [...], in case of need, the freehold of all Treasury holdings in Upper Silesia [...], further, exploitation of the coal monopoly to be introduced in Poland, and even government mines and coal areas [...], and likewise various concessions".⁵ Benis tried to interest England, France and Italy in these propositions. England rejected the propositions, since her policy of supporting Germany and weakening France, and at the same time Poland, required that Silesia should be given to the Weimar Republic. Italy did not show any interest. France was the only interested party. Such

³ Minutes of the Ministerial Economic Committee, 24 August 1920. Archiwum Akt Nowych w Warszawie (hereafter AAN), Kauzik group, vol. 6.

⁴ Minutes of a conference of heads of the political departments of the Ministry of Foreign Affairs on 16 November 1920. AAN, Embassy in Paris group, bundle 6, vol. "Inter-Departmental Minutes and Sessions".

⁵ Minutes of a secret session of the Council of Ministers on 14 January 1922. AAN, Council of Ministers minutes, vol. 17.

being the case, the entire concept of granting economic privileges in exchange for aid and support for Polish claims regarding Silesia lost its purpose. France, whose political interests lay in the weakening of Germany, would have to support the cause of Poland in any case.

We shall not enter into a detailed discussion here of Benis' negotiations. It is merely worth mentioning that the French secured a number of profitable rights. Among other things they obtained shares in the factories of Hohenlohe-Werke, which—in the eyes of the Polish authorities—was meant to lead to a favourable change in the policy of this firm. In practical terms this did not assure the Polish state of any influence at all on the activity of the German firm, since the French capital was tied up, not with the Polish group, but the German one. Poland also lost its control of the state mines situated in Upper Silesia, since the leasehold passed to a French-Polish company for 36 years, in which company the French influence predominated.

The government's efforts to secure foreign loans had considerable effect during this period. However, the western world granted such loans not through economic motives or with a view to the country's economic development, but for political reasons alone. The collapse of Poland as a result of war with Soviet Russia would not only mean the departure of yet another state from the capitalist world, but might also carry the firebrand of revolution to Germany. Hence the states of Western Europe were forced in their own interests to strive for the certain victory of Poland in her war with Soviet Russia. This demanded considerable supplies on credit of military equipment and food, both for the army fighting at the front, and for the civilian population in the rear. In so far then as the attempts undertaken in 1918 and at the beginning of 1919 ended in fiasco, during the period 1919 - 1920 the Polish government obtained considerable aid in the form of credit. This was supplied chiefly by France and the United States. The former financed purchases connected with the needs of the army, and the latter—mainly food purchases. Altogether during these two years the Polish state received credits to the value of

240 million dollars,⁴ which, taking into account the fact that the purchasing power of the dollar was considerably greater at that time, was a very large sum. Fifty-nine per cent of these credits were allocated for food supply, twenty-eight per cent for armaments, eight per cent for state investments, and the remainder for other purposes.⁷ By far the greatest proportion of credits was supplied by the United States (sixty-five per cent), followed next by France (twenty-two per cent), then Great Britain (six per cent), Italy (three per cent) and other countries.⁸

Despite the fact that it was only the credit-giving states themselves that were interested in affording aid to Poland, and that the credits came chiefly from governments and government agencies, France took account of her own economic interests in granting such credits. In this respect she adopted greatly varied forms and methods. These included the fixing of exceptionally high prices for goods supplied to Poland on credit, the sending of reject or obsolete articles, exerting pressure for the imposition of an unfavourable trade agreement on Poland, and bringing influence to bear on the Polish government on the question of preferences for French capital operating within Poland. For example the price of a sequestered German rifle supplied to Poland by France was four times higher than the prices offered by the Austrian producer. For a complete second-hand uniform the French demanded 51 francs, when it would have cost from 29 to 42 francs on the private market. Twenty per cent of the guns supplied by France were technically below standard.⁹

The Polish government accepted the French conditions of sale—despite the fact that they were very unfavourable—so as not to alienate its ally. Reporting one such offer at a session of the Ministerial Economic Committee, the Deputy Minister of Military

⁴ Z. Landau, *Polskie zagraniczne pożyczki państwowe 1918 - 1926* [*Polish State Loans from Abroad, 1918 - 1926*], Warszawa 1961, p. 138.

⁷ *Zestawienie długów i gwarancji finansowych Rzeczypospolitej Polskiej według stanu na dzień 31 grudnia 1921* [*A Statement of the Polish Republic's Obligations and Financial Guarantees as at 31 December 1921*], Warszawa 1922, p. 18.

⁸ *Ibidem*, pp. 16 - 17.

⁹ J. Romer, *Pamiętniki* [*Diaries*], Lwów 1938, pp. 173, 189, 177.

Affairs, General K. Sosnokwski, requested immediate acceptance "in view of the current state of equipment of the army, and of the maintaining of good relations with France [. . .]. The French government it insisting on the purchase of this stock," he added, "so that it's impossible to back out of the affair".¹⁰ Similar reasons for the need to accept the French offer were given by the Deputy Minister of Foreign Affairs, W. Skrzyński: "the purchase of this stock from the French government is absolutely vital, since France's aid and her attitude towards Poland depends on it".¹¹

Other countries did not link the question of credit with specific economic demands, but this arose from a lack of interest in Polish affairs more than from anything else. Private western capital did not display any interest in investments in Poland during this period although a number of interesting proposals were aimed in its direction. Attempts were made for instance to interest USA capital in railway investment, the expansion of Gdynia, the oil industry, the munitions industry, and in various economic concessions. However, this provoked not the slightest reaction. The official responsible at the Legation of the Polish Republic in Washington, F. Pułaski, stated that "[. . .] business people and the world of high finance are very coolly disposed towards Poland, unable to see any production potential in the country, any real business for themselves. All our business concerns are on too small a scale for them, the only enterprises which might attract them are Galician oil, the regulation of the Vistula, and the Gdańsk port".¹²

Also of vital significance for the countries supplying aid to Poland in the form of credit was the opportunity this presented for the clearance of surplus military stock accumulated in connection with the war. This factor, too, should not be overlooked. Thus credit on supplies of goods represented ninety-nine per cent of the total. Only the Polish community in the United States decided to purchase a loan issue emitted there by Poland for a sum of around 23 million dollars. This loan was more in the nature of

¹⁰ Minutes of a session of the Ministerial Economic Committee on 6 November 1919. AAN, Kauzik group.

¹¹ *Ibidem*.

¹² Minutes of a conference of heads... (cf. note 4).

a patriotic act than an operation calculated to return a profit. In fact the purchasers lost a good deal of the money invested in this loan, as a result of the fact that the Polish government did not take sufficient care of the securities. This hampered the placing of further Polish loan securities on the United States' markets.

THE PERIOD OF INFLATION

The conclusion of the Polish-Soviet war in March 1921 brought about a reduction in the inflow of government credits for Poland, and at the same time did not bring any alteration in the reluctance of large capital in foreign states to make investments in Poland. Yet the Polish government was still very favourably disposed towards foreign investors (with the exception of the Germans). A. Benis, quoted above, wrote in one of his reports: "Among the French and English, even secondary figures are highly reluctant to enter into economic negotiations either with private Polish groups or with the Polish government. Previous experience with sundry plenipotentiaries sent by various ministries, often with insufficient authority and overlapping interests, as well as independent action on the part of private individuals, each of whom gives assurances that he has the backing of the Polish government behind him [. . .], has led to a situation where Poland and the Poles are seen as a party whose promises are not to be treated seriously, and whose word is accepted with the greatest distrust, both from the point of view of subjective loyalty, and from the point of view of the objective feasibility of their keeping their promises".¹⁵

During this period private foreign capital was only placed sporadically in those enterprises where the possibility of large and quick returns was seen. Moreover, such returns were not reinvested in Poland, but rapidly taken abroad. On this basis the British Overseas Bank and British Trade Bank Co groups provided credit for sugar-industry companies, American capital expended

¹⁵ Report No. 1 by A. Benis on the progress of the Upper Silesian negotiations, 7 December 1920. AAN, Presidium of the Council of Ministers, Rkt 22, vol. 52.

the scope of the oil industry, while another American group displayed interest in the potassium salt industry.

Despite this, it would seem that during the years of increasing inflation in Poland, the share of foreign capital in the country's economic life gradually rose. How was this possible if at the same time foreign countries refrained from carrying out new investments? The owners of Polish business concerns in debt to foreign creditors simply did not possess the money to pay off their credits. Such being the case they were forced to transfer some of their shareholdings to their creditors, which led to an increase in the participation of foreign capital in the country's industry.

Sometimes inflation conduced to some very profitable financial transactions for foreign capital. An example is provided by the transfer to the French capitalist M. Boussac of the flax-works at Żyrardów rebuilt by the Polish government. "These works came under state control by virtue of a government decree of 16 December 1918. As they had been greatly damaged during the war, rebuilding was commenced; at various times the government made investments amounting to a total of 47,250,000 Polish marks, which is to say the equivalent of 2,586,000 Swiss francs, based on the exchange rate current in April 1923. In the second half of 1923 the works were delivered into private hands, and the capitalists undertook to pay 448,000 francs as reimbursement for capital investment funds expended—such was the figure arrived at when the Polish marks were again converted. This in itself represented a substantial loss for the Treasury, but the losses did not end there. For payment of the funds the owners of the Żyrardów Works received a state credit worth 22 milliard marks, which was meant to be the equivalent of 448,000 francs. But this credit, too, was not valorized. In consequence, in January 1924 the government received 18,800 francs as repayment of the credit granted".¹⁴ By similar means, from 76 to 91 million dollars (estimates vary somewhat) flowed from the state coffers into private hands during the years of inflation.

¹⁴ L. Krzywicki, introduction to T. Szturm de Sztrem, *Zywiolowość w opodatkowaniu: podatek inflacyjny [Spontaneity in Taxation: Inflation Tax]*, Warszawa 1925, pp. 16-17.

Summing up our deliberations on the post-war period, we can state that out of an overall sum of 287 million dollars received by the state in credits during the years 1918 - 1923, 86 per cent accrued during the period of war with Soviet Russia, just under 4 per cent only in 1921, a little over 1 per cent in 1922, while in 1923 the inflow ceased almost entirely.¹⁵

THE PERIOD OF REFORMS UNDER W. GRABSKI

In mid 1923 hyperinflation began to threaten not only economic stability, but also the political stability of the newly-revived state. Hence termination of the policy of financing the state through inflationist methods became a matter of the utmost importance. This task was undertaken by W. Grabski's government, called to office on 19 December 1923. In view of the fact that the basic reason for the appearance of inflationary trends in Poland was the budget deficit, it was necessary to achieve stability in the balance of payments, without resorting to the financing of a deficit through the printing of new banknotes. At the same time Grabski considered it necessary to exchange the Polish mark for a new currency—the zloty. However, the monetary stabilisation depended on several factors, one of these being security in the form of gold and foreign currency reserves in the Bank of Poland.

This state of affairs meant that the question of receiving foreign loans for state purposes was still a very vital one for the government. However, Grabski did not believe in making fiscal and monetary reforms dependent on the securing of foreign loans. He presented his views on this topic to the Sejm in a statement delivered on 20 December 1923. Among other things he said: "Improvement of the state's finances can come either from relying on outside help, or from the unaided efforts of the whole of society. Without at all wishing to detract from the highly beneficial influence of all forms of foreign aid on such improvement, the government sees its task as the concentrating of society's own efforts in such a way as to enable it to bring us out of the sev-

¹⁵ Z. Landau, *op. cit.*, p. 138.

erely critical state of affairs pertaining to the present time [...]”.¹⁶

The key to an understanding of Grabski's attitude can be found in an analysis of Poland's political and economic position in Europe at that time. As things stood Poland could not rely on securing any substantial loan which would not be motivated by the political or general economic interests of the creditors, while only a large loan would have a perceptible effect on the progress of the fiscal and monetary reforms.

Private credits, especially at the point when Grabski's government formed, were not available, since private foreign capital was afraid to invest in a country whose financial economy was not in order. The only remaining possibility then was to try and secure credits from governments. In comparison with private loans, however, these had serious drawbacks. Every government deciding to grant a loan to another state was guided by the hope, not of financial gain, but of given political concessions. Of course, a loan negotiated with the government of an allied state would not entail any great danger. France was such an ally. But France herself was experiencing serious financial difficulties, and was not in a position to afford Poland any substantial aid. In the situation then prevailing, apart from France the United States, Great Britain and the Financial Committee of the League of Nations represented possible sources of credit. However, the United States market was inaccessible to Poland, since the latter had not yet regulated the question of how the credits obtained in the preceding period should be paid off.

Thus there remained Great Britain and the Financial Committee at that time dependent on her. However, Grabski was perfectly well aware of the fact that Poland and Great Britain's interests were opposed to each other. Poland relied for support on France, whom London wished to weaken through the rebuilding of a strong Germany. In order to guarantee Germany conditions for economic expansion in the east, England attempted to subordinate Poland to the Germans. Thus the acceptance of a British

¹⁶ A statement by the Prime Minister, W. Grabski, on 20 December 1923. Verbatim report of the 89th session of the Sejm, col. 5 and 8.

loan would be tied up with dangerous political conditions, as for instance a reduction in military potential—something already postulated by the English financial advisor Hilton Young, staying in Warsaw at the time.

Hence Grabski could not make the question of securing foreign loans the linchpin of his reform programme. However, without placing such loans at the forefront, he did attach a good deal of weight to them. Thus he began talks on the question of regulation of Poland's war debts to the United States. At the same time negotiations were commenced with numerous private parties for potential loans to the government.

However, such loans as were secured were granted on very unfavourable terms. The sums were small, with high interest rates, in addition to which the state was forced to concede various extra privileges and benefits to the creditors. Under these conditions several international loan issues were secured on the private market. In Italy the Milanese Banca Commerciale Italiana granted a loan for the sum of 400 million lire, a Swedish-American matchmaking concern made a loan of 6 million dollars, and the American Bank Dillon, Read and Co—one of 27 million dollars. All in all these were small sums. And in all three cases the creditors received sundry guarantees. In the case for instance of the Italian loan—for the tobacco industry—it was agreed that this would be guaranteed by a mortgage on the estates of the Polish Tobacco Monopoly (hereafter—PMT), that PMT earnings would be at least three times as high as the sums required to pay off the loan, and that “in case of armed attack on the territory of Poland, the Italian government will have the right to hoist the national Italian flag on buildings belonging to the PMT”.¹⁷ Altogether the guarantees amounted to around 580 per cent of the value of the loan. But the Italian government regarded these guarantees as insufficient. In exchange, therefore, for putting the loan on the Italian market and providing holders of loan shares with guarantees, the government of Italy required the establishing of a special loan reserve fund, into which Poland had to pay considerable sums—irrespective of loan repayment and interest.

¹⁷ Art. 3 of the agreement of 10 March 1924.

Apart from this, the Italian government obtained the right to dispose of Italian tobacco in Poland in quantities amounting to 2 million kg. annually for the first three years of operation of the loan : in subsequent years this amount was to be subject to certain changes, depending on the amounts of tobacco processed by the PMT. The Banca Commerciale Italiana also obtained certain privileges as mediators in contracting the loan, as did the brothers Pecchioli—tobacco merchants associated with the bank. The latter secured preference in the supply of considerable quantities of tobacco for the PMT.¹⁸ When one studies the contract, it is difficult not to agree with the views expressed by the Chief Board of Control, which wrote in its reports of “the disastrous consequences of the privilege”, that “the Tobacco Monopoly is at a disadvantage with regard to the purchase of foreign raw materials on the world market”, emphasizing “the highly unfavourable consequences of the Italian loan contract from a financial point of view”.¹⁹

In all, Poland received only 72 per cent of the loan for 400 million lire (87 million zlotys), since the remainder was absorbed by the sundry costs involved in the issue of the loan and by the profits of the mediators. This meant an inflow to the Treasury of 12.5 million dollars. The nominal interest rate on the loan was 7 per cent per annum, but together with the additional costs entailed in the extensive privileges for the Italian government and the mediators, the cost amounted to 23 - 24 per cent annually.²⁰

The so-called match loan negotiated during the same period brought even less to the Treasury—only 6 million dollars. How-

¹⁸ Z. Landau, *Pożyczka tytoniowa [The Tobacco Loan]*, “Zeszyty Naukowe SGPiS”, 1956, No. 3.

¹⁹ *Kontrola Państwowa oraz Komisja Rewizyjna Ministerstwa Skarbu w sprawie gospodarki Polskiego Monopolu Tytoniowego i wyjaśnienia Dyrekcji PMT [The State Inspectorate and the Review Committee of the Treasury on the Question of the Economy of the Polish Tobacco Monopoly and the Explanation of the PMT Management]*, Warszawa 1927, p. 186 ; *Uwagi kontroli państwowej o zamknięciu rachunków państwowych i wykonaniu budżetu za rok 1927/28 [Remarks of the State Inspectorate Concerning the Closure of State Accounts and Realization of the Budget for the Year 1927/28]*, p. 945 ; ...za rok 1928/29 [...for the Year 1928/29], p. 1303 ; ...za rok 1926/27 [...for the Year 1926/27], p. 276.

²⁰ Z. Landau, *Polskie zagraniczne pożyczki...*, p. 232.

ever, the privileges granted to the lenders were even more extensive than in the case of the tobacco loan. Among other things the Polish government leased the Polish Match Monopoly for 20 years to the consortium which granted the loan. In addition the lease agreement was formulated in such a way that it gave one-sided privileges to the foreign group at the expense of the Treasury. In the case of this loan, bearing an official interest rate of 7 per cent, the actual costs amounted to around 30 per cent.²¹

More profitable for Poland financially was the loan negotiated in the United States. Out of the initially negotiated 50 million dollars, Bank Dillon, Read and Co agreed at the last minute to take on 27.5 million dollars, from which they deducted more than 6 million dollars in costs and security. Thus Poland received only 77 per cent of the loan issue sum. The loan was secured not only by all Treasury earnings, but additionally on existing and future railway lines, while repayment was secured on income from the excise duty on sugar, provided that this amounted to not less than 10 million dollars annually. The interest rate was 8 per cent per annum. However, the loan was not linked to any additional economic privileges for the creditors as was the case with the tobacco and match loans. One drawback of the loan was the fact that the firm of Dillon, Read and Co secured for itself a monopoly on the issue of Polish state securities on the American market. And at this time the firm was already establishing business connections in Germany. This meant that it was not interested in helping Poland to procure new credits in the United States.²² Grabski was not aware of this fact at the time.

These loans did not produce a solution to any fiscal or monetary problems, for they were not large enough. The fact that they were so costly earned them the name "scabbly" after the 1926 *coup d'état*.

Certain minor loans were also secured from foreign banks during this period, for the needs of the Bank of Poland.

Following the stabilization of Polish currency carried out in April 1924, foreign private capital began to show increasing in-

²¹ *Ibidem*, p. 276.

²² *Ibidem*, pp. 234 - 250.

terest in Polish industry. This process suffered a certain set-back in 1925, owing to the collapse of the zloty. Government policy, aimed at the attraction of capital to the private market, was not able to overcome this. During this period foreign capital generally confined itself to the purchase of factories already in existence : it steered clear of founding new ones. In many cases it confined itself to granting easily withdrawn credits to Polish firms. This resulted from the continuing lack of faith in the West in Poland's stabilization. From the point of view of the national interest, it was not a question of complete unimportance whether foreign capital created entirely new work plants or purchased those already in operation. To the extent that under certain conditions the first alternative might be advantageous for the country's economy, since it increased her industrial potential, created new jobs, and might contribute to a growth in exports or a reduction in imports, the second alternative was dominated by drawbacks. The transfer of national business into foreign hands meant the removal of economic control from Polish hands into those which were not always friendly disposed towards Poland.

Assessing the years 1924 - 1925, we can state that they saw the arisal of certain opportunities for securing capital from abroad. Such opportunities were extremely costly however. One could still observe a reluctance on the part of foreign investors to engage directly in the founding of new factories. They preferred to buy up concerns already existing, or to make them dependent through the granting of credits. In this respect it would appear that a greater role during this period way played by credits for the national economy than by direct participation in share capital. This is the picture which emerges from Poland's balance of payments statistics. During the years 1924 - 1925 68 million zlotys passed into foreign hands as profits from holdings in Polish firms and 105 million zlotys as interest on credits secured by such firms.²³

²³ Z. Chełstowski, *Zagadnienie obcych kapitałów w Polsce* [*The Question of Foreign Capital in Poland*], Włocławek 1936, p. 27.

THE PERIOD OF ECONOMIC REVIVAL, 1926 - 1929

Pilsudski's coup in May 1926 did not affect the Polish government's attitude towards seeking loans for its own needs or towards the inflow of outside capital for the needs of the private market. The new government accepted all obligations incurred by the previous cabinets, and also continued the negotiations commenced earlier. During this period there was a fairly widespread conviction that—in view of the collapse of the zloty in 1925—further stabilization of Polish currency should be based on a substantial foreign loan for that purpose. At the same time, foreign circles considered that Poland should first of all achieve stabilization by her own efforts, and look for a foreign loan only for the maintenance of such stabilization. The American finance expert E. Kemmerer, operating in Poland during this period at the invitation of the government, expressed his view on the issue quite succinctly: "Clean things up first, and then there'll be some loans".²⁴

The Polish government accepted this concept, and in a very short time brought about what was in fact a new stabilization of the zloty. This was made possible by the favourable intervention of two factors: a rapid rise of advantageous market conditions in Polish industry, and the commencement in May 1926 of the long-term miners' strike in Britain. The strike provided the opportunity of exporting coal to many markets previously inaccessible to Poland. And for such coal the country received foreign currency, which went to strengthen the reserves at the Bank of Poland.

In spite of this, western economic circles put forward the theory that in order to convince western investors of the stability of the zloty, it would be necessary to secure a substantial stabilization loan. At that time the concept of such loans was very popular, and several European countries had made use of them. In Poland's case, however, there was still a certain amount of anxiety lest efforts to secure a loan should occasion demands which would lessen the country's economic independence. The rap-

²⁴ M. Rataj, *Pamiętniki 1918 - 1927* [*Diaries, 1918 - 1927*], Warszawa 1965, p. 348.

prochement between Britain and Germany—in which the United States also showed interest—might represent a real danger. But an improvement in Poland's monetary situation enabled stabilization to be carried out without looking to the West for aid. In addition, the anti-Polish plans of the Bank of England and the Bank of the Reich began to be undermined by the management of the Bank of France and by the governor of the Federal Reserve Bank of New York, B. Strong, whose views underwent a vital transition during this period, causing him to take a line independent of the concepts of the governor of the Bank of England, M. Norman.

Despite very unfavourable conditions propounded by prospective creditors, the post-coup government took active steps to secure a stabilization loan. For it was still argued that such a loan—which Poland was now able to manage without—would bring results in the future, in the form of an inflow of capital for investment purposes. For this reason, too, the possibility of immediately securing a loan for investment purposes was rejected. However, this policy was short-sighted. For if stabilization of the currency based on foreign credits did not give rise to an inflow of loans for economic investment, the cost of the stabilization operation would amount to a loss from the point of view of the economic interests of the state.

October 1927 saw the official stabilization of Poland's currency linked with the obtaining of a stabilization loan for 62 million dollars and 2 million pounds sterling. This loan increased the reserves of the Bank of Poland: only a small portion of it was earmarked for investment purposes. The conditions of the loan were slightly more onerous than those normally applied at the time in respect of other debtors. For the lack of faith in Poland's prospects still prevailed. Apart from none too advantageous financial conditions, the government was forced to agree to the appointment of a special American adviser for a term of three years, during which period he was also to be a member of the Board of the Bank of Poland.

This foreign adviser could exert considerable influence on the financial policy of the state, though he possessed no official power of veto. However, the point was that he was to publish

a quarterly report on Poland's economic situation. If the adviser's opinions expressed in this report were to show Poland in an unfavourable light, the chances of securing further credits—and this was the chief aim of the stabilization loan—might be considerably reduced. He thus played an important role. By a happy coincidence, C. Dewey turned out to be well-disposed towards Poland, which often had a tempering effect on the not always friendly intentions of the banking groups who had granted the stabilization loan. But Dewey did not always accept the plans of some Polish firms for securing loans, which meant that the inflow of capital was smaller than expected. In this respect the stabilization operation did not produce the expected results. There was still no major inflow of foreign capital into the country, especially of a long-term nature. There was only a growth in the amount of short-term loans, but these were primarily connected with the rapid improvement in world economic conditions and with Poland's increased foreign trade.

During the years 1927 - 1929 the share of foreign capital in the private capital of joint-stock companies operating within the territory of Poland increased from 21 per cent to 33 per cent.²⁵ However, the question arises here of to what degree the increase in foreign shares shown by the statistics represented a reflection of real processes, and to what degree it represented merely a fuller manifestation of the earlier investment of outside capital. One can assume that both factors had an influence on the increase, and that the first probably had greater significance.

The extent to which foreign capital was interested in investment in Poland depended on the branch of industry concerned. The greatest share was taken by the oil industry (77 per cent in 1929), closely followed by electric power stations, gas and waterworks (76 per cent), the chemical industry (41 per cent), and iron and steel (39 per cent). The least interest shown by outside capital

²⁵ J. Koźuchowski, *Kapitał zagraniczny w przemyśle polskim* [*Foreign Capital in Polish Industry*], Warszawa 1928, p. 16; M. Smerek, *Bilans płatniczy Polski za rok 1929* [*Poland's Balance of Payments for the Year 1929*], Warszawa 1931, p. 89.

was in the printing industry (less than 2 per cent), the clothing industry (3 per cent), and precision tools (9 per cent).

The French and Germans had the greatest share in Polish industry, and towards the end of the 1920s—the Americans as well. The latter were represented above all by A. Harriman, who displayed considerable interest in the zinc and metallurgical industries in Upper Silesia. The concerns of interest to him were controlled by German capital. Harriman wanted to take over some of their shares, this being greeted with enthusiasm in Poland, where it was considered that the entry of capital from the United States into Silesia would reduce the latter's dependence on the Germans, who were decidedly ill-disposed towards Poland. Thus the government of Poland, in order to encourage Harriman's involvement in Silesia, agreed to grant a number of privileges to the firm he was intending to work with. A law "on support for the zinc industry" specially passed by the Sejm guaranteed the Giesches Erben firm the waiving of tax arrears amounting to 29 million zlotys, as well as a fixed customs policy relating to foreign trade in zinc, lead and their ores, which in practice meant exemption from customs duties. Aiming at finalization of the transaction with Harriman, the government saw the entire operation from only one perspective—that it might mark the beginning of an inflow of American capital into Poland. It completely ignored the negative aspects of the arrangement, which in effect provided the Germans with American resources for expansion of the zinc industry in the Reich at the expense of the zinc concerns situated on the Polish side, which of course was the whole point of the exercise. Harriman here was merely meant to lend his name to German financial activity in Poland.²⁸ Harriman next went to the German metallurgical enterprises in Upper Silesia. He then attempted to negotiate a concession for electrification of a large part of Poland, but as a result of reservations expressed by the 2nd Division of the General Staff (intelligence), he did not receive such concession.

²⁸ L. Grosfeld, *Polska w latach kryzysu gospodarczego 1929 - 1933* [Poland during the Years of Great Economic Depression, 1929 - 1933], Warszawa 1952, pp. 89 and 94.

Some foreign firms invested capital in the expansion of industrial plants built previously. One such example was the Dutch firm Philips, which built a factory in Warsaw. However, this factory was so equipped as not to be able to produce any thing independently. Wishing to assure themselves a permanent say in the affairs of their plants, the Dutch did not provide for the production in Poland of certain sub-assemblies essential to the obtaining of the final product. They produced light bulbs for instance, but there were no machines in the factory for twisting the tungsten filaments forming the heart of the bulb. They produced radios, but certain elements had to be imported from the Netherlands all the time. Similarly, glassworks activity was dependent upon import supplies. Moreover, Philips constructed plants in Warsaw without equipping them with laboratories or design and construction offices. This was beneficial to the owners in at least two ways. Firstly, the factory could not be taken over by the state, since this would entail the threat of immediate closure. And secondly, the constant necessity to import supplies from the parent company enabled the invisible transfer of profits from Poland to the Netherlands without payment of tax and without fear of any currency restrictions. The Polish Philips simply bought parts from the Dutch Philips at prices calculated at such a high rate that they included not only the cost of production, but also profits. The Polish authorities could do nothing to prevent this.

Dependence of the Polish economy on foreign capital did not affect only industry. Foreign concerns also showed great interest in banking and property insurance. Up to 1925 there was not a single foreign insurance company operating in Poland. "Unfortunately, however, the prohibition policy has not produced the desired effect, since on account of property losses during the period of inflation, a faulty economy and the lack of money on the home market willing to engage in insurance, practically all joint-stock insurance companies have fallen under foreign influence," wrote the Treasury Minister, G. Czechowicz, to Prime Minister J. Piłsudski in 1927. Explaining how this dependence worked, he added, "The pseudo-Polish insurance companies are closely dependent on their foreign parent companies, which, generally through specially placed persons with Polish citizenship, exert

a decisive influence on their activity and on their insurance policy, and particularly on reinsurance".²⁷ He added further that control of the insurance market in Poland had been gained with negligible financial outlay on the part of foreign concerns. As a result the "Przezorność" Insurance Society belonged to the English "Prudential", the "Polonia" Insurance Society to the Italian "Assicurazioni Generale", the "Piaśt" Insurance Society to the Italian "Riunione Adriatica di Sicurta", the "Port" Insurance Society and the "Orzeł" Insurance Society to German and Austrian insurance concerns, the "Przyszłość" Insurance Society to the Austrian "Phoenix", the European Society for Insurance of goods and luggage in transit—to the Germans and Hungarians, and so on. The vast majority of the larger insurance companies belonged to foreign concerns, while others were dependent on the latter through reinsurance contracts.

A similar situation prevailed within banking, though of course this did not apply to state credit institutions or to the Bank of Poland.

The years 1926 - 1929 represented a period of increased interest abroad in investment in Poland. The level of such investment, however, was considerably lower than was expected in the light of the stabilization loan negotiated. As early as the autumn of 1928, the managing director of the "Lewiatan" firm stated at a conference with the Minister of Industry and Trade: "In a discussion on the industrial investment programme, we came to the conclusion today that further foreign credits have not followed on from the state stabilization loan as quickly as one might have expected".²⁸ Similarly, the well-known economist E. Rose wrote: "On the other hand the state loans for production and investment purposes which we heard so much about a few months ago, are now certainly not something belonging to the immediate future. Equally, foreign capital's interest in private investment in Pol-

²⁷ Letter of 25 April 1927 concerning a granting of permission for the operation of foreign insurance companies. AAN, Ministerial Economic Committee group, vol. 45.

²⁸ Speech by A. Wierzbicki, managing director of "Lewiatan", at a conference with the Minister of Industry and Trade, "Przegląd Gospodarczy", 1928, No. 5, pp. 185 - 186.

and still remains at a relatively low level. Apart from special cases where foreign capital has taken a share in our enterprises, and apart from a temporary demand—more speculative than anything else—for some of our securities, one can only note an inflow of foreign investment in our private credit institutions. However, so far this inflow is maintained at an insignificant level”.²⁹

Why was this the case? It would seem worth acquainting ourselves here with the view of the most influential Swedish banker, Jakob Wallenberg. In a conversation with Alfred Wysocki, envoy of the Polish Republic in Stockholm, on the subject of the stabilization loan, he stated that the conditions of the loan were so onerous that he could not understand how the Polish government could have agreed to them. “In Wallenberg’s view,” wrote Wysocki later, “the conditions are in fact a consequence of lack of faith in the future of a state threatened simultaneously by both Germany and Russia. Poland does not provide the guarantee of normal, peaceful development which would conduce to the investment of capital. Apart from that, previous experience in Poland is not very encouraging to foreign capital. I countered these arguments as well as I could, but Wallenberg replied, ‘It may be that mistrust of Poland is not justified. Nevertheless, in international finance circles, such and no other is the prevailing conviction’ ”.³⁰

In other words, it was not the internal economic situation, but political issues that were the cause of the continuing low level of interest in the Polish economy shown by foreign finance. Within such a network of relations the costs entailed in securing the stabilization loan and the drawbacks resulting from the functioning of a foreign adviser to the government during the years 1927 - 1930 were really unnecessary.

²⁹ E. Rose, *W sprawie bilansu handlowego* [On the Question of the Balance of Trade], “Przegląd Gospodarczy”, 1928, No. 13, p. 632.

³⁰ A. Wysocki, *Dzieje mej służby (1900 - 1938)* [The Story of My Service (1900 - 1938)], fo. 450 - 451 (typescript in the Manuscript Section of the Ossolineum Library).

THE GREAT DEPRESSION

Under conditions of economic breakdown, the state's increasing financial difficulties, revealed in the reappearance of a budget deficit, contributed to adherence among government circles to the concept of attracting foreign capital to Poland. "Gazeta Polska", organ of the *sanacja* movement, gave expression to this at the beginning of 1930, when it wrote that one of the most important tasks of Polish credit policy was to draw foreign capital into co-operation.⁵¹

The government conducted a considerable number of negotiations for the obtaining of credit abroad. But the growing crisis in Poland, increasing budget difficulties, a reduction in foreign trade, and following on from this—difficulties arising in equalizing the balance of trade and the balance of payments, served to evoke growing reserve among foreign circles. The only significant loan transaction on the part of the Treasury was the securing in 1930 of the so-called second match loan, from the same concern as previously—I. Kreuger. The loan was for 32.4 million dollars, from which 4 million dollars still outstanding from the first loan were to be deducted at once. The nominal interest rate—in accordance with Piłsudski's instructions—was lower than on previous occasions, amounting to 6.5 per cent. As compensation for the lowered interest rate, the creditors secured for themselves a number of very profitable privileges. On the whole the new loan arrangement was not profitable for Poland. For it provided for a 15-year extension of the Polish Match Monopoly lease, an increase in the price of matches, the taxing of lighters (to prevent competition with matches), the granting of a monopoly to the Swedes for the manufacture of constituent elements for the production of matches, exemption of the Swedes from the obligation of exporting matches (this was one of the provisions of the 1925 contract), flat-rate taxation (which meant that taxes could not be increased during the contract's validity) and so on.

⁵¹ BGK [*Bank Gospodarstwa Krajowego*] a *kapitał zagraniczny* [*The National Economy Bank and Foreign Capital*], "Gazeta Polska", 5 February 1930.

Apart from the match loan, a few smaller credits were obtained, some of which were connected with specific goods and were earmarked for instance for electrification of the Warsaw railway junction and for the supply of brake units for Polish State Railways. A contract was also concluded with the French for credit to complete construction of the Silesia-Gdynia railway line. Again the conditions were unfavourable.

Private foreign capital, which during the years when market conditions were good had on the whole avoided major investment in the Polish economy, now began during the depression period attempts to withdraw those sums it had committed earlier. There were three basic reasons for this. Firstly, in the face of the difficulties experienced by the entire capitalist world, foreign financial centres attempted to mobilize as many monetary resources as possible, withdrawing the latter above all from countries which only figured marginally in their basic interests and activities. One such state was Poland. Secondly, the country's geographical position aggravated anxiety as to the security of investments placed in Poland. Thirdly, foreign firms were expecting the introduction of currency restrictions in Poland, and they were therefore bent on liquidating their interests as quickly as possible, so that they could take their money out of the country without additional difficulties and formalities.

Endeavours to liquidate investments in the form of withdrawal of capital from Polish firms took a different course to the withdrawal of credits granted to such concerns prior to the depression. The former came up against fundamental and in many cases insurmountable difficulties. For withdrawing from business meant the selling of shares. In view of the violent drop in market prices and the lack of demand for securities, this was an exercise which entailed heavy financial losses. For assuming an index of 100 for industrial share prices in Poland in 1928, this fell to 47 in 1930, to 27 in 1931, and to 19 in 1932, while in the following two years it amounted to 20 and 19 respectively. In the last year of the depression period, the index reached a level of 22.¹²

¹² *Mały Rocznik Statystyczny 1936* [*The Concise Statistical Year-Book for 1936*], p. 3.

Such being the case, foreign firms generally refrained from selling off the shares they possessed. On the other hand they withdrew the credits they had granted previously, which gave rise to sundry difficulties for the concerns involved, since the role of foreign credits in the activity of firms operating on Polish territory was of fundamental importance. On 1 January 1932 the liabilities of Polish concerns with respect to foreign creditors amounted to 2,339 million zlotys in short-term credits, and 449 million zlotys in long-term credits, which is to say 2,788 million zlotys altogether, while at the same time foreign holdings in joint-stock companies on Polish territory amounted to the sum of 1,712 million zlotys.³³ From a comparison of these two sums, we get an idea of the effect which the sudden withdrawal of foreign credits must have had. Up to 1931 there was a surplus in the balance of foreign credits for Polish enterprises. But in 1932 repayments exceeded inflow by 151 million zlotys, in 1933—by 42 million zlotys, in 1934—by 257 million zlotys, and in 1935—by 65 million zlotys, in addition to which the amount of credit granted was falling at the same time. While in 1929 inflow from credits reached a level of 1,347 million zlotys, in 1933 it dropped to 650 million zlotys, in other words by 52 per cent.³⁴ Whereas the balance of Poland's share dealings with foreign countries revealed a deficit for one year only (1931). For the other depression years there was always a minor surplus.

Many firms were not able to meet their repayment obligations. For prolongation of their loans they had to hand over some of their shares to their creditors. A classic example of foreign creditors exploiting the repayment difficulties of Polish enterprises for the taking over of their capital was the famous case of the "I. K. Poznański" Joint-Stock Company in Łódź, one of the largest textile firms in the country. "Poznański" had credit obligations with respect to the Milanese Banca Commerciale Italiana. "The firm was not able to pay off its debt to the Italian bank, and what is more, it needed additional floating credits from them. The bank

³³ Z. Chełstowski, *op. cit.*, p. 15; *Mały Rocznik Statystyczny 1933* [*The Concise Statistical Year-Book for 1933*], p. 28.

³⁴ *Statystyka Polski* [*Poland in Statistics*], series C, parts 22 and 51.

took advantage of this situation and imposed some very onerous conditions on the firm, demanding permanent transfer by way of gratuity of half of the ordinary shares and 1,800 preference shares, in addition to which relations between the "raped" former owners and the new master of the situation, in the person of Italian capital, took such a turn that any kind of opposition from the Polish minority would have met with immediate distraint proceedings on the part of the Italians, and in practice of course this would have been tantamount to liquidation of the old enterprise".⁴⁵

The forcing of Polish enterprises to transfer shares to their foreign creditors in lieu of unpaid debts was the main cause of the increase in foreign holdings of Polish share capital. New share purchases by foreign concerns were very moderate. And it was precisely this that gave birth to the apparently illogical and paradoxical increase in foreign holdings in Polish joint-stock companies during the crisis years, when at the same time foreign capital was bent on withdrawing its interests in Poland.

Between 1929 and 1934 the level of foreign holdings in the initial share capital of joint-stock companies in Poland rose from 33 per cent to 47 per cent, falling to 44 per cent in 1935.⁴⁶ A very considerable increase then. For in practical terms almost half the share capital of enterprises operating within the territory of the Polish state belonged in 1934 to foreign capitalists. Taking into account the fact that some concerns were dependent on outside capital by reason of the credit system and cartel links, this meant that control of the majority of the larger concerns already resided abroad during this period. For we have to remember that all the large enterprises took the form of joint-stock companies, while it was extremely rare for smaller firms to be organized along such lines.

The fall in foreign holdings in 1935 was caused by the taking-over by the state of the shares of some concerns, including those

⁴⁵ S. Lauterbach, *Kapitał zagraniczny w Łodzi* [*Foreign Capital in Łódź*], "Gazeta Polska", 5 December 1935 (reprinted in Z. Landau, J. Tomaszewski, *op. cit.*, pp. 112 - 115).

⁴⁶ Z. Landau, J. Tomaszewski, *Wielki kryzys 1930 - 1933* [*The Great Depression, 1930 - 1933*], Warszawa 1982, p. 96.

with foreign holdings, which were unable to continue functioning without the aid of credits from the state banks and without financial aid from the government.

In 1934 the highest level of foreign holdings was to be found in the oil industry. They amounted to 93 per cent of the total share capital (76 per cent in 1929). Iron and steel came next with 83 per cent (65 per cent in 1929), together with electric power stations, gas- and waterworks, also with 83 per cent (76 per cent in 1929). Foreign holdings in the chemical industry rose from 41 per cent to 70 per cent, and in mining from 39 per cent to 67 per cent. Foreign capital continued to show little interest in the food industry (10 per cent in 1934) and the clothing industry (14 per cent).³⁷ It still tended to concentrate attention on raw materials and heavy industry, which is to say on those branches of greatest significance for the economy and defence.

However, the real role played by foreign capital was still greater than that which emerges from the above-cited data. This was because of the credit and cartel dependence of many concerns. Z. Chełstowski for instance calculates that even in 1933 68 per cent of joint-stock capital was in fact under foreign control.³⁸ Credit dependence has already been discussed above, we shall therefore devote a few words here to the role played by cartelization.

Foreign capital was generally interested in controlling the largest enterprises operating within a given branch of industry: the latter in turn played the main role within the monopoly associations. They were therefore able to make even the purely national smaller enterprises dependent on them. In 1934 companies with foreign holdings constituted 17 per cent of the total number of cartelized joint-stock companies, but they controlled as much as 53 per cent of the total capital of joint-stock companies operating within the country.³⁹ This meant that what comparatively was a very small number of concerns dependent on

³⁷ *Loc. cit.*

³⁸ Z. Chełstowski, *op. cit.*, p. 11.

³⁹ *Mały Rocznik Statystyczny 1937 [The Concise Statistical Year-Book for 1937]*, p. 107.

foreign financial centres also played a fundamental role in the cartels. For if, in a 100 per cent cartelized branch of industry, companies with predominantly foreign capital possessed just slightly more than 50 per cent of the capital, then as a rule they were able to gain a dominant position within the association. In this way cartelization increased foreign influence within the country's economy.

The national make-up of foreign capital invested in Polish joint-stock companies did not undergo any major reshuffling during the depression years. French capital still held the greatest share, though its holdings decreased from 26.7 per cent in 1929 to 24.4 per cent in 1935. Second place was taken by capital from the United States, whose holdings rose from 15.9 per cent to 21.8 per cent. Germany on the other hand dropped to third position (from 21.9 per cent to 19.3 per cent). However, this reversal of positions between Germany and the United States did not reflect the true state of affairs. For in this case the American Harriman group merely represented a cover for German capital. In fourth position came Belgian capital (11 per cent), and then Swiss capital (5 per cent) and British (also 5 per cent).⁴⁰

Summing up the depression period, we can state that there was a fall-off in the amount of resources invested in Polish industry by foreign capital, but at the same time there was an increase in foreign holdings of joint-stock capital. Only after 1935 did foreign holdings show something of a decrease, but not sufficiently for us to be able to consider this year as some kind of turning-point in the degree of dependency of Polish industry on foreign resources.

THE PERIOD OF DIRECTED ECONOMY, 1936 - 1939

One of the conclusions which the government drew from the depression period was that it was necessary to give up counting on the possibility of economic growth in Poland based on the inflow of foreign capital. This probably influenced the decision to

⁴⁰ Z. Landau, J. Tomaszewski, *Wielki kryzys...*, p. 98.

introduce currency restrictions in Poland in April 1936, which the government had been unwilling to agree to previously in case it served to turn foreign capital away from Poland. The government was fully cognizant of the fact that in view of the worsening international situation, the only remaining possibility was to try and secure loans on a political basis, and not an economic one.

In view of the fact that following Piłsudski's death, France made renewed attempts to involve Poland more closely with her interests, conditions were ripe for undertaking endeavours to secure a loan. Concrete discussions on this topic took place during a visit to France by E. Śmigły-Rydz in September 1936. These resulted in the securing of a loan for 2,600 million French francs. Of this sum, 2,060 million represented credit for military purposes, and 0.54 million was earmarked for completion of the Silesia-Gdynia railway. The terms of the credit were favourable. However, realization of the loan encountered some problems. Among other things, these probably emerged from the fact that the securing of the credit did not incline Poland towards closer co-operation with Paris. Particular difficulties were encountered in respect of part of the loan—a sum of 1,000 million francs—connected with goods, where the French were to supply Poland with armaments and military equipment.

In the face of a real and growing threat of war, and of Great Britain's guarantee to Poland in March 1939, the Polish government decided to embark that year on negotiations for new credits for military purposes. It wanted to secure a loan for 60 million pounds (around 1,400 million zlotys) in London, and one for 2,000 million francs in Paris. Despite the threatening situation, the negotiations came up against some very considerable obstacles. The British wanted to treat the loan as a pure bank-credit operation, and not as a political matter. While the French made their position dependent upon London's reaction. This forced the Polish side to cut back their demands. In London talks turned around a credit involving 8 million pounds' worth of goods and 8 million pounds in cash, though the English were inclined to grant only 5 million in cash. Following very difficult negotiations, an agreement was finally signed on 26 August 1939. A settlement

with France was signed on 18 August. In practical terms then the two loans had no influence at all on Poland's situation.

Unable to acquire substantial new loans, the government began steps aimed at restricting the level of payments for servicing existing liabilities. For realization of this task use was made of the currency regulations issued. From mid-1936 the transfer abroad of sums connected with repayment of capital and interest on central and local government loans was discontinued. The renewal of such payments was conditional upon the renegotiation of the terms of a given loan. As a result of complicated negotiations conducted with various groups of creditors, agreements were reached for the lowering of interest rates, extension of the repayment period, and in some cases for postponement of repayment of capital for a few years—only the interest was to be serviced.

In view of the fact that a significant portion of Polish foreign loan shares were bought up by Poles on the foreign market and then brought into Poland, the government decided to convert foreign dollar loan shares held by Polish citizens into an internal loan based on the zloty and at a much lower interest rate than the dollar loans. The operation was of considerable significance, since substantial numbers of these loan shares were now located in Poland (e.g. around 50 per cent of the American loan from 1920, and 87 per cent of the Dillon loan from 1925).⁴¹ A statute regulating the principles of conversion was issued on 7 April 1937. This served as the basis for converting state and local government foreign loan shares for a nominal sum of almost 49 million dollars into an internal loan.⁴²

As a result of these steps taken by the government, there was a perceptible decrease in the level of the state's liabilities abroad, as well as of annual payments respecting them. While liabilities abroad amounted to 3,345 million zlotys in 1935, on 1 April 1939 the figure was only 2,470 million zlotys. While the proportions between domestic liabilities and foreign liabilities amounted to

⁴¹ AAN, Treasury group, vols. 4061, 4063.

⁴² *Wyniki konwersji pożyczek dolarowych* [*The Results of the Conversion of Dollar Loans*], "Polska Gospodarcza", 1938, No. 29, p. 1070.

12 per cent and 88 per cent respectively in 1929, and 29 per cent and 71 per cent in 1935, in April 1939 the figures were 53 per cent and 47 per cent.⁴³ This was something advantageous from the point of view of the level of government payments abroad.

The drop in the level of foreign holdings of the capital of joint-stock companies operating in Poland which occurred in 1935, was maintained in 1936. Indeed, it was even more marked than the previous year. Above all, it resulted from the buying-up by the Polish government from the Germans on 11 June 1936 of the companies making up the largest industrial holding in Upper Silesia, the "Mining and Metallurgical Partnership", comprising the Katowice Mining and Metallurgical Joint-Stock Company and the Upper Silesian United "Royal" and "Laura" Ironworks. The government purchased the Katowice Company portfolio for a nominal sum of 66 million zlotys, and that of the "Royal" and "Laura" Ironworks for a nominal sum of 84 million zlotys, at the same time taking over German liabilities towards the Partnership to the value of around 81 million zlotys. For the shares it took over, the government paid the Germans 80 million zlotys in bonds.⁴⁴

In view of the fact that no new inflow of foreign capital into Poland was observed, the buying-up of the German concerns must have contributed to the drop in foreign holdings of joint-stock in general, and in the mining and metallurgical industries in particular.

In the two following years—1937 and 1938—foreign holdings of joint-stock capital again began to reveal an upward trend. This was probably connected with the continuing process of the taking-over by foreign creditors of shares of those enterprises not able to pay off credits secured earlier. For the fall-off in credits was still maintained during the years 1936 and 1937 (we do not

⁴³ *Mały Rocznik Statystyczny 1939* [The Concise Statistical Year-Book for 1939], p. 372; W. Domaniewski, *Polski default z roku 1936* [The Polish Default of 1936], p. 7 (typescript in the Archives of the Piłsudski Institute in New York).

⁴⁴ Grounds for the proposal by the Minister of Industry and Trade, A. Roman, and the Treasury Minister, E. Kwiatkowski, concerning the "Partnership", submitted to the Ministerial Economic Committee on 12 July 1936. AAN, Minutes of the Council of Ministers, vol. 82, fo. 45-47.

have figures for the years following). In 1936 liabilities of Polish firms in respect of foreign creditors fell by 53 million zlotys, and in 1937 by a further 66 million zlotys.⁴⁵ This process probably continued until the outbreak of war. The Treasury Minister, for instance, E. Kwiatkowski, spoke of the difficulties in obtaining new credits in 1939: "The State Forests sell timber to the London market every single year, in respect of which they receive an advance of one million pounds each year, which sum is then adjusted as deliveries take place. When recently we made a demand for the customary advance, we received the reply that the English would have to wait for Hitler's speech first".⁴⁶

If a state enterprise had problems securing credit, how much more difficult must it have been for private firms. Such difficulties were felt by the sugar industry for instance, which for years had received advance credit from the London British Overseas Bank.

The fall in credits granted to Polish enterprises from abroad is confirmed by statistical data. While cash debts of Polish firms in respect of foreign creditors amounted to 1,448 million zlotys at the end of 1935, this sum had dropped to 1,300 million zlotys by the end of 1936, while a year later the figure was 1,247 million.⁴⁷

The growth in foreign holdings of share capital took place alongside an increasing tendency on the part of the state to take over certain foreign enterprises. The government for instance bought up French shares in the Żyrardów Works, and in May 1939 it took over the German Hohenlohe-Werke in Upper Silesia together with its subsidiary companies. There was also a take-over of the electric power station at Chorzów, again from the Germans. This activity led to a reduction in the influence of outside capital within Polish industry. Its escalation during the closing period of the Second Republic was connected with the diffi-

⁴⁵ *Mały Rocznik Statystyczny 1939*, p. 239.

⁴⁶ J. Szembek, *Diariusz i teki [Diary and Portfolios]*, vol. IV, Londyn 1972, p. 577.

⁴⁷ S. Polaczek, *Bilans płatniczy Polski w latach 1936 and 1937 [Poland's Balance of Payments for the Years 1936 and 1937]*, "Polska Gospodarcza", 1939, No. 9, p. 367.

culties arising in many enterprises on account of the economic depression, and with the lack of interest shown by foreign concerns in reforming the declining factories with their own resources. The Treasury was left to perform this task, since private capital in Poland was not strong enough.

In the period of interest to us here there were certain shifts in the compositional make-up of those enterprises dependent on foreign finance. There were decreases in the latter's participation in the oil industry (from 93 per cent in 1934 to 86 per cent in 1938), the mining industry (from 71 per cent in 1935 to 57 per cent in 1938), the chemical industry (from 70 per cent in 1934 to 49 per cent in 1938), and in the metal industry (from 32 per cent to 24 per cent over the same period). On the other hand there was increased participation in the electrical engineering industry (from 31 per cent to 55 per cent), the textile industry (from 23 per cent to 27 per cent), the timber industry (from 38 per cent to 46 per cent), and in minerals (from 25 per cent to 31 per cent).⁴⁸ In general terms this trend was beneficial, since there was a decline in the significance of foreign capital within heavy industry (with the exception of electrical engineering). However, dependence was still excessively high. In 1938 foreign holdings in the share capital of industrial enterprises amounted to 43 per cent. Foreign concerns possessed over 50 per cent of the share capital in 22 per cent of companies, and these firms controlled 38 per cent of the capital of all joint-stock companies.⁴⁹ So that it was still the largest enterprises that were involved.

Changes in the nationality breakdown of foreign capital operating in Poland during the years 1935 - 1937 (there are no figures for the succeeding years) consisted in a decline in the role of German capital (falling from 19.3 per cent of the total in 1935 to 13.3 per cent in 1937) and of American capital working in col-

⁴⁸ Z. Landau, J. Tomaszewski, *Wielki kryzys...*, p. 96; *Mały Rocznik Statystyczny 1938* [*The Concise Statistical Year-Book for 1938*], p. 98; *Księga gospodarcza Polski. Informator przemysłowo-handlowy* [*The Economy Book of Poland. An Industrial and Trade Directory*], Warszawa 1939, p. 96.

⁴⁹ *Księga gospodarcza Polski*, p. 96.

laboration with the Germans in Upper Silesia (falling from 21.8 per cent to 18.6 per cent), and in a small increase in the participation of other states. The leading position was still held by French capital, whose share rose to 26.2 per cent.⁵⁰ The decline in the role of German capital resulted from the earlier described buying-up of the "Partnership" enterprises. A certain drop in the commitment of American capital was also caused by the buying-up of that concern, in which US financiers had a certain amount of holdings, as well as by a degree of withdrawal from the oil industry. It would seem that the decreasing significance of German capital was a trend which was maintained up until 1939.

In 1937 French capital was most heavily tied up in the oil industry, the mining and metallurgical industries, the textile industry and the chemical industry, American capital in the mining and metallurgical industries and the oil industry, German capital in the mining and metallurgical industries, electric power stations and the metal industry, Belgian capital in electric power stations, the mining and metallurgical industries and in minerals, Swiss capital in electric power stations, and the textile and chemical industries, and British capital—in the chemical, textile and food industries. The basic spheres of interest of capital from particular states did not, then, undergo radical change during the period of the Second Republic.

AN APPRAISAL OF THE INFLUENCE OF FOREIGN CAPITAL ON THE COUNTRY'S ECONOMY

In general terms foreign capital had a negative influence on Poland's economic growth during the inter-war period, which is not of course to say that every operation tied up with foreign capital was detrimental. Foreign concerns confined their interest in the Polish economy to a relatively narrow band of selected branches of the national economy. This sphere of interest mainly embraced raw materials, heavy industry, electric power stations,

⁵⁰ Z. Landau, J. Tomaszewski, *Wielki kryzys...*, p. 98; *Księga gospodarcza Polski*, p. 97.

waterworks, and insurance and the larger private banks. These branches of the economy became almost entirely dependent on foreign finance. Whereas agriculture and many branches of light industry remained beyond the scope of any interest whatsoever. Capital was thus invested where industry provided given and fairly stable conditions for the sale of goods produced. Because of the fact that the domestic market in Poland was limited, foreign capital avoided the construction of new plants, and concentrated on buying up enterprises already in existence and possessing traditional outlets. In not building new premises, foreign finance did not contribute to the arising of new capital goods, whose employment in production would have provided resources for the servicing of loans and investment, and led to the creation of new work posts. Such investment led merely to a change in the person of the owner of an already existing production plant.

This circumstance had a number of negative consequences. Firstly, from the point of view of flexibility in conducting national economic policy, it was by no means a matter of indifference whether the controller of production potential was a resident national or a foreigner. It was considerably more difficult to influence the latter, since he did not as a rule see his interests as coinciding with those of Poland. Secondly, the buying-up of factories very often aimed not at expansion of production, but at cutting back production, to restrict competition with output from other states. Thirdly, a change in the nationality of the owner was reflected in the balance of payments. A resident national would earmark a considerable portion of his income for the needs of his family in Poland, even when part of his profits were kept abroad. A foreign owner would transfer all his profits abroad, and often a considerable portion, too, of resources intended for amortization. In the process he placed a much heavier burden on the balance of payments than an owner who was a resident national. No less significant is the fact that on the whole foreign capital avoided ploughing back its profits in Poland. Two factors were at work here—economic and political. From an economic point of view—the building of new factories came up against the obstacle of lack of absorptive market outlets. From a political point of view—there were constant fears as to the prospects for

Poland's continued existence as an independent state. Both these factors brought about a situation where the foreign investor endeavoured to withdraw capital invested within Polish territory as quickly as possible. He therefore took all his profits abroad.

Gaining considerable profits without reinvesting them in the country, as an ultimate financial effect foreign capital caused such a strain on the balance of payments that this led to the decapitalization of Poland. For the sums of long-term capital invested in Poland in successive years by foreign capitalist amounted to less than the overall outflow of such capital and associated burdens. During the period 1924 - 1937 (these are the only years for which we have figures) long-term investments in Poland from abroad amounted to 3,195 million zlotys. Payments connected with these investments amounted to 1,866 million zlotys over the same period, and sums transferred abroad on account of interest, dividends and so on—3,703 million zlotys. Outflow thus exceeded inflow by 2,374 million zlotys. And this constituted only part of the costs of servicing long-term investment discernible in the statistics. In order to gain foreign currency to cover these obligations, the Polish state was compelled to push up exports, and in some periods this entailed considerable financial outlays. For this purpose for instance, during the depression period a very costly dumping policy was employed, premium systems for exporters were developed, and rail transport of goods destined for export was subsidized. And these were not trifling amounts, either. Dumping costs were estimated at 300 - 500 million zlotys annually, the reimbursement of customs duties to exporters—at 50 million zlotys, and subsidies hidden in railway fares—at 180 million zlotys. And this is a far from complete list of the ways in which export was encouraged. In consequence, according to fairly cautious estimates, direct and indirect costs associated with the servicing of foreign capital amounted to around 470 million zlotys annually.⁵¹

⁵¹ Z. Landau, *Wpływ kapitałów obcych na gospodarkę polską* [*The Effect of Foreign Capital on the Polish Economy*], in: Z. Landau, J. Tomaszewski, *Druga Rzeczpospolita. Gospodarka, społeczeństwo, miejsce w świecie*, Warszawa 1977, pp. 336 - 337.

This was the amount which could have been invested in the national economy each year if it had not been necessary to service foreign capital. In this respect it was a substantial sum, since during the years 1924 - 1935 the government allocated an average annual amount of 500 million zlotys for investment purposes. If it had not been for the servicing of foreign capital, then, this sum could have been almost doubled. Thus foreign capital did not fulfil the role of an accelerating factor in the economic growth of the Second Republic, but rather tended to inhibit such growth.

(Translated by Phillip G. Smith)