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# SOME ECONOMIC PROBLEMS OF POLAND

by

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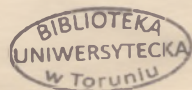
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*Dr. L. Baranski.*

In this brief survey I cannot hope to give a complete picture or even an adequate summary of all the main economic problems which Poland had to tackle before the war, or which she will have to face as the result of the present war and the years of enemy occupation. So I shall confine my task to reviewing the chief characteristics of the Polish economic system, of its growth and trends of development, so as to give a general idea of the place which Poland occupied in European economy.

First, it must be borne in mind that Poland's economic potential was smaller by comparison with that of Western European countries than was warranted by her size and her population. With a pre-war population of 35 millions, the country's accumulated capital investments amounted to about one-seventh of those of Great Britain. Like other Central European countries, Poland suffered from under-investment, though of course not to such an extent as, for instance, the Balkan countries. It is important to understand that capital investments were very unevenly distributed over the country. I may say that, roughly speaking, our provinces to the East and the South of the Vistula were under-developed. On the other hand, the area West of the Vistula, comprising all Western and most of Central Poland, was much more favourably placed. These differences and contrasts can best be visualised by

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comparing the intensive and highly industrialized economic life of Silesia with the almost primitive economy of Polesie. These variations were due largely to natural conditions, but also to the different economic and political systems and economic policies enforced in Poland during the Partitions. These systems did the greatest possible harm to the economic progress of the country.

The density of the population in the various parts of Poland does not correspond with the intensity of their economic development, and this fact is a very anomalous feature of Polish life. The greatest anomaly of all was the inadequate development of industry in Southern Poland, which had the densest population, whilst the nature of its soil militated against any further development of agriculture. I shall refer to this matter again in my conclusions regarding future economic policy.

After these few general remarks I should like to draw your attention to the key problems of the chief spheres of our economic life.

### 1. Agriculture

About 60 per cent of Poland's population derived their livelihood from agriculture. This is a very high percentage, especially when it is borne in mind that as a rule it does not exceed one-third of the total population even in those countries which are regarded as centres of highly efficient agricultural production. An equal percentage of people deriving their livelihood from agriculture is found, for instance, in Denmark and New Zealand.

In Poland the land belongs mostly to small farmers, whose holdings are rarely larger than ten hectares (25 acres). Only 18 per cent of the total arable and pasture

land was in the hands of landowners, *i.e.*, people owning fifty hectares (125 acres) or more.

The small farmers, or, to use the term generally adopted, the peasants, owned their land; the tenant system was almost unknown. This was good to the extent that the peasant was economically independent, and did not have to deal with a landowner. But this system of freehold ownership also had its drawbacks, *i.e.*, it rendered possible the division of the land by inheritance into increasingly smaller holdings. In Western and Central Poland this parcellation of the land had not proceeded as far as in Southern Poland, which was the classic area of undersized holdings. In this area the farmers could not live by agriculture alone, they had either to take up home handicrafts or look for seasoned work in other parts of the country or even abroad. It was estimated that out of a total of 20 million people who depended on agriculture for their existence, over five million were "unnecessary," that is to say, they could have been transferred to other jobs without causing any decline in normal agricultural production. As this figure of five millions is obtained by calculating not only the breadwinner but all his family, it means that Poland had an untapped reserve of labour power consisting of about two million able-bodied adults. The employment of this reserve of manpower was always taken as the starting point in all plans for the development of Poland's resources. During the German occupation, it is from this reserve that the Germans have drawn the larger proportion of the two million Polish workers whom they have forcibly transferred to Germany.

The quality of the Polish soil and the density of the agricultural population make large-scale grain production unprofitable. Poland is best suited to the growing of root-crops and the intensive breeding of cattle and pigs. Small

peasant holdings are better adapted to this type of production than are large estates; and for this reason the agrarian reform, *i.e.*, the parcellation of larger estates into small farms, has not led to any fall in the total value of agricultural production; on the contrary, it has helped to direct that production into more appropriate types. This change has profoundly influenced Polish exports; commodities such as bacon, tinned ham and dairy products were increasingly important items of export. The only grain which had favourable growing conditions and a good export market was barley. On the other hand rye, which hitherto has been the staple crop, will have to be restricted in its acreage.

The development of Polish co-operative societies with high traditions was largely due to the predominance of small holdings and small farmers; these co-operatives in turn helped to raise agriculture to a higher level.

## 2. Industry

Over 20 per cent of Poland's pre-war population derived their livelihood from industry. In Germany the corresponding figures were 38 per cent, and in Yugoslavia 11 per cent. Thus Poland was a medium industrialized country, though rather below the average, if anything. The figure for Poland necessarily takes into consideration both the progressive western area and the backward eastern area. Taking the area west of the Vistula by itself, the proportion of the population deriving a livelihood from industry would rise to about 30 per cent, as the great industrial centres of Silesia, Czestochowa, Lodz and Warsaw all fall within this area. An important feature of Poland's industrial life since her independence was its steady progress and the increasing variety of its industries. Before 1914, the iron and steel industries manufactured

chiefly steel blocks, rails, and building iron; after twenty years, Poland was manufacturing locomotives, electro-technical plant, Diesel engines, and even aeroplanes and A.A. guns. Similarly, the textile industry had developed more varied forms of production and a higher standard of product; it had changed over from the production of low-priced standard textiles for the Eastern market to a highly varied production of better-class material for the home market. However, it had not reached the high standards of the English textile industry, which for this reason did a good export trade with Poland.

The growth of Polish industrial production between the peak year of "prosperity" period (1929) and the spring of 1939 can be judged from the index of industrial activity; taking 1929 as 100, it was 127.4 in 1939, as compared with 135 in Germany, 124.2 in Britain, 92.7 in the U.S.A., and 91.9 in France. Poland's progress was therefore comparatively large.

But in view of the concealed unemployment among rural inhabitants, which I have already mentioned, there was a particularly urgent need for further industrialization. During the last three years before the war this industrialization chiefly took the forms of developing the so-called "Central Industrial Area" (C.O.P.). Though this plan aimed primarily at creating a war industry, it also acted as a kind of regional plan for distressed areas. Our chief distressed area was the already-mentioned southern part of Poland, which had the densest population and the lowest proportion of industry, the latter circumstance being the result of historical rather than natural conditions; it has largely to be attributed to Austrian governmental policy in Galicia prior to 1914.

The industrialization of the Central Area provided the basis for a very significant discussion of the relative

functions of public and private initiative and capital in creating and financing new industrial enterprises. However, this discussion was of a rather theoretical nature. In fact, all the armaments works in the C.O.P. were built by the State, but they gave an impetus to the development of a number of private enterprises which probably would never have come into existence at all if the State, acting as a pioneer, had not created suitable conditions for them.

In the Polish factories wages, labour conditions and social services were good, and on the whole up to the standard of modern social requirements. Conditions were worse in the small industries and in home handicrafts, where control was more difficult. Of recent years the number of unemployed industrial workers fluctuated between two and three hundred thousand.

The industrial workers were in a relatively good position, because the cost of living was low, this being due to the depressed prices of agricultural produce. On the other hand, there were housing difficulties connected with the rapid growth of the urban population as a result of industrial progress. Between 1921 and 1931 the urban population increased by 31.5 per cent, and the increase continued right down to 1939.

The position of the industrial workers was far better than that of the small farmers. This may be gauged from a comparison between the value of their respective actual consumption. In 1929, the industrial worker's consumption amounted to 265 zlotys per family per month, whereas that of the small farmer's family was 175 zlotys. These figures are approximately equal to six pounds and four pounds sterling. They show all the urgent necessity to transfer part of the Polish population from agriculture to industry. At present the agricultural population is three times as large as the industrial population; the aim should be to achieve parity between the two.

### 3. Trade

In 1938 Poland's foreign trade was valued at £96,000,000. In the same year the value of Britain's foreign trade was £1,329,000,000, and that of Soviet Russia was £107,000,000. Poland's foreign trade was small by comparison with that of the wealthy countries which account for a large proportion of world trade. But the comparison between Polish figures and those for Soviet Russia, which has a population five times as large, clearly reveals the gulf between her and the countries where the economic system is based on autarky. Poland's trade with Great Britain was valued at £14,100,000, while Britain's trade with Germany amounted to £51,700,000. After allowing for Germany's larger population, it will be seen that Britain's trade with Germany was almost twice as high as with Poland. This confirms the fact that trade between highly industrialized countries is always larger than that between a highly and an under-industrialized country, even though the latter's economy may seem to be more complementary to that of the former, and notwithstanding that Germany was moving more and more in the direction of autarky and restrictions on imports. It is obvious, therefore, that the industrialization of Poland would not lead to any reduction in her trade with the rest of the world, but, on the contrary, would open up a larger market in Poland for imported goods.

Unlike Hungary and the Balkan countries, Poland managed to avoid dependence on Germany in regard to her foreign trade. During the last three years before the war Germany's share in Poland's foreign trade amounted to 17.6 per cent, while Britain's share was 15.7 per cent and that of the United States, 9.4 per cent. In 1924 Germany accounted for a much larger share of Poland's foreign trade, and the reduction of Germany's proportion

was the direct result of Polish policy, which deliberately aimed at developing her foreign trade primarily for overseas markets. In 1938, 62.7 per cent of all Poland's foreign trade was seaborne. This policy was symbolized in the creation of the city and port of Gdynia.

Within the short period of fifteen years Poland had developed an enormous interest in the sea. Gdynia was regarded almost as a national shrine. Every year large numbers of people, consisting of all classes, including peasants from the poorer provinces, went on excursions to the port—an eloquent proof of the enthusiastic interest shown by the people. Another form of proof was the large number of business firms which opened offices in Gdynia, despite the political risk involved; in less than twenty years the place grew from a small fishing settlement into a town of more than 100,000 inhabitants. Port installations were also developed and modernized in Danzig, and the two ports served not only Poland, but also handled a substantial part of Czechoslovakia's foreign trade. From Gdynia shipping lines and railway communications ran to all the most important trading centres of the world, including those of the Far East.

Another practical expression of Poland's interest in the sea was the creation of the Polish merchant navy, which carried some 10 per cent of the country's exports and imports. Though small, it is today taking part in the Allied war effort, as most of the vessels succeeded in escaping from the Baltic before the Germans marched into Poland.

#### 4. Finances

Poland's progress was hampered by monetary and financial difficulties all through the twenty years of her independence. After the inflationary tendencies had been overcome and the currency definitely stabilized in 1927,

there was no longer the lack of confidence in the national currency and banking system which had been characteristic of the early years of independence. On the other hand, money remained scarce and dear, and this greatly handicapped all programmes for investment. How high the money rate was can be judged from the fact that the income from mortgage investments was between  $7\frac{1}{2}$  and 8 per cent, whereas in Western Europe it never exceeded 4 per cent. Current banking accounts bore interest at 3 per cent, whereas in Western Europe current accounts frequently yield no interest at all. This dear money position was the result of monetary policy, especially during the economic depression. Essentially a deflationary policy, it aimed at maintaining the zloty's gold parity, avoiding exchange control, and continuing the service of Poland's foreign debts and other commitments. This task proved too onerous, even though prices fell by 48 per cent, in other words, measured by the price level the zloty doubled in value. In 1936 exchange control had to be imposed, and the servicing of foreign debts was temporarily suspended. This occurred at a time when even high interest rates could no longer prevent the flight of capital abroad through fear of international political developments.

The monetary policy described above as deflationary was inspired by a strictly orthodox financial doctrine, which in turn was adopted largely as the result of the disastrous experiences of the inflationary period. The policy was supported not only by the masses of small savers, but even by the business and banking circles, whose interest would rather have been served by a devalorization of the Polish zloty to bring it down to the level of other national currencies.

The high rates prevailing on the money market forced the State to intervene in the financing of the investment

plan, partly by granting special credits below the market rate, and partly by directly assuming responsibility for some of the cost of new credits. The policy of dear money and maintenance of the gold parity at which the currency was stabilized in 1927 bore fruits, as the country had absolute and unshakable confidence in the currency. But it also caused prices to continue to fall until 1936, and a marked economic recovery set in only after that year. One permanent change brought about by this policy was a great increase in the part played by the State in the sphere of credit. The State banks grew immensely in importance, by comparison with the joint stock and private banks, which, incidentally, were too numerous and therefore too weak. The State also controlled practically all the public's savings, using them for financing the public investment plan, especially for the development of transport and for new industries in the Central Industrial Area. Only residential building was financed mainly by private capital, which enjoyed certain taxation reliefs in this sphere. The total amount of new capital investments (gross) in Poland was estimated at some 1,800 million zlotys (£72,000,000) during the last year before the war. Of this sum, about 1,100 million zlotys (£44,000,000) was financed through State channels.

### 5. The Situation Under the German Occupation

Such was the economic situation in Poland at the outbreak of the war. The subsequent German occupation at first covered one-half of the country, the other half being under the Soviet regime. But since the early summer of 1941 the whole of Poland has been under German occupation.

The first result of the occupation was the complete disintegration of Poland's economic unity. Western

Poland, covering an area of 95,000 sq. klm. (24.4 per cent of the total pre-war Polish territory) and with a population of 10½ million people, was "incorporated" with the Reich. The Germans turned Central and South-Eastern Poland into a separate administrative unit, the so-called "General-Gouvernement," which had an area of 146,000 sq. klm. and a population of 17,000,000. The "General-Gouvernement" also is under a German administration, but in the form of a separate economic and customs area.

Eastern Poland forms part of the area which the Germans have called "Ostland," and is under yet another distinct German administration.

Western Poland, "incorporated" with the Reich, is, from the economic aspect, the most valuable and the most highly industrialized part of Poland. And in this area agriculture also is most progressive and efficient. The industrial centres of Silesia and Lodz are situated in this part of Poland. The economic policy pursued in Western Poland is the same as in Germany proper, with the reservation, of course, that this applies only to enterprises and not to their owners. The Germans treated the latter in a most ruthless fashion. All Polish property, including peasant holdings, in this purely Polish land, was declared to belong to the Reich. The Poles were degraded to the role of labourers on the land or in industries which they had previously owned. Between 1½ and 2 million people were forcibly deported to the "General Gouvernement." This led to a serious shortage of man-power. The problem was partly solved by settling Germans repatriated from the Baltic countries and Rumania, but the influx from these sources was inadequate. So the Germans resorted to the concentration of works and enterprises. This process was carried out ruthlessly, for instance, in the textile industry 90 per cent of the mills were shut down and the entire production was concentrated in the

large works which previously constituted only 10 per cent of the total number of textile mills. A similar concentration was carried out on a big scale among commercial firms. Even the small peasant farm holdings were amalgamated into larger farms, on which German colonists were settled.

In spite of the intense Germanization, in both Poznan and Lodz, the Polish inhabitants were in the majority as late as 1941. From Gdynia most of the Poles were deported; the town now has a population of only some 20,000; the harbour has been turned into a naval base and is no longer of any economic importance.

In Western Poland Germany has developed her war industry. In Silesia synthetic petrol works have been built. The attempt to increase Silesian coal output has ended in failure, but the Germans succeeded in increasing steel production.

In the "General Gouvernement," the Polish owners of land or enterprises are in a somewhat better position than their brothers in Western Poland, though even here property is often confiscated or at least its administration placed in German hands.

The "General Gouvernement" is divided from Western Poland and the Reich by a customs frontier, and it has a separate Bank of Issue which was founded by the Germans to replace the Bank of Poland.

The area includes the industrial district of Warsaw, and the Central Industrial Region. The armaments works founded in Poland during the last few years before the war are now working for Germany and, of course, all their administrative and other key positions are filled by Germans. This industry is now mainly manufacturing armaments parts (the same being true of all the industries in Poland) and has no independent production of its own.

Agriculture is suffering from a serious decline in livestock, and from lack of fertilizers, with the result that production has fallen greatly.

There are many symptoms of inflation in the "General Gouvernement" today, and prices on the black market have risen steeply. A large part of the population is engaged in retail trade, and despite the elimination of all Jews from trade and commerce there has been no decline in the volume of retail trade.

On the whole, German economic policy in the "General Gouvernement" can be summarized thus: the position of the Poles as owners of enterprises is somewhat better than that of those in Western Poland, but from the economic aspect the area as a whole is undoubtedly worse treated. There is obvious neglect of the country's economic resources, though from time to time the Germans seek to conceal this fact with statements indicating alleged economic achievements, such as the construction of a dam across the river Dunajec (which was in fact almost completed by Poland prior to the outbreak of war); the construction of a great concrete highway from Warsaw to Cracow (of which only a few dozen miles remained unfinished at the outbreak of war) and even by such stupid reports as the plan to use the Tatra lakes for the purposes of electrification.

## 6. The Future Outlook

What influence will the economic regime, imposed by the German occupying authorities, have on Polish post-war problems? In the first place, it must be stated that, provided no further devastation occurs, the problems of reconstruction will be much easier to solve this time than they were after the last war. Apart from the destruction of Warsaw during the siege, industry and agriculture as



a whole have not suffered devastation and ruin to the same extent as in 1914/18. So there is reason for hope that the reconstruction of Poland, especially with the aid of the United Nations and given German reparations in kind, which were not forthcoming after the last war, may proceed more rapidly than before. Then the reconstruction period lasted over some seven years; today estimates give it as three years in industry, and four years in agriculture.

After the war Poland will be faced with the very difficult problem of the adaptation of her industry to peace-time production. As has been said, Germany is not treating Polish industry as an independent element, but as an integral part of the entire German economic system. Polish industry is being equipped with machinery not in order to turn out finished articles, but only to make components, such as are necessary to German war production. (The same problem will arise in a number of other German-occupied countries.) A special effort will be required in order to adapt industrial production to peace requirements as quickly as possible, if the crisis which may threaten Polish industry after the war is to be forestalled.

## 7. The Future Programme

In answer to the question of the problems Poland will have to face after the United Nations have won the war, one can say that on the whole they will be the same that she has had to face in the past. There is only one doubtful factor: it is difficult to say whether the reserve of surplus labour power will not be depleted by the loss of life during the war. Poland's losses in terms of human life are, indeed, very high, but, on the other hand, the economic concentration which Germany has carried out may even prove to be of positive benefit in certain regards, and so the amount of labour power available may prove sufficient.

The main problem, namely, a rise in the people's living standards, will still have to be tackled.

In 1939 the per capita income in Poland was about three times as high as in China, but was three times as low as in Germany. The aim would be at least to double this per capita income within a generation. This will call for an immense effort in the field of investments: within some thirty years about £4,000,000,000 will have to be spent on investments. The greater part of this sum will have to be found from internal resources, *i.e.*, from savings, but foreign aid also will be absolutely necessary, especially at first, when the savings capacity of the devastated country will be very restricted. The sums required in the form of foreign aid will, of course, be relatively high, but it should be remembered that, according to present estimates, they will amount to only about half the credits obtained by Germany after the last war.

Foreign aid in kind, especially in the form of machinery and industrial installations, will be particularly necessary. This aid will not entail any economic sacrifice for the creditor countries but, on the contrary, will contribute to the solution of their own employment and production problems.

In all her attempts to achieve substantial economic progress Poland must rely on two factors. The first is genuine and complete security, and the second, full international co-operation in the economic sphere. Poland cannot develop her economy if autarkic systems prevail in the rest of the world. Her economic life suffered greatly from these autarkic tendencies during the years of economic depression. We hope that today all the countries sincerely concerned with social prosperity all over the world, and not with aggressive domination, are fully aware of the injurious effects of closed economic systems.

The expansion of Polish economic life will be closely bound up with the settlement of the economic problems of the other countries in East-Central Europe, whose situation is in many respects like that of Poland. The principles of co-operation, united action and joint economic planning for all the countries situated between Russia and Germany (the beginnings of which can be seen in the agreements between Poland and Czechoslovakia, and Yugoslavia and Greece) will have to be extended. Only then will a situation develop in which Polish economic life can find its proper place in the world, and in which it will be able to advance and make progress in the interests not only of her own citizens' prosperity but also in those of a harmonious world economic system. This task will call for great effort and a tremendous amount of good will, but the results may within a short time compensate for the injuries inflicted upon Poland during the last 150 years.

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