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for the

Working Party on the Polish Loan Application

Notes on Prewar Poland

Introduction

Two Decades of Development, 1919-1939

Structure of the Prewar Economy *

Area

Population

Agriculture

Foreign Trade

The Balance of Payments

* Sections on Industry and Transport
will be issued shortly.

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Introduction

World War II has caused profound changes in Poland's boundaries and in its political and economic structure: some acquaintance with the more significant developments in the country's social and economic life between the two wars will, nevertheless, be helpful in an attempt to evaluate conditions in Poland today. It was to make possible a fuller understanding of the present through a brief review of the recent past that the studies which follow were prepared and included in this report.

Two Decades of Development, 1919-1939

1918-1925: Parliamentary Rule and Monetary Instability

The Beginnings of Polish Administration and the War with Soviet Russia. Before the first World War Poland did not exist as an independent nation. Ever since the eighteenth century it had been partitioned among Germany, Austria-Hungary and Russia. November 11, 1918, the day on which the Germans were ousted from Warsaw and forced to clear the central part of Poland, is looked upon as the first day of Polish independence. However, on that day not all of Poland was freed of its foreign occupants. It took some years until the whole country was united and its frontiers finally fixed with the approval of the Great Powers.

On November 22, 1918, Joseph Pilsudski assumed the duties of temporary Head of State; elections were held, the first Polish Sejm (Diet) was assembled, and on February 20, 1919 the "Little Constitution" was voted, which invested the Sejm with sovereign and legislative powers and made Pilsudski the chief representative of the State.

In the winter of 1919, the Soviet Russian Army advanced toward Central Poland taking Vilna on its way. The long, but ultimately victorious military campaign against the Russians, conducted by Marshal Pilsudski, which followed, ended in March 1921 when a peace treaty was signed at Riga and the Polish-Russian frontier was definitely established.

The Constitution of March 1921. Democratic and liberal, the first Polish Constitution, the "March Constitution" as it was popularly called, was based on the French example. It assured

all citizens equality before the law, freedom of conscience, religion, assembly and speech, and the right to hold private property. ^{1/} Poland was to be a Republic, with a President, elected by the Seym and the Senate acting together as the National Assembly, representing the State, and with legislative power vested in the Seym, composed of 444 deputies, and in a Senate composed of 111 Senators.

The Unification of the Country. During the war with Soviet Russia the territorial problems of Western Poland approached their final solution. Pomerania and the Baltic coast were taken over in January 1920. The Polish-Danzig Convention was signed in November, 1920. In July, the Allied Supreme Council settled the Polish-Czechoslovak dispute regarding Cieszyn-Silesia. In October, 1921 Poland was assigned 3,000 square kilometers of Upper Silesian territory with 1,000,000 inhabitants and 76 per cent of the coal mines in that area.

In the winter of 1922 Vilna Province was incorporated into the Republic and on March 15, 1923 the Allied Supreme Council recognized the Polish frontiers with Russia and Lithuania.

However, while the country was being united, the internal political situation was far from satisfactory. There was persistent friction between Pilsudski and the right-wing majority of the Seym. Cabinets changed frequently; in the fall of 1922 the newly elected President was assassinated. By 1923 Marshal Pilsudski had withdrawn from public life, the political situation

^{1/} The only limitation of the right of private property in the Constitution was a reference to the land reform, accepted as a principle by the Seym in 1919. The law on the execution of the land reform, was unanimously voted during the hostilities in 1920, but not much progress was made in practice until a second bill was accepted in 1925.

was tense and social unrest was widespread.

Inflation and First Attempts at Financial Stability. The main cause of the disturbed internal situation was the instability of the country's currency. Symptoms of inflation overshadowed public and private life from the very beginning of independence. Four different currencies were in circulation: the Russian rouble, the Austrian crown, the German mark and the Polish mark issued by the Germans in Central Poland during the war. In May 1920 withdrawal of the first three and their replacement by the Polish mark as the sole legal tender, was accomplished, pending the introduction of a new monetary unit.

Physical destruction of the country, complete disruption of economic activity by the war, and disintegration of the fiscal system, which still had to be established on a country-wide basis, explain why the government's heavy expenditures were financed to a large extent by the issue of mark notes. Currency in circulation, therefore, increased from 45 billion marks at the end of 1920 to over 200 billion in December 1921. The rate of exchange of the dollar in Warsaw rose during the summer months of 1921 from 1,000 to 6,000 marks.

Over one million hectares of arable land remained uncultivated in 1921. Factories had been devastated, first by the withdrawing Russians in 1915, then by German requisitions. The productivity of labor was low. There was a persistent shortage of food, in spite of the relief supplied by the Hoover organization. Crude oil and timber were the only export commodities. It was difficult to purchase goods abroad with depreciated marks. Germany, where industrial equipment could be purchased with similarly depreciated German marks, impeded exports to Poland.

Under these circumstances, no credits could be obtained abroad.

In October 1921 Finance Minister Michalski presented a program of financial stabilization. While the measures which he succeeded in having adopted relieved the situation temporarily and the rate of exchange of the dollar declined to 4,000 marks in the spring of 1922, the inflationary spiral was soon resumed. In the fall of 1922, the dollar exchanged for more than 18,000 marks, by May 1923 for more than 50,000 marks, and by December of the same year the dollar was quoted at 6.4 million marks.

Grabski's Monetary Reform. On January 5, 1924 the Sejm granted Prime Minister Grabski full power for six months to carry out a program of financial and monetary reconstruction. A capital levy imposed by the preceding Cabinet was put into effect, the deficit of the state railways, which in 1923 accounted for over 50 percent of the total budgetary deficit, was reduced, taxes were assessed in gold francs, a match monopoly was established and leased to the Swedish Kreuger interests on the consideration, in part, of a grant of credit, another credit was obtained from Italy secured in part by certain revenues of the tobacco monopoly, and a small dollar loan was negotiated in New York. At the end of January it was announced that no more mark notes would be issued, Minister Grabski placing the greatest stress on the revival of public confidence. In April the new central bank, the Bank of Poland, was established. The exchange of Polish marks against the new monetary unit, the zloty, (par values: 1 zloty = 1 gold franc; \$1 = 5.18 zloty) was carried out at a rate of 1,800,000 marks for 1 zloty, and on July 1, 1924 the mark was definitely withdrawn from circulation.

The Second Polish Inflation. But Grabski's monetary

reform proved unsuccessful. There was a budgetary deficit in 1924 of 190 million zloty, which was covered by the issue of token coins and notes. Crops were bad in 1924 and heavy imports of grain became necessary; in 1925, the balance of trade, already adverse during the first half of the year, was further affected by the outbreak of a tariff war with Germany in June. A run on the banks caused many to default, and by October 1925 the Bank of Poland had lost practically all its foreign exchange holdings. Foreign credit markets were inaccessible to Poland under the circumstances. After August 1925, the zloty depreciated and reached a value of 10 zloty to the dollar in the spring of 1926. Meanwhile, Grabski's Cabinet had resigned in November 1925.

1926-1935 - Pilsudski's Regime in Prosperity and Depression.

The coup d'etat. The persistence of unstable economic and monetary conditions undermined the confidence of the Polish people in the Parliamentary regime. The splitting up of political parties, their incessant friction and inability to constitute a stable government was very discouraging. Because of the conflicting economic policies of the Right and the Left each program of financial reconstruction was subjected to violent criticism, and prompt action on any was very difficult. The belief that the country needed a stable authority to deal firmly with the economic situation gained support.

Pilsudski followed this trend of public opinion. A disagreement about proposed changes in high army posts provided the pretext for a coup d'etat. On May 12, 1926 the Marshal entered Warsaw at the head of troops from a nearby garrison, with the support of the Left. On May 31 the National Assembly elected him to the Presidency. Although he refused to accept that

office, he looked upon his designation as a legalization by the Parliament of his conduct.

The Revision of the Constitution. On August 2, 1926 the Sejm voted to revise the "March Constitution" to grant the President the right to dissolve both the Sejm and the Senate on the motion of the Government when the Parliament was not in session, and upon their dissolution to promulgate decrees having the validity of law.

Simultaneously the Sejm empowered President Moscicki to issue decrees to reorganize the state administration, the judiciary and the social welfare laws, to balance the budget and to stabilize the currency.

The Stabilization of 1927 and Economic Expansion. By the middle of 1926 the budget was in balance. Budgetary surpluses in the second half of the year led to the accumulation of substantial reserves in the Treasury. The British miners' strike resulted in intense foreign demand for Polish coal. As a result of this demand and of the stabilization of the currency at a lower level, the balance of trade for 1926 was highly favorable. By the middle of 1926, the zloty could thus be stabilized at the level of 9 zloty to the dollar. In July 1926, Professor Kemmerer arrived in Warsaw heading a committee of American financial experts. In accordance with the recommendations submitted by this committee, the Government began to draw up a Stabilization Plan. In contrast with the principle underlying Grabski's Reform, the new Plan was based on the principle of foreign financial assistance. A 7 percent stabilization loan, amounting to \$62 million and £2 million and issued at 92, was granted Poland for 20 years by a group of bankers, headed by the Bankers

Trust Company and Chase National Bank of New York and Messrs. Lazard Bros. and Co. of London. Simultaneously the leading Central Banks extended a stabilization credit of \$20,000,000 to the Bank of Poland. The par value of the zloty was set at 1 gold franc = 1.72 zloty (\$1 = 8.90 zloty). The minimum legal cover of circulating notes and sight liabilities was fixed at 40 per cent. A former Assistant Secretary of the U. S. Treasury, Charles S. Dewey, was elected for three years to the Board of the Bank of Poland to assist and advise the Central Bank and the Government.

On this occasion, all the elements required for complete success in financial and monetary stabilization were present. The Government's revenue exceeded expenditures, and the Treasury disposed of large accumulated reserves. The gold and foreign exchange holdings of the Bank of Poland amounted to 1,200 million zloty at the end of 1927. Polish banks, enterprises and local governments gained access to foreign financial centers from which they had been until then completely excluded. For the first time since the war, the country entered on a period of sound prosperity.

The three years 1927-1929 were the only really good years in the course of two decades of independence. The balance between the Legislative and the Executive seemed at last to be established. Unemployment among industrial workers was practically non-existent. Productivity of labor increased. The national income increased with expanding production. The rising standard of living and investment activity absorbed heavy imports made possible by a constant flow of foreign credits. The deficit in the balance of trade exceeded 1.5 billion zloty for the period of three years. The position of Polish goods in the markets of

northern and western Europe became stronger. Coal exports were maintained on a high level. Exporters began to adapt themselves to the requirements of new customers. A meat-processing industry was founded (about 30 bacon factories were established during the three years) and exports of bacon and canned ham replaced exports of live animals. The position of the textile industry, depressed after the loss of the Russian market, improved. The chemical industry developed steadily. The prices of farm products were remunerative, and the demand for fertilizers and agricultural implements grew. With some foreign financial assistance the municipalities carried out substantial improvements in public utilities, sanitation and welfare. Building activity was intense and new modern suburbs came into existence in several cities.

The most striking example of development and progress was the construction of the city and harbor of Gdynia. Still a small fishing village in 1923, by 1931 Gdynia had some 40,000 inhabitants and ranked sixth among the Baltic ports. A growing part of Polish foreign trade, diverted from Germany to Britain and to Northwestern Europe, passed through it and it became Poland's main outlet to the outside world.

The Struggle with Parliament. Although Pilsudski was a prominent member of the Socialist Party at the time of Russian domination and had received assistance from the Left during the coup d'etat, he soon showed that he regarded himself as a non-party man ready to recruit his followers from all social ranks. In the elections of March 1928 the Right and Center parties suffered a defeat, the Left winning a considerable victory. For two years thereafter, there was constant friction between Pilsudski and the Left wing of the Sejm. In 1930, an extra-

ordinary session of Parliament, summoned by the President at the request of the Left, was adjourned by him before it was opened and closed after the expiration of the adjournment period. The Left and Center parties thereupon called a Congress in Cracow and passed a resolution demanding the reestablishment of the rights of Parliament. Pilsudski replied by dissolving the Parliament and arresting 18 prominent Socialist and Peasant leaders on September 10, 1930. Their imprisonment and subsequent trial mark the turning point in Polish postwar political history, and the conversion of a moderate to^{an} authoritarian regime, the parliamentary elections of November 1930 being carried out under pressure of the Administration. As a result the Government, now led by Pilsudski's faithful comrades in arms, was certain of the support of the new Parliament.

The Period of Depression: 1930-1935. The world depression was not only a great, but a long depression for Poland. It lasted three years longer in Poland than elsewhere. The whole period offers a unique example of persistent defense of the parity of its currency by a debtor country. After the experience of prolonged inflation, which destroyed the fruits of work and thrift for many years, the stability of their currency was regarded by the Polish people as an indispensable condition of economic stability. The government, which looked upon the successful stabilization of the currency as its foremost achievement, was determined to maintain the gold parity of the zloty at all cost. Poland still had to establish a record of solvency, required by a debtor who had only recently gained access to foreign capital and who would in the future have to rely on foreign financial assistance. The repayment of short term

credits (gold and foreign exchange holdings of the Bank of Poland declined from 1,200 million zloty in 1929 to 400 million in 1933) and the maintenance of the service on long term public and private debts contracted abroad called for a favorable balance of trade, because only an excess of exports could provide Poland with the means with which to fulfill her obligations. This undoubtedly was the heart of the problem. Since the Government was determined to maintain the value of the currency and its free convertibility, it was necessary to adjust the Polish price structure to the decline in world prices in terms of gold, a decline intensified by the depreciation of the pound. The name "Polish deflation" was applied to this painful leveling down of the internal price structure carried out by the Government during the depression years.

Yet, in spite of all the Government's endeavors, maladjustments persisted and the discrepancy between domestic and foreign prices did not completely disappear. Premiums were granted to export industries to counteract the over-valuation of the zloty. But to achieve and maintain an excess of exports over imports which amounted to 1.2 billion zloty in the course of six years 1930-1935, the introduction of quantitative import controls became necessary.

The devaluation of the dollar in the Spring of 1933 was of utmost importance in connection with the Government's endeavors to maintain the gold parity of the zloty and to readjust various elements of the Polish economy. The main reason for the support which the Government had received from Polish industry and Polish banks in its endeavor to maintain the value of the currency, was their heavy indebtedness in foreign currencies,

especially in dollars. These dollar debts were owed not only to foreign creditors but to Polish banks in the case of industry and Polish depositors in the case of the banks.

The devaluation of the dollar at first strengthened the public's confidence in the zloty and led to voluntary, but later, compulsory conversion of dollar claims into zloty claims. The dishoarding of dollar notes improved the position of the Bank of Poland and its foreign exchange holdings rose in 1934 for the first time since 1929. The foreign state debt declined from 4.5 billion zloty to 3.5 billion zloty because of the fall of the dollar. The Government looked upon this process as a well deserved reward for its achievements in the field of monetary policy.

But not all effects of the dollar devaluation proved helpful; relief to debtors, already achieved by a series of legal measures alleviating their position, resulted in discrimination against creditors. The position of the banks, too, was endangered, the public believing that their situation had been affected and preferring to withdraw its deposits. The depreciation of the dollar was, furthermore, equivalent to a decline in the world price level in terms of gold, which required further adjustment of the Polish price structure.

The Constitution of April 1935, and the Death of Marshal Pilsudski. Aware of the danger of German rearmament and of the aims of Hitler's policy, Pilsudski persistently demanded the constitutional broadening of the powers of the Executive personified by the President. During his long illness his supporters worked on a draft of the new Constitution which was finally adopted on April 23, 1935.

The new Constitution stipulated that "the one and indivisible authority of the State is united in the person of the President" and that "the Government, the Sejm, the Senate, the Armed Forces, the Courts of Justice and the State Audit Authority are organs of the State subordinate to the President", the President appointing the Prime Minister at his own discretion and convening and dissolving Parliament.

These were powers under which Pilsudski would have certainly agreed to assume the Presidency; he died on May 12, 1935, however, three weeks after the adoption of the "April Constitution."

1936-1939: Pilsudski's Succession and Economic Planning.

The Successors. Pilsudski's successors were a group of his collaborators, none of whom bore a name which, like Pilsudski's, could replace a more broadly based government. Political leadership was taken in 1937 by a new organization, the 'Camp of National Unity' formed to be the framework for Rydz-Smigly's program and aspirations. The Camp drifted to collaboration with the extreme nationalistic Right. The clash between its ideals and the convictions of the members of the Sejm, representing the older branch of Pilsudski's followers, led to the dissolution of the Parliament in September 1938. The following elections, with the opposition abstaining, gave the Camp of National Unity complete control of the Sixth Polish Parliament, the last one on the two interwar decades.

The Advent of Foreign Exchange Control. The reversal of the country's deflationary policy came in the Spring of 1936. Because of a reduction in the export surplus and the flight of capital encouraged by international tension, the gold and foreign exchange holdings of the Bank of Poland had dwindled to 226

million zloty by the end of 1935. Social unrest resulting from unemployment and Rydz-Smigly's aim of subordinating the economy to defense needs led to the decision to apply a policy of planned economic expansion and to introduce foreign exchange control. On April 27, 1936, a decree was issued prohibiting dealings in gold and foreign exchange, transfer of means of payment abroad, import and export of securities and credit transactions with foreigners. A Foreign Exchange Commission was established to control foreign exchange operations. The proceeds of exports had to be surrendered immediately to the Bank of Poland or to the banks authorized to deal in foreign exchange. In May the quantitative control of imports was drastically tightened. In June the transfer of foreign exchange for the service of external debt was discontinued, pending a revision of terms with the Fiscal Agents, which was agreed upon in February 1937. After long resistance Poland finally had to acknowledge that its financial position had made a change of policy imperative. A record of fair endeavor and incontestable good will had, nevertheless, been established.

Confidence in the zloty was unshaken and survived the advent of foreign exchange legislation: gold and foreign exchange reserves of the Bank of Poland exceeded 500 million zloty by the end of 1936; time deposits with the banks rose considerably in the course of 1936 and 1937; their increase went hand in hand with the growth of demand deposits reflecting intense business activity.

The Creation of the "Central Industrial Region". The industrialization of Central Poland in the years 1936-1939 was but a preliminary step in a long-range investment plan for the period

1939-1954. The immediate purpose of the creation of the "Central Industrial Region" was to concentrate Polish industry, especially the munitions industry, in an area not directly exposed to German attack, as was the industrial frontier district of Upper Silesia; this military aim, however, did not disagree with the organic trend of economic development of a united and integrated Poland.

Between 1936 and 1939 large state owned industrial plants came into existence: steel works, aircraft factories, munitions factories. Private enterprise was aided by substantial tax exemptions, and a number of factories producing machine tools, synthetic rubber, electrical appliances, chemicals and canned foods were established. Two reservoirs on the Vistula were built to provide the Central Region with hydro-electric power. The construction of large transmission lines and a pipe line for the transport of natural gas was begun. Work was undertaken on highways to link the urban centers of the Central Region and to shorten railroad communications between Warsaw and the Southern Provinces. The country's index of industrial production rose from 94 in 1936 (1928 = 100) to 120 in 1938.

International Tension and the Outbreak of War. Three times before the outbreak of World War II Poland went through periods of international tension which caused heavy withdrawals of deposits from the banks and widespread hoarding of zloty notes. The note circulation in fact increased from 1,059 million zloty in December 1937 to 1,406 million zloty by the end of 1938.

In March 1938 the "Anschluss" crisis coincided with the definite settlement of the Polish dispute with Lithuania. Through an ultimatum, Poland enforced the restoration of

diplomatic relations and the reestablishment of normal communications between the two countries which had been non-existent since the war. In September 1938 during the "Sudeten" crisis the Polish Government against the advice of the Western Powers brought forward its claim to the part of Cieszyn-Silesia which had been severed from Poland by the decision of the Allied Supreme Council in 1920 and Czechoslovakia complied with this demand. In the Spring of 1939, during the German invasion of Czechoslovakia, strained conditions in the money market were again experienced.

The pressure on the banking system was reduced when on March 31, 1939 Prime Minister Chamberlain pledged full support of the British and French Governments in case of any action threatening Polish independence. But uneasiness and widespread nervousness occurred again and a fourth run on the banks took place in August 1939, a somber economic storm signal which correctly foreshadowed the German aggression of September 1, 1939 and the outbreak of World War II.

Structure of the Prewar Economy

Area

In 1939, Poland had an area of 389,700 square kilometers^{1/} and was the sixth largest country on the continent of Europe, exceeded in size only by the USSR, France, Germany, Spain and Sweden. Located roughly in the same latitude as England, it had a much more severe climate, with cold winters and heavy snowfalls, particularly in the eastern part of the country.

Except for the Carpathian Mountains in the south, the country was generally flat; 38 percent of its total area was less than 150 meters and 87 percent less than 300 meters above sea level.^{2/} It was, moreover, almost entirely landlocked. Its access to the Baltic through the Polish Corridor was narrow; only 140 kilometers of its entire frontier of 5548 kilometers opened on the sea.^{3/} Five countries lay along its borders. Its entire eastern frontier bordered on the USSR; in the south, its neighbors were Rumania to the east and Czechoslovakia to the west; Germany lay along its entire western border, with East Prussia, separated from the rest of Germany by the Polish Corridor, situated east of the Corridor and north of Poland on the Baltic. Also north of Poland and east of East Prussia lay Lithuania and Latvia.

1/ Petit Annuaire Statistique de la Pologne, 1939, p.7, Table 2

2/ Ibid., p.8, Table 4

3/ Ibid., p.10, Table 1

Population

The population of Poland is estimated to have been 35,090,000 at the beginning of 1939.^{1/} This represented an increase of 25 percent over 1921, when the first census of the newly constituted republic showed a population of 27,176,000^{1/}, and an increase of 10 percent over 1931, when the second census showed a population of 31,915,800.^{2/}

Urban-Rural Distribution. Poland's population was before the war and still is largely rural. In 1931, when the last census before the second World War was taken, almost three-fourths of it was classified as rural; the remainder lived in centers classified as urban although they included communities of less than 5,000.

Urban-Rural Distribution of the Polish Population, 1931

	<u>Numbers</u> (in thousands)	<u>Percent</u> <u>of Total</u>
Urban	8,731	27.4
Rural	<u>23,185</u>	<u>72.6</u>
Total	31,916	100.0

Source: Petit Annuaire Statistique de la Pologne, 1939,
p. 29, Table 25

By 1939, the urban population probably made up a larger percentage of the total, because there was a steady trend toward urbanization throughout the interwar period. Between 1921 and

1/ Petit Annuaire Statistique de la Pologne, 1939, p.19, Table 12

2/ Ibid. p. 30, Table 26

1931, for example, the urban population grew almost twice as rapidly as the total population, and increased from 24.6 percent of the total in the earlier year to 27.2 percent in the later. Moreover, although no data are available on total urban population in 1939, available data on the population of the 14 cities whose population in 1939 exceeded 100,000 inhabitants, point to a continuation of the trend toward urbanization between 1931 and 1939.

Occupational Distribution

The predominantly rural character of Poland was and still is a reflection of its occupational pattern. Poland was and is predominantly an agricultural country. As the following table shows, in 1931, 67 percent of those gainfully employed were engaged in agriculture, with another 17 percent in mining and industry.

(a)

Poland's Gainfully Employed Population. Distribution
by Category of Employment, 1931.

<u>Employment Category</u>	<u>Numbers</u> (in thousands)	<u>Percent</u> <u>of Total</u>
Agriculture	9986.0	67.0
Horticulture, forestry, and fishing	81.5	0.5
Mines and industry	2537.7	17.0
Commerce and insurance	813.2	5.5
Communication and transportation	340.5	2.3
Public service and religion	294.8	2.0
Education and cultural activities	181.0	1.2
Health and social assistance	151.9	1.0
Domestic service	415.4	2.8
Unclassified	108.5	0.7
Total	14,910.5 (b)	100.0

(a) Includes members of family assisting head of family.

(b) Total "personnes actives" is recorded as 15,321.5 thousands. This includes 411.0 thousands "having other means of subsistence than labor" (retired persons, invalids, capitalists, pensioners, prisoners, etc.) The figure cited above apparently includes all those gainfully employed.

Source: Petit Annuaire Statistique de la Pologne, 1939,
p. 30, Table 26.

Agriculture

Prewar Poland had a predominantly agricultural economy, and there has been no change in this pattern in spite of the recent frontier modifications which detached from the country a large agricultural area in the east and added a more heavily industrialized region in the west. In 1931, when the last prewar census was taken, roughly two-thirds of the gainfully employed population were engaged in agriculture, forestry and fishing ^{1/}; in 1929, 69 percent of the national income is estimated to have been derived from these sources. ^{2/}

Size of Holdings

Generally speaking, Polish farms were small. In 1931, 99.5 percent of all agricultural undertakings ^{3/} had an area of less than 50 hectares, and 89 percent had an area of less than 10 hectares, while agricultural undertakings of less than 50 hectares occupied 76 percent of all agricultural land. The small size of the holdings was due mainly to the continual division of holdings among a rapidly expanding agricultural population without alternative economic opportunities, and was facilitated by the rules of inheritance requiring equal division in kind among heirs.

^{1/} Petit Annuaire Statistique de la Pologne, 1939, Warsaw, 1939, p. 30, Table 26.

^{2/} Annuaire, 1939, p. 66, Table 1 (Source cited: L. Landau, Economie Mondiale - Production et revenu social en chiffres, Institut de l'Economie Sociale, Warszawa, 1939.)

^{3/} An agricultural undertaking is an economic unit operated by an owner or farmer whose principal occupation is agriculture. The number of agricultural undertakings so defined thus equals approximately the number of units which constitute the principal and not a subsidiary means of livelihood for their owners or farmers.

Proportion of Agricultural Undertakings of Specified Size
and of Agricultural Land in Such Undertakings, 1931

	<u>Percent of (1) Undertakings</u>	<u>Percent of (2) Agricultural Land</u>
Less than 2 ha.	25.5	} 76.3
2 - 5 ha.	38.7	
5 - 10 ha.	24.8	
10 - 15 ha.	6.5	
15 - 50 ha.	4.0	
50 ha. and over	0.5	23.7 (a)

(a) 18.0 percent in undertakings of 50 ha. and over, and 5.7 percent in public lands

Source: (1) Petit Annuaire Statistique de la Pologne, 1939, Warsaw, 1939, p. 68, Table 1

(2) Annuaire, p. 73, Table 5

The percentage of agricultural land in undertakings of 50 hectares and over was undoubtedly lower in 1939 than it had been in 1931, as a result of the agrarian reforms carried out by the government. These resulted in the division among smaller holders during the years 1919-1938 of 2,654,800 hectares of land previously in larger holdings. ^{1/} This was about 10 percent of the 25,589,000 hectares of land devoted to agricultural uses in 1931 (arable land, land in orchards and kitchen gardens, permanent meadows and pastures.) ^{2/} Of the land divided, 1,431,800 hectares were assigned to 153,600 new independent holdings, and 1,004,300 hectares went to increase the size of 503,000 previously very

1/ Annuaire, 1939, p. 71, Table 3

2/ Annuaire, 1939, p. 72, Table 4

small holdings. ^{1/} The remaining 218,700 hectares were converted into model farms and workers' and employees' settlements. ^{1/}

Despite the substantial area divided up, the agrarian reforms did not abolish the large estates, nor solve the problem of extreme subdivision of holdings. ^{2/} Population pressure and the absence of alternative means of employment led to continued subdivision of properties. ^{3/}

Tenancy

There was little tenancy, "since large estates were generally farmed by various classes of hired laborers. In 1921 only 2.7 percent of all holdings were farmed exclusively by tenants, although the percentage rose to 15.3 percent for holdings over 100 hectares; an additional 7.3 percent were made up of partly owned, partly leased land. Comparable evidence of more recent date is not available, but since the agrarian reform was very little concerned with the transformation of freehold property, it is reasonable to assume that the importance of tenancy had neither increased nor diminished in marked degree by the end of the interwar period." ^{4/}

Farm labor

In view of the small size of the farms, it is not surprising that few of them employed laborers. Laborers were employed on

1/ Annuaire, 1939, p. 71, Table 3

2/ Wilbert E. Moore - Economic Demography of Eastern and Southern Europe, League of Nations, Economic, Financial and Transit Department, Geneva, 1945, p. 224.

3/ UNRRA - Economic Recovery in the Countries Assisted by UNRRA, Washington, D.C. 1946, p. 71

4/ Moore, op.cit., p. 223

only 9.4 percent of all agricultural undertakings, although the percentage increased to 20.8 percent for agricultural undertakings with an area of 10-15 hectares and to 38.6 percent for those with an area of 15-50 hectares. ^{1/} Of the 9,986,000 persons gainfully employed in agriculture in 1939, 8,557,100, or 86 percent were independent operators (owners or tenants), and only 14 percent salaried employees or workers. ^{2/} However, in eastern Poland, many of the independent operators, particularly the smallholders were also employed as farm laborers, their earnings from their holdings being insufficient for the support of their families. ^{3/}

Productivity.

Agricultural productivity was, in general, low. The small farms did not support a high level of capital investment, and with inadequate equipment, poor livestock, poor seed, and a low level of fertilizer application, produced relatively small crops. In an elaborate study of the economic demography of eastern and southern Europe published by the League of Nations in 1945 which has already been cited, indexes of agricultural production were computed which make possible a comparison of Poland with other countries in Europe. The indexes for Poland are as

1/ Annuaire, 1939, p. 69, Table 1

2/ Annuaire, 1939, p. 30, Table 26

3/ "The day-labourers proper, sometimes called 'free workers' are mostly smallholders, whose families are not able to live from the produce of their holdings. They are mostly employed in forestry work and for harvest work." International Labour Office, The Representation and Organization of Agricultural Workers, pp. 189-190, cited in Moore, op. cit., p. 225.

follows: ^{1/}

(1)

Poland: Indexes of Agricultural Production
(a)
Europe = 100

Per Person Dependent on Agriculture = 49
Per Male Engaged in Agriculture = 56
Per Hectare of Agricultural Land (b) = 75

(a) Excludes Turkey and the USSR since both are only partly in Europe.

(b) Areas under various forms of land utilization converted to "arable equivalents."

(1) Source: Moore - op. cit., p. 35

Poland ranked fifth from lowest in agricultural production per person dependent on agriculture, with Rumania, Bulgaria, Yugoslavia and Albania (ranked in descending order) falling below it. In agricultural production per male engaged in agriculture, Poland ranked seventh from lowest, with Bulgaria, Portugal, Rumania, Greece, Yugoslavia and Albania (ranked in descending order) falling below it. In agricultural production per hectare of agricultural land, Poland ranked ninth from lowest, with the following countries (ranked in descending order) falling below it: Albania, Italy, Yugoslavia, Rumania, Lithuania, Estonia, Spain and Portugal.

Further evidence of the low level of agricultural productivity in Poland is offered by the low standard of living of its

^{1/} The method followed in computing these indexes is described in Moore, op. cit., pp. 29-34 and Appendix I, pp. 145-180. Very briefly, it involves computing the net agricultural output (total output minus seed, waste and feed) of all major crops, weighting the output of each crop by an index value, and relating the resulting total to the average of similar totals for all countries in Europe. Although the method has certain limitations, the author of the study argues convincingly that it makes possible a reasonably good comparison of agricultural output in the several countries of Europe.

population. In general, the foodstuffs available for domestic consumption made possible only a meager diet which was relatively poor in quality. ^{1/}

Poland's Agricultural Position

Despite the low level of agricultural productivity, Poland was not only generally self-sufficient in foodstuffs before the war, but had a substantial export of cereals, livestock, animal products, and sugar, and a small export of hides and skins, and textile raw materials, mainly flax. In the years 1935-1938, her exports of vegetables and animal products and live animals amounted on the average to 39 percent of the value of all exports. ^{2/}

Agricultural Production and Trade

Poland's principal crops were cereals and potatoes, and in the years 1933-1937, she exported annually 850 thousand tons of the former and close to 90 thousand tons of the latter on the average. In addition, she had a substantial exportable surplus of sugar and dry legumes, and her animal industry produced a fairly large exportable surplus of live animals, meat, butter and eggs. On the other hand, she was a net importer of vegetable fats and oils, and imported such other foodstuffs as fruit, mainly tropical fruits; fish; coffee and tea.

In non-foods, she was a net importer of rubber, skins and textile fibers, although she produced an exportable surplus of flax.

1/ "Before the war, food consumption in Poland averaged only 2550 calories per head per day, and the diet consisted largely of bread and potatoes." UNRRA - Economic Recovery in the Countries Assisted by UNRRA, Washington, 1946, p. 76.

2/ Annuaire, 1939, p. 173, Table 13.

Poland: Agricultural Production and Trade Average 1933/34-1937/38

<u>Commodity</u>	<u>Hectares or Number of Animals on Farms</u>	<u>Unit</u>	<u>Production</u>	<u>Net Trade</u>		<u>Domestic Supply</u>
				<u>Exports</u>	<u>Imports</u>	
	(000's)		(000's)	(000's)	(000's)	(000's)
Wheat	1,726	M.T.	2,064	104		1,960
Rye	5,750	M.T.	6,431	456		5,975
Corn	91	M.T.	93		3	96
Barley	1,196	M.T.	1,424	259		1,165
Oats	2,235	M.T.	2,563	51		2,512
Potatoes	2,849	M.T.	33,761	87		33,674
Dry Legumes	303(1)	M.T.	265	57		208
Sugar Beets	121	M.T.	2,544			
Sugar(2)			380	80		300
Vegetable oils		M.T.	20		16	36
Hogs	6,860	No.		150(3)		
Pork		M.T.	430	18		412
Cattle, all	9,760	No.		8(3)		
Beef		M.T.	193			193
Veal		M.T.	49	2		47
Sheep	2,825	No.		3(3)		
Mutton & lamb, goat, rabbit, horse		M.T.	21	2		19
Poultry	65,000	No.		1,500(3)		
Poultry		M.T.	85	10		75
Game		M.T.	2			2
Meat offals		M.T.	23			23
Slaughter fats		M.T.	155(4)	6(5)		149(6)
Dairy cows	6,500	No.				
Whole milk		M.T.	3,700			3,700
Butter		M.T.	138	6		132
Eggs		M.T.	177	24		153
Wool		M.T.	5		18	23

Sources: U. S. Department of Agriculture. Office of Foreign Agricultural Relations - Agricultural Production and Trade by Countries. Prewar Summary by Commodities. Washington, Oct. 1945, USD of A, OFAR - World Food Situation, 1946, Appendix, p. IX

- (1) All classes of peas and beans
- (2) Refined basis
- (3) Included in meat trade
- (4) Includes 150,000 tons of hog fat
- (5) Includes 5,000 tons of hog fat
- (6) Includes 145,000 tons of hog fat

The table below, which gives in zloty and dollars the value of Polish exports of vegetable and animal products and live animals in 1937 and 1938 and compares these with total exports in these years, shows how large these commodities bulked in Poland's export trade. Poland's exports of vegetable and animal products amounted to about 75 million dollars in each of two years, or to roughly one-third of her total exports of 225 million dollars; her exports of livestock had a value of about 10 million dollars in each year, or, another 5 percent of the total. In addition, she had a small export of textile fibers, mainly flax, although she was a substantial net importer of fibers.

Poland: Value of Exports of Agricultural Products by Major Classes, 1937 and 1938. (1)

	<u>1937</u> (million zloty)	<u>1938</u> (million zloty)	<u>1937</u> (million dol- lars)(a)	<u>1938</u> (million dol- lars)(a)	<u>1937</u> (Percent of total)	<u>1938</u> (Percent of total)
<u>Total exports</u>	<u>1,195</u>	<u>1,185</u>	<u>225.9</u>	<u>224.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Vegetable and animal products</u>	387	404	73.1	76.4	32.4	34.1
Raw materials	170	173	32.1	32.7	14.2	14.6
Semi-manufactures	136	150	25.7	28.4	11.4	12.7
Finished manufactures	81	81	15.3	15.3	6.8	6.8
<u>Live animals</u>	<u>49</u>	<u>59</u>	<u>9.3</u>	<u>11.2</u>	<u>4.1</u>	<u>5.0</u>

(a) 1 zloty = \$.189 1 dollar = 5.29 zloty*

(1) Source: Annuaire, 1939, p. 172, Table 12

The table below gives the value, in zloty and dollars, of Poland's principal agricultural exports in 1937 and 1938. The importance of processed meats - ham and canned pork loins and bacon - is of particular significance, and it is interesting to note that the export of these two commodities increased markedly

in the interwar years. Prior to 1934, Poland had no export of hams and canned pork, but her export of live pigs was much greater, both in absolute terms and relative to the total. Polish hams were sold very largely to the United States where they found a market in competition with U. S. hams because of their high quality. This production of quality merchandise was the beginning of an agricultural development which might have become of great significance to the Polish economy had not the war intervened.

Poland - Exports of Principal Agricultural Commodities,
1937 and 1938 (1)

	<u>1937</u> (million zloty)	<u>1938</u> (million zloty)	<u>1937</u> (million dollars)	<u>1938</u> (million dollars) (a)
<u>Total Polish Exports</u>	<u>1,195</u>	<u>1,185</u>	<u>225.9</u>	<u>224.0</u>
Exports of Principal Agricultural Commodities:				
Hams and canned pork	60	50	11.3	9.4
Bacon	46	48	8.7	9.1
Barley	40	40	7.6	7.6
Pigs	29	40	5.5	7.6
Eggs	34	39	6.4	7.4
Butter	19	32	3.6	6.0
Meat: fresh, frozen and salted	23	30	4.3	5.7
Rye	16	16	3.0	3.0
Flax and waste	20	15	3.8	2.8
Seeds	14	14	2.6	2.6
Peas and beans	11	13	2.1	2.5
Sugar	9	13	1.7	2.5
Cattle feed	<u>11</u>	<u>12</u>	<u>2.1</u>	<u>2.3</u>
Totals	332	362	62.7	68.5

(a) Zloty = \$.189 Dollar = 5.29 Zloty

(1) Source: Annuaire, 1939, p. 176, Table 16

The principal purchasers of Polish agricultural exports in the two years before the war were the United Kingdom and Germany, each of whom imported about 25 percent of the total value of the

principal exports listed above. The United States was the third most important purchaser, her imports of hams and canned pork loins representing 15 percent and 11 percent respectively of the total value of the commodities listed above.

Foreign Trade

Significance of Polish Foreign Trade

Polish foreign trade in the interwar years was profoundly affected by the earlier history of the area which became the Polish Republic at the close of the first World War. Partitioned among Austria, Germany and Russia at the end of the 18th Century, Poland was regarded as an economic hinterland by these three Powers, each of which attempted to draw into its own economic framework the segment of Poland which it had taken over. How well they succeeded can be gauged from the fact that in 1913, 84.5 percent of the trade of the area was with the Partitioning Powers, while only 7.4 percent was among the several segments, and only 8.1 percent was with other foreign countries.^{1/} Of necessity, therefore, the economy of Poland was not an integrated entity when the new Republic came into being, and a large part of the country's energies had to be devoted to developing new lines of communication within the country. In addition, the country had the task of building trade routes and developing connections with countries other than the three former occupying Powers. In particular, this meant finding markets other than Germany which was the most important purchaser of Polish products both before and in the first years after the establishment of the Republic.

^{1/} C. Smogorzewski, Poland's Access to the Sea, London, 1934, p. 240. Cited in Birmingham University, Information Service on Slavonic Countries, Poland, Monograph No. 1-2-Poland: Human and Economic Characteristics in Their Geographical Setting, Birmingham, 1936, p. 34.

As a result of her poverty and of the energies she had to devote to reconstruction made necessary by war destruction and by earlier partition, Poland was not able to develop a substantial foreign trade in the years between the wars. Whether measured in absolute or per capita terms, her foreign trade was small. As the following table shows, her percentage share in world trade was among the lowest in Europe in the prosperous year of 1929, in the depression year of 1932, and in the years of partial revival just before the second World War.

Share of Principal Countries of Europe in World Trade,
1929, 1932, 1937 and 1938
(percent of total World Trade)

	<u>1929</u>	<u>1932</u>	<u>1937</u>	<u>1938</u>
<u>Europe</u>	<u>52.5</u>	<u>56.1</u>	<u>50.7</u> ^(a)	<u>52.1</u> ^(a)
United Kingdom	13.0	13.2	13.6	13.9
Germany	9.4	9.2	8.6	10.1 ^(b)
France	6.2	7.2	5.0	4.7
Belgium	2.7	3.2	3.3	3.2
Netherlands	2.8	3.2	2.8	2.9
Italy	2.8	2.9	2.4	2.4
Sweden	1.4	1.4	2.0	2.1
Denmark	1.3	1.5	1.3	1.5
Czechoslovakia	1.7	1.6	1.5	1.4
Switzerland	1.3	1.8	1.3	1.4
U.S.S.R.	1.4	2.5	1.1	1.1
Norway	0.7	2.5	1.0	1.0
<u>Poland</u>	<u>1.0</u>	<u>0.8</u>	<u>0.9</u>	<u>1.0</u>
<u>Finland</u>	<u>0.5</u>	<u>0.5</u>	<u>0.8</u>	<u>0.8</u>
Rumania	0.5	0.6	0.7	0.6
Hungary	0.5	0.4	0.6	0.6
Yugoslavia	0.4	0.4	0.5	0.5
Portugal	0.2	0.3	0.3	0.3

(a) Excludes Spain

(b) Includes Austria

Source: League of Nations, Monthly Bulletin of Statistics, 1939, No. 4, cited in Petit Annuaire Statistique de la Pologne, 1939, p. 164, Table 5.

Measured in per capita terms, Poland's foreign trade was also very much smaller than that of almost all the countries in Europe, as the following table shows:

Per Capita Foreign Trade of Certain Countries in Europe,
1928, 1936-1938

	<u>1928</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
		(Zloty per capita)		
<u>COUNTRY</u>				
Denmark	2,171	872	992	974
Belgium	1,891	850	1,087	942
Switzerland	2,033	821	894	835
Sweden	1,285	682	886	822
Netherlands	2,178	705	913	819
United Kingdom	1,708	686	816	721
Germany	877	286	357	332 (a)
France	901	315	340	276
Estonia	552	217	278	266
Czechoslovakia	733	220	276	223
Hungary	370	164	185	162
Italy	433	102	155	136
Rumania	183	92	102	77
Poland	<u>193</u>	<u>59</u>	<u>71</u>	<u>72</u>
U.S.S.R.	53	17	19	15

(a) Includes Austria

Source: Statistisches Jahrbuch für das Deutsche Reich, Berlin, 1938; League of Nations, Monthly Statistical Bulletin, No. 4, Geneva, 1939; both cited in Annuaire, 1939, p. 162, Table 3.

Development of Polish Trade

The years directly following the establishment of the new Polish Republic were too unsettled to permit normal foreign trade. An attempt to stabilize the currency in May 1924 was unsuccessful, and not until November 1926, did it reach the

value at which it was stabilized in October 1927. ^{1/} For purposes of comparison, however, the figures on imports and exports in the following table cover the entire period from 1922, the first year for which full foreign trade statistics are available, to 1938, the last year of the interwar period.

^{1/} The first postwar currency of Poland was the Polish mark, with an official rate of 23.82 cents, or 4.2 marks to the dollar. Budgetary deficits rapidly depreciated its value and by the end of 1923, it had become practically valueless, the exchange rate dropping to 6,400,000 marks to the dollar. Recognizing that the old currency had been wiped out, a new currency, the zloty, was established on May 26, 1924 with an official rate of exchange of 5.18 to the dollar or one zloty = 19.30 cents. The currency exchanged at a slight discount until June 1925, when the actual rate of exchange was 19.1958 cents, but fell off sharply thereafter, dropping to 10.8435 cents in December 1925. After a rise to 13.1536 cents in February 1926, it fell again until June 1926, when it reached a low of 9.3015 cents. There was a subsequent recovery and by November 1926, it reached 11.2271 cents, the level about which it fluctuated until its official stabilization on October 23, 1927, at a rate of 8.91 zloty to the dollar or one zloty = 11.22 cents.

Sources: Bernadotte E. Schmidt, Editor - Poland, University of California Press, 1935, p. 208, and U. S. Federal Reserve Board - various January issues of the Federal Reserve Bulletin.

Poland: Foreign Trade, 1922-1938(a) (b)

Year	<u>Imports Exports Balance</u>			<u>Imports Exports Balance</u>			<u>Imports Exports</u>	
	(million zloty) (c)			(million dollars) (d)			(Thousand Tons)	
1922 (e)	1,454	1,127	-327	163	126	-37	4,126	9,142
1923 (f)	1,920	2,056	+136	216	231	+15	3,194	17,648
1924 (f)	2,542	2,177	-365	285	244	-41	2,414	15,740
1925 (f)	2,755	2,188	-567	309	245	-64	3,411	13,603
1926 (f)	1,539	2,246	+707	173	252	+79	2,438	22,304
1927 (f)	2,892	2,515	-377	324	282	-42	4,903	20,356
1928 (f)	3,362	2,508	-854	377	281	-96	5,165	20,424
1929	3,111	2,813	-298	348	315	-33	5,088	21,038
1930	2,246	2,433	+187	252	273	+21	3,571	18,922
1931	1,468	1,879	+411	164	210	+46	2,931	18,703
1932	862	1,084	+222	96	121	+25	1,787	13,504
1933	827	960	+133	119	138	+19	2,356	12,986
1934	799	975	+176	151	184	+33	2,555	14,565
1935	861	925	+ 64	163	175	+12	2,573	13,442
1936	1,003	1,026	+ 23	189	193	+ 4	3,066	12,964
1937	1,254	1,195	- 59	237	226	-11	3,685	14,997
1938	1,300	1,185	-115	245	223	-22	3,310	15,597

(a) Special trade in the customs area of Poland (Polish Republic and Free City of Danzig-Gdansk). Except where noted, merchandise brought in for further processing in Poland is included in both imports and exports, but transit traffic, imports into free zones, and temporary imports are excluded.

(b) Excludes gold, silver and money.

(c) The data for these years are given in zloty, of the value established on October 23, 1927, i.e. 1 kg. of fine gold = 5,924.44 zl. or 8.91 zloty = one dollar, and one zloty = 11.22 cents.

(d) In converting zloty to dollars, the following exchange rates have been used:

	(cents)		(cents)
1922-1927	11.22	1933	14.4135
1928	11.2097	1934	18.8460
1929	11.1940	1935	18.882
1930	11.2051	1936	18.875
1931	11.1970	1937	18.923
1932	11.1823	1938	18.860

For 1922-1927, this is the official rate of exchange for the post-stabilization zloty. For subsequent years, the rates are the monthly averages of daily noon buying rates for cable transfers in New York as reported by the Federal Reserve Bank of New York and published by the U.S. Federal Reserve Board in its Federal Reserve Bulletin.

(e) Includes temporary traffic.

(f) Excludes merchandise brought in for further processing within Poland.

Sources: Trade in zloty: Petit Annuaire Statistique de la Pologne, 1939, p.162, Table 1.

Trade in tons: League of Nations - International Trade Statistics.

As appears from this table, Poland's foreign trade expanded markedly during the 1920's, with imports reaching a peak value of 3,362 million zloty (377 million dollars) in 1928, and exports a peak value of 2,813 million zloty (315 million dollars) in 1929. The sharp decline during the depression years reduced imports by more than three quarters and exports by about two thirds, measured in zlotys. The low points (in zloty) were reached in 1934 in imports and in 1935 in exports, but as a result of the depreciation in the value of the dollar in 1933, the dollar value of both imports and exports began to rise after 1932. Foreign trade expanded significantly in the later 1930's, yet in 1938, the zloty values of both imports and exports were still less than half their pre-depression peak values. Although the failure to attain pre-depression levels is, of course, attributable in part to the decline in world prices, it reflects in no small measure a decline in the quantity of goods entering into Polish foreign trade, for in 1938 the tonnage of imports was only 64 percent and that of exports only 74 percent of the quantities moved in the peak years. In depreciated dollars, too, imports were only 65 percent and exports 71 percent of their pre-depression peak values.

Changing economic conditions affected not only the magnitude, but also the balance of trade, which was materially affected, in addition, by government measures. The balance of trade was alternately favorable and unfavorable in the period of disturbed currency values from 1922 to 1926, it was unfavorable during the period of business expansion from 1927 to 1929, favorable from 1930 to 1936, and unfavorable again during the years of partial revival, 1937 and 1938. For a better under-

standing of developments during the interwar period, it is necessary to analyze the course of foreign trade in somewhat greater detail.

1922-1926. Poland had a favorable balance of trade in two, and an unfavorable balance of trade in three of these five years. While the most important factor in producing these alternations was probably the alternate under - and over - valuation of the currency, ^{1/} other factors played a part in 1925 and 1926. A crop failure in 1924 which made necessary large food imports in 1925, ^{2/} and smaller coal exports as a result of the expiration on January 10, 1925 of the commercial provisions of the Versailles Treaty under which Germany was obliged to import, duty free, 500,000 tons of Polish coal annually, ^{3/} made for an unfavorable balance of trade in 1925. In 1926, the British coal strike which opened the Scandinavian market to Polish coal, ^{4/} coupled with a greatly reduced volume of imports due to the undervaluation of the currency, made for a favorable balance of trade.

1927-1929. With the stabilization of the currency in late 1926, the stage was set for an expansion of foreign trade. During the next three years, Poland's exports increased substantially and its imports increased even more, large capital imports enabling the country to finance an adverse balance of trade. Although the expansion was attributable in the main to favorable

1/ Birmingham University, Information Service on Slavonic Countries - Poland: Monograph No. 5: Poland's Foreign Trade, Birmingham, July 1939, pp. 5-6.

2/ Birmingham University, Information Service on Slavonic Countries - Poland: op. cit., p. 5.

3/ R. L. Buell - Poland: Key to Europe, New York, 1939, p. 177.

4/ Buell, op. cit., p. 178.

world economic conditions, it was facilitated by the policies of the Polish Government.

Although the Government had imposed tariffs, especially on agricultural products,^{1/} prior to 1927, it had granted a number of concessions which brought rates down. These concessions, amounting to a 25 percent rebate in the duties on manufactured goods, luxuries and raw materials, were granted initially to France in the trade treaty concluded between Poland and that country in 1922, but were extended to cover the other countries with which Poland had concluded trade agreements including a Most-Favored-Nation clause.^{2/} At the same time, Poland had endeavored to promote exports by exempting export industries from taxation and granting exports preferential freight rates.^{3/}

1930-1932. Poland's exports fell off sharply in 1930 and continued their rapid decline in 1931 and 1932. The collapse in the prices of agricultural commodities and raw materials contributed in no small part to this sharp reduction, since Poland's exports consisted so largely of commodities of this type. At the same time, as is pointed out below in the discussion of Poland's balance of payments, the direction of capital movements changed, new capital imports ceasing while existing short-term credits were being reduced. In the face of this situation,

^{1/} Buell, op. cit., p. 135.

^{2/} Birmingham University, Information Service on Slavonic Countries, Poland, op. cit., p. 7. Prior to 1924, Poland had concluded such agreements with Rumania, Italy, Belgium, Yugoslavia, Japan, Switzerland, the United Kingdom, Turkey, Austria, and Czechoslovakia. Between 1925 and 1933, the benefits of the Most-Favored-Nation clause were extended to the following treaty signatories: Bulgaria, Iceland, the United States, Latvia, Portugal, British India, Persia, Greece, Denmark, Holland and Sweden.

^{3/} Buell, op. cit., p. 132.

Poland could no longer finance an import surplus and was compelled to reduce its imports even more sharply than its exports. With the aid of governmental measures to reduce imports and expand exports, it was able to curtail its imports and to achieve a favorable balance of trade in the three years under consideration.

A number of measures were taken to restrict imports. Import duties on a number of foodstuffs were increased in 1931,^{1/} and in 1932, customs duties were raised substantially,^{2/} and duties were imposed on imported fibers - cotton, wool, flax and hemp - to favor domestic fibers.^{3/} On January 14, 1931, the customs - handling tax was increased from 10 to 20 percent of the duty.^{4/} In the same year, as a protection for domestic wool, the Government decreed that all woolens that it purchased must contain a specified percentage of domestic wool.^{5/} But most important, on December 29, 1931, a decree was issued requiring permits for all imports beginning January 1, 1932, and stating further that "temporary but absolute prohibitions" would have to be imposed against the import of all goods that could be produced in Poland or that were considered non-essential to the national economy. The long list of prohibited imports was subsequently revised and the import of some items was permitted, but only if they came

1/ Hally H. Conrad, Farm Aid in Poland, U. S. Department of Agriculture, Bureau of Agricultural Economics, Foreign Agriculture, Vol. II, No. 9, Washington, September 1938, p. 422.

2/ Buell, op. cit., p. 1936

3/ Conrad, op. cit., p. 430

4/ Conrad, op. cit., p. 422

5/ Conrad, op. cit., p. 430

from countries with which Poland did not have an adverse balance of trade.^{1/}

To encourage exports, the measures of aid granted earlier were continued, and in addition, subsidies were paid beginning in January 1929 on exports of hams and bacon, and extended in November 1929 to exports of grains, and later to other agricultural products.^{2/}

1933-1935. With the zloty value of exports continuing to decline and capital continuing to be withdrawn, Poland was compelled to continue its program of restricting imports in order to maintain a favorable balance of trade. A new tariff law was adopted on October 11, 1933, with maximum-minimum rates, on the understanding that conventional rates below the minimum would be given to countries having trade agreements with Poland. About 20 such agreements granted conventional duties which were passed on to countries receiving Most-Favored-Nation treatment from Poland, but the advantages of these rates were, to a certain extent nullified by the import license system.^{3/}

In 1935 the Polish Government also adopted a "domestic raw-materials" program under which imports of nearly every important agricultural raw material were excluded by restrictive quotas, the domestic production of synthetic wool and other materials was encouraged, and oil refiners were required to buy domestic oil seed.^{4/}

Finally, in 1935, Poland negotiated trade treaties with

1/ Conrad, op. cit., p. 422
2/ Conrad, op. cit., p. 423
3/ Buell, op. cit., pp. 135-136
4/ Buell, op. cit., p. 136

both Great Britain and Germany, the first fixing larger quotas for Polish bacon and eggs in the British market, the second bringing to an end the trade war with Germany which had persisted since the expiration of the commercial provisions of the Versailles Treaty in 1925.^{1/} In addition, Polish coal-mine owners negotiated an agreement with British coal-mine owners providing that Poland's coal exports to a specified group of markets should not exceed 21 percent of British exports to these same markets. Although this agreement restricted Polish exports, it assured an improvement in export prices which reduced the difference between export and domestic prices.^{2/}

1936-1938. But the measures taken to maintain a favorable balance of trade proved inadequate to prevent further balance of payments difficulties. By 1936, the government found it necessary to take additional steps. These are discussed more fully in a later section dealing with Poland's prewar balance of payments. It is, here, necessary only to mention the measures which affected foreign trade. These included a strict control over all imports enforced by exchange controls and the development of clearing agreements.^{3/} However, with world economic conditions improving, exports gradually increased, and a renewed inflow of capital made possible increased imports, and indeed, for Poland to finance an import surplus in 1937 and 1938.

^{1/} Buell, op. cit., pp. 133,134
^{2/} Buell, op. cit., p. 179
^{3/} Buell, op. cit., pp. 137-138

Development of Poland's Sea-Borne Commerce

One of the interesting features of Poland's foreign trade during the interwar years, discussed in greater detail in the section below, was a decrease in the relative importance of European countries as sources of Polish imports and markets for Polish exports, and a decrease in the relative importance of Germany as a trading partner. These changes were due in part to Poland's conscious attempt to develop sea routes for its foreign trade in preference to the more costly overland routes.

When the new Republic of Poland was established, its only outlet to the sea was through the Free City of Danzig. Desiring a port within its own territory and believing that enough trade would be forthcoming to justify the expenditure involved in developing such a port, the Government in 1923 began the construction of a new port at Gdynia, which was previously a fishing village located some fifteen miles northwest of Danzig. Developments justified the Government's confidence. The trade of Gdynia expanded and although Danzig continued to handle a considerable volume of trade, Gdynia became not only Poland's premier port, but the principal port on the Baltic, surpassing even Danzig, and one of the ten principal ports in Europe. As the table below shows, the growth of Gdynia was not at the expense of Danzig but of Poland's overland trade.

Poland's Sea-borne and Overland Trade, 1928, 1932 and 1938

	<u>Total</u>	<u>Danzig</u>	<u>Gdynia</u>	<u>Total</u>	<u>Total</u>
	(Thousand tons)			Sea-Borne	Overland
		(Percent of total)			
<u>Poland's Total Foreign Trade</u>					
1928	25,589	32.7	6.7	39.4	60.6
1932	15,291	35.7	32.0	67.7	32.3
1938	18,907	31.6	46.1	77.7	22.3
<u>Poland's Import Trade</u>					
1928	5,165	31.2	2.2	33.4	66.6
1932	1,787	19.3	19.4	38.7	61.3
1938	3,310	25.2	39.2	64.4	35.6
<u>Poland's Export Trade</u>					
1928	20,424	33.0	7.8	40.8	59.2
1932	13,504	37.8	33.7	71.5	28.5
1938	15,597	33.0	47.5	80.5	19.5

Source: Birmingham University, Information Service on Slavonic Countries, Poland: Monograph No. 5: Poland's Foreign Trade, Birmingham, 1939, p. 19.

Direction of Poland's Foreign Trade

Poland's trade was very largely concentrated on European countries. In 1928, Europe was responsible for 77.1 percent of Poland's imports and 97.3 percent of Poland's exports, and although the relative importance of Europe declined in the next decade, even in 1938, European countries were responsible for 65.8 percent of Poland's imports and 84.5 percent of her exports.

The decline in the importance of Europe in Poland's foreign trade was associated particularly in the case of imports with a growth in Poland's sea-borne trade and a decline in its overland trade. Poland apparently found it possible to purchase a larger share of her raw material imports directly from their producers rather than from intermediaries on the continent of Europe. Thus, there was an increase in the relative importance as a source of imports of such primary producing countries as Australia, Argentina, Brazil, the Netherlands Indies, Egypt and the Belgian Congo. On the export side, the change was associated with the development of a new industry, the meat processing industry, whose products found a ready market in the United States, although the share of Poland's exports taken by Argentina, British India, Palestine and Egypt also increased.

The growth of Poland's sea-borne trade at the expense of her overland trade is also reflected in the changes in the relative importance of certain European countries in her foreign trade. At the outset, Germany was by far the most important factor in Polish trade; in 1924, she was responsible for 34 percent of Poland's imports and 43 percent of her exports. Her importance declined steadily, however, until by 1936 her share in Poland's imports and exports had declined to 14 percent.

Poland's trade with two other land neighbors, Czechoslovakia and Austria which increased during the 1920's, also declined during the 1930's. On the other hand, her trade with the United Kingdom increased and by 1932, the latter had become the principal market for Polish exports and only slightly less important than Germany as a source of Polish imports. At the same time her trade with Sweden and Belgium, the one only accessible, the other more easily accessible by sea than by land, also increased. A consideration of the commodities entering into the trade with each country is given below in the discussion of the composition of Poland's trade.

One feature deserving note is the relative insignificance of Poland's trade with the U.S.S.R., except during the depression years, when it assumed greater importance particularly as a market for Polish exports.

The table below shows the relative magnitude of Poland's trade with each of the countries responsible for a major share in its trade in 1924 and in alternate years from 1928 to 1938. More years are included in this table than in those showing the value of Poland's trade with these countries, which follows, in order to make clearer the changes in the relative importance of the various countries as Poland's trading partners during the interwar years.

Poland's Foreign trade, with Specified Countries, 1924-1938

		(Percent of Total Value)							
		Poland's	1924	1928	1930	1932	1934	1936	1938
United Kingdom (a)	Imports		7.5	9.3	7.9	8.7	10.8	14.1	11.4
	Exports		10.5	9.0	12.1	16.7	21.2	21.7	18.3
Germany	Imports		34.4	26.9	27.0	20.1	13.6	14.3	23.0 ^(b)
	Exports		43.2	34.2	25.7	16.2	16.6	14.2	24.1 ^(b)
Austria	Imports		11.7	6.6	5.7	4.4	4.6	4.5	----
	Exports		10.1	12.4	9.3	8.0	5.9	5.7	----
Sweden	Imports			2.1	1.8	1.8	2.5	2.9	3.5
	Exports			4.4	4.6	5.9	4.6	5.8	6.0
Italy	Imports			2.5	3.1	3.4	4.2	1.7	2.6
	Exports			1.9	1.3	3.1	3.8	2.1	5.5
Belgium	Imports			2.0	2.5	3.3	3.2	4.3	4.1
	Exports			2.3	2.5	4.6	6.0	8.2	4.8
Netherlands	Imports		1.7	4.1	3.5	3.7	3.7	3.7	2.8
	Exports		3.1	3.1	3.4	4.8	4.1	4.5	4.5
France	Imports		4.9	7.4	6.7	6.9	5.8	4.3	3.6
	Exports		4.1	1.7	3.1	5.7	4.2	4.3	3.8
Czechoslovakia	Imports		5.7	6.3	7.5	5.3	4.1	3.5	3.1
	Exports		7.9	11.8	8.9	8.3	5.2	4.8	3.6
U.S.S.R.	Imports		0.3	1.2	2.0	2.2	2.2	1.6	0.8
	Exports		0.9	1.5	5.3	2.7	2.6	0.9	0.1
Other European Countries	Imports			8.7	9.8	12.9	9.3	10.0	10.9
	Exports			15.0	18.8	18.0	12.8	12.5	13.8
Total Europe	Imports			77.1	77.5	72.7	64.0	64.9	65.8
	Exports			97.3	95.0	94.0	87.0	84.7	84.5
United States	Imports		12.5	13.9	12.0	12.1	15.2	11.9	12.2
	Exports		0.6	0.8	0.9	0.9	2.3	6.6	5.3
Other Non-European Countries	Imports			9.0	10.5	15.2	20.8	23.2	22.0
	Exports			1.9	4.1	5.1	10.7	8.7	10.2
Total Non-Europe	Imports			22.9	22.5	27.3	36.0	35.1	34.2
	Exports			2.7	5.0	6.0	13.0	15.3	15.5
Grand Total	Imports			100.0	100.0	100.0	100.0	100.0	100.0
	Exports			100.0	100.0	100.0	100.0	100.0	100.0

(a) Includes Irish Free State

(b) Germany and Austria

Source: Birmingham University, Information Service on Slavonic Countries - Poland: Monograph No. 5 - Poland's Foreign Trade, Birmingham, 1939, pp. 21, 24, and League of Nations - International Trade Statistics.

The tables which follow show the value of Poland's imports from and exports to its principal suppliers and markets in 1928, 1932 and 1938. Although these tables do not show fully the changes in the direction of Poland's trade, they do indicate the order of magnitude of Poland's trade with the major participants in it in the peak year of prosperity in the interwar period, the trough of the depression and the last year before the outbreak of the second World War. Figures for the U.S.S.R. are included for purposes of comparison, although trade with that country was small in all the years included in the tables, the U.S.S.R. having been a more important market for Polish exports only in 1930, 1931 and 1933.

Poland's Imports by Principal Countries of Origin, 1928, 1932, 1938

	1928	1932	1938	1928	1932	1938
	(million zloty)			(million dollars) (a)		
United Kingdom	313.5 ^(b)	74.8	147.8	35.2 ^(b)	8.4	27.9
Germany	903.1	173.1		101.2	19.4	
Austria	221.0	37.7	299.4 ^(c)	24.8	4.2	56.5 ^(c)
Sweden	69.9	16.0	45.2	7.8	1.8	8.5
Italy	83.0	29.0	33.8	9.3	3.2	6.4
Belgium	66.6	28.5	52.9	7.5	3.2	10.0
Netherlands	139.3	31.6	36.8	15.6	3.5	6.9
France	249.1	59.4	46.3	27.9	6.6	8.7
Czechoslovakia	213.4	46.0	40.7	23.9	5.1	7.7
U.S.S.R.	39.1	19.3	9.9	4.4	2.2	1.9
Other European Countries	293.0	111.4	142.9	32.8	12.5	26.9
Total Europe	2,591.0	626.8	855.7	290.4	70.1	161.4
United States	466.6	104.0	158.4	52.3	11.6	29.9
Other Non-European Countries	304.6	130.6	285.6	34.1	14.6	53.8
Total Non-Europe	771.2	234.6	444.0	86.4	26.2	83.7
Grand Total	3,362.2	862.0^(d)	1,299.8	376.9	96.4	245.2

(a) Exchange rates (in cents per zloty) - 1928 - 11.2097;
 1932 - 11.1823;
 1938 - 18.86

(b) Includes Ireland

(c) Germany and Austria

(d) Includes 0.6 million zloty not distributed by country in original source.

Source: Petit Annuaire Statistique de la Pologne, 1939, pp. 166-167 and League of Nations - International Trade Statistics

Poland's Exports by Principal Countries of Destination, 1928, 1932, 1938

	1928	1932	1938	1928	1932	1938
	(million zlotys)			(million dollars) (a)		
United Kingdom	226.7 ^(b)	178.1	215.5	25.4	19.9	40.7
Germany	858.8	175.9		96.3	19.7	
Austria	311.4	86.2	285.8 ^(c)	34.9	9.6	53.9 ^(c)
Sweden	109.7	63.7	71.5	12.3	7.1	13.5
Italy	48.7	33.5	65.7	5.5	3.7	12.4
Belgium	57.4	49.9	56.7	6.4	5.6	10.7
Netherlands	78.0	52.1	53.9	8.7	5.8	10.1
France	43.0	61.6	44.7	4.8	6.9	8.4
Czechoslovakia	295.6	89.7	43.2	33.1	10.0	8.2
U.S.S.R.	38.6	29.1	1.4	4.3	3.3	0.3
Other European Countries and Provisionaryships	366.6	271.4	189.0	41.1	23.2	35.5
Total Europe	2,434.5	1,031.2	1,027.4	272.9	115.3	193.7
United States	19.0	10.0	62.9	2.1	1.1	11.9
Other Non-European Countries	54.5	42.6	94.4	6.1	4.8	17.8
Total Non-Europe	73.5	52.6	157.3	8.2	5.9	29.7
Grand Total	2,508.0	1,083.8	1,184.7	281.1	121.2^(d)	223.5

(a) Exchange rates (in cents per zloty) - 1928 - 11.2097;
1932 - 11.1823;
1938 - 18.86

(b) Includes Ireland
(c) Germany and Austria

Source: Petit Annuaire Statistique de la Pologne,
1939, pp. 166-167 and
League of Nations - International Trade
Statistics

A more detailed table showing Poland's trade with major groups of countries in Europe and elsewhere in 1938 is given below. It makes clear how broad the distribution of Poland's trade had become just before the war.

Poland's Export and Import Trade by
Regions and Principal Countries, 1938

	<u>Imports</u>		<u>Exports</u>		<u>Balance</u> <u>+ or -</u>
	<u>Million</u> <u>dollars</u>	<u>Per-</u> <u>cent</u>	<u>Million</u> <u>dollars</u>	<u>Per-</u> <u>cent</u>	<u>Million</u> <u>dollars</u>
<u>United Kingdom</u>	27.9	11.4	40.7	18.2	+ 12.8
<u>Baltic Region including U.S.S.R.</u>					
Denmark	2.0	.8	3.1	1.4	+ 1.1
Finland	.5	.2	4.1	1.8	+ 3.6
Norway	3.5	1.4	3.8	1.7	+ .3
Sweden	8.5	3.5	13.5	6.0	+ 5.0
Iceland	.2	.1	.1	.1	- .1
U.S.S.R. and Baltic States	2.6	1.1	1.4	.6	- 1.2
Provisioning of foreign ships	---	---	4.6	2.1	+ 4.6
	<u>17.4</u>	<u>7.1</u>	<u>30.6</u>	<u>13.7</u>	<u>+ 13.2</u>
<u>Western Europe</u>					
Belgium	10.0	4.1	10.7	4.8	+ .7
France	8.7	3.6	8.4	3.8	- .3
Netherlands	6.9	2.8	10.1	4.6	+ 3.2
Switzerland	5.1	2.1	4.5	2.0	- .4
	<u>30.7</u>	<u>12.6</u>	<u>33.8</u>	<u>15.2</u>	<u>+ 3.1</u>
<u>Germany including Austria</u>	56.5	23.0	53.9	24.1	- 2.6
<u>Southeastern Europe</u>					
Czechoslovakia	7.7	3.1	8.2	3.6	+ .5
Hungary	1.5	.6	1.6	.7	+ .1
Yugoslavia	1.9	.8	1.2	.6	- .7
Bulgaria	3.7	1.5	3.0	1.3	- .7
Rumania	2.0	.8	1.5	.7	- .5
	<u>16.8</u>	<u>6.8</u>	<u>15.5</u>	<u>6.9</u>	<u>- 1.3</u>
<u>Mediterranean Region</u>					
Italy	6.4	2.6	12.4	5.5	+ 6.0
Greece	2.7	1.1	1.8	.8	- .9
Portugal	.8	.3	.6	.3	- .2
Spain	.2	.1	1.3	.6	+ 1.1
Turkey	2.1	.8	2.4	1.1	+ .3
Malta	---	---	.3	.1	+ .3
Palestine	1.3	.6	1.7	.8	+ .3
Syria	---	---	.3	.1	+ .3
Algeria	.6	.2	.4	.2	- .2
Tunisia	.2	.1	---	---	- .2
French Morocco	.5	.2	.2	.1	- .3
Egypt	3.3	1.4	1.4	.7	- 1.9
	<u>18.1</u>	<u>7.4</u>	<u>22.8</u>	<u>10.3</u>	<u>+ 4.7</u>

(Continued on following page)

	<u>Imports</u>		<u>Exports</u>		<u>Balance</u>
	<u>Million</u> <u>dollars</u>	<u>Per-</u> <u>cent</u>	<u>Million</u> <u>dollars</u>	<u>Per-</u> <u>cent</u>	<u>+ or -</u> <u>Million</u> <u>dollars</u>
<u>United States</u>	29.9	12.2	11.9	5.3	- 18.0
<u>Other America</u>					
Canada	1.1	.5	.3	.1	- .8
Central America	1.5	.6	.8	.3	- .7
Argentina	6.9	2.8	4.2	1.9	- 2.7
Brazil	3.1	1.3	1.1	.5	- 2.0
Other South America	5.9	2.4	1.0	.4	- 4.9
	<u>18.5</u>	<u>7.6</u>	<u>7.4</u>	<u>3.2</u>	- 11.1
<u>Africa, Asia, Oceania</u>	<u>29.4</u>	<u>11.9</u>	<u>7.0</u>	<u>3.1</u>	- <u>22.4</u>
Grand Total	245.2	100.0	223.5	100.0	- 21.7

Source: Yearbook of the Foreign Trade of the Polish Republic, First part, 1938, as quoted in: Federal Reserve Board: Poland: Economic and Financial Developments, December, 1946, p. 26.

Composition and Sources of Poland's Imports

Composition of Imports. Before the war Poland was primarily an agricultural country, but she had, in addition a large production of forest products, a substantial coal-mining industry (the fourth largest in Europe) two important manufacturing industries - textiles and iron and steel - and significant beginnings of industrialization elsewhere. She was more than self-sufficient in most foodstuffs, and produced more coal than was required by her still far from industrialized economy. On the other hand, she lacked raw materials for her important manufacturing industries, and had to rely on foreign sources for most of her machinery and chemicals, her domestic industries in these fields being still too small to meet domestic requirements.

Thus, Poland's principal imports were first, raw materials and semi-manufactured products for further processing, for the largest part for her textile and iron and steel industries, and also for her leather and leather products industry, and second, machinery and vehicles. In addition, the country had to import certain foodstuffs in which she was deficient, and certain manufactured products - chemicals and some finished products for consumers. The general outlines of Poland's import trade are shown in the following table which breaks down imports, in 1938, by stage of production and broad commodity groups.

Poland's Imports by Principal Commodity Groups and
Stage of Production of Imported Commodities, 1938

Commodity Groups	1938			Total	Per- cent of Total
	Crude	Simply Trans- formed	More elab- orately Trans- formed		
	(m i l l i o n z l o t y)				
Materials of plant and animal origin	185	20	15	220	16.9
Live animals	---	---	---	---	---
Materials of mineral origin	53	8	---	61	4.7
Chemicals & pharmaceutical products; paints	10	20	45	75	5.8
Hides; furs; leather products	76	14	2	92	7.1
Textile raw materials and products thereof	226	44	30	300	23.1
Rubber, its surrogates and products thereof	16	---	7	23	1.8
Timber; cork and products thereof; wickerware	2	3	1	6	0.5
Paper and paper goods	2	6	16	24	1.8
Base metals and products thereof	---	141	42	183	14.1
Machines and apparatus; electro- technical equipment	---	---	193	193	14.8
Means of transport (vehicles)	---	---	57	57	4.4
Unclassified	3	1	62	66	5.1
Total	573	257	470	1,300	100.0
Percent of Total	44.1	19.8	36.1	100.0	---

Source: Concise Statistical Year-Book of Poland, September 1939-June 1941,
p. 80, Table 10.

The general picture outlined above is confirmed in the following table which gives, for the principal individual items imported, quantities and values, and includes for purposes of comparison, the years 1928 and 1932 in addition to the last year before the war. The table shows that there was very little change in the pattern of imports during the period analyzed.

It is interesting to note, however, that although the tonnages of machinery, vehicles and chemicals declined substantially from 1928 to 1938, the tonnages of most raw materials increased - raw cotton, raw wool (over 50 percent), raw hides and skins, raw furs, and ores, slag and clinkers - and that the few declines - in oil seeds, fats and oils and scrap iron - were relatively slight - reaching 20 percent only in the case of scrap iron.

Poland's Imports by Principal Commodities
1928, 1932 and 1938

(a) Commodities	Thousand Tons			Million Zloty			Million Dollars(b)			Percent of Value		
	1928	1932	1938	1928	1932	1938	1928	1932	1938	1928	1932	1938
Cotton and waste	76	51	79	326	86	117	36.5	9.6	22.1	9.7	10.0	9.0
Wool and waste	17	18	27	181	66	96	20.3	7.4	18.1	5.4	7.7	7.4
Yarns; tops	7	3	3	157	41	32	17.6	4.6	6.0	4.7	4.8	2.5
Textiles, clothing	6	2	3	151	44	25	16.9	4.9	4.7	4.5	5.1	1.9
Machines & apparatus; elec- tro-technical equipment	82	9	40	391	64	193	43.8	7.2	36.4	11.6	7.4	14.8
Means of transport (vehicles)	19	2	14	124	15	57	13.9	1.7	10.8	3.7	1.7	4.4
Scrap iron	531	123	426	75	8	51	8.4	0.9	9.6	2.2	0.9	3.9
Ores; slag; clinkers	835	229	841	85	12	35	9.5	1.3	6.6	2.5	1.4	2.7
Copper; copper sheets	11	5	27	32	6	33	3.6	0.7	6.2	1.0	0.7	2.5
Tobacco & tobacco products	10	9	10	36	33	49	4.0	3.7	9.2	1.1	3.8	3.8
Fruits and edible nuts	32	33	66	36	23	42	4.0	2.6	7.9	1.1	2.7	3.2
Herring; fresh, salted	71	45	62	45	19	22	5.0	2.1	4.1	1.3	2.2	1.7
Coffee, tea, cocoa	15	15	16	71	32	21	8.0	3.6	4.0	2.1	3.7	1.6
Raw hides and skins	22	16	28	74	18	42	8.3	2.0	7.9	2.2	2.1	3.3
Raw furs	3	3	3	65	28	38	7.3	3.1	7.2	1.9	3.2	2.9
Chemicals & pharmaceutical products; paints	687	118	279	217	71	75	24.3	8.0	14.1	6.5	8.2	5.8
Oilseeds and fats and oils (non-mineral)	80	97	77	108	46	33	12.1	5.1	6.2	3.2	5.3	2.6
Paper and paper products	71	31	41	67	24	24	7.5	2.7	4.5	2.0	2.8	1.8
Other commodities	2590	978	1268	1121	226	315	125.9	25.2	59.6	33.3	26.2	24.2
Total	5156	1787	3310	3362	862	1300	376.9	96.4	245.2	100.0	100.0	100.0

(See footnotes next page)

- (a) Most important commodities, by value, in 1938, grouped according to the International Classification, Geneva, 1928-35 - League of Nations "Minimum List" and arranged in order of value of these groups in 1938.
- (b) Conversion rates - zloty in U.S. cents; 1928 - 11.2097; 1932 - 11.1823; 1938 - 18.860; (Monthly averages of daily buying rates for cable transfers in New York as given in Federal Reserve Bulletin).

Source: Concise Statistical Year-Book of Poland, September 1939-June 1941, p. 79, Table 9.

Sources of Imports. Poland drew her important raw materials, in the main, from the primary producers (although the United Kingdom supplied a substantial part of the raw wool). On the other hand, Germany was by far the most important supplier of machinery, vehicles and chemicals. Details for the most important products are shown in the table on the following page.

Sources of other important import items can be summarized briefly. Over half the scrap iron came from the United States. Ores, slag and clinkers came from a number of countries, with Sweden, the principal source, supplying about 20 percent. Over three-quarters of the copper came from the United States and Chile. Tobacco came from the Mediterranean countries, as did most of the fruit. Coffee, tea and cocoa came from the Far East, oil seeds from the Far East and Africa, and fats and oils from Norway and the Netherlands. Finally, the United Kingdom and Germany were the principal sources of yarns and tops and textile products.

Sources of Poland's Main Imports

<u>Country of Origin</u>	<u>Million Zloty</u>		<u>Percent of Total</u>	
	<u>1937</u>	<u>1938</u>	<u>1937</u>	<u>1938</u>
<u>Cotton and Waste</u>				
United States	69.7	68.5	49	59
Egypt	17.5	17.1	12	15
British India	14.5	8.3	10	7
Belgian Congo	8.1	6.2	6	5
All others	32.6	16.6	23	14
Total	142.4	116.7	100	100

<u>Wool and Waste</u>				
Australia	36.8	25.7	34	27
United Kingdom	20.7	18.5	19	19
Belgium	13.5	14.9	13	15
Argentina	10.7	13.0	10	13
New Zealand	8.4	7.4	8	8
France	4.2	6.7	4	7
All others	12.7	10.2	12	11
Total	107.0	96.4	100	100

<u>Machines and Apparatus; Electro-Technical Equipment</u>				
Germany (a)	63.8	114.5	54	59
United Kingdom	16.2	24.3	14	13
United States	9.8	16.1	8	8
Sweden	7.5	10.5	6	6
Switzerland	4.6	7.4	4	4
All others	16.2	20.0	14	10
Total	118.1	192.8	100	100

<u>Means of Transport (Vehicles)</u>				
Germany (a)	17.4	23.5	41	42
United States	9.2	12.6	22	22
United Kingdom	8.3	10.8	19	19
All others	7.7	9.8	18	17
Total	42.6	56.7	100	100

<u>Chemicals and Pharmaceutical Products; Paints</u>				
Germany (a)	22.9	26.2	34	35
Argentina	6.0	7.1	9	10
Switzerland	4.9	6.1	7	8
Belgium	5.3	6.0	8	8
France	5.3	5.2	8	7
All others	22.9	24.2	34	32
Total	67.3	74.8	100	100

(a) Including Austria

Source: Petit Annuaire Statistique de la Pologne, 1939, p. 177.

Composition and Destination of Poland's Exports.

Composition of Exports. Poland's export trade was dominated by three items - foodstuffs, coal and timber. These three items together made up something over 70 percent of Polish exports in the interwar period. The only other sizable exports were semi-manufactured iron and steel products. The Polish iron and steel industry, although not very large, produced more iron and steel than was required by the country's far from well developed metal-working industries. The textile industry, too, produced semi-manufactured and finished textiles for export, in spite of the fact that Poland was an importer of commodities in this class. In addition, the country exported certain raw materials, notably zinc and flax. The general outlines of Poland's export trade are shown in the following table which breaks down exports in 1938, by stage of production and broad commodity groups.

Poland's Exports by Principal Commodity Groups and
Stage of Production of exported Commodities, 1938

Commodity Groups	1 9 3 8			Total	Percent of total
	Crude	Simply Trans- formed	More elab- orately Trans- formed		
	(m i l l i o n z l o t y)				
Materials of plant and animal origin	173	150	81	404	34.1
Live animals	59	---	---	59	5.0
Materials of mineral origin	220	30	2	252	21.3
Chemicals & pharmaceutical products; paints	7	16	9	32	2.7
Hides; furs; leather products	12	2	11	15	1.3
Textile raw materials and products thereof	19	16	24	59	5.0
Rubber, its surrogates, and products thereof	---	---	1	1	0.1
Timber, cork and products thereof; wickerware	46	139	18	203	17.1
Paper and paper goods	---	1	7	8	0.7
Base metals and products thereof	---	119	9	128	10.8
Machines & apparatus; electro- technical equipment	---	---	11	11	0.9
Means of transport	---	---	4	4	0.3
Unclassified	1	---	8	9	0.7
Total	537	473	175	1,185	100.0
Percent of Total	45.3	39.9	14.8	100.0	---

Source: Concise Statistical Year-Book of Poland, September 1938-June 1941,
p. 80, Table 10.

Further detail on Polish exports appears in the following table which gives, for the principal items exported, quantities and values, and mainly for purposes of comparison, includes the years 1928 and 1932 as well as 1938.

It is interesting to note that animal products were the most important of the foodstuffs exported, and that there was a shift from live animals to processed animal products between 1928 and 1938. Apart from this shift, the only major change in the pattern of food exports was the substantial decline in the export of sugar which was one of the most important foodstuff exports in 1928, and in peas and beans. For Polish exports as a whole, there was another important change, the decline of about two-thirds in the quantity of timber exported.

Poland's Exports by Principal Commodities
1928, 1932 and 1938

(a) Commodities	Thousand Tons			Million Zloty			Million Dollars(c)			Percent of Value		
	1928	1932	1938	1928	1932	1938	1928	1932	1938	1928	1932	1938
Hams and canned pork	---	---	17	---	---	50	---	---	9.4	---	---	4.2
Bacon	1	54	21	2	72	48	0.2	8.1	9.1	0.1	6.6	4.1
Barley	111	146	238	46	25	40	5.2	2.8	7.5	1.8	2.3	3.4
Pigs	1,279 ^(b)	193 ^(b)	266 ^(b)	208	23	40	23.3	2.6	7.5	8.3	2.1	3.4
Eggs	55	37	29	145	57	39	16.3	6.4	7.4	5.8	5.3	3.3
Butter	11	1	13	66	4	32	7.4	0.4	6.0	2.6	0.4	2.7
Meat: fresh, frozen, salted	29	5	20	69	6	30	7.7	0.7	5.7	2.8	0.6	2.5
Rye	7	219	108	3	35	16	0.3	3.9	3.0	0.1	3.2	1.4
Peas, beans	67	49	38	43	15	13	4.8	1.7	2.5	1.7	1.4	1.1
Sugar	186	185	85	102	34	13	11.4	5.8	2.5	4.1	3.1	1.1
Coal	12,863	10,223	11,669	363	210	217	40.7	23.5	40.9	14.5	19.4	18.3
Timber and products	4,888	1,043	1,688	589	119	201	66.0	13.3	37.9	23.5	11.0	17.0
Iron and steel	32	54	157	10	15	36	1.1	1.7	6.8	0.4	1.4	3.0
Zinc and zinc dust	133	78	63	144	36	26	16.1	4.0	4.9	5.7	3.3	2.2
Iron and steel tubes	58	21	35	35	14	17	3.9	1.6	3.2	1.4	1.3	1.4
Iron and steel sheets	36	19	43	22	9	14	2.5	1.0	2.6	0.9	0.8	1.2
Rails	26	42	39	8	10	10	0.9	1.1	1.9	0.3	0.9	0.8
Textiles, clothing	9	6	5	70	41	23	7.8	4.6	4.3	2.8	3.8	1.9
Yarns, tops	3	5	2	46	36	17	5.2	4.0	3.2	1.8	3.3	1.4
Flax and waste	16	7	11	17	4	15	1.9	0.4	2.8	0.7	0.4	1.3
Seeds	31	27	15	48	28	14	5.4	3.1	2.6	1.9	2.6	1.2
Fertilizer	63	89	122	8	9	12	0.9	1.0	2.3	0.3	0.8	1.0
Other commodities	1,799	1,194	1,179	464	282	262	52.0	31.5	49.4	18.5	26.0	22.1
Total	20,424	13,504	15,597	2,508	1,084	1,185	281.1	121.2	223.5	100.0	100.0	100.0

(Footnotes and source on next page)

- (a) Most important commodities, by value, in 1938, grouped according to the International Classification, Geneva, 1928-1935 League of Nations "Minimum List" and arranged in order of value of these groups in 1938.
- (b) Number of head.
- (c) Conversion rates - Zloty in U.S. cents; 1928 - 11.2097; 1932 - 11.1823; 1938 - 18.860. (Monthly averages of daily buying rates for cable transfers in New York, as given in Federal Reserve Bulletin).

Source: Concise Statistical Year-Book of Poland, September, 1939-June 1941, p. 79, Table 9.

Destination of Exports. Of Poland's main exports, coal went to a number of European countries, with Sweden, Italy, France and Germany the principal purchasers. The United Kingdom was the principal purchaser of timber, taking 45 percent and 37 percent of the total respectively in 1937 and 1938, but Germany and the Netherlands were also substantial purchasers. In 1937 and 1938 the United States, the United Kingdom and Germany were the principal purchasers of foodstuffs: the United States took almost four-fifths of the hams and canned pork; the United Kingdom took practically all the bacon, over 50 percent of the eggs and 75 percent of the butter; and Germany purchased practically all the pigs and the meat. This represents a change over the late 1920's when the United States took no Polish foodstuffs, and Germany and Austria took all the pigs in later years converted into finished products. The iron and steel products were widely distributed, but over half the zinc went to Germany.

Further details for coal and timber are given below:

Destination of Poland's Main Exports

<u>Country of Destination</u>	<u>Million Zloty</u>		<u>Percent of Total</u>	
	<u>1937</u>	<u>1938</u>	<u>1937</u>	<u>1938</u>
<u>Coal</u>				
Sweden	44.2	47.7	24	22
Italy	31.0	37.3	17	17
France	28.0	27.8	15	13
Germany (a)	16.0	20.3	9	9
Czechoslovakia	1.3	10.9	1	5
Norway	5.9	8.2	3	4
Belgium	9.4	6.5	5	3
All others	49.2	58.7	26	27
<u>Total</u>	<u>185.0</u>	<u>217.4</u>	<u>100</u>	<u>100</u>

Timber and Products

United Kingdom	89.2	73.7	45	37
Germany (a)	36.7	50.5	18	25
Netherlands	20.8	24.0	11	12
Belgium	8.6	6.7	4	3
Argentina	5.4	6.0	3	3
All others	38.4	40.1	19	20
<u>Total</u>	<u>199.1</u>	<u>201.0</u>	<u>100</u>	<u>100</u>

(a) Including Austria

Source: Petit Annuaire Statistique de la Pologne, 1939, p. 178.

The Balance of International Payments

Introduction

Poland's international financial position showed such sharp fluctuations under the impact of world-wide economic changes that it can be understood only if the entire period is reviewed in detail.

To facilitate such a review, there is given below a summary table showing the major elements in Poland's balance of payments (in U.S. dollars) for the years from 1923 to 1937. Unfortunately, the data shown are not as complete or accurate as might be desired. "In theory, the deficit or surplus on account of goods, services and gold should agree with the net inward or outward movement of capital. The final balance that, in practice, occurs represents errors and omissions. In certain cases," unfortunately, "the discrepancy is so large that no deductions with regard to the magnitude of the capital movement can be drawn safely." ^{1/}

^{1/} League of Nations - Balances of Payments, 1937, Geneva, 1938, p. 10.

Poland's Balance of International Payments, 1923-1938

(in millions of dollars) ^(a)

Current Account: Goods, Services and Gold

Capital Movements

Year	Current Account: Goods, Services and Gold					Capital Movements			Unexplained Balance due to errors and omissions
	Merchandise (b)	Interest and Dividends(c)	Other Services(d)	Gold(e)	Total	Long-term(f)	Short-term(f)	Total(f)	
1923	+ 14.8	- 4.2	+ 13.5	- 4.5	+ 19.6	+ 3.8	+ 20.0	+ 23.8	+ 43.4
1924	- 51.7	- 12.7	+ 24.2	- 2.7	- 42.9	+ 18.4	+ 9.1	+ 27.5	- 15.4
1925	- 122.9	- 13.2	+ 20.9	- 10.6	- 125.8	+ 49.7	+ 68.8	+ 118.5	- 7.3
1926	+ 89.9	- 18.9	+ 19.8	+ 0.03	+ 90.8	- 4.9	- 15.7	- 20.6	+ 70.2
1927	- 46.8	- 25.8	+ 22.3	- 31.7	- 82.0	+ 61.6	- 4.9	+ 56.7	- 25.3
1928	- 110.8	- 31.9	+ 30.9	- 11.9	- 123.7	+ 29.2	+ 95.3	+ 124.5	+ 0.8
1929	- 51.7	- 42.5	+ 35.9	- 9.1	- 67.4	+ 6.5	+ 59.9	+ 66.4	- 1.0
1930	+ 7.5	- 50.5	+ 24.3	+ 15.8	- 2.9	+ 3.2	- 49.8	- 46.6	- 49.5
1931	+ 28.0	- 46.7	+ 26.8	- 6.8	+ 1.3	+ 11.0	- 11.4	- 0.4	+ 0.9
1932	+ 13.8	- 31.9	+ 23.0	- 1.5	+ 3.4	+ 2.7	- 6.2	- 3.5	- 0.1
1933	+ 14.2	- 30.7	+ 28.1	- 7.1	+ 4.5	- 2.4	- 9.2	- 11.6	- 7.1
1934	+ 33.2	- 31.5	+ 27.3	+ 1.2	+ 30.2	- 12.4	- 9.7	- 22.1	+ 8.1

(Footnotes and Sources on next page)

Table cont'd.

Poland's Balance of International Payments, 1923-1938
(a)
(in millions of dollars)

Year	Current Account: Goods, Services and Gold					Capital Movements			Unexplained Balance due to errors and omissions
	Merchandise (b)	Interest and Dividends (c)	Other Services (d)	Gold (e)	Total	Long-term (f)	Short-term (f)	Total (f)	
1935	+ 12.9	- 27.4	+ 26.3	+ 4.2	+ 16.0	- 5.7	- 14.7	- 20.4	- 4.4
1936 ^(g)	+ 1.0	- 32.4	+ 33.2	+ 3.8	+ 5.6	- 1.7	+ 0.6	- 1.1	+ 4.5
1937 ^(g)	- 15.4	- 33.5	+ 33.0	- 22.9	- 38.8	+ 17.9	+ 13.3	+ 31.2	- 7.6

(a) Converted from figures given in zloty, at the following rates of exchange (in cents per zloty)

1922-1927 - 11.22 (official par value of zloty established on October 23, 1927)

1928 - 11.21)

1929 - 11.194)

1930 - 11.205)

1931 - 11.197)

1932 - 11.182)

1933 - 14.414)

1934 - 18.846)

1935 - 18.882)

1936 - 18.875)

1937 - 18.923)

Source: Various issues of the Federal Reserve Bulletin

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(Footnotes and Sources cont'd.)

Poland's Balance of International Payments, 1923-1938

- (b) Net surplus (+) or deficit (-) of exports over imports. Merchandise imports are entered c.i.f. and merchandise exports f.o.b. Accordingly, the figures for merchandise imports include the payment of import freights to domestic ships. This accounts largely for the difference between these figures and the figures for imports and exports given above in the section on foreign trade which are based on customs returns.
- (c) Net inflow (+) or outflow (-) of interest and dividend payments.
- (d) Net income (+) or deficit (-) from shipping (the whole earnings of the merchant marine from foreign traffic, whether export or import trade); port fees; railway transport fees; reinsurance; post, telegraph and telephone; immigrants' and emigrants' funds and remittances; tourists' expenditure; accounts with Danzig (customs duties), etc.
- (e) Net export (+) or import (-) of gold.
- (f) Net inflow (+) or outflow (-) on account of these operations.
- (g) Not strictly comparable with data for other years, the method of preparing these statements having been altered.

Source: 1923-1935 - League of Nations - Balance of Payments, 1937, Geneva, 1938.
1936-1937 - League of Nations - Balance of Payments, 1938, Geneva, 1939.

The Balance of Payments by Periods of Economic Development

In analyzing the data given in the preceding table, it is helpful to distinguish several clearly apparent periods through which the Polish economy passed in the interwar years: 1923-1926, a period of pronounced currency instability; 1927-1928, the only period of real business prosperity; 1930-1932, a period of sharp business contraction; 1933-1935, a period of business stagnation; and 1936-1937, a period of partial revival. A brief analysis of the balance of payments in all but the first of the periods mentioned is given below; a discussion of the first period is omitted because of the difficulty of arriving at any significant conclusions in view of the prevailing, highly unstable currency values.

1927-1929. From 1927 to 1929, following the de facto stabilization of the currency in 1926, Poland's foreign trade expanded, but its exports fell short of imports by from 50 to 100 million dollars each year. In addition to this substantial negative balance of trade, Poland had to meet the service charges on its foreign debt, the net outflow on this account increasing between 1927 and 1929 from 26 to 42 million dollars a year.

On the other hand, the country had net revenues from services, ranging from 22 to 36 million dollars. These were derived mainly from emigrants' remittances (something over 20 million dollars a year) and revenues from transit trade (something under 20 million dollars a year).

But Poland's major source of revenue for financing its deficit on current account was imported capital. Although errors and omissions in the basic data make it difficult to

determine the precise magnitude of this capital inflow, it was at least 60 million dollars in the lowest year (1927) and exceeded 125 millions in the peak year (1928). Unfortunately, long-term investments bulked large only in 1927, when the Government received the proceeds of a stabilization loan of 72 million dollars, 62 million of which were raised in the United States. In 1928 and 1929, the bulk of the capital inflow that enabled Poland to finance the import surplus was in the form of short-term credits granted to Polish business enterprises and banks, and of merchandise credits. These credits could be and were, in fact, withdrawn with the onset of the depression.

1930-1932. The immediate effects of the depression on Poland's international position were two-fold: a drastic decline in exports and a reduction in outstanding credits. Exports fell from 310 to 118 million dollars between 1929 and 1932. As to credits, in spite of the (small) net inflow of long-term capital, there was a sizable reduction in outstanding credit in 1930, as a result of a substantial withdrawal of credits on short-term.

At the same time, Poland had to continue to meet its substantial interest and dividend charges. In 1930, these amounted to 50 million dollars. Although the service charges were reduced sharply in 1932 as a result of the Hoover moratorium, they nevertheless amounted to 32 million dollars in that year. The offsetting revenues from other sources - shipping, the transit trade and emigrants' remittances - fell off sharply during this period.

The continuance of interest payments and of the outflow of

capital were the result of a deliberate choice on the part of the Polish Government. Confronted by sharply curtailed exports and a cessation of imports of capital, Poland could have chosen to repudiate its debt or to devalue its currency. It chose instead to follow the path of financial orthodoxy and was compelled, therefore, to reduce imports by an amount greater than the decline in exports since an import surplus could no longer be financed.

To achieve this reduction in imports, Poland increased its import duties on grains and fats in March 1931 and in the same year raised its customs-handling tax from 10 to 20 percent of the duty. On December 29, 1931, a decree was promulgated requiring permits for all imports and providing "that the government would exercise its permit granting authority to see to it that no non-essential imports entered the country. As a result, a virtual embargo was placed on imports of cereals, flour, starch, macaroni, vegetables, fruits, certain vegetable oils, condensed milk, many manufactured goods, and other items. Subsequently, the list of 'non-essentials' was amended, and it was provided that the quotas of the articles on the list could be imported if Poland had a favorable balance of trade with the country of origin." ^{1/}

The Polish Government's efforts succeeded at least in this period; it was able to reduce imports drastically enough (from a peak value of 390 million dollars in 1928 to 104 millions in 1932) to achieve a small favorable balance of trade in each of the three years 1930-1932.

^{1/} Raymond Leslie Buell: Poland: Key to Europe, New York, 1939, pp. 135-136.

1933-1935. Although business conditions in other parts of the world began to improve in 1933, stagnation continued in Poland and its external financial position continued to be extremely difficult. In terms of zloty, foreign trade continued to decline, although the devaluation of the dollar in 1933 resulted in an increase in the dollar value of exports from their low point in 1932.

But since Poland continued, in the main, to follow the path of financial orthodoxy, everything else in the situation remained unchanged. There was an outflow of capital during these three years even more substantial than in 1931 and 1932 (some 12 million dollars in 1933 and something over 20 millions in 1934 and 1935). With respect to long-term capital, this was the result of a reduced inflow of new capital while Poland continued to amortize its foreign debts. With respect to short-term capital, it was the result of a continued reduction in the short-term credits of private enterprises.

Interest and dividend charges, which had been reduced by the Hoover moratorium in 1932 remained more or less unchanged at about 30 million dollars in each of the three years. Because of the devaluation of the dollar, however, their value in zloty terms declined.

Revenues from services were a little higher than they had been in 1930-32 in dollar terms, with emigrants' remittances yielding a net revenue of about 20 million dollars and the transit trade a net revenue of another 10 million.

The country continued to be under the necessity of keeping imports to a minimum, and as the figures cited above show, it was able, by maintaining the import controls described above,

to keep imports below exports. By 1935, however, the situation had become so stringent that the government felt it necessary to impose even stricter controls. This it did by adopting a "domestic raw materials program" under which nearly every important foreign agricultural raw material was excluded by restrictive quotas and oil refiners were required to buy domestic oil seed at prices above the world price, while the production of synthetic wool and other materials was encouraged. ^{1/}

1936-1937. By the beginning of 1936, it was apparent that the government's attempts to follow the lines of financial orthodoxy had failed. Although it had been able to continue service on its debt and to permit the free outflow of capital, the price had been continued economic stagnation at home, high prices resulting from the enforced consumption of higher priced domestic products and a flight of capital. By the beginning of 1936, the gold coverage of the currency had fallen to 39 percent, only 9 points above the legal minimum; the army, disturbed by political conditions on the continent, was urging increased expenditure on armaments, while the workers and peasants were agitating for relief from distress. ^{2/}

Confronted by this crisis, the government decided to abandon its orthodox policy. It did not devalue its currency but between April and July 1936 it issued decrees providing for: (1) the introduction of exchange controls, all transfers of currency being left to the discretion of an Exchange Committee; (2) a strict control of all imports and exports; and

^{1/} Buell, op. cit. p. 136.
^{2/} Buell, op. cit. p. 137.

(3) a suspension of payments on its foreign debt. In addition, it developed the use of clearing agreements so as more nearly to balance imports by exports with each country concerned. Finally, it reduced its foreign obligations by going into default. In April 1937, Parliament passed a law authorizing the conversion and exchange of the external obligations of the government into 4.5 percent state zloty bonds (most foreign obligations had carried interest rates of from 6-8 percent). The Government then proceeded to conclude refunding agreements with foreign creditors, cutting down interest payments and resuming debt payments in foreign currency upon the new basis.^{1/}

The immediate result was a cessation of the outflow of capital in 1936 and a substantial net inflow in 1937. At the same time, improved conditions in Poland's markets generally, and a trade treaty negotiated with Germany in 1937, resulted in an increase in Polish exports from 176 million dollars in 1935 to 195 millions in 1936 and 226 millions in 1937. Revenues from services were about 33 million dollars. Thus Poland was able to finance the service charges on its debt and to increase its imports in 1936. In 1937, with a net capital inflow of something over 30 million dollars, it was able to finance an import surplus and to increase its imports to 240 million dollars.

The Balance of Payments for 1937

A detailed balance of payments for 1937, the last year for which a complete balance is available, is shown below.

^{1/} Buell, cf. cit., pp. 137-138.

Poland's Balance of International Payments, 1937

(in millions of dollars) (a)

	Exports and in- ward movement of funds	Imports and out- ward movement of funds	Net inward (+) or outward (-) movements
<u>Current items</u>			
I. <u>Merchandise</u>	226.3	241.7	- 15.4
II. <u>Interest and dividends</u>			
Public debt	0.7	8.1	
Private debt	0.9	27.0	
Total interest and dividends	1.6	35.1	- 33.5
III. <u>Other Services</u>			
Shipping	10.1	-	+ 10.1
Railways	16.1	1.8	+ 14.3
Immigrants' and emigrants' remittances	23.5	3.1	+ 20.4
Tourists' expenditure	5.7	14.5	- 8.8
Other items	10.2	13.2	- 3.0
Total, other services	65.6	32.6	+ 33.0
IV. <u>Gold coin and bullion</u>	2.5	25.4	- 22.9
<u>Total current items</u>	<u>296.0</u>	<u>334.8</u>	<u>- 38.8</u>
<u>Capital items</u>			
I. <u>Long-term operations</u>			
Amortization		6.5	
Purchases and sales	2.2	6.5	
New capital issues			
(a) Government and municipal loans	22.4	-	
(b) Other loans and shares	2.7	-	
Other Long-term Transactions	11.2	7.6	
Total, long-term operations	38.5	20.6	+ 17.9

(Footnotes and Sources on next page)

Table cont'd.

Poland's Balance of International Payments, 1937

(a)

(in millions of dollars)

	Exports and in- ward movement of funds	Imports and out- ward movement of funds	Net inward (+) or outward (-) movements
<u>Capital items (Cont'd.)</u>			
<u>II. Short-term operations</u>			
Change in Government credits	1.8	3.2	
Change in credits of enterprises	45.5	44.2	
Change in banking credits	0.9	5.2	
Change in foreign currency holdings of Bank of Poland (net)	-	1.2	
Change in credits on account of reinsurance	28.0	27.4	
Change in merchandise credits and clearing accounts (net)	(f) 14.1	(g) 2.7	
Change in credits on account of "invisible" exports or imports (net)	(g) <u>7.1</u>	(f) <u>0.1</u>	
Total short-term operations	97.4	84.1	+13.3
<u>Total capital items</u>	<u>135.9</u>	<u>104.7</u>	<u>+31.2</u>
<u>All items</u>	431.9	439.5	- 7.6 (h)

(a) Converted from zloty at the rate of one zloty equals 18.923 cents.

(b) Merchandise exports, f.o.b.

(c) Merchandise imports, c.i.f. - i.e. includes payments of import freights to domestic ships.

(d) Interest received on account of frozen credits in Germany of the Polish State Railways.

(e) Includes payment of import freights to domestic ships.

(f) Net change in debts.

(g) Net change in assets.

(h) This balance is due to errors and omissions.