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## THE INFLOW OF FOREIGN CAPITAL INTO POLAND AFTER THE COUP D'ETAT OF MAY 1926

Józef Piłsudski staged his *coup d'état* in May 1926 under the slogan of an overall improvement, including an improvement in Poland's economic situation. The new team, called *Sanacja*, criticized the economic policies of the previous government, accusing it of gross inaptitude. One would have thought, therefore, that it would break with the old economic concepts and seek to channel the Polish economy into a completely new course. But this is not what happened. During the period immediately following the coup, the policy pursued by the *sanacja* regime was a continuation of the line followed by the previous cabinets. The campaign for "improvement" was only a slogan which was to earn Piłsudski's group the support of society during the struggle for power in Poland. One of the proofs, by no means the only one, that this was indeed the case was the attitude of the new cabinet to foreign capital.

Since the government avoided detailed enunciations on its economic plans, we will analyse its attitude to foreign capital by examining its practical activity rather than its official pronouncements.

The attitude of the *sanacja* regime to the questions which had been considered by Aleksander Skrzyński's cabinet shows the trends prevailing among the ruling circles in this respect. Having come to power through a bloody *coup*, the new government had a measure of freedom in the choice of policy towards foreign capital. It could simply declare that it was not bound by the promises given by previous cabinets. Only an agreement concluded by persons authorized by the council of ministers is a binding obligation for a state in economic matters. Preliminary agreements

are not binding ; until they are signed, they can be (and have frequently been) broken or changed. Representatives of foreign capital have often availed themselves of this possibility in their relations with Poland.<sup>1</sup>

The new government was therefore faced with the following alternatives : it could continue negotiations on the inflow of foreign capital into Poland or it could break them off. It was obvious, however, that the line chosen would not only affect Poland's economic policy in the short term but would have repercussions in the future. The breaking off of negotiations that had been started might jeopardize future attempts to attract foreign capital, since capital could be obtained only if foreign investors had confidence in the stability of Poland's economic policy. As a rule, foreign capitalists avoided placing their capital in a country which did not have a stabilized economic policy.<sup>2</sup>

The following issues had been in the process of settlement when Piłsudski seized power :

1. renewal of invitation for an American mission of financial advisers headed by E. W. Kemmerer ;

2. finalization of negotiations with the American firm Henry Ulen on a second series of loans for municipal investments in Polish towns ;

3. conclusion of a dispute with a French-Polish consortium building the port of Gdynia ;

4. conclusion of negotiations with Averell Harriman's group on the take-over by the American concern of the German Giesche firm operating in Upper Silesia.

The ways of settling these issues, the terms of the agreements and the speed at which they were reached will give a general

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<sup>1</sup> Negotiations on a loan with the banking house Dillon, Read and Co. were a classical example of this. Cf. Z. Landau, *Polskie zagraniczne pożyczki państwowe 1918 - 1926* [Poland's State Loans from Foreign Countries, 1918 - 1926], Warszawa 1961, pp. 234 - 250 ; *Idem. Bank Dillon Read and Co. a Polska* [The Banking House Dillon, Read and Co. and Poland], "Sprawy Międzynarodowe," 1960, No. 7 - 8.

<sup>2</sup> A summary of the aide-memoire drawn up for Chamberlain on June 21, 1928 by Collier, a Foreign Office official in charge of Polish questions. Secret political report No. 21/28 from K. Skirmunt, Polish Envoy in London, to the Ministry of Foreign Affairs, Archiwum Akt Nowych [Archives of Modern Records in Warsaw, henceforth referred to as AAN], set : Adiutantura, Vol. III.

idea of the new authorities' attitude to the influx of foreign capital.

Kemmerer was first invited to Poland in the autumn of 1925, because the government of Aleksander Skrzyński was seeking to obtain an American loan for private businesses in Poland.<sup>3</sup> According to the prevailing opinion, an expertise leading to the formulation of financial and economic recommendations would pave the way for concrete negotiations on a loan. Kemmerer arrived in Poland for a two-week stay in December 1925. But his recommendations were very vague and did not take more than four printed pages.<sup>4</sup> A fuller and more detailed analysis of Poland's economic and financial situation required a longer stay and the participation of a larger group of experts. Kemmerer was to come for the second time together with other experts in the summer of 1926.

In the meantime there was a *coup* in Poland, and in accordance with the accepted practice the invitation had to be renewed by the new authorities to be valid. The new government had therefore to consider its attitude to the mission. Silence would have meant renunciation of American credits, but an invitation of experts would have imposed a number of obligations on the Polish state. By agreeing to an expertise—a preliminary condition for negotiations on a loan—the government, if it really wanted to get a loan, would have decided in advance and automatically, so to say, to put the experts' recommendations into effect. Invitation of the mission meant signing a blank bill. That such was really the case is proved by the opinion expressed *post factum* by the Minister of Finance, Gabriel Czechowicz: "Once a foreign mission had been invited, it was impossible to ignore its opinions, because foreign countries would not have understood this."<sup>5</sup>

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<sup>3</sup> For more details see Vidi, *Uwagi na marginesie pożyczki stabilizacyjnej 1927 roku* [Remarks on the Stabilization Loan of 1927], "Sprawy Międzynarodowe," 1952, No. 4 and Z. Landau, *Misja Kemmerera* [Kemmerer's Mission], "Przegląd Historyczny," 1957, No. 2.

<sup>4</sup> *Sprawozdanie oraz zalecenia komisji doradców finansowych pod przewodnictwem prof. E. W. Kemmerera* [The Report and Recommendations of the Financial Advisers' Commission Headed by Professor E. W. Kemmerer], in: *Waluta i kredyt* Vol. III, Kraków 1926, pp. 129 - 131.

<sup>5</sup> Speech by the Minister of Finance, G. Czechowicz. *Verbatim* report of the sitting of the Sejm on February 12, 1927.

A similar attitude was taken by Adam Krzyżanowski, who wrote: "The present government [...] has come to realize that Poland cannot for the second time ignore the opinion of the foreign experts it has invited without suffering political and economic damage."<sup>6</sup> Previous experience had shown that an expertise by foreign financiers and the publication of its results weakened the possibility of obtaining credits on foreign markets, if the government did not carry out the recommendations of advisors. Such was the final result of E. Hilton Young's mission, which stayed in Poland when Władysław Grabski was prime minister.<sup>7</sup>

On May 28, 1926, the Council of Ministers, at the motion of the minister of finance, confirmed the invitation for Kemmerer, without discussing this question.<sup>8</sup> This meant that it resolved to continue seeking a foreign loan in the way mapped out by Jerzy Zdziechowski, the last minister of finance before the May *coup*.<sup>9</sup> It is characteristic that this question, fraught with important consequences, was settled even before the Council of Ministers had discussed the principles of the government's economic policy. Discussion of the economic programme did not take place until June 16 and 17.<sup>10</sup>

The next issue was whether to continue or break off negotiations on a second series of loans for investments in Polish towns. Even though the negotiations were conducted by the state-

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<sup>6</sup> A. Krzyżanowski, *Dwa programy finansowe, jesień 1925 i wiosna 1927* [Two Financial Programmes, Autumn 1925 and Spring 1927], Kraków 1927, p. 11.

<sup>7</sup> For more details on E. Hilton Young's mission see: Z. Landau, *Polityczne aspekty działalności angielskiej misji doradców finansowych E. Hiltona Younga w Polsce* [The Political Aspects of the Activity of E. Hilton Young's Mission of British Financial Advisers in Poland], "Zeszyty Naukowe Szkoły Głównej Planowania i Statystyki," 1958, No. 9.

<sup>8</sup> An urgent motion submitted by the Minister of Finance, G. Czechowicz on May 26, 1926, concerning credits for a financial expertise, AAN, protocol of the Council of Ministers, vol. 33, card 393. Resolution of the Council of Ministers concerning this question, *ibidem*, card 392. See also the letter sent by the Ministry of Foreign Affairs to the Polish Envoy in Washington on May 31, 1926, Archives of the Ministry of Foreign Affairs, Warsaw, vol. CXLVI, "Finansowa misja do Polski" (Financial Mission to Poland).

<sup>9</sup> For more details on J. Zdziechowski's policy with regard to loans see Z. Landau, *Polskie zagraniczne pożyczki...* pp. 170-208.

<sup>10</sup> AAN, protocol of the Council of Ministers, vol. XXXIII, card 443, 502-519.

-owned Bank of National Economy, and not by government representatives, the final decision whether to reject or conclude the contracts rested with the state authorities. The government had a say in the Bank and moreover, the conclusion of the transaction depended on state financial assistance to the towns which were to benefit from the loan.<sup>11</sup>

Negotiations on the second series of loans started in January 1926. The Polish side, having had unfavourable experience with the loans of the first series, which turned out to be extremely expensive (the interest rate amounted in fact to 16 per cent per annum) and left the finances of the debtor towns in a very difficult situation, asked that certain changes be made in the new agreement. It demanded that the issue price be raised by 5 points (from 85 to 90), that the royalties for the investments carried out by the Ulen Company in towns be lowered from 15 per cent to 12 per cent, and that the moratorium on loans be prolonged by four years (from 21 to 25 years); it also asked for clearer formulations of the provisions of the technical agreement to make it impossible for the Company to interpret it at will.<sup>12</sup>

The Ulen Company did not agree to any of the proposed changes. It confined its concessions to secondary issues, agreeing only to the bonds being redeemed after the prescribed time, expanding the range of investment work in towns, etc.<sup>13</sup>

Since the Ulen Company rejected all essential demands, ignoring the legitimate interests of Polish towns, it would have seemed that the new government, taught by the sad experience of the towns which borrowed the first series, would be against the loan. Such was not the case, however, and the agreements were signed in July 1926. Their terms were so harsh that although towns desperately needed the \$6 million lent to Poland, they applied for only \$2.75 million, i.e., 46 per cent of the sum.<sup>14</sup> During

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<sup>11</sup> For more details see: Z. Landau, *Pożyczki ulenowskie [Ulen's Loans]*, "Najnowsze Dzieje Polski. Materiały i studia z okresu 1914 - 1950." 1958, No. 1.

<sup>12</sup> *Nowy etap pożyczki ulenowskiej i robót inwestycyjnych w miastach [A New Stage of Ulen's Loans and Investment Work in Towns]*, "Samorząd Miejski," 1926, pp. 578 - 587.

<sup>13</sup> *Ibidem.*

<sup>14</sup> *Ibidem.*

previous negotiations, when the consequences of the Ulen loans were not yet quite clear to the borrowers, the needs of the towns greatly exceeded the sums put by Ulen at Poland's disposal.<sup>15</sup>

The third question facing the government was the agreement with a French consortium on the construction of a port at Gdynia.<sup>16</sup> The agreement signed on July 4, 1924 envisaged that the consortium would build the port in 1924 - 1930, and that the costs of the investment would be covered by the Polish government in eight yearly instalments, the first to be paid in January 1927. By an additional protocol of February 27, 1925 the construction period was shortened by a year and the payment of the first instalment was advanced to January 1926. The work was to be carried out by the consortium on credit terms. To repay the credit, the sum specified by the investor in the cost estimate was to be increased by 21 per cent in the final settlement. The agreement also regulated the question of payment should the consortium fail to carry out all the work planned for a given period.<sup>17</sup>

When the date of paying the first instalment arrived on January 20, 1926, it turned out that the two sides interpreted the financial terms of the agreement differently. Out of the investor's bill for over 4.5 million zlotys, the Ministry of Industry and Trade recognized and paid only 1.6 million. As a result, the consortium was unable to meet its obligations to the American bank of Morgan, which financed it, and the bank refused to give further credits; as a result, a dispute arose between the government and the consortium. The investor stopped construction work in February 1926 and annulled the agreement on the ground that its

<sup>15</sup> "Robotnik," March 21, 1925.

<sup>16</sup> The consortium comprised Société Hersent, Société Schneider and Société de Construction de Batignolles on the French side and the Polish Industrial Bank, which was dependent on French capital, and the Rummel and Nosowicz Engineering Works on the Polish side. The French group had a decisive majority in the consortium ("Przemysł i Handel," 1924, p. 431); D. Steyer, *Gdynia w latach 1920 - 1939* [*Gdynia in the Years 1920 - 1939*], in: *Pomorze na progu dziejów najnowszych* [*Pomerania at the Threshold of Contemporary History*], vol. III, Warszawa 1961, p. 458.

<sup>17</sup> P. Bomas, *Budowa portu w Gdyni* [*The Construction of a Harbour at Gdynia*], "Przemysł i Handel," 1926, pp. 849 - 850; for more details see Z. Machaliński, *Gospodarcza myśl morska II Rzeczypospolitej, 1919 - 1939* [*The Economic Maritime Concept of the Second Republic, 1919 - 1939*], Wrocław 1975.

terms had not been honoured. At the request of the Ministry of Industry and Trade the investor resumed building work, but at a provocatively slow rate, completing only 15 per cent of the work envisaged for that period.<sup>18</sup>

As soon as it assumed power, the new government began negotiations with the group in question. By July 1, 1926, all controversial issues had been resolved. The government gave up credits and pledged itself to pay for the work in cash. Consequently, the 21 per cent addition to prices, paid by Poland as repayment of credits, was abolished. In the course of negotiations, the Polish government made a concession to the French side and promised to pay \$300,000 at once as a full settlement of the first instalment.<sup>19</sup> In accordance with the letter of the agreement, the consortium had no right to this sum. It is worth recalling that Skrzyński's government had refused to pay it. On July 2, a protocol settling all controversial problems was drawn up. The Council of Ministers approved it at its meeting on July 7.<sup>20</sup> In the protocol the consortium pledged to proceed with the work quickly. However, having no capacity to do so, it commissioned two specialized foreign firms, the Belgian Ackermans-van Haaren of Antwerp and the Danish Hojgaard and Schulz Company of Copenhagen, to do the building work.<sup>21</sup> Doubts arose in Poland whether it would not have been more profitable for the state to conclude agreements direct with the two firms, without using the French as an intermediary. B. Kasproicz wrote :

"The fact that at that stage the work was carried out by specialized firms cannot on the whole give rise to reservations. But a direct agreement should have been concluded by the Polish government with the Belgian and Danish firms. There would

<sup>18</sup> Z. Machaliński, *Gospodarcza myśl morska...*

<sup>19</sup> "As soon as this protocol is signed, the Treasury will send \$300,000 to New York for the consortium by telegraph." Point 17 of the protocol drawn up by the government and the consortium. For the text of the protocol see AAN, protocol of the Council of Ministers, vol. XXXIV, card 110.

<sup>20</sup> Resolution of the Council of Ministers on this matter, *ibidem*, card 81.

<sup>21</sup> B. Kasproicz, *Problemy ekonomiczne budowy i eksploatacji portu w Gdyni w latach 1920 - 1939* [*Economic Problems of the Construction and Exploitation of the Port at Gdynia in the Years 1920 - 1939*], "Zapiski Historyczne," vol. XXII, No. 1 - 3, p. 133.

have been no need for the French then to act as an intermediary."<sup>22</sup>

It seems that the government was motivated by three reasons when it decided, in spite of rather unfavourable experience, to continue its cooperation with the consortium and pay it the whole of the previously questioned first instalment. First, it was anxious to win the support of French capital. Secondly, it feared that a search for new investors might delay the construction of Gdynia and that this would produce unfavourable political repercussions in Poland's western territories, especially in Pomerania, which were ill-disposed towards Piłsudski.<sup>23</sup> Thirdly, it was afraid that a postponement of the construction of Gdynia might seriously complicate the economic situation of Poland, which was then involved in a customs war with Germany, since possession of a Polish port was of vital importance for the outcome of this war. Documents do not say which of these factors played the decisive role.

The fourth issue was the question of Harriman. Averell Harriman and the world's largest zinc producer, the Anaconda Copper Mining Company, came to an understanding with the Bergwerksgesellschaft Georg von Giesches Erben of Breslau (Wrocław). In spite of the fact that after the division of Silesia only one-fifth of Giesche's assets remained on the German side, the German firm continued to direct the activity of establishments on the Polish side, which were four times as big.<sup>24</sup> The aim of the understanding was to create an American-German holding under the name Silesian-American Corporation (SACO), which was to take over 100 per cent of Giesche's shares in Poland. 51 per cent of the preference shares of SACO were to be held by the American side, the remaining 49 per cent by the Germans. Both sides were greatly interested in this transaction. The American group's interest in Polish zinc, 37 per cent of the production of which was in Giesche's hands, was not accidental. The Anaconda Copper Mining Co. and Harriman sought to concentrate

<sup>22</sup> *Ibidem*, p. 135.

<sup>23</sup> See Z. Landau, *Impact of the May 1926 Coup on the State of Polish Economy*, "Acta Poloniae Historica," vol. XXX, 1977, pp. 169 - 187.

<sup>24</sup> This transaction has been repeatedly discussed in literature.



world zinc production in their hands, and the role of Polish production was by no means small. In 1925, Poland was the world's third largest zinc producer after the United States and Belgium.<sup>25</sup> Through links with American capital, the German managers of Giesche wanted to obtain money for the expansion of the firm in Germany at the cost of establishments on the Polish side. They also wanted to get a cancellation of the huge tax arrears owed by these establishments in order to save them from being bought up by Poland, a step Poland was entitled to take by virtue of a Polish-German agreement signed in Geneva in 1922.<sup>26</sup>

The American group made the transaction dependent on the Polish government granting the firm a number of concessions and privileges. Harriman put forward proposals to this effect in November 1925.

Negotiations started. In February 1926, the Ministry of Industry and Trade, together with the Ministry of Finance, gave Harriman a declaration defining, on the one hand, the scope of concessions the Polish government was willing to grant and, on the other, Harriman's obligations,<sup>27</sup> and submitted a Bill on Protection for the Zinc Industry to the Sejm.<sup>28</sup> The Bill read in part: "Important American firms want to buy shares in zinc establishments situated in Upper Silesia, and have asked the government to give them, should the transaction be concluded, some tax reductions and a reliable assurance that the present customs policy with regard to trade with foreign countries in zinc, lead and the respective ores will be maintained."<sup>29</sup> The approval of these tax reductions by the Sejm was the main condition for the conclusion of the transaction between Giesche and Harriman.

<sup>25</sup> J. Dębicki, *Przemysł cynkowy. Szkic historyczno-gospodarczy [The Zinc Industry. An Historical and Economic Outline]*, Warszawa 1927, pp. 94-97.

<sup>26</sup> "Dziennik Ustaw Rzeczypospolitej Polskiej" [Journal of Laws of the Polish Republic] (henceforward referred to as Dz.U.), No. 44, item 371, annex.

<sup>27</sup> Reasons given by the Minister of Finance, G. Czechowicz for the motion he submitted in May 1926, concerning authorization for the conclusion of an agreement with W. A. Harriman, AAN, protocol of the Council of Ministers, vol. XXXIII, card 344.

<sup>28</sup> For the government bill see: Sejm Rzeczypospolitej Polskiej, First term of office, Print No. 2321.

<sup>29</sup> Motivation for the Zinc Industry Protection Bill, *ibid.*

The first reading of the Bill took place on February 25, 1926. During that meeting, deputy A. Paszczuk (Ukrainian group) proposed that the government bill be rejected, since the transaction was very unfavourable for the Polish state. But his motion was defeated<sup>30</sup> and the Bill was sent to the Financial Committee for consideration. The Committee held three stormy meetings, and the majority of its members at first came out against the Bill. The government later forced the Bill through by breaking the customary rules of procedure.<sup>31</sup> On March 30, the Bill was again debated by the Sejm. The majority of the deputies taking the floor came out against it. Many reservations were raised; the speakers pointed out that Harriman did not represent American interests but the interests of Giesche; that there was no reason for annulling Giesche's tax arrears, which amounted to 29 million zlotys; that if Harriman wanted to take over the shares of Giesche's establishments he could deduct the tax arrears from the price; that there was no reason for the Polish state to suffer a loss because of Harriman's transaction with Giesche.<sup>32</sup> Only one deputy, M. Kwiatkowski (National Christian Labour Party), expressed support for the Bill during the discussion.<sup>33</sup> In spite of this, the Bill was passed after the second reading by a majority of 124 to 94.<sup>34</sup> The third and last reading took place on April 28. Once again the majority of speakers were against the Bill, but when it came to voting, 141 deputies voted for the Bill and 138 against it, and the Bill became law.<sup>35</sup> The Protection for the Zinc

<sup>30</sup> *Verbatim* report of the 272nd sitting of the Sejm on February 25, 1926, columns 15 - 18.

<sup>31</sup> Speech by deputy F. Roguszczyk, *Verbatim* report of the 283rd sitting of the Sejm on March 30, 1926, column 18.

<sup>32</sup> Speeches by deputies F. Roguszczyk, A. Waleron, W. Łypaciewicz, J. Biniszkievicz, *ibidem*, columns 29 - 35.

<sup>33</sup> Deputy S. Kot said during the plenary meeting of the Sejm that Kwiatkowski had told him he was personally interested in forcing through the Bill for financial reasons.

<sup>34</sup> Speeches by deputies... *ibidem*, columns 41 - 42.

<sup>35</sup> *Verbatim* report of the 286th sitting of the Sejm on April 28, 1926, columns 70 - 92. Deputy J. Biniszkievicz revealed in his speech the activity conducted by Harriman behind the scenes to ensure that the majority of votes were cast for the government. "No sooner had I said a few words here a few weeks ago, than representatives of Giesche called on me and tried to convince me that the Bill should be passed. The attempts to influence individuals and deputies went even farther. The

Industry Act gave the Council of Ministers the right to cancel tax arrears and guarantee customs reductions for a period of 25 years to firms in Poland which could secure the inflow of foreign capital.<sup>86</sup> The starting of investment work was not enough to be given the benefits envisaged by the Act; the work had to be started by foreign capital. Polish capital was put at a disadvantage. Henryk Tennenbaum was right when he wrote: "To grant to foreign capital privileges which are denied to domestic capital is a capitulation; this is a system which brought benefit to foreign capital in Turkey and other eastern states."<sup>87</sup>

The only purpose of the Act was to enable an agreement to be reached between Giesche on the one hand and Harriman and the Anaconda Copper Mining Co. on the other. When "Lipiny," another zinc establishment, applied for the reductions foreseen by the Act, and there was no ground for rejecting the demand, the government, fearing the consequences, got the president to issue an ordinance on March 6, 1928, which annulled the Zinc Industry Protection Act.<sup>88</sup>

Seeking to reach an agreement with Harriman, the Polish government saw only one side of the transaction: the possibility of it leading to an inflow of American capital into Poland. It was blind to the negative side of the transaction, which after all, provided Germans with American money for the expansion of the German zinc industry at the cost of establishments on the Polish side of the frontier. The results of this transaction were described in the following way by Franciszek Ryszka, an outstanding expert in the inter-war economic affairs of Silesia: "The Americans pledged themselves to invest \$10 million in the establishments of the Company; this was expected to lead to the revival of the zinc industry, the development of transport and an increase in employment. In fact, they invested \$4 million in the establishments

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Union of Upper Silesian Insurgents, mobilized to action, sent me an extensive letter asking me to vote for the Bill. It asserted this would lead to the Polonization of the firm of Giesches Erben" (*Ibidem*, column 87).

<sup>86</sup> For the text of the Law see Dz.U. May 18, 1926, No. 49, item 292.

<sup>87</sup> H. Tennenbaum, *Struktura gospodarstwa polskiego* [*The Structure of Polish Economy*], vol. I: *Formy produkcji i zbytu* [*Production and Market Forms*], Warszawa 1932, p. 501.

<sup>88</sup> For the text of the ordinance of the President of the Polish Republic see Dz.U., March 10, 1928, No. 26, item 235.

on the German side and extended another \$8 million worth of credits which were debited to the Gieseche Company in Katowice, but were used for the expansion of mines and factories belonging directly or indirectly to the parent company in Germany and were in German territories. Instead of helping the decrepit zinc industry in Poland, the American investment helped expand the industry of the Third Reich."<sup>39</sup>

Such was also the opinion of the managers of the German Gieseche Company, who in a document of June 1938 said that the aim of the transaction with Harriman had been: "To maintain and ensure a further operation of the plants in Poland under the American flag," and "to obtain floating capital for the Gieseche Company through a loan." The document goes on to say: "The way in which the transaction was to be carried out was determined by the fact that the aim was to protect German interests against Poland and that all the financial possibilities inherent in the Harriman scheme were to be used to obtain easy credit terms. This made it necessary to conceal German participation as far as possible."<sup>40</sup> Another document said: "In line with the agreement, the Americans, on the whole, try to defend the German position in Poland."<sup>41</sup> Still another document read: "We vouch for the Americans' loyalty to German interests."<sup>42</sup>

One could of course say that the consequences of the Harriman-Gieseche transaction came to light later and that nobody could have foreseen them in 1926. But this is contradicted by press articles and speeches made in the Sejm, which indicated that the entire transaction would benefit German capital and

<sup>39</sup> F. Ryszk a, *Przywileje kapitału zagranicznego w Polsce burżuazyjno-obszarniczej* [The Privileges of Foreign Capital in Bourgeois-Landowners' Poland], "Czasopismo Prawno-Historyczne," 1954, vol. VI, No. 1.

<sup>40</sup> L. Grosfeld, *Polska w latach kryzysu gospodarczego 1929 - 1933* [Poland During the Years of the Great Depression, 1929 - 1933], Warszawa 1952, p. 89. Grosfeld had access to documents from Gieseche's archives after the war, when they were taken over by the State Commission for Economic Planning. The author has not succeeded in finding these documents.

<sup>41</sup> Extract from a note made by the director general of Gieseche on the conversation he had on January 10, 1934 with the general director of the Gieseche Company in Katowice, G. S. Broocks, who represented the American group (*ibidem*, p. 94).

<sup>42</sup> Letter from Georg von Giesches Erben to the Ministry of Economy of the Reich, of April 4, 1934, *ibidem*, p. 95.

that Harriman was linked with German interests.<sup>43</sup> It was the duty of the government to examine these charges and take them into consideration in its activity.

Such was the state of affairs when the new government assumed power after the *coup* of May 1926. Judging by its widely advertised fight against misdeeds and against the plundering of Poland, one would have thought that it would either break off negotiations with Harriman or demand a substantive change in the terms of the agreement. But this is not what happened. One week after the *coup*, on May 21, the Council of Ministers, acting with incomprehensible and unheard-of haste, found that Harriman should be given the tax and customs reductions foreseen in the Zinc Industry Protection Act.<sup>44</sup> At its next meeting, on May 22, the Council discussed the details of the deal. In a motion explaining the advisability of the agreement, the Minister of Finance, Czechowicz, said: "The fact that the transaction concerns the largest zinc works in Silesia, which suffer from a lack of floating and investment capital, and the necessity of establishing relations with American capital militate in favour of the agreement."<sup>45</sup> The motives were the same as those referred to by the previous government, which also pointed to the necessity of attracting foreign capital to Poland. Skrzyński's government had cited the following reason when it sent the Bill to the Sejm on February 12, 1926. "The introduction of American capital into the zinc industry on the wide scale envisaged in this case will be the first step in the opening of our industry to the American money market, which all European countries are seeking today."<sup>46</sup>

When deciding to conclude this unfavourable agreement with Harriman, the government realized that the step would be un-

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<sup>43</sup> See speeches by deputies W. Łypacewicz and J. Biniszkiewicz (*Verbatim* report of the 283rd sitting of the Sejm on March 30, 1926, columns 33 and 34) and the article *Finansiści niemieccy a Polska* [*German Financiers and Poland*], "Codzienne Wiadomości Ekonomiczne," August 30, 1926, No. 188.

<sup>44</sup> Resolution of the Council of Ministers of May 21, 1926, AAN, protocol of the Council of Ministers, vol. XXXIII, card 342.

<sup>45</sup> Motion submitted by the Minister of Finance, G. Czechowicz at the meeting of the Council of Ministers on May 22, 1926, concerning the agreement with W.A. Harriman, AAN, protocol of the Council of Ministers, vol. XXXV, card 345 - 346.

<sup>46</sup> Sejm of the Polish Republic. First term of office, Print No. 2321.

popular and that it would be received as a continuation of Skrzyński's policy, which Piłsudski's group pretended to be combating.<sup>47</sup> The agreement also led to a controversy at the meeting of the Council of Ministers on May 22; as a result, the question was adjourned.<sup>48</sup> The essence of the dispute was revealed in the motion submitted to the Council of Ministers at the end of June by Ministers Czesław Klarnier and Eugeniusz Kwiatkowski. It said that the question had been considered by the Council of Ministers on May 21 and 22, but "the agreement has not been signed yet, because of the election of the president of the Republic."<sup>49</sup> This shows that the question was put off for purely tactical reasons. Piłsudski did not want to give his political opponents such an excellent trump card to fight him with until he had strengthened his influence. In May Piłsudski still had to consider the opinions of the Left and the masses of the people, since they helped him achieve victory in the coup and keep in check the right-wing opposition, the National Democratic Party.

The agreement with Harriman was finally initialled on June 26 and signed on July 3, on terms which only in secondary details were slightly more favourable than those previously agreed upon by Ministers J. Zdziechowski and S. Osiecki.<sup>50</sup> The changes did not

<sup>47</sup> It will be interesting to quote here the opinion published in the June 1926 issue of the pro-Piłsudski periodical "Droga" [The Way]. During the period of Skrzyński's government "all hopes for foreign aid turned out to be illusory, even if state monopolies were to be pawned at such ruinous terms as those which were accepted when the monopoly of match making was leased out. At the end of its term, Skrzyński's government was forced to go so far in its concessions to foreign countries that it even accepted the zinc cartel's proposal concerning Giesche's plants, a proposal which met with unanimous criticism in Poland" (Z. Dreszer, *Program ekonomiczny gabinetu Bartla* [The Economic Programme of Bartel's Cabinet], "Droga," 1926, No. 6, p. 4).

<sup>48</sup> Resolution of the Council of Ministers of May 22, 1926, AAN, protocol of the Council of Ministers, vol. XXXIII, card 343.

<sup>49</sup> Urgent motion submitted by the Minister of Industry and Trade, E. Kwiatkowski, and the Minister of Finance, G. Czechowicz on June 30, 1926, concerning authorization to conclude the agreement with Harriman, AAN, protocol of the Council of Ministers, vol. XXXIV, card 60.

<sup>50</sup> For the text of the agreement see AAN, protocol of the Council of Ministers, vol. XXXIV, card 61 ff., and State Voivodship Archives in Katowice, set Giesche, vol. MMMCDLX. The agreement was approved by the Council of Ministers *circulando*, without any substantive discussion, on July 2, 1926. See AAN, protocol of the Council of Ministers, vol. XXXIV, card 58.

concern any essential questions. Under the new terms, Harriman's group pledged that the bonds of the new American firm which was to take over the majority of Giesche's shares would be offered at the price of 90 for 100, that the yearly interest on the bonds would amount to 7 per cent, that American capital would have the majority of shares in the new company, that the American shares were not transferrable to non-American persons or institutions without the consent of the Polish government, and that the company guaranteed the government a minimum of \$1.5 million in income tax in the years 1926 - 1931, half a million of which was to be paid to the Treasury a month after the signing of the agreement as an advance, interest-free instalment on account of tax.<sup>51</sup>

The first two obligations were of no practical importance for the firm. The issue price of the bonds and the interest paid on them were fixed in accordance with the customs prevailing on the American market at that time.<sup>52</sup> It was only the guarantee of a minimum revenue from income tax for a period of five years that was of real significance for the Treasury. In return for this and for the obligation that the Upper Silesian zinc industry linked with Giesche would receive \$5 million for investment needs and another \$5 million as floating capital, the government agreed to cancel the firm's tax arrears amounting to 29 million zlotys (\$3 million), exempt it from customs duties in the import and export of zinc and lead, and from all internal loans that might be floated; the government also renounced the right of buying up the Giesche company and its subsidiaries from German hands, a right it had under the Geneva agreement.<sup>53</sup> Thus the Polish government granted American capital, behind which were German interests, major, profitable concessions without guaranteeing Poland equal benefits.

What were the motives behind the government's decision to

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<sup>51</sup> "Urgent motion" quoted in footnote 49.

<sup>52</sup> We do not know the terms on which SACO's ordinary shares were issued. Preferred shares were issued on July 29, 1926, the issue price amounting to 94.5 and the rate of interest to 7.5 per cent. See Silesian American Corporation, "Przemysł i Handel," 1926, p. 989.

<sup>53</sup> Agreement between the Polish Government and the W. A. Harriman Co. of July 3, 1926, points 7, 8 and 9 (cf. footnote No. 50).

finalize the transaction? The reply to this question is contained in the document which the ministers of finance, and of industry and trade presented to the Council of Ministers to explain the purposefulness of the transaction. The document reads in part: "In view of the fact that previous governments through prolonged negotiations and binding statements by their representatives accepted certain obligations towards W. A. Harriman and Co., so that the breaking off of the agreement would have an unfavourable influence on the attitude of foreign, especially American, capital to investments in Poland, and could cause the state treasury to sustain large losses,"<sup>54</sup> and further on: "The agreement, being real evidence of the interest taken by American capital, represented by reliable groups, in industrial investments in Poland, will have an influence on the further inflow of foreign capital into our country."<sup>55</sup> The motives which guided the Polish government in signing the unfavourable agreement with Harriman, an agreement which did not guarantee equal profits to Poland, were explained even more clearly in "Przemysł i Handel" [Industry and Trade], an official organ of the economic ministries: "The importance of the agreement with Harriman does not lie in its direct benefits but in the influence which this agreement or rather its implementation will have on the economic life of Silesia and the state."<sup>56</sup> In short, the intention was to encourage American capital to invest in Poland.

Politicians supporting Piłsudski frequently asserted that Bartel's government was forced to sign the agreement with Harriman because the obligations undertaken by Skrzyński's government were irrevocable. This is how Bartel himself expressed this: "We have met an irrevocable obligation undertaken by previous governments with regard to the agreement with Harriman, and at the last minute, thanks to our firm attitude, we managed to change some terms to the considerable profit of the Treasury."<sup>57</sup> Contrary to what Bartel said, these obligations were by no

<sup>54</sup> AAN, protocol of the Council of Ministers, vol. XXXIV, card 60.

<sup>55</sup> *Ibidem*.

<sup>56</sup> *Umowa z koncernem Harrimana* [Agreement with Harriman's Concern], "Przemysł i Handel," 1926, pp. 842 - 843.

<sup>57</sup> K. Bartel, *Mowy parlamentarne* [Parliamentary Speeches], Warszawa 1928, p. 8.



means irrevocable, since until April 30, 1926, that is, until the Zinc Industry Protection Act had been passed, the government could not have undertaken such obligations, not having the consent of the Sejm. Although passed by the Sejm, the Act had not been published in the Journal of Laws before the dismissal of Skrzyński's government, and consequently had no binding force. It is interesting that an internal document, that is, C. Klarner's and E. Kwiatkowski's motion submitted to the Council of Ministers to explain the purposefulness of the agreement did not use the term "irrevocable obligation," but a much weaker expression, namely, "prolonged negotiations and binding statements by members of the government" [Skrzyński's government—Z. L.].<sup>58</sup> But Pilsudski's government, which came to power through a *coup d'état*, was not forced to honour obligations resulting from statements made by members of the previous cabinet. They were not a formal obligation for the state. The new government could honour them, but it did not have to.

Our analysis of all the above-mentioned issues shows that the post-May government wanted to favour foreign capital and to encourage it to invest in Poland. This is proved by the fact that it accepted very harsh terms (Ulen's loan), did not ensure equal benefits to both sides (agreement with Harriman) and agreed to pay sums exceeding the state's actual obligations (agreement with the consortium building the port in Gdynia); this is also proved by the speed with which all the questions connected with foreign capital were settled. The May *coup d'état* was terminated on May 14. Consent to the agreement with Harriman was expressed as early as May 21, and the final agreement was signed on July 3. The renewal of Kemmerer's invitation to Poland was made on May 28. The agreements on Ulen's loans and the protocols concerning the construction of the port of Gdynia were concluded in July. All this was done less than two months after Pilsudski's victory, and a large part of these issues was settled even before the Council of Ministers had discussed the general principles of the state's economic policy.

The question of the inflow of foreign capital also found its

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<sup>58</sup> "Urgent motion" quoted in footnote No. 49.

reflection in a number of government documents and enunciations. Some of them have been quoted when we discussed the agreement with Harriman. They indicate that the state authorities were anxious to ensure the inflow of foreign capital. This is also reflected in statements made by various government representatives. The ministers of finance, Klarner and Czechowicz, the minister of industry and trade, Kwiatkowski, and Prime Minister Bartel spoke on various occasions of the advisability of attracting foreign capital.<sup>59</sup>

C. Klarner said: "We suffer from a painful lack of capital. The question arises: how to remedy this evil?"<sup>60</sup> And again: "Hence, the question of securing foreign capital for investments in Poland comes to the fore."<sup>61</sup> His successor, G. Czechowicz stated: "We must tell ourselves clearly that without a large inflow of foreign capital for investment purposes [...] our economic life will not be able to develop at the rate required by our geographical situation and the competition on the world market with other civilized states,"<sup>62</sup> and on another occasion: "Without a large inflow of foreign capital we cannot develop sufficiently quickly [...]. If we have to develop by our own strength, the rate of growth will be small and will not be much above subsistence level."<sup>63</sup> The Minister of Industry and Trade, E. Kwiatkowski said: "We take a favourable view of cooperation with foreign

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<sup>59</sup> Assessing that period of *Sanacja's* economic policies, Jerzy Nowak wrote: "In view of the lack of domestic capital, the camp which in 1926 took the responsibility for directing the destiny of the state came to the conclusion that foreign capital could play a positive role in the programme for Poland's economic development" (*Polityka kredytu publicznego [The Policy of Public Credit]*, in: *Pięć lat na froncie gospodarczym 1926 - 1931*, vol. I, Warszawa n.d., p. 558).

<sup>60</sup> C. Klarner, *Dorobek czterech miesięcy. Dwie mowy programowe [The Achievements of Four Months. Two Programmatic Speeches]*, Warszawa 1926, p. 21. In quoting all these statements on the advisability of attracting foreign capital, we do not discuss the terms on which it was to be obtained because this is irrelevant here.

<sup>61</sup> *Ibidem*, p. 36.

<sup>62</sup> Speech by the Minister of Finance, G. Czechowicz. *Verbatim report of the 306th sitting of the Sejm on November 13, 1926*, column 15.

<sup>63</sup> *Współpraca rządu ze sferami gospodarczymi państwa. Sprawozdanie z narady gospodarczej odbytej 30 i 31 X 1926 w Prezydium Rady Ministrów [The Government's Cooperation with the State's Economic Circles. Report on the Economic Conference held in the Council of Ministers on November 30 and 31, 1926]*, Warszawa 1927, p. 82.

capital.”<sup>64</sup> Prime Minister Bartel confirmed this: “We need contacts with first rate bankers.”<sup>65</sup>

These statements reflected the widespread opinion in government circles that in the long run Poland could not develop without the participation of foreign capital. But the government realized—on the basis of several years of experience gained by previous cabinets—that several initial measures had to be taken to ensure this inflow. The concessions made to foreign capital immediately after the assumption of power by Piłsudski were to create conditions for obtaining foreign loans, which were regarded as an indispensable condition for the stability of the złoty. The belief that foreign loans were indispensable to ensure the stabilization of the currency was a reflection of a concept launched by economic circles.<sup>66</sup>

The new government was from the beginning determined to ensure economic development by classic, capitalist methods. A logical consequence of this attitude was the tendency to protect the interests of economic circles. In this respect the policy conducted by Bartel's government marked a considerable retreat compared with the first period of the government of W. Grabski, whose cabinet sought to put the burden of improving the state of the treasury on the propertied classes.<sup>67</sup> This attitude increased the government's interest in foreign loans; in order to prepare the ground for these loans the government wanted to win a favourable opinion for Poland in foreign financial circles interested in placing their capital in Poland.

(Translated by Janina Doroszowa)

<sup>64</sup> E. Kwiatkowski, *Przemówienie w Komisji Budżetowej Sejmu w dniu 6 grudnia 1926* [Speech in the Sejm's Budget Committee on December 6, 1926], Warszawa 1926, p. 13.

<sup>65</sup> K. Bartel, *op. cit.*, p. 91 (speech made in the Sejm on February 11, 1927).

<sup>66</sup> Speech made by Andrzej Wierzbicki at a conference of representatives of economic circles and the government on October 30 and 31, 1926, included in *Współpraca rządu...*, p. 20.

<sup>67</sup> Cf. J. Tomaszewski, *Stabilizacja waluty w Polsce. Z badań nad polityką gospodarczą rządu polskiego przed przewrotem majowym* [Stabilization of the Currency in Poland. Studies on the Economic Policy of the Polish Government Before the May Coup d'Etat], Warszawa 1961; Z. Landau, *Władysław Grabski a pożyczki zagraniczne* [Władysław Grabski and Foreign Loans], “Kwartalnik Historyczny,” 1959, No. 4.