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SOME PROBLEMS OF THE CAPITAL FORMATION AND INVESTMENT IN THE CAPITALIST SOCIETIES OF EAST-CENTRAL EUROPE

Many contemporary historians consider East-Central Europe to be a region with some distinct common features.¹ These allow us to discuss jointly the past and present development of the countries there existing, at least in modern times. One of the most important questions of the economic history is the trend of investments. The well-known Hungarian scholar Ivan T. Berend has made lately—using his own words—“the very first attempt to summarize some of the main peculiarities of East-Central European investment strategy during the modern capitalist development.” His short paper, presented to the Sixth International Congress of the Economic History and published in a book, gives a very interesting picture of the investigated area and at the same time provokes us to make some remarks and to add some more suppositions.²

I. THE TREND OF THE NATIONAL INCOME

1. All investigations of a national income have to overpass the barrier of statistics. Inadequate statistical data constitute one of the most difficult problems, which have to be solved by each economist or historian carrying inquiries. At the same time this

¹ See T. Jędruszcak, *Europa środkowa w przededniu II wojny światowej (1933—1939)* [*Central Europe on the Eve of World War II, 1933—1939*], “Dzieje Najnowsze,” 1971, No. 1—2, pp. 5—6.

² I. T. Berend, *Investment Strategy in East-Central Europe*, in: *The Rise of Managerial Capitalism*, ed. by H. Daems and H. Van der Wee, Louvain-The Hague 1974, p. 170. In this paper I present—with some minor changes—the so called expert comments, which were prepared for the Congress of the Economic History in Copenhagen as an introduction to the discussion.

is the weak point of all studies concerning a national income, especially covering the period before World War I.

Professor Berend quotes some figures, illustrating the amount and distribution of the national income in East-Central Europe. Alas, the quality of the basic statistical material being in disposition is very low. It is so in the case of inter-war period, for which there were various estimations in all European countries. Any calculation concerning 19th century is much more difficult.

Various estimations of the national income in Poland between the wars are gathered in an article by Z. Landau.³ The differences between figures quoted there are very instructive. In the years 1923—1925 there were estimations ranging from 8.3 to 24.8 thous. mill. zlotys (gold standard 1927); in the year 1933—from 8.9 to 15.0 thous. mill. zlotys. Even the trends calculated by various authors differed greatly, so on the basis of their estimations we can easily prove quite dissimilar theses. I do not know which of the available data are the “better” one, the most probable.

The historian studying the national income in other countries meets similar difficulties. If in a case he does not find many different figures, this is only due to the fact that the statistical investigations were not developed in this particular country. The scarcity of informations does not mean that the figures are exact. We can suppose rather, that such estimations of the national income are based mainly on *a priori* assumptions or on indirect data.

Therefore it would be necessary to discuss the methods and results of all estimations for various countries, to decide which figures are the best ones, and which of them have been elaborated in the similar manner, so that it would be possible and reasonable for us to compare them. I doubt, whether this task can be done with necessary accuracy—at least on the present stage of investigations.

First of all we have no data concerning a great part of production, delivered by small enterprises. Professor Berend is right in his description of the great role played by the small non-agricul-

³ Z. Landau, *Badania nad dochodem narodowym II Rzeczypospolitej i ich przydatność do analiz historyczno-gospodarczych* [Investigations on the National Income of the Second Republic and their use in Historical and Economical Analysis], “Przegląd Historyczny,” 1973, No. 3, pp. 544—545.

tural plants in East-Central Europe. But no one country has organized scrupulous and regular statistical inquiry of the production and income in this sector of the national economy. Moreover, we have at our disposal only some rather approximate data about the agricultural production. We ought to remember, that many peasant farms produced—for their own needs—various non-agricultural products (clothes, furniture, etc.). It was impossible to establish the value of particular products in some regions: they were not for sale and had no price. This question has some other consequences and I will discuss them in the second part of my remarks. The last problem is the trouble with the exact estimation of the industrial production index and value.

Taking all this under consideration I ought to express serious doubts as to the figures concerning the national income and its distribution quoted by Professor Berend.

2. An additional question is whether the average figures of the national income and investments estimated for the whole inter-war period are adequate to the real economic situation of these years. The author informs us, that the yearly increase in national income after World War I dropped to 1—2 per cent.⁴ Next he gives the figures of the national income per capita in the investigated countries and the level of accumulation.

I doubt, if all these figures are sufficient for the analysis and comparison of the trends in the national income and the capital formation. The national income can be expressed in monetary units on the basis of current prices. Such an estimation gives us the information about the business cycles, but not about the changes in the national wealth and product. Another method at our disposition is the use of fixed prices. But what prices we ought to choose? The 1928 price structure was quite different from the 1933 or 1938 one, and the results of our calculation would differ in all cases. From the point of view of statistical theory each of these bases is right.

A special problem is connected with the export premiums awarded in all countries. These premiums made the export pos-

⁴ I. T. Berend, *op. cit.*, pp. 182—183.

sible in spite of the foreign tariff barriers and in spite of the very low prices on international markets. When we estimate the national income of any country using its internal price level, we can appreciate the national income which has been produced. But some part of products was in fact sold at much lower prices, when exported. So the national income left in the country, used for consumption or accumulation, was somewhat lower.

All these problems complicate the investigations of the national income and make its strict estimation impossible. The figures can be only approximate and the possible bias—significant.

3. Trying to evaluate the trends described in the discussed paper it is necessary to analyse the evolution of industrial and agricultural production, which are the main factors influencing the national income. By any means it is not an easy task because of the inadequacy of inter-war statistics.

For Bulgaria, Czechoslovakia, Hungary, Poland and Roumania the indexes of industrial production can be set together. In almost all cases there exist a few different indexes. The Table 1 comprises some of them; in the case of Poland the quoted index is a result of the critical analysis of the two most important ones, calculated before 1939. I do not know any appropriate data for Albania and Yugoslavia.

The Bulgarian index quoted in the table is somewhat different than the other data available for this country. However, those data (not quoted here) also confirm the swift rise of production after 1934. The railway statistics suggests similar conclusion.⁵ Both estimations concerning Czechoslovakia indicate, that the industrial production in 1938 was below the level from before the Great Depression. The data about railway transport are in accordance with this supposition.⁶ All three indexes concerning Roumania allow us to suppose, that the industrial production was

⁵ L. Berov, *Položenieto na rabotničeska klasa v Balgarija pri kapitalizma*, Sofija 1968, pp. 74, 78; *Ikonomikata na Balgarija do socialističeskata revolucija*, Sofija 1969, pp. 539—540, 580; "Annuaire statistique de la Société des Nations," 1939—1940, p. 164; "Statističeski Godišnik na Carstvo Balgarija," 1938, p. 463.

⁶ "Statistická Ročenka Republiky Československé," 1934, p. 115; 1938, p. 127.

Table 1. Indexes of Industrial Production in Some Countries of East-Central Europe 1928—1939

Country	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Bulgaria ^a	·	100	·	104	107	103	98	104	120	143	155	164
Czechoslovakia ^b	·	100	89	81	64	60	67	70	80	97	·	x
Czechoslovakia ^c	103	100	87	77	62	54	60	61	68	79	67	x
Hungary ^d	98	100	95	87	82	88	99	107	118	130	127	151
Hungary ^e	·	100	·	83	76	88	91	·	·	·	114	·
Poland ^f	99	100	85	73	58	62	70	75	82	97	105	x
Roumania ^g	95	100	97	105	82	101	126	124	132	137	133	135
Roumania ^h	·	100	93	80	69	69	74	90	100	·	·	·
Roumania ⁱ	·	100	·	·	·	81	83	90	95	102	99	113

· (a dot) denotes lack of information.

x denotes the nonexistence of data.

Sources: a Z. Natan, *Istoriya ekonomičeskogo razvitija Bolgarii*, Moskva 1961, p. 642.

b "Statistická ročenka ČSSR" 1962, p. 515.

c A. Dobrý, *Zakladní směry vývoje československého průmyslu v letech 1913—1938, a některé otázky sociálně politické*, "Československý časopis historický", 1964, No. 5, p. 741. This estimation was strongly criticized by Czechoslovak historians.

d "Annuaire statistique de la Société des Nations", 1939/40, p. 164.

e I. T. Berend, G. Ránky, *A magyar gazdaság száz éve*, Budapest 1972, pp. 131, 169.

f J. Tomaszewski, *Ogólny wskaźnik produkcji przemysłowej Polski 1928—1938 [General Index of Polish Industrial Production, 1928—1938]*, "Kwartalnik Historyczny," 1965, No. 2, p. 292.

g "Annuaire statistique de la Société des Nations", 1939/40, p. 164.

h C. C. Kiritescu, *Sistemul bănesc al leului și precursorii lui*, vol. II, București 1967, p. 389.

i O. Parpala, *Aspecte din agricultura României (1920—1939)*, București 1966, p. 47.

growing rapidly after the Great Depression. The railway statistics confirms rather the index presented by C. C. Kiritescu (marked in the table with the letter h).⁷ The railway statistics of Hungary does not exclude the significant growth of the industrial production after 1934, though does not fully confirm it.⁸

It would be difficult to discuss here the advantages and deficiencies of all the quoted indexes. However, with all necessary reservations, it seems that we can record two different trends, or rather models of development. The first—that of Czechoslovakia and Poland, where the industrial production in 1938 was similar to that of 1928. The second—that of the other countries, where the industrial production was growing substantially after

⁷ "Anuarul Statistic al României," 1939 și 1940, p. 52.

⁸ "Mały Rocznik Statystyczny," 1939, p. 196.

the Great Depression, reaching in 1938 and 1939 the level much higher than the 1928 one.⁹

4. It is much more difficult to investigate the trends of agricultural production. The difficulties result partly from the non-market character of the agriculture in many regions of East-Central Europe, partly—from the inadequacy of statistical investigations organized in the inter-war period. The basic data were published in the “*Annuaire International de Statistique Agricole*” (Table 2). The information about cattle breeding in most countries is rather approximate and irregular.

In the case of agriculture there were two distinct different types of development too. Bulgaria, Yugoslavia and to some extent Roumania (with the exception of the last decade) represent the growing trend. The growth in Czechoslovakia and Poland was far less evident. Hungary can be placed between these both trends. It is necessary to admit, that the growth of the agricultural production resulted in almost all cases from the cultivation of new lands. A strong growth of the yields per unit area could be observed only in Bulgaria. In other countries (especially in Roumania) only little changes or even a decrease occurred. The growth of the agricultural production in Czechoslovakia and Poland was slower than the increase of population.¹⁰

5. Considering all the above mentioned data it is necessary to remember, that in the countries of East-Central Europe the agriculture was the main branch of the national economy (with the exception of Czechoslovakia). The role of industry in the national product was far less important, especially in the Balkan countries. In Bulgaria, Roumania and Yugoslavia even the swift growth of industry in the late 1930s had not any significant effect on the growth of the national income. Therefore, we may sup-

⁹ J. Tomaszewski, *Gospodarka krajów Europy środkowej i południowo-wschodniej w latach międzywojennych* [The Economy of East-Central Europe during the Inter-War Period], in: *Dyktatury w Europie środkowo-wschodniej 1918—1939*, Wrocław 1973, pp. 79—81.

¹⁰ The trends in agriculture are discussed by Z. Landau, J. Tomaszewski, *Zemědělství států střední a jihovýchodní Evropy v meziválečném období*, in: *K problematice hospodářského vývoje evropských socialistických zemí. Sborník statí*, Praha 1973.

Table 2. Crops of Some Cultivated Plants in East-Central Europe before World War I and in the Inter-War Period

<i>Country and year</i>	<i>Average crop in one year (mln q)</i>		
	<i>cereals</i>	<i>potatoes</i>	<i>sugar beets</i>
<i>Bulgaria</i>			
1914	18.7	0.3	1.9
1922—1926	20.7	0.4	1.8
1929—1934	29.9	0.6	2.7
1934—1938 ^a	29.4	1.0	1.2
<i>Czechoslovakia</i>			
1922—1926	48.7	68.7	70.6
1929—1934	63.2	93.7	49.5
1934—1938	57.9	100.3	46.6 ^b
<i>Hungary</i>			
1911—1915	54.6	19.4	15.0
1922—1926	52.0	17.7	11.7
1929—1933	56.7	18.3	11.7
1934—1938	61.1	21.2	9.6
<i>Poland</i>			
1909—1913	118.0	153.0	.
1923—1926	110.2	281.1	31.7
1929—1933	125.7	303.9	33.4
1934—1938	126.0	350.1	28.1
<i>Roumania</i>			
1909—1913	62.0	.	2.7
1922—1926	90.1	16.0	8.7
1929—1933	117.2	19.4	6.1
1934—1938	103.1	20.2	5.9
<i>Yugoslavia</i>			
1922—1926	35.8	10.4	5.7
1929—1933	70.8	14.1	7.6
1934—1938	80.4	16.3	5.1

a In 1936 there were some changes in the methods of estimation.

b Average for the years 1934—1937.

Source: "Annuaire International de Statistique Agricole," 1923, tab. 41—44, 47, 49—50; 1927—1928, tab. 50, 53, 56, 58—59; 1939, tab. 73—76, 79, 81—83.

pose that the trend of the national income in these countries was similar to that shown by the agricultural production. That means, that Professor Berend is right, when ascertaining the growth of

the national income in general and per capita in the three countries mentioned.¹¹

The same can be said about Hungary. Though the increase of the agricultural production in this country was slower than in the Balkan peninsula, it was compensated for by the increasing industrial production, more important in this case.

At the same time the trends in Czechoslovakia and Poland were far more disadvantageous. The growing trend in agriculture was insignificant, industry rather stagnated. There are even some reasons to say, that in Poland the national income per capita in 1938 was lower than in 1928.¹²

The comparison with the pre-war level is far more difficult. It seems, that while the Balkan countries achieved important progress, at the same time the national income (and production) per capita in Poland diminished.¹³

It has been necessary in these remarks to put aside one very important question: the impact of the Great Depression on the national income and on the industrial production. It is obvious, that the depression strongly inflicted the production and prices. All of the quoted indexes were based on the fixed prices. We investigated therefore not the trend of the value of production, but the changing amount of products delivered in succeeding years.

II. THE ACCUMULATION OF CAPITAL

1. All—or almost all—investigations in the field of national income and its distribution in East-Central Europe are based on one, very important presumption: that the national economy of all investigated countries was homogenous and dominated by the market relations. This can be true for—e.g.—Great Britain. In

¹¹ I. T. Berend, *op. cit.*, pp. 182—183.

¹² Z. Landau, J. Tomaszewski, *Zarys historii gospodarczej Polski 1918—1939* [*The Outline of Economic History of Poland, 1918—1939*], Warszawa 1971, pp. 289—290, 299.

¹³ *Ibidem*; Z. Landau, J. Tomaszewski, *Spoleczno-ekonomiczne problemy państw Europy środkowej i południowo-wschodniej w latach międzywojennych* [*Social and Economic Problems in the Countries of East-Central Europe during the Inter-War Period*], "Człowiek i Światopogląd," 1973, No. 8, pp. 210—211, 218.

the case of inter-war Poland and most of the other East-Central European countries this supposition does not agree with facts.

In an interesting study on the initiation of economic growth, Polish economist J. Kleer has analysed the contemporary underdeveloped countries and distinguished three sectors in their national economy: non-market sector, internal-market sector and exporting sector.¹⁴ He has put forward the following main features of the non-market sector:

- (1) peasant farms have a very limited contact with the market;
- (2) the bulk of their production is used for their own consumption;
- (3) the agricultural methods used in farms are very primitive;
- (4) the crops per area unit are low;
- (5) all these result in rather small possibilities of capital accumulation;
- (6) the non-market sector has surplus of population;
- (7) the persons employed there have only traditional professional training.

A historian interested in the inter-war period knows all these features very well—when he is studying the economy of East-Central Europe. Of course, there were important regional differences concerning, for instance, the agricultural technique, organization of production, state agricultural policy and so on. But the main characteristics of the non-market sector were the same.

There was no country with a precise border line between the market and non-market sectors in the national economy. There existed the peasant farms which used fertilizers, modern tools, sold some part of their production and bought industrial goods. At the same time—in other regions—there were the villages, where kerosene was the luxury and peasants used resinous chips or dried fishes as a source of light. In east regions of Poland there were farms which needed money for taxes and salt only. The peasants lived as their ancestors did.¹⁵ Similar differences were

¹⁴ J. Kleer, *Zapoczątkowanie rozwoju ekonomicznego we współczesnych krajach słabo rozwiniętych* [Initiation of Economic Development in Contemporary Underdeveloped Countries], Warszawa 1962, pp. 118—124.

¹⁵ A case-study of such a region is: J. Tomaszewski, *Z dziejów Polesia 1921—1939. Zarys stosunków społeczno-ekonomicznych* [Selected Prob-

in other investigated countries. The poorer the country, the greater the role of the non-market sector in its national economy. This was connected with the existence of a surplus population in agriculture, often in some branches of non-agricultural professions too.¹⁶

Beginning from 1928 the specific features of the non-market sector were spreading. The Great Depression cut off the farmers' revenues to a minimum level.¹⁷ In Poland even the farmers in the most developed regions resigned from buying fertilizers and agricultural tools, because of the lack of money. The growing discrepancy between the prices of agricultural and industrial goods (so-called scissors of prices) made the situation of peasants even more difficult. We may mention as a symptom of such a situation the fact that in 1933 an agricultural organization in Western Poland organized the training of village smiths in manufacturing modern ploughs: the factory-made ploughs were too expensive and the hand-made ones, rather primitive, were in common use.¹⁸ In other parts of Poland the peasants could not even afford to buy the tools made by village artisans. They used old worn-out ones, or even tools made by themselves.¹⁹

The second sector of the national economy was the market one. The industrial enterprises and—to some extent—the big manors had the main position in it. Unlike the contemporary underdeveloped countries, it would be difficult to distinguish an

lems of History of Polesie, 1921—1939. The Outline of Socio-Economic Conditions], Warszawa 1963. Some interesting informations about Slovakia see: R. Bednárík, *Hmotná kultúra slovenského ľudu*, a chapter in : *Slovenská vlastiveda*, vol. II, Bratislava 1943; J. Húsek, *Hranice mezi zemi moravskoslezskou a Slovenskem. Studie etnografická*, Praha 1932, pp. 153—168, 173—175.

¹⁶ See Z. Landau, J. Tomaszewski, *Zemědělství...*, pp. 7—14. The question of the surplus population in non-agricultural branches was not investigated in most countries. For Poland see: J. Tomaszewski, *Gospodarka drobnotowarowa w Polsce międzywojennej* [*Small Producers Economy in Poland between the Two World Wars*], "Zeszyty Naukowe Szkoły Głównej Planowania i Statystyki," 1959, 15. Some valuable informations about the situation in Bulgaria see: Z. Natan, *Pametni vremena*, Sofija 1970, *passim*.

¹⁷ Z. Landau, *The Polish Countryside in the Years 1929—1935*, "Acta Poloniae Historica," vol. IX, 1963.

¹⁸ s. s., *Postęp gospodarczy* [*Economic Progress*], "Gospodarka Narodowa," 1935, No. 6, p. 95.

¹⁹ Z. Landau, *The Polish Countryside...*, p. 40—44.

independent exporting sector in Poland or in other East-Central European countries before 1939. But this is the minor difference and the main features of the economic structure are in both cases very similar.

The existence of two different economic sectors in Poland has been analysed by Z. Landau, who was interested mainly in the situation of the Polish agriculture.²⁰ Other branches of the national economy in Poland showed the similar features.²¹ I have not read similar studies concerning other East-Central European countries. The information dispersed in various books and articles indicate however, that the situation as that of Poland was not an exception.

Professor Berend confines his analysis to the difference between a big and small-scale business. He is right, when he indicates the vitality—and at the same time retardation—of the latter. The dimensions of enterprise and the scope of its economic activity are but the part of question. The even more important problem results from the differences in economic character of production.

2. The dual structure of the national economy had some important consequences. The non-market character of the agriculture made it impossible for any accurate estimation to be done of the national income produced in this branch of the national economy. The same can be said about agricultural investments. The bulk of production never became an article of trade, being consumed at the farm. It is impossible to establish the money value of home-spun textiles, home-made tools and utensils, manure and so on.²² So we have one more argument that we can not yet elab-

²⁰ Z. Landau, *Polish Village as a Selling Market for Industry in the Period of The Great Depression 1930—1935*, "Studia Historiae Oeconomicae," vol. VII, 1972.

²¹ J. Tomaszewski, *Gospodarka drobnotowarowa...*

²² Such estimations were made in some Polish studies published before 1939. They had a disputable value and can only lead to a conclusion that the peasant farms could not exist if they were conducted on the principles of a capitalist enterprise. See Z. Landau, J. Tomaszewski, *Gospodarka Polski międzywojennej 1918—1939*, vol. II: *Od Grabskiego do Piłsudskiego. Okres kryzysu poinflacyjnego i ożywienie koniunktury 1924—1929* [From Grabski to Piłsudski. Post-Inflation Crisis and Prosperity 1924—1929], Warszawa 1971, pp. 167—169. S. Kuznets says: "[...] it is extremely difficult to identify the contents of this productive performance outside the market sphere; and after its contents have been ascertained, it is even more diffi-

orate the precise analysis of the amount and trend of the national income in the investigated countries. This argument is still more valid in the case of the 19th-century economy.

At the same time we can suppose that the investment capacity of agriculture was rather low. The situation in the second half of the 19th century and at the beginning of 20th century was a little better. The abolition of corvée and liberation of peasants created new conditions, which promoted economic changes in the village. The rapid development of industry in most countries supported the market of agricultural products. Some groups of liberated peasants rapidly transformed themselves into farmers, producing for sale agricultural goods and buying industrial ones. The existence of big manors and peasants' striving for land were the main hindrances for investments. The peasants spent their savings primarily on new parcels, in hope that this would allow them to increase their income. Some investments were made at the big manors, especially in these regions, where the agricultural products' market developed rapidly.²³

After World War I the main problem consisted in the reconstruction of agriculture. Better conditions for agricultural investments existed only at the end of the 1920s because the agricultural prices were growing. The advantageous market conditions lasted but a very short time and only some part of farms received the incomes sufficient for investments. It would be difficult to speak about the accumulation of capital in the non-market sector. The farms were administered in a traditional fashion, the improvements (if any) were the effect of the labour of the peasant and his family, money savings (if any) were spent on land. From the point of view of a single peasant buying some land was a kind of accumulation. In the scale of the whole country this did not change the amount of capital invested in agriculture.

cult to assign values that would put these productive activities on a basis comparable with their counterparts in an industrialized market bound economy." (S. Kuznets, *Economic Change. Selected Essays in Business Cycles, National Income and Economic Growth*, London 1954, pp. 152—153). I have however serious doubts, if the methods of comparison proposed by S. Kuznets can be used with good effects.

²³ It was so in the western regions of Poland which were under the Prussian rule, and in some parts of the Polish Kingdom (under the Russian rule).

The Great Depression, which began in agriculture as early as at the end of 1928, deprived all farms of the possibility of any accumulation. Then the opposite process began: the degradation of farms being on the higher level. The farmers did not have enough money not only for investments, but for the maintenance of the former standard. The decrease in crops per area unit in the regions of high soil culture during the Great Depression is a sufficient proof for the above mentioned trend.²⁴

Of course, the impact of the Great Depression on the accumulation and investments in the non-market sector was rather faint.

Taking into consideration that the unfavourable market conditions in agriculture lasted more than a half of the inter-war period, it seems reasonable to suppose the accumulation in the agriculture to be rather low. This opinion can be supported by the comparison of crops per area unit achieved before World War and in the 1930s. A significant growth can be observed only in Bulgaria, but we ought to remember that in 1914 this country suffered from the consequences of the Balkan wars. In other countries one can only observe some insignificant changes, or even decrease.²⁵

3. It would be proper to ask, if non-agricultural branches of the national economy received any profit from the degradation of agriculture, especially from the very low prices of agricultural goods. Some Polish economists mentioned about the excessive costs of trade, which was the burden weighing over the production. This problem was known in the other East-European countries too. It does not mean, that this resulted in a significant accumulation of capital in trade enterprises at the expense of agriculture. The income reached by the dealers was rather low in average (with the exception of the period of boom). The most part of traders earned scarcely for modest survival. The costs of trade were high because of the backward and primitive trade organiza-

²⁴ J. Orczyk, *Produkcja rolna Polski w latach wielkiego kryzysu gospodarczego (1929—1935)* [*Agricultural Production in Poland during The Great Depression 1929—1935*], Poznań 1971, p. 210.

²⁵ Z. Landau, J. Tomaszewski, *Zemědělství...*, p. 31. Of course, this concerns the average trends. The crops of particular plants in some cases were growing, or—more often—dropping.

tion and equipment. The progress would have been possible only when a part of the trading men could find a job in other branches, and the other have enough money for investments.²⁶

The Great Depression made the situation even worse. The agricultural export required the state premiums to support the internal prices. The most important investments (cool stores, slaughter houses and other) were made with the help of state or communal funds (often using foreign loans).

The question if the industry could take over some part of the national income produced in the agriculture requires some investigation and can not yet be answered. Such an interception of income could be possible as a result of low agricultural prices and relatively high industrial ones. It does not seem however that the discrepancy between those groups of prices had such an effect. During the Great Depression the sale on the internal market fell down remarkably.²⁷ Maybe, the situation changed in some countries after 1934. The customs tariffs and import bans introduced in early 1930s caused that the improvement in business conditions after the Great Depression influenced mainly the sale of country's own industrial goods. The Bulgarian historians for instance note that the industrial production for the internal market was growing in this period, and some new factories were built. The internal market however was under the influence of the above described dual economic structure, the possibilities of sale were limited and in 1937 the first symptoms of stagnation began to occur.²⁸

Agriculture was to some extent a source of accumulation for other branches of national economy, through the State budget. In agricultural countries the taxes (direct and indirect) weighing

²⁶ See for instance: S. M a n d e c k i, *Organizacja zbytu trzody chlewnej w Polsce* [Organization of Pig Trade in Poland], Kraków 1937, pp. 511—513.

²⁷ In Poland—according to some estimations—the consumption of peasants in the years 1929—1933 fell down from 11.0 thous. mill. zł. to 5.4 thous. mill. zł. (the consumption of industrial goods is included in these quotas, it fell down from 2.8 thous. mill. zł. to 1.0 thous. mill. zł.); C. K l a r n e r, *Dochód społeczny wsi i miast w Polsce w okresie przesilenia gospodarczego 1929—1936* [The Social Income of Rural and Urban Population in Poland during the Economic Crisis 1929—1936], Lwów 1937, pp. 26—27.

²⁸ *Ikonomikata na Balgarija...*, Sofija 1969, pp. 556—558, 588.

on the peasants were an important source of revenue. In the 1930s all governments used the budget for investments in industry and transport. Additionally, statutory works imposed on peasants in some countries were used to support railway and road building. It corresponded with the factual situation in the non-market sector: in many cases the people did not have enough money to fulfil their obligations towards the State or local commune and could meet them only in a natural form.²⁹ It would be impossible to estimate all these forms of capital accumulation in money units.

4. The agrarian reforms of the 19th century also created favourable conditions for the development of industry. Internal market, free labour force and—in some countries—foreign markets hastened the accumulation of capital and made new investments possible. The State protectionism had a similar effect. I am not so sure however if State intervention was such a characteristic feature for East-Central Europe only. The protectionism was not an exception, but rather a rule in the early stage of industrial development. Was it not the same policy as that of Cromwell or Colbert? The difference is in time; protectionism of Western countries was a remote past at the end of the 19th century, similar policy of East-Central European governments was the fact of the day at that time but could seem to be an anachronism for many contemporary economists. The difference was in the scope too. It was not dictated however by the special features of East-Central Europe, but resulted from the emergencies of the period: changed in comparison with the 18th century international relations. Western countries had built their industrial strength in an agricultural world. East-Central Europe had to find its place among the industrial powers.

The accumulation of capital before World War I in East-Central Europe was in any case significant and allowed vast funds to be invested in the industry and transport. It is interesting however that relatively many businessmen were engaged in a non-economic activity. Two Bulgarian merchants donated a vast sum which

²⁹ For Poland see: J. Poniałowski, *O sens szarwarku [How to Make the Statutory Work for the Upkeep of Roads and Highways Useful]*, "Gospodarka Narodowa," 1934, 24, pp. 351—352.

made possible to establish the University in Sofia. The biggest financial family of the Kingdom of Poland—Kronenberg—financed schools, cultural institutions and other public affairs. Magnificent buildings were built in Budapest and Prague. Some people seem to become businessmen only because the way to political career was closed to them in the political situation of their nations.³⁰ May be, these peculiar political conditions were the reason that the activity of wealthy financiers — in cooperation with numerous petit bourgeois—was often directed towards aims which were a domain of State in other European countries.

At the same time most of the discussed countries were the provinces of great metropolies in Russia, Germany, Austria-Hungary. The centres of financial life were in capital cities. Warsaw was one of many middle-sized towns near the border of the Russian Empire. Many businessmen gained their basic capital in Warsaw, but subsequently moved to St Petersburg with their funds, depriving the Kingdom of Poland of some part of the accumulated capital.³¹ The same occurred in other countries. Only some people decided to remain in their country in spite of the limited provincial possibilities for an able businessman. So it is difficult to say that the lack of capital resulted from the insufficient accumulation, as Professor Berend is writing.³² There were other reasons too. The migration of capital from the Kingdom of Poland into central parts of Russia, from Czech lands to Vienna and so on was an important fact.

The situation changed after 1918. World War I caused great damages in almost all countries of East-Central Europe. The main task in the post-war years was to restore the ruins. Poland suffered especially great damages, Bulgaria was obliged to pay war reparations, so was Hungary. Czechoslovakia and Poland had to pay so called liberation debts. At the same time the unstable political situation in East-Central Europe caused that many busi-

³⁰ It was so with Leopold Kronenberg, who acted as "minister of finances" during the Polish uprising in 1863, and later met many difficulties when tried to lead the public activity.

³¹ Z. Landau, J. Tomaszewski, *Bank Handlowy w Warszawie S.A. Historia i rozwój 1870—1970* [Trade Bank in Warsaw, Joint Stock Company. History and Development 1870—1970], Warszawa 1970, p. 17.

³² I. T. Berend, *op. cit.*, p. 180.

nessmen did not want to risk their money in investments.³³ In Poland the war caused also the losses of capital invested in government and some private securities (especially issued in Russia). In Czechoslovakia the situation was better and the native big business took over the shares of Czechoslovak companies belonging to the foreign (mainly Viennese) financiers. It was important from the point of view of independent policy of the new Republic, but did not extend the capital engaged in the national economy.³⁴

In the early 1920s the new investments were rather insignificant. The situation became somewhat better with the improvement in economic conditions in Europe after 1925. The short period of prosperity was marked with growing investments. The 1929 slump ended this trend.

The Great Depression caused a rapid growth of the economic role of the State. This was so not only in East-Central Europe, but almost in all capitalist countries. In East-Central Europe the state economic activity had, however, particular importance. The State intervention ought to have replace, to some extent, insufficient private investments. During the Great Depression the governments had to rescue many companies from insolvency, taking over a part of their shares and other assets. In some cases it was necessary to replace foreign capital which had been withdrawn.³⁵ The economic as well as political situation required public investments in new branches.³⁶ In Czechoslovakia and Poland there were some additional causes for the small investments activity of the private companies — the international situation was burdened with the real danger for the both countries.

All these reasons caused that the investments in all investigated countries were smaller in the inter-war period than pre-war.

³³ See: J. Tomaszewski, *Revolucja w Europie środkowej i wschodniej (1917—1919)* [Revolution in East and Central Europe 1917—1919], "Człowiek i Światopogląd," 1974, No. 9, 11.

³⁴ J. Faltus, *Nostrifikácia po I. svetovej vojne ako dôležitý nástroj upevnenia českého finančného kapitálu*, "Politická Ekonomie," 1961, No. 1.

³⁵ *Ikonomikata na Balgarija...*, pp. 562—565; Z. Landau, J. Tomaszewski, *Kapitały obce w Polsce 1918—1939. Materiały i dokumenty* [Foreign Capital in Poland 1918—1939. Studies and Documents], Warszawa 1964, pp. 317—332, 367—372.

³⁶ For instance the Polish COP (*Centralny Okręg Przemysłowy—Central Industrial District*), project, Hungarian Győr project.

There were even years when the amount of capital functioning in the national economy diminished. It was so during the Great Depression, when in some years the investments were below the level of liquidation of worn-out installations and buildings.³⁷

5. It would be difficult to evaluate in numbers the investments in all investigated countries. We can only say that their average level was influenced by the stagnation in agriculture, the dual structure of the national economy, and the exceptional situation during the Great Depression. This is in accordance with Professor Berend's theses.

However, it seems that there were important differences among the investigated countries, especially after 1935. These differences are not appreciated in the discussed paper. Whereas the international situation had a negative influence on the economic life of Czechoslovakia and Poland, the Balkan countries profited to some extent from the developing trade with Germany. The Third Reich looked for raw materials and some agricultural products exported by Bulgaria, Roumania and Yugoslavia; Hungary was in a similar position. The growing export gave an opportunity for some branches of industry and mining to develop, influencing the investments. These positive economic effects were, however, short-lived. In the years of World War II these countries were seriously affected by the economic and political dependence on Nazi Germany.

III. FOREIGN CAPITAL

1. The inflow of foreign capital was another important factor in investments. I cannot agree with the suggestion, that the external sources of accumulation were a specific feature of East-Central Europe.³⁸ The economic development of West European countries in the 18th and 19th century was highly influenced

³⁷ The approximate estimation exists in the case of Poland. According to it in the private sector the invested capital diminished in the years 1932—1935 but this depreciation was surpassed by the state investments. See: *Materiały do badań nad gospodarką Polski [Preliminary Studies for the Investigation of the Polish Economy]*, Part I: 1918—1939, Warszawa 1956, pp. 178—181.

³⁸ I. T. Berend, *op. cit.*, pp. 180, 186.

by the capital gained in the course of colonial expansion. East-Central Europe developed its industry in quite other conditions, when it was impossible to use the same external sources of capital. The only chance was to receive loans and to invite foreign businessmen to invest their capital.

I am not so sure that the absorption capacity of the national economy in the countries of East-Central Europe was so much higher than the internal accumulation, as it is shown by the figures quoted by Professor Berend.³⁹ The figures—as it was said before—are rather not an exact estimation. At the same time in all investigated countries there were many unproductive investments, which I have mentioned in the previous part of these remarks. The common feature of all these investments was that they ought to prove the splendour of the nation, which can built beautiful and luxurious buildings, the wealth and importance of bourgeoisie. One can say that sometimes it was a way of treatment of the inferiority complex. In any case various unproductive investments increased the necessity for foreign capital.

The influence of foreign capital was rather complex. With great interest I have read the passage where Professor Berend says: “while the primitive traditional indestructible handicraft held its position, the most modern large scale forms were coming into existence without having passed through the lengthy paths of Western evolution;”⁴⁰ he connects this structural changes with the expansion of foreign capital. I have observed symptoms of the same trend in Poland which allowed me and Z. Landau to introduce some information about it in our description of the evolution of the Polish national economy, considering it to be an interesting hypothesis.⁴¹ The opinion of Professor Berend based on the greater historical material confirms our thesis concerning Poland. However, the foundation of new, modern and large companies was not the unique form of acceleration of industry concentration. The foreign companies became often the shareholders of previously existing native enterprises or gave loans to them. Of

³⁹ *Ibidem*, p. 174.

⁴⁰ *Ibidem*, p. 178.

⁴¹ I. Kostrowicka, Z. Landau, J. Tomaszewski, *Historia gospodarcza Polski XIX i XX wieku* [*Economic History of Poland in the 19th and 20th Centuries*], Warszawa 1966, pp. 209—210.

course, such additional source of capital was attainable for a big enterprise, which with the help of foreign company made its development more rapid.

I do not agree with the sharp criticism of the activity of foreign capital in East-Central Europe before 1914, given in the discussed paper.⁴² Of course, a businessman is not a philanthropist in money matters. He invests his capital to gain profits as high as possible. It is true that some countries were ruthlessly exploited by foreign capital. In spite of this the inflow of foreign capital into the discussed region was higher before World War I than the outflow of profits. In consequence the foreign capital advanced the economic development.⁴³

2. The situation changed after 1918. The East-Central part of post-war Europe was marked with the political instability. Economic conditions (especially inflation in many countries) did not encouraged foreign investors to risk their money. The newly emerged states were unknown to most businessmen, who often had not even heard about the conditions existing there. The socialist and revolutionary past of some leading statesmen who emerged in these states was not a good recommendation to the financiers of West-European countries. The German financiers often acted as the only source of information, but they were not impartial, especially in the matters concerning Poland. The small scale of business in the discussed countries was also an important hindrance.⁴⁴ All these resulted in a rather small interest of great

⁴² I. T. Berend, *op. cit.*, p. 180.

⁴³ "At the same time the foreign monopolistic capital played in Bulgaria [before 1914—JT] one objectively positive role. It not only fostered the process of riping of the capitalist relations in Bulgaria, but also brought new forms and methods of the exploitation from the great imperialist powers, the forms characteristic of the monopolistic phase of capitalism. In this way the foreign monopolistic capital accelerated the transition of Bulgarian capitalism into monopolistic forms." (Ž. Natan, L. Berov, *Monopolištičeskijat kapitalizm v Balgarija*, Sofija 1958, p. 90).

⁴⁴ Capt. Bondy, the hero of a novel by K. Čapek, complaints against limited possibilities for a businessman in Czechoslovakia, which is a parody of some moods existing among financiers in this country: "O bože, jaké malé poměry! Jaké těsné, pitomé, neplodné poměry!", "Malé, směšné malé poměry". K. Čapek, *Továrna na absolutno*, České Budějovice 1968, p. 5. In an English translation these words were changed into "a wretched state of affairs" (K. Čapek, *The Absolute at Large*, New York 1927, p. 3) which sentence has another meaning.

financial centres of the world in East-Central Europe in the early 1920s. Some loans had distinctly a political character, some other were rather a financial speculation than a normal deal. Therefore most of the loans were granted on the very unfavourable terms. The figures of profits quoted by Professor Berend are only a small part of the burden. As a rule the loans were connected with the additional clauses, sometimes even difficult to be appreciated in money.⁴⁵

In the 1926—1929 period of prosperity the attitude of foreign capital towards East-Europe changed. Some disbelief remained however. In Poland, for instance, short-term loans or on call credit granted to the native companies from abroad were prevailing. In spite of this the amount of new capital coming into the East-Central European countries was growing. Some part of it had decisively political character, connected with the loans granted to Germany under the Dawes Plan. To what extent the political aims influenced the financial activity ought to be explained in special investigation.

The period of capital inflow lasted but very short time. The Great Depression caused the outflow of capital. Later the policy of great international financial centres was influenced by the growing political tension, connected with the Nazi rule in Germany. The political dangers and economic obstacles (especially the barriers hindering the international trade, built during the Great Depression) discouraged the investors. The governments tried to stop the outflow of capital, but with partial success only. The fear of foreign currency control introduced in many countries was one more reason of capital outflow. The political dangers were evident mainly in the case of Poland. The share of foreign (West European) capital was diminishing, and at the same time the government tried to restrain the position of German capital. In other countries the position of West European capital was rather declining, but the influence of German companies grew.⁴⁶

⁴⁵ Some interesting data about these additional conditions gives Z. Landau, *Polskie zagraniczne pożyczki państwowe, 1918—1926* [Foreign State Loans for Poland, 1918—1926], Warszawa 1961.

⁴⁶ Z. Landau, J. Tomaszewski, *Kapitały obce...*, pp. 17—21; *Ekonomikata na Balgarija...*, p. 562; J. Tomaszewski, *Gospodarka krajów...*, pp. 75—76. I would not consider this to be a proof for so-called econ-

The role and consequences of the activity of foreign capital during the inter-war period was quite different than before 1918. The balance of capital transactions was rather unfavourable for the East-European countries. The outflow of capital prevailed over the credits granted and new investments, resulting in lowering the level of the accumulation. Some governments tried to develop state investments instead of private ones, but the effects were small because of inadequate funds. Better conditions seemed to exist in Bulgaria, Hungary, Roumania and Yugoslavia. The German capital was interested in these countries and at the same time their governments did not see any direct danger in its activity. Czechoslovakia and Poland suffered from the outflow of capital, and feared of the political consequences of the German capital.

IV. SUMMING-UP

In the inter-war period the accumulation of capital and investments in East-Central Europe were influenced by the two main factors. One of them was purely economic—it was the dual structure of the national economy. The vast non-market sector put some limits to economic development, especially when the agricultural crisis affected even the most developed farms and estates. The second factor was rather political. The internal situation in most countries after World War I and the international tension in the 1930s discouraged many potential investors, not only foreign, but some native too.

It seemed that Bulgaria, Hungary, Roumania and Yugoslavia were in somewhat better position, especially in the 1930s. The difference resulted from the other attitude of Germany towards

omic Munich. In the case of Poland the outflow of capital resulted not from the secret agreement with the German financial groups, but from the understandable fear of political development in face of the Hitlers' policy. Czechoslovakia is a special case. A. Teichová proved that there was no withdrawal of West European capital invested in the Czechoslovak companies. The question of whether there was a recall of foreign credits remains as yet open. See A. Teichová, *An Economic Background to Munich. International Business and Czechoslovakia 1918—1938*, Cambridge University Press 1974.

Czechoslovakia and Poland and towards the other countries. These latter countries had to pay for it some years later.

The statistics quoted makes reasonable the thesis that there were two models of development. Czechoslovakia and Poland revealed symptoms of stagnation; during some years (the Great Depression) the capital engaged in the national economy even diminished. In Poland the national income per capita most likely diminished in 1938 in comparison with 1928 and the pre-war level. Maybe the similar trend was in Czechoslovakia. In other countries the period after the Great Depression was marked with relatively rapid economic development, growth of national income and investments. I have previously mentioned one reason for these differences—the political situation. The question is, whether there were other factors.

The trends of the national income and of the investments in all discussed countries resulted from the causes, which were independent of the governments' policy. The economic structure and its dualism could be only changed with a fundamental political upheaval. The international political situation could not be changed by any of the East-Central European countries without the cooperation and leading role of the Great Powers. Therefore the experiments with the state investments in the 1930s, though noteworthy, gave only small effects.

(Translated by Joanna Krauze)