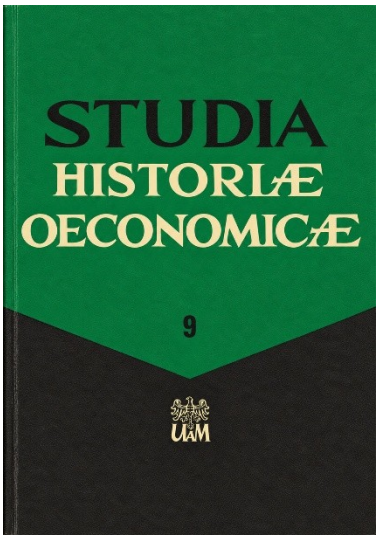


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THE FOREIGN LOANS OF THE POLISH STATE IN THE YEARS 1918 - 1939

Poland suffered an acute shortage of capital during the whole inter-war period. That was a result of economic backwardness inherited from the time of the partitions, of considerable war destruction in the years 1914 - 18 and of a low capitalization of the country. Shortage of capital was felt both by private enterprises and by state apparatus. This brought about a tendency towards completing the insufficient home resources by attracting the co-operation of foreign capital. That was the situation of private firms as well as of the treasury[1]. In this article we are going to deal only with foreign loans which the Polish state tried to obtain[2]. When analysing government foreign loans it is necessary to concentrate upon three principle questions: the attitude of the Polish state to the influx of foreign capital, the attitude of foreign countries and capitalists to the efforts of Poland and the results achieved. As in various periods of inter-war Poland the case of state loans was characterized by a differentiated outlook, one must remember about this factor of change in the process of analysis.

It is possible to recognize several periods of the history of foreign state loans. The first period was that covering the years of the formation of the Polish state and the war with Soviet Russia (1918 - 1920), the second period fell upon the years of the increasing inflation (1921 - 1923), the third period was connected with the stabilizing actions of the W. Grabski cabinet (1924 - 1925), the fourth with the actions of particular states on a world scale the aim of which was to stabilize their currencies, actions based upon foreign loans (1926 - 1929), the fifth was coincident with the years of the Great Depression (1930 - 1935) and the last one was closely bound with the growing danger of the outbreak of World War II (1936 - 1939).

Of course, like every attempt at formulating a period sequence this one is

[1] For a more extensive treatment cf.: Z. Landau, J. Tomaszewski, *Kapitały zagraniczne w Polsce 1918 - 1939. Materiały i dokumenty* (Foreign Capital in Poland, 1918 - 1939. Materials and documents). Warszawa 1964.

[2] The literature on the subject of foreign loans is already rather copious. This subject was discussed among other researchers by S. Kirkor, Cz. Klarner, J. Komarnicki, Z. Landau, Z. Pietkiewicz, S. Pszczółkowski, J. Seelinger, and J. Zajda. For bibliographical descriptions compare Z. Landau, *Pożyczki zagraniczne państwa polskiego 1918 - 1939* (Foreign Loans of the Polish State, 1918 - 1939). „Finanse" 1969, No. 6, p. 1.

also conventional to a certain degree, but it seems that it reflects in a rough outline the specific features of changes taking place in the sphere of foreign loans obtained by the Polish state. Each of the above specified periods was characterized by its own peculiar tendencies. Those tendencies were not in general a result of changes in the conceptions of the Polish government, but of changing attitudes of foreign countries and banks to crediting our state.

The years 1918 - 1920 were extremely difficult for the newly established Polish state[3]. The Polish state in that period was confronted with the formidable task of coping with many complex political and economic problems. All tohat created a demand for enormous sums of money and those sums were not at the disposal of the treasury. Taxes were collected on a modest scale, because the whole country suffered extensive destruction and the fiscal apparatus was still in a stage of organization. State-owned enterprises brought about deficit. Some effects were arrived at owing to a domestic loan which was subscribed willingly by the population treating it as a patriotic duty. But all the incomes were not sufficient for covering the rapidly increasing government expenditure. That is why one cabinet after another paid much attention to the opportunities and potentialities of obtaining financial aid from the Western countries. Efforts to obtain credits were increasing together with the increasing preparations for a war with the Soviet Russia. In 1918 the main objectives of loan seeking were dictated by food supply needs and from the middle of 1919 loans for the needs of the army were becoming more and more important.

In the minutes of the Council of Ministers of that period, just as in shorthand reports from the Seym, the foreign loan negotiation question occupied much space. The first Prime Ministers of the re-established Polish state, J. Moraczewski and I. Paderewski emphasized the necessity of negotiating foreign loans. There were no significant differences between them about that. However, Paderewski had better chances accomplishing the objectives of the postulated financial policies of the government, owing to his connections in the circles of American leaders. He formulated his policy in the following way: Poland needs above all a "big foreign loan (...) a huge foreign credit"[4]. That was also the direction taken by the first ministers of finance of inter-war Poland[5]. The first minister of finance who wanted at first to base currency reform and budget balance upon domestic resources wa L. Biliński[6]. His plan, however,

[3] Cf. E. Rose, *Bilans gospodarczy trzech lat niepodległości* (The Economic Balance of Three Years of Independence). Warszawa 1922; Z. Landau, J. Tomaszewski, *W dobie inflacji (1918 - 1923)* (In the Time of Inflation, 1918 - 1923). Warszawa 1971.

[4] A speech of March 26th 1919. A shorthand report of the 18th session of the Seym, slip 1111.

[5] Z. Landau, *Polskie zagraniczne pożyczki państwowe 1918 - 1926* (Polish Foreign State Loans, 1918 - 1926). Warszawa 1961, pp. 12 - 26.

[6] L. Biliński, *Wspomnienia i dokumenty*. T. II (Memories and Documents. Vol. II). Warszawa 1925.

proved a complete failure and then he also negotiated for foreign loans whenever there was an opportunity for it[7]. Biliński's successor, W. Grabski, too, was unable completely to resist the pressures of that conception.

Of course, Polish politicians were quite aware of the necessity of encouragement of foreign capital to cause its investments in Poland. Interest by itself was not a sufficient stimulus for that. Thus a variety of privileges were offered to potential creditors. An extreme position in this particular aspect was taken by the Economic Committee of Ministers which on August 20th 1920 established that for the securities of a planned loan of 1,000 million franks: "The finance minister may sign an agreement to sell oil and oil products and sugar, cede to foreign capitals a share in the exploitation of the state tobacco monopoly and state monopols in general, he may lease state-owned coal mines, sell to foreign governments and private consortia mining rights and to grant permission for prospecting and exploiting minerals reserved by law for the state, to grant the right of new railway lines construction and exploitation, to grant permission for the exploitation of new sea and air lines, water power, forest regions, to authorize timber exports and in general terms to grant permission for exploiting resources in the country, rights to establish and maintain the activity of shareholders' companies, insurance companies and factory enterprises, to enter into contracts concerning the sale of state-owned coal mines, iron and zinc smelting works in Upper Silesia, if that territory is to be appropriated to the Polish state, and finally, to sign trade conventions"[8]. The very number of privileges offered to foreign states and firms shows how eager was the state at that time to enhance the influx of new credit.

Those offers were addressed by the Polish state both to private capital and to foreign governments. Big private capital, however, did not show any interest in granting credits to the Polish state. This was caused by fears that Poland could have proved to be a "season state" and that capital invested could have been lost. Only some speculating companies offered their financial aid to the Polish government but against enormous and completely disproportionate privileges, as compared with the value of the credit offered. Thus, for example, a Swedish-Polish company offered a modest loan but against a grant of monopoly for sea and river transport[9], another, this time Viennese company, against a monopoly for 15 years of carrying on a lottery[10], another, American firm this time, against the sole right of carrying on all railway in-

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[7] Z. Landau, *Pierwsza polska pożyczka emisyjna w Stanach Zjednoczonych* (The First Polish Emission Loan in the United States). Zeszyty Naukowe SGPS 1959, No. 15.

[8] Archiwum Akt Nowych (AAN), the S. Kauzik collection.

[9] E. K. (J. Moraczewski), *Przewrót w Polsce. I. Rządy ludowe* (The Coup d'Etat in Poland. I. The Popular Governments). Kraków 1919, p. 84.

[10] Ibid.

vestment in Poland for 90 years[11]. All those offers were not accepted, because they contained too small financial effects for the purposes of the treasury.

The attitude of some governments of Western Powers to the problem of granting loans to the Polish state was quite different. Those governments were aware that financial difficulties may hinder the stabilization of capitalist conditions in our country. They were particularly afraid of the growth of communist influence in Poland caused by a difficult situation of the urban population. There were also some other factors at work. For instance France who took into consideration a reconstruction of the power of Germany, made efforts to establish a possibly strong Poland on Germany's eastern frontier, a country which would be closely allied to France and even more than that, a country which would be politically and economically dependent on Paris. France also was interested in the preparation of the Polish army for attacking the Soviet Russia. That is why the Western Powers (above all France and the U.S.A.) showed a vivid interest in credit aid to Poland. The American government supplied above all foodstuffs on a credit basis. This was connected with the conceptions of American politicians who assumed that providing food for the undernourished population would be a successful protection against the spread of communist influence. France, on the other hand, supplied mainly military equipment on credit. Aid from other countries was comparatively of a small significance. For instance, Great Britain who did not want to strengthen a Poland subjected to France, was not interested in loans for this country (apart from relief credits comprising all countries which suffered as result of war)[12].

The greatest influx of credits for the Polish government took place during the preparations and waging of the war with Soviet Russia. In 1918 from a variety of sources and in a variety of forms the Polish government obtained credit supplies and cash amounting only to 26 million dollars and in 1919 as much as 162 million dollars and in 1920 still 84 million dollars. Of the credits obtained 99 per cent was of a commodity character and only 1 per cent was in the form of cash. What is even more significant, as much as 91 per cent of the supplies comprised consumer goods and military equipment and only 9 per cent of it consisted of raw materials and capital goods[13].

As a matter of course, the credits obtained were spent on food consumer purposes. Actually 59 per cent was utilized for food supplies, 28 per cent for armaments, 2 per cent for health services and only 9 per cent for the needs of industry[14]. That was something of tremendous significance for the state.

[11] Minister of the Railways, Eberhardt's information. AAN, the S. Kauzik collection.

[12] For a more extensive treatment see: Z. Landau, *Polskie*..., pp. 13 - 68.

[13] Ibid., p. 69.

[14] The estimate made upon the basis of: *Zestawienie długów i gwarancji finansowych*

State budget was, as a result of such a situation, burdened with the task of servicing of the debts incurred without at the same time providing the country with the means to increase incomes. Obviously we should not narrow down the estimate of the credits of the years 1918 - 1920 only to this conclusion. Those credits were undoubtedly partly necessary for the reestablishing of the army and for food supplies for the population. This does not apply to all the credits, because those utilized for the war with the Soviet Russia must be recognized as lost. One must also keep in mind that the loans of the 1918 - 1920 period did not contribute anything towards the solution of the problems of a deficit budget or to the stabilization of the currency or to capital growth of this country. It seems that one of the more distinguished Polish economic politicians, E. Rose was right when he wrote that: "Those credits certainly helped us to find a solution in very difficult situations from which we would be unable to extricate ourselves if left alone, but they failed to contribute in any way to the solution of our terribly complex treasury problem consisting in a situation in which the country with an undercut payment capacity had to cope with the financial needs of the state, increased very much above normal conditions"[15].

As the credits of the 1918 - 1920 period did not affect any of the fundamental economic problems of this country, those problems still remained to be solved. The budget of the country was still without a balance, the currency continued to show inflationary tendencies and the state suffered an acute shortage of capital. The war still deepened those difficulties because it caused an increase of budget expenditure which in turn influenced the speeding up of the inflationary tendencies and it increased the scope of destruction thus increasing the need of reconstruction resources. As a result the need for an influx of foreign capital did not diminish at all as compared to the previous period. All this was true in a situation in which power was in the hands of the same social group as before. The ruling classes were faced with an alternative as far as the solution of the treasury and currency problems of Poland were concerned. The first solution would be increasing taxation the other one negotiating foreign loans. The first solution incurred an increase of the burden of the possessing classes, because only they had at their disposal some financial means. Thus it was not in the interest of the governing group to look for the method of solution in increased taxation. This in a natural way enhanced interest in obtaining foreign loans which, if they were obtained would make it possible to bring about a balance budget, the stabilization of the currency and investment development without at the same time increasing the taxation burden of the possessing classes.

Rzeczypospolitej Polskiej wg stanu na 31 XII 1921 (A Computation of Debts and Financial Guarantees of the Republic of Poland as it was on December 31st 1921).

[15] E. Rose, *Bilans...*, p. 172.

In such a situation nearly all the finance ministers of the years 1921 - 1923 paid much attention to the influx of credit from abroad. Their interest in foreign loans was growing in proportion to the speeding up inflation within the country. Thus, for instance, the first finance minister of that period J. K. Steczkowski advocated the application of foreign loans only for the purposes of balancing the extraordinary budget and preserving the ordinary balance by increased taxation[16], and on the other hand the last finance ministers of the inflation period, H. Linde and W. Kucharski saw in foreign loans the only remedy for stopping inflation[17].

In the years under discussion the government nearly all the time was looking for opportunities to obtain credit. Negotiations were carried on with many financial groups and loans were sought for from the governments of the Western countries. The above mentioned Steczkowski started negotiations with the governments of the U.S.A., Britain, France, the neutral states and even that of Germany[18]. He was ready to lease for those loans the biggest forest complex in Poland, the Białowieża forest, the state-owned oil refinery in Drohobycz, the state-owned oil producing areas and even the railway network[19]. When those negotiations failed he started talks concerning American credit and he wanted to encourage his partners by offering them a lease of the state tobacco monopoly[20]. His successor as finance minister, Z. Jastrzębski, discouraged by the difficulties of his predecessors rejected the conceptions of looking for a solution of the financial troubles of the country and for the currency problems in foreign loans[21]. Linde and Kucharski were decided advocates of the loans conception. Particularly the latter travelled in nearly all the countries of Europe to find credit. The Prime Minister of the government in which Kucharski was minister of finance, in order to facilitate negotiations for a foreign loan decided to invite to Poland the British mission of financial experts headed by E. Hilton Young. In spite of great efforts and

[16] *Exposé z 28 VII 1921.* Sprawozdanie stenograficzne z 243 posiedzenia Sejmu, szpalta 8 - 29 (Policy statement of July 28th 1921. Shorthand report of the 243d session of the Seym, slip 8 - 29).

[17] Przemówienie H. Lindego z 1 VIII 1923. Sprawozdanie stenograficzne z 61 posiedzenia Sejmu, szpalta 47; przemówienie W. Kucharskiego z 30 X 1923. Tamże, sprawozdanie z 74 posiedzenia, szpalta 24 - 36 (H. Linde's speech of August 1st 1923. Shorthand report of the 61st session of the Seym, slip 47; W. Kucharski's speech of October 30th 1923. Ibid., report of the 74th session, slip 24 - 36).

[18] Z. Landau, *Pożyczki...*, p. 5.

[19] „Kurier Warszawski" of February 28th 1922; „Robotnik" of March 2nd 1922 etc.

[20] AAN, Protokoły Rady Ministrów t. 18 (Minutes of Ministers' Council) Vol. 18, slip 247; E. Taylor, *Inflacja polska* (The Polish Inflation). Poznań 1926.

[21] *Exposé z dn. 21 IX 1922.* Sprawozdanie stenograficzne z 337 posiedzenia Sejmu, szpalta 16 (Policy statement of September 21st 1922. Shorthand report of the 337th session of the Seym, slip 16).

offers to the foreign negotiators of very good financial terms and of a very extensive system of securities all those negotiations failed to bring any results.

If in the years 1918 - 1920 the influx of dollars to the treasury amounted to 272 million, in the next 3 years it reached only 15 million dollars[22]. The basic cause of the fall of the influx of credit was a change in the attitude of foreign governments to the question of financial aid to Poland. In the years 1918 - 1920 it was treated as an indispensable condition for the strengthening of the capitalist system in Central Europe. After the end of the Polish-Soviet war (March 1921) and in a situation of a decline of the revolutionary movement in Poland that particular factor lost its importance. The governments of the Western countries ceased to treat the financing of Poland as concomittant with their own political interest. The United States moved at that time towards a policy of isolationism. London regarded Poland as the vassal of France and while competing with Paris for the domination over the continent of Europe, it thought it unwise to extend credit to Poland, a move which would not only ease our own situation but would also strengthen the French camp. Paris, on the other hand, was unable to extend a more significant credit aid to Poland, because it had its own financial difficulties. What is not unimportant in this context, the French politicians of the time thought that Poland was subordinated to her stronger ally in any case, even without new loans. The Speaker of the Seym, M. Rataj presented the problem in a very emphatic way in his diary: "France treats us like vassals and Quai d'Orsay criticizes Mr. Panefieu (the French envoy in Warsaw — Z. L.) that he takes Polish interests too much into account"[23].

Thus the government was unable to obtain loans from the sources previously used. Foreign private capital was as reluctant as ever to commit itself to credit operations in Poland because it was afraid of the deepening inflation which treatened a complete disorganization of the treasury, currency and as a result of the whole economic life. About the negative attitude to credit wrote from Paris the special representative of the Polish government for economic negotiations sent there, A. Benis: "The French and the English, even those of secondary importance, show a great dislike of economic negotiations both with Polish private groups and with the Polish government"[24]. It was only in the private financial market of the U.S.A. that the Polish government of the day succeeded in obtaining small commodity credits for the purchase of tyres, the costs of transportation of goods from the U.S.A. to Poland and the construction of a radio centre for telegraph communication between the two

[22] Z. Landau, *Polskie...*, p. 138.

[23] M. Rataj, *Pamiętniki* (Memoirs), Warszawa 1965, p. 157.

[24] Sprawozdanie z dn. 7 XII 1920 (Report of December 7th 1920). AAN, the PRM collection, rektyfikat 22. Vol. 52.

countries[25]. Those were however commodity credits which could not have influenced the solution of the basic problems of those years: attaining a balance budget and the stabilization of the Polish mark.

In such a situation the financial plans of the government, based largely upon hopes of an influx of foreign credit, collapsed. As a result, the finance ministers who thought that they would be able to cover budget deficit with the influx of foreign loans and in that conviction failed to undertake any other attempts at saving the situation by increasing taxation, used the remedy of an increased emitting of bank notes. That was, however, only a temporary solution which still contributed to the deterioration of the treasury and currency situation in the long run and thus could not be applied for ever. Hyperinflation which followed inflation in the middle of 1923 resulted in not only a complete disorganization of the credit system, but influenced a fall of real wages also causing an increasing tension in the society, which was a potential threat to the domination of the possessing classes.

It was in such conditions that in December 1923 W. Grabski became both finance minister and Prime Minister. In his initial economic programme foreign loans played a secondary part only. It was only when confronted with a collapse of the governmental reform programme that W. Grabski began to attach some more substantial hopes to them[26].

In the years 1921 - 1923 foreign circles were definitely hostile to the idea of extending loans to Poland, but during the period of the Grabski government one could observe some changes there. At the end of 1923 Britain, a country which in the 1918 - 1923 period was consistently hostile to our country, started to compete with France for influence in Poland. One of the symptoms was the arrival of the British finance experts' mission. There were many more symptoms of that interest. That did not actually bring about credits from Britain, but it stimulated French fears to such an extent that, in spite of the continued financial difficulties there, the French government decided to bring to fruition the military credit postponed for some years which was to help the Polish government with 400 million franks[27].

The initial success of the Grabski government in liquidating inflation caused some interest in Polish markets among foreign private firms. Contrary to previous situation of a complete failure of negotiations with more considerable partners, now some of those negotiations succeeded. What is more important,

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[25] Memorandum dla pana posła w sprawach pożyczkowych (Memorandum for the Envoy in Loan Questions). AMSZ-Wasz. w. 200, Vol. Pożyczki polskie.

[26] J. Tomaszewski, *Stabilizacja waluty w Polsce* (The Stabilization of Currency in Poland). Warszawa 1961.

[27] Ściśle tajny załącznik do protokołu Rady Ministrów z 17 XII 1923 (A top secret enclosure to the minutes of the Ministers' Council of December 17th 1923) AAN, prot. Rady Min. (Ministers' Council minutes), Vol. 24, p. 870.

the government obtained not only commodity credits which were much easier to negotiate, but succeeded also in emitting three cash loans. In their size those loans were rather modest. One of 1924 obtained through Banca Commerciale Italiana brought a net sum of 12.5 million dollars to the Polish government and one obtained through the American bank of Dillon, Read and Co. brought 21 million dollars and a loan granted by the Swedish concern of I. Kreuger only 6 million dollars[28]. Grabski's objectives were not limited to storing foreign currencies needed for the increase of the foreign currency deposits of Bank Polski, but he also aimed at a break-through in the isolation of Poland in the world credit markets. That is why he considered as useful even small loans, particularly when, according to his estimate, there were no strings of a political character attached.

The breaking of the isolation was, however, a very costly operation. The formally agreed interest for the Italian and Swedish loans was 7 per cent per annum and the American 8 per cent, but the real cost was in the case of the Italian loan as high as about 23 - 24 per cent, of the Swedish loan 30 per cent and of the American one 11 per cent[29]. So great a difference between the nominal interest and the real costs of the loan was a result of privileges granted to the foreign creditors, which enormously increased the credit operation costs. For instance the Italians obtained among other things very profitable privileges in tabacco supply for the Polish Tobacco Monopoly and the Swedes the lease of the match monopoly. Dillon did not demand such privileges, but this was connected with some political aspects of the credit extended by that bank. Namely that bank reserved for itself in the contract with the Polish government a guarantee of the sole right of locating Polish loans in the U.S.A. There would be nothing detrimental in it were it not for the fact that this very bank had been, earlier than the Polish contract materialized, very strongly connected with German interests. Thus, it seems that it was the objective of that bank to make it impossible for Poland to obtain any further loans in the U.S.A. and thus to force her to succumb to the dictate of the German Reich. It was hoped in Germany that the expected breakdown of the Grabski reforms would force Poland to look for loans for any price to save her economy. If Poland would be unable to find it in Paris (lack of resources), in London (close co-operation with Germany) and in the U.S.A. (the blockade of the market by Dillon's bank) then, willy-nilly, she would have to make economic and territorial concessions to Germany[30].

The bond issues obtained by the Grabski government were not only very

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[28] The nominal value of those loans was much higher, but the intermediary bankers deduced big sums to cover their various claims.

[29] Z. Landau, *Pożyczki...*, p. 8.

[30] Z. Landau, *Polskie...*, pp. 175 - 208.

costly, but they also were tied up to a number of very exaggerated securities. Thus for instance the Dillon loan was supported with the security of the whole Polish railway network, the tobacco loan on the stock of the tobacco monopoly and the match loan on that of the match monopoly. Apart from that the payment of interest and capital of the debt was guaranteed by the government not only by all the incomes of the state but also by its whole property. Thus as we can see the conditions of those loans were enormously hard. Unfortunately the loans were used in most cases in a wrong way, because they were only to a modest extent utilized for profitable investment purposes. They also did not play, because of their insignificant amounts, any important role in the struggle for the establishment of the treasury and currency, the task of putting it into order was finally performed by means of the Polish society's own efforts.

The second inflation which took place in Autumn of 1925 again stopped the influx of foreign capital into Poland. Loan negotiations undertaken by Grabski's successor failed to bring any direct results. Their only result was the invitation of the American mission of financial experts headed by E. W. Kemmerer. In case of a positive opinion of the mission and if its advice were implemented by the Polish government, then there would be conditions for Polish negotiations for Western loans in the western countries. The Kemmerer mission visited Poland twice — once in December 1925 and for the second time after Piłsudski's successful coup d'etat in the summer of 1926. The results of the findings of those missions were published in an extensive report[31]. It contained a number of suggestions of economic and financial reforms and some of them were very dangerous for Poland, because they postulated, for instance, the slowing down of the Polish processing industry. "Polish industry — wrote Kemmerer in his report — is rather overgrown and not underdeveloped in its relation to agriculture and raw material production (...) It seems that there is the greatest future for Poland in the production of agricultural raw materials for the industrial parts of Europe"[32]. No wonder that he said so, because Kemmerer was closely connected with the Dillon, Read and Company Bank and among other functions was active in the preparation of the Dawes Plan.

The governments after Piłsudski's coup d'état, just like the previous governments he fought, regarded foreign loans as a very important objective. However, as a result of a marked improvement of the economic situation in

[31] E. W. Kemmerer, *Sprawozdanie oraz zalecenie Komisji Doradców Finansowych* (A Report and Recommendations of the Financial Advisers' Committee), Vols I - III. Kraków 1926.

[32] Ibid., Vol. II. For a more extensive treatment of the Kemmerer mission see: Vidi, *Na marginesie pożyczki stabilizacyjnej* (Some Notes on the Stabilization Loan). „Sprawy Międzynarodowe" 1952, No. 4.

Poland, taking place under the influence of analogous changes in world economy, the question of obtaining foreign financial aid lost its immediate acuteness from the point of view of the current needs of the budget and currency. Budget deficit was liquidated as a result of an increase of budget incomes and the situation of the Polish złoty improved as a result of the fact that Poland attained an active trade balance as from September 1925 and the influx of foreign currencies into Poland connected with. A particularly important factor was the outbreak of the strike of miners in England in 1926 which enabled Poland to increase dramatically her exports to the traditional British markets. That is why the government started to regard the foreign loan question in a new way in which it was no longer a source of the solution of current financial needs, but a factor in the increase of the capital assets of the country[33]. Ministers C. Klarner and G. Czechowicz stated it very clearly. The former stated that: "(...) we feel an acute shortage of capital. The question arises how to cope with it (...) that is why the question of attracting foreign capital for investment purposes to Poland becomes of primary importance"[34]. The latter stated: "we must fully realize that without the influx of considerable amounts of foreign capital for investment purposes (...) our economic life will not be able to develop in such a tempo which is postulated by our geographic location and by world market competition"[35].

Again the difficulty was to find foreign contractors for proper agreements. Foreign circles were discouraged by the breakdown of the Polish złoty during the second inflation and then by the military coup of J. Piłsudski (May 1926). That is why the subsequent government worked out a multi-stage plan aiming at gaining trust of foreign governments and firms[36]. The first step was to treat as a continuation all talks and keeping all promises given to foreign financial circles by the previous Polish governments. The second stage was an attempt at bringing about a balance budget and real currency stability by Poland's own resources. That was to be checked and confirmed by Western experts, reliable for their significance for investors. That was why Kemmerer was invited to Warsaw in the summer of 1926. Negotiations for foreign loans were to be started as the next stage. That loan by itself was not supposed to supply Poland with means for economic development. Its task was limited to creating an additional reserve of foreign currency which was to function as an indirect

[33] For a more extensive treatment see: Z. Landau, *Plan stabilizacyjny 1927 - 1930* (The Stabilization Plan, 1927 - 1930). Warszawa 1963, pp. 11 - 120.

[34] Cz. Klarner, *Dorobek czterech miesięcy* (The Achievement of Four Months). Warszawa 1926, p. 36.

[35] *Przemówienie z 13 XI 1926.* Sprawozdanie stenograficzne z 306 posiedzenia Sejmu (Speech of November 13th 1926. A shorthand report of the 306th session of the Seym), slip 15.

[36] Z. Landau, *Plan...*, pp. 40 - 88.

guarantee for creditors that the Polish złoty is a currency deserving trust.It is on this basis that the legal stabilization of the złoty was to be carried out. It was expected that after the implementation of the above described moves foreign capital would flow in plenty into Poland. That final stage was supposed to be the crowning effect of all the previous efforts and to cover the heavy costs of all the preparatory work. On the face of it that conception was rational. There was in it however a very important missing link. Namely, there was no certainty that after the materialization of the initial stages the last one will also materialize and to this last stage the whole programme of negotiations for the so called stabilizing loan was subordinated.

As we pointed out above, in the previous period the main obstacle for the implementation of the loan plans of Poland was the lack of interest on the part of world finance centres, but in 1927 the situation was much improved. It is true that the German Reich and Britain, at that time in close co-operation with her, were determined to extend financial aid to Poland only for the price of territorial and largely economic concessions, but at the same time the U.S.A. were more and more interested in expansion potentialities upon the European markets. Moreover they wanted to make themselves independent of the go-between role of Britain and sought for direct contacts with the countries of Europe[37]. Poland exploited this situation, in spite of a variety of difficulties created by influencial British and German circles the opinions of which were best expressed by the governor of the Bank of England M. Norman who said that "it would be his wish that Poland did not get any credits, as long as she does not decide to subordinate herself to Dawes plan or to ask the League of Nations (in which British influence was a dominant one at that time — Z. L.) to sanify her finances"[38].Britain expected that owing to such a conception of the loan Poland will be forced to accept Britain's dictate and to agree to subordinate her interests to those of Germany.

However, owing to the desire of the governor of the Federal Reserve Bank of New York, B. Strong, Norman's programme failed. An important role here was to be attributed to the improvement of the financial situation of the Banque de France the president of which, E. Moreau opposed for political reasons the plans of the London-Berlin axis[39]. There is no room here to deal with the details of the negotiations and their exceptionally interest-

[37] B. Ratyńska, *Niemcy wobec stabilizacji waluty polskiej w latach 1925 - 1926* (Germany's Attitude towards the Stabilization of the Polish Currency in the Years 1925 - 1926). „Sprawy Międzynarodowe" 1960, No. 9.

[38] A secret ciphered telegram of the German envoy in London of April 7th 1926. Quoted after B. Ratyńska.

[39] E. Moreau, *Souvenirs d'un Gouverneur de la Banque de France.* Paris 1956, p. 267.

ing hidden elements[40]. It must be only reminded that owing to the attitude of Strong and Moreau Poland finally landed through an international consortium of banks a stabilizing loan of 62 million dollars and 2 million pounds. That loan was connected with the acceptation of a special stabilization plan which defined the principles of the currency policies of Poland, aims of utilizing the credit and provided for a system of control of the implementation of the basic assumptions of the plan. Among other measures a control by an American residing in Warsaw for 3 years, Charles Dewey, was agreed upon.

As I pointed out above, the contracting of the stabilization loan and the acceptance of some uncomfortable conditions which were even humiliating for the state, such as foreign control, was treated as a price to be paid for creating conditions for a future increased influx of investment credits into the country. It must be pointed out that those plans were not successful. The stabilization loan failed to bring about any dramatic influx of foreign long-term capital into Poland[41]. Thus that price paid was too high. The costs of the stabilization loan were high, though not so high as those of the similar operations of the Grabski era. In spite of that the director of the biggest credit institution of Sweden, the Stockholms Enskilde Bank, J. Wallenberg said in a conversation with a Polish diplomat "that the conditions of the loan are so harsh that he could not understand how our government could agree to it (...) and they are (...) a consequence of a lack of confidence in the future of the state"[42]. The failure of the hopes connected with the stabilization loan did not cause any recognizable change in the Polish government's attitude to the efforts directed at obtaining foreign loans.

In the period of the great economic depression which engulfed Poland in the autumn of 1929 a serious flight of foreign capital from Poland took place. The government, instead of introducing foreign exchange control, like many countries richer than Poland, attempted at acquiring new loans. That was a shortsighted move. Foreign exchange control that would prevent withdrawals of capital from Poland would bring about much better results than looking new costly credits. In the years 1930 - 1935 their influx was small, too. To the more important ones belonged the new loan from Kreuger amounting to 30 million dollars. The Kreuger company, leasing the match monopoly, combined the loan with a rise of the price of matches and the Polish government utilized the loan only partially for investment. The second Kreuger loan was regarded as a highly detrimental one. The one contracted in 1933 with British firms in which there was a credit of 2 million pounds

[40] For a more extensive treatment see: Z. Landau, *Plan...*, Chapter IV.

[41] Ibid., Chapter X.

[42] A. Wysocki, *Dzieje mej służby* (The History of My Service). Vol Ib, sheet 450 - 1. A typescript in the Ossolineum Library.

and which was utilized for the electrification of the Warsaw[43] railway network was much more helpful. The same can be said about a loan, also from British firms, comprising 4.8 million pounds for the delivery of railway rolling stock equipment[44]. Both credits produced palpable economic results and their conditions were profitable, because the British partners were eager in period which was difficult for them to find a market for their products.

A positive phenomenon which started to develop after 1932 was a fall in foreign credits burdening the state. This phenomenon was a result of a devaluation of some currencies in which the debt had to be paid. Owing to that the debt in terms of złotys diminished. An essential improvement was Hoover's moratorium which caused the suspension of the servicing of debts incurred during the war. At the same time, however, in a condition of difficulties in paying debts caused by the withdrawals of money by foreign capital, which was accompanied by a deepening deficit of the balance of payment of the state, in order to get currencies indispensable for payments, the state had to support dumping. Its costs comprised to a large extent the additional cost of loans of the preceding period[45].

The end of the depression was coincident in Poland with the introduction of foreign exchange control in 1936[46]. It could have been supposed that this would cause a fall in the influx of loans for the state. This was, however, not the case. In 1936 the Polish government obtained a loan from the French government amounting to 2,000 millions franks for military and investment purposes. That loan had partly a commodity and partly a cash character. In 1939 commodity credits were also obtained again from France and England. This shows that financial aid in the form of loans extended to Poland was governed much more by political than by economic factors. That is why the high costs incurred by the state in such forms as for instance borrowing money for stabilization purposes, delay in the introduction of foreign exchange control or granting creditors in foreign loan negotiations such favourable conditions in order to encourage others to invest their money, must be estimated as waste. It seems that in the last years of the existence of inter-war Poland government circles began to be aware of that. This is how the 1937 conversion of foreign bond issues loans can be explained[47]. With the con-

[43] DURP 1933, No. 72, entry 531.

[44] DURP 1934, No. 53, entry 486.

[45] Cf. Z. Landau, *The Influence of Foreign Capital upon the Polish Economy of 1918 - 1939*. In: La Pologne au XIIe Congrès International des Sciences Historiques à Vienne. Warszawa 1965, pp. 142 - 143.

[46] Cf. for a more extensive treatment M. Drozdowski, *Polityka gospodarcza rządu polskiego 1936 - 1939* (The Economic Policies of the Polish Government, 1936 - 1939). Warszawa 1963.

[47] DURP 1937, No. 28, entry 207.

version the interest rate was lowered to 4.5 per cent (in the case of some loans even more than that) and the period of re-payment was prolonged. Those moves diminished very much the costs of servicing which were the burden of the state budget.

In order to present the whole picture of the situation it is pertinent to demonstrate also the changes in the size of the foreign loans and their structure. In the below presented table the data of the 1918 - 1925 have been omitted, because they were not comparable with the later ones.

The External Public Debt of the Polish State in the Years 1926 - 1938
(in millions of zlotys)

Year	The Total Debt	Within it	
		Bond Issues	Other Debts
1926	3,250	.	.
1927	3,862	1,261	2,601
1928	3,810	1,263	2,547
1929	3,691	1,212	2,479
1930	3,993	1,168	2,825
1931	4,570	1,369	3,201
1932	4,514	1,316	3,198
1933	3,544	1,010	2,534
1934	3,345	926	2,419
1935	3,282	875	2,407
1936	2,922	744	2,177
1937	2,632	549	2,083
1938	2,515	470	2,045

Source: Concise Statistical Yearbook 1931, p. 147; 1939, p. 372.

As may be judged from the above presented table the main portion of the debt comprised indebtedness of a non-emissional character, but that obligations due to other governments and the so called post-war liquidation debts. The latter were a part of obligations of the states which partitioned Poland which became the burden of the succession states. The post-war liquidation debts amounted to 324 - 325 million złoty and were not serviced. Among credits obtained from foreign governments the biggest were those which were obtained from the U.S.A. (1,098 million złoty in 1938), France (366 million złoty), Great Britain (116 million złoty)[48]. The table also demonstrates that the foreign debts of the Polish state were continually growing till 1931 and later began quickly to decrease. The causes of this were discussed above. Bond issues decreased much more speedily which was connected

[48] Cz. Klarner, *Długi państwowe Polski* (Poland's state Debts). Warszawa 1939, p. 22.

both with the decrease of currency rates of foreign currencies in which the debts were incurred and with the conversion action resulting in a part of the obligations of Poland's foreign debts being exchanged for obligations of internal loans.

The structure of our foreign debts was very unfavourable to us. Government credits incurred in the years 1918 - 1923, and they constituted the greatest portion of foreign obligations, were either of a military or consumption character. They influenced only to a minimal degree our production potential. Thus they had to be repaid not out of incomes obtained from the increase of production capacity but from normal budget incomes. To a certain degree this was true also about emission loans which were also only in part utilized for investment purposes, and, in addition, those investments were to a certain degree unproductive. As a result foreign loans contributed to a minimal degree only to an improvement of the economic situation of the state. They did not play a very essential role in the stabilization of the currency — as the reforms of W. Grabski of 1924 and the second stabilization of the złoty of 1927 were based upon the country's own potentialities, neither did they increase its production potential. That means that they were not able to "earn" for themselves. That was the essential draw-back of foreign loans obtained by Poland in the inter-war period.

The utilization of foreign credit cannot by itself be condemned. The appreciation of loans depends above all on the economic and political effects they bring about. Even when we disregard the political aspects of each case, we have to regard credit as profitable when investment implemented by means of that credit can ensure at least the means necessary for the servicing of the loan obtained. In conditions of payment difficulties of a country it is also essential that the credit obtained contributes to the country's export opportunities. In the inter-war period loans corresponding to those conditions were rather rare that is why it is difficult to put a positive value on them. We should not forget, however, that it is not always possible to gauge the significance of credits by the criteria of their economic effectiveness. In certain periods credits were necessary for political or military reasons and quite different methods of valuation should be used in such cases. It seems that in that group of loans we must also include a part of debts incurred in the years 1918 - 1920 and after 1936. Thus we cannot estimate all credit operations in the same way.

It must be stated that in an over-all estimate the hopes dominating for a time in the Polish governmental spheres between the wars that the economic development of the country would be enhanced by the influx of foreign credits never came true. Poland was not an attractive enough partner for foreign countries. In particular such factors were important here as our geographical

location, hostile policies of Germany towards Poland and the economic difficulties experienced by our country. As a result the influx of loans for the state was very small and the credits obtained were either characterized by unfavourable financial terms or by some unfavourable political strings attached. That is why they could not have contributed to the economic development of Poland.

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