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POLAND'S FINANCE POLICY IN THE YEARS OF THE GREAT
DEPRESSION
(1930 - 1935)

BUDGET DEFICITS AND THEIR LEVEL

The slackening-off of economic activity during the Great Depression directly affected the size of budget deficits in Poland, too. For reduced production and trade caused a drop in treasury receipts in the area of taxes on turnover, whilst the falling trend in profits caused a reduction in income-tax payments. The growth in unemployment and lowering of the level of basic wages had the same effect, as they contributed to the reduction in state revenues from taxes on earnings. Moreover, the impoverishment of the population caused reductions in the purchase of articles produced by state industry and state monopolies, which was reflected in their profits and payments to the budget. At the same time, other factors served to intensify the falling trend in treasury revenues. These were rooted in the financial difficulties of taxpayers who were not in a position to meet their obligations to the state. So that not only did the scope of many basic taxes diminish, but beyond this, taxes flowed in to the budget in smaller sums than actually arose from the operative scope. As a result of this, tax arrears increased from year to year.

From the point of view of maintaining a balanced budget, the drop in revenues would not have been of major significance if, in proportion to the contraction of income, it had been possible to reduce outgoings. However, the situation looked otherwise. The authorities did not have a free hand in the settling of a significant proportion of projects financed from the state budget, which brought about a situation where expenditure on them had rather

an inflexible nature. Moreover—and no less vital—during the years of the crisis, new tasks arose which also had to be financed by the state (e.g. the fight against unemployment, assistance for those deprived of work, assistance for private banks threatened by break-ins, covering the costs of dumping, and so on).

As one can see from this, the state's budgetary position had to undergo fundamental changes in comparison with the 1927-1929 period, when the financial years closed with a large surplus of income over expenditure, which not only permitted a systematic increase in normal expenditure figures, but also the undertaking of new tasks not included in the budget estimates. Even the financial year 1929/30¹ (the financial year in Poland began on 1 April and lasted until 31 March) closed with a surplus of 36 m. zlotys. But this was already lower than in 1928/29, when the surplus amounted to 167 m. zlotys.² In the following years, budget deficits occurred; these lasted up until the end of the

Table 1. Income and Expenditure of the State Budget During the Years 1929/30 - 1935/36

Year	Income	Expenditure	Deficit or Surplus	Income Dynamic	Expenditure Dynamic	Proportion of Deficit in Expenditure Figure
	m. zlotys			1929/30 = 100		%
1929/30	3029	2993	+ 36	100.0	100.0	—
1930/31	2750	2814	— 64	90.8	94.0	2.3
1931/32	2261	2467	—206	74.6	82.4	8.4
1932/33	2000	2245	—245	66.0	75.0	10.9
1933/34	1860	2231	—371	61.4	74.5	16.6
1934/35	2115*	2176	— 61	69.8	72.7	2.8
1935/36	1958	2221	—263	64.6	74.2	11.8

* Inclusive of 175 m. zlotys from the National Loan.
SOURCE: "Mały Rocznik Statystyczny," 1936, p. 265.

¹ For more detail on the financial situation in the precrisis years, see Z. Landau, J. Tomaszewski, *Od Grabskiego do Piłsudskiego* [From Grabski to Piłsudski], Warszawa 1971, pp. 209-230.

² Cf. "Mały Rocznik Statystyczny" [Concise Statistical Yearbook], 1936, p. 265.

crisis. Their levels are given in Table 1, on the basis of official statistics.

Before we go on to draw any conclusions from these data, we should state that the reliability of information concerning budget deficits for certain years provides good cause for doubt. Included in the revenue figures in some cases were receipts which, in accordance with custom, had never previously been treated as budget revenues; included in the 1931/32 budget revenue figures, for instance, was 50 m. złotych' worth of interest-free credit, made available to the treasury at the State Bank of Poland (Bank Polski) on the strength of the relevant regulations of the Bank's statute.³ Similarly, in the financial year 1934/35, 175 m. złotych from payments under the head of internal borrowing were included in the list of revenues,⁴ though receipts from loans were not previously reckoned to the account of budget revenues.

Of course, it was much more difficult to detect deliberate falsification of budget statistics. There is no way of ascertaining if such methods were only applied sporadically or whether they were always used. At any rate, it is known for certain that the statistics for 1931 were falsified. The Marshal of the Sejm, K. Świtalski, wrote in his diary about a secret meeting on 24 February, 1931, of a few leading activists of the faction then governing in Poland: "The purpose of the conference was to consider the question of whether or not the budget deficit should be revealed. For the whole of 1930/31, it will come point-blank to 103 m. złotych. If the economic situation does not change, one can expect the deficit for 1931/32 to amount to about 300 m. We took the following position: we should put out propaganda, first in the press, pointing to the huge budget deficits of other states. And after the propaganda, we should go for revealing more or less half the deficit, that is, about 40 m."⁵

³ *Sprawozdanie Komisji Budżetowej o preliminarzu budżetowym na r. 1931/32* [Report of the Budget Commission on the Budget Estimates for 1931/32], Sejm Rzeczypospolitej Polskiej period III, publication No. 100, p. VII and supplements.

⁴ "Mały Rocznik Statystyczny", 1936, p. 265.

⁵ K. Świtalski's diary, Archwium Akt Nowych w Warszawie [Archives of Modern Records, Warsaw, cited below as AAN], No. II/88 (quoted after *Zapiski Kazimierza Świtalskiego* [Kazimierz Świtalski's Notes], "Kultura", 18 Dec., 1966, p. 6).

This topic was returned to at the Council of Ministers' session of 10 April, 1931. It was then established that a deficit of 53 m. złotych would be shown in the accounts, though in fact the deficit amounted to 97 m., and was covered by increased liability at the state Bank of National Economy [*Bank Gospodarstwa Krajowego*], and by exceptional payments from the Polish State Railways, not shown in the revenues.⁶ Finally, a deficit was revealed in the sum of 64 m. złotych, and thus much lower than the real figure.

The examples quoted do not, of course, allow us to determine the real extent of the deficits, but only serve to testify to the fact that they were larger than the data of the Central Statistical Office showed. There is no means now of accurately determining how great the state's deficit was for the entire period of the crisis. One can only venture to suggest certain hypothetical delimitations. For example, the Deputy-Minister at the Finance, T. Grodyński, put it at 1,487 m. złotych for the years 1931 - 1935.⁷ The distinguished opposition economist, R. Rybarski, believed that the hidden deficit up to 1934 amounted to 344 m. złotych,⁸ which, together with the deficit shown in the official data of the Central Statistical Office, gave a sum of about 1,700 m. złotych.

K. Świtalski, reporting the course of a meeting of former premiers on 9 November, 1935, made a note that premier "Kościalski presented a financial plan based on the reports of Minister of Finance Kwiatkowski. He held a manuscript before him, written in Kwiatkowski's hand, from which it would appear that, after addition of the various sums and claims on the State Treasury which arise from day to day, one can reckon the state deficit at around 2,000 m. złotych in all."⁹

After these remarks, we can now set about analysing the data contained in Table 1. The first conclusion which emerges is

⁶ Protocol of session of the Council of Ministers, 10 April, 1931, AAN, *Protokoły Rady Ministrów* [Protocols of the Council of Ministers], vol. 57 cards 1 - 3.

⁷ T. Grodyński, *Dwadzieścia lat walki o równowagę budżetu* [Twenty Years of Struggling to Balance the Budget], "Polska Gospodarcza", 1938, p. 1576.

⁸ Speech of Deputy R. Rybarski, *Sprawozdanie stenograficzne z posiedzenia Sejmu* [Stenographic Report of the Session of the Sejm],

⁹ *Zapiski Kazimierza Świtalskiego* [Kazimierz Świtalski's Notes], pt. III, "Kultura", 8 Jan., 1967.

5 Feb., 1935, column 15.

a certain delay in the reaction of finances to the general economic breakdown.¹⁰ Budgetary difficulties only emerged in the financial year 1930/31, and thus with a one-year delay in relation to the breakdown throughout the entire national economy; similarly, the low point of the financial crisis was displaced one year in relation to the low point of the industrial crisis. The second conclusion emerging from the table concerns the more rapid drop in revenues than in outgoings, which caused a gradual growth in the deficits up to 1933/34. The third conclusion lies in the assertion that improvement in the budgetary situation took place unusually slowly after 1934/35, which testified to further difficulties in the country's economic situation.

GOVERNMENT CONCEPTS IN THE FIGHT AGAINST THE FINANCIAL CRISIS

During the period of economic breakdown, the function of Minister of Finance was fulfilled, in turn, by Ignacy Matuszewski (up to 26 May, 1931), Jan Piłsudski (up to 5 Sept., 1932), Władysław Zawadzki (up to 12 Oct., 1935), and after him, Eugeniusz Kwiatkowski. The first three propounded the doctrine of economic liberalism, and accordingly saw a possibility of overcoming the crisis in pursuing a deflationary policy and in maintaining the złoty's rate of exchange. This itself imposed upon them the necessity of combating the budgetary deficits, since they threatened to cause inflation, which ran counter to the prescribed tactics for combating the slump.

The anti-crisis policy directions represented by Matuszewski complied with the views prevailing in economic science and practice in other states during the years 1930 - 1931. Zawadzki's concepts, on the other hand, were already anachronistic in comparison with the tactics applied in many states of active stimulation of market conditions. Even one of the premiers directing the government during the period from 10 May, 1933 to 13 May, 1934 admitted this. J. Jędrzejewicz wrote in his notebook: "Whilst it

¹⁰ Z. Landau, J. Tomaszewski, *Wielki kryzys gospodarczy 1930 - 1935 [The Great Depression, 1930 - 1935]*, Warszawa 1982.

is true that the policy of pulling in our belts, of extreme budgetary economies [...] permitted maintaining the rate of exchange, it held up the development of the country's production forces, and reduced necessary investments to a minimum."¹¹

However, Zawadzki did not agree to a change of direction in financial policy. This was confirmed, for instance, by the general budget official within the Sejm for the year 1934/35, Deputy B. Miedziński: "[...] I think the Minister of Finance was perfectly correct in replying to wishes expressed in the course of debate, that the government should finish with so-called deflation and pass on to a liberal credit policy, with the assertion that the government was not practising artificial deflation, whilst it was ready to follow a more liberal credit policy only when conditions themselves point to such requirements."¹² Zawadzki justified his position with economic-theory concepts.

It seems, then, that to the extent that it is difficult to condemn Matuszewski and Jan Piłsudski for the choice of the fundamental direction of finance policy, one should regard Zawadzki's policy that much more critically.

This first Minister of Finance during the crisis period, Matuszewski, favoured maintaining monetary stability,¹³ since he believed that this constituted a fundamental condition for fulfilling the country's basic economic task, which he considered to be internal capitalization. One of the conditions for stabilization of the złoty was maintenance of a balanced budget without resorting to an inflationary issue. The Minister of Finance summed up his credo on the question of budget revenues as follows: "It is best when the state executes taxation, worse when it runs into debt, and worst when, without effort or cost [...] it

¹¹ J. Jędrzejewicz, *W służbie idei. Fragmenty pamiętnika i pism [In the Service of an Idea. Diary Extracts and Excerpts from Writings]*, Londyn 1972, p. 176.

¹² *Sprawozdanie ogólne o preliminarzu budżetowym na rok 1934/35—ustawa budżetowa i ogólne zestawienie preliminarza [General Report on the Budget Estimates for the Year 1934/35—the Budget Bill and General Composition of the Estimates]*, Sejm Rzeczypospolitej Polskiej, period III, publication No. 800, p. V.

¹³ Cf. Z. Landau, *Ignacy Matuszewski (1891 - 1946), kierownik Ministerstwa Skarbu [Ignacy Matuszewski (1891 - 1946), Governor of the Ministry of Finance]*, "Finanse", 1974, No. 5, pp. 49 - 60.

extracts from society the most easily extractable tax—the inflationary tax.”¹⁴ At the same time, he recommended a reduction in budgetary expenditure, and transfer of the financing of lucrative investments from the budget to credit resources.¹⁵ He considered that “Use of all three methods simultaneously would seem the most appropriate thing, since the concerted action of these measures should provide less of a shock for economic life in its effects than the choice of only one path.”¹⁶

Working on the budget for 1931/32, however, Matuszewski chiefly sought cuts in expenditure, including civil service salaries, and pointed to the appropriateness of lessening the burdening of the state in respect of various social and economic services for the benefit of the population. On the revenue side, he introduced minor increases in certain tax obligations, whilst at the same time, he more than compensated for them through the granting of a series of reliefs for industry and export, which was meant to lead to activation of both these departments of the national economy. The Seym introduced minor changes in the budget estimate figures worked out by the Minister of Finance and sanctioned a budget of 2,867 m. złotych on the revenue side and 2,866 m. złotych on the expenditure side.¹⁷

The approved version of the budget was very optimistic, in the light of budget performance for the previous year. For budget revenues for 1930/31 were reckoned at barely 2,700 m. złotych,¹⁸ a figure, then, which was 167 m. złotych less than the estimate figure for 1931/32. At the same time, however, Matuszewski anticipated in his deliberations the possibility that the estimated revenue figures would not be realized in the financial year

¹⁴ I. Matuszewski, *Równowaga budżetu* [A Balanced Budget], in: *Próby syntezy*, Warszawa 1937, p. 255.

¹⁵ *Exposé pana ministra skarbu na Komisji budżetowej Sejmu* [The Finance Minister's Exposé in the Budget Committee of the Seym], “Polska Gospodarcza”, 1931, pp. 198 - 199.

¹⁶ *Exposé pana ministra skarbu w Sejmie* [The Finance Minister's Exposé in the Seym], “Polska Gospodarcza”, 1931, p. 276.

¹⁷ “Dziennik Ustaw Rzeczypospolitej Polskiej” [“Journal of Laws of the Polish Republic”, cited below as DURP], 1931, No. 28, item 188. A broader description of the budget is given by Z. Borowicz, *Budżet na rok 1931/32* [The Budget for the Year 1931/32], “Polska Gospodarcza”, 1931, pp. 579 - 583.

¹⁸ *Przemówienie pana ministra skarbu w Sejmie* [The Finance Minister's Speech in the Seym], “Polska Gospodarcza”, 1931, p. 441.

1931/32, and stated that "The pessimists put the potential figure of our future revenues at 2,500 m. So far, I have not heard a more pessimistic figure. I would agree that this sum, too, can be accepted as a forecast with certain realistic foundations, albeit pessimistic."¹⁹ In the event of a drop in revenues, he intended to cancel a 15% rise in civil service salaries, which would provide a saving of about 200 m., to economize in the state's administrative expenditure by a further 50 m., and to find the 100 m. still lacking in cuts in social services.

The question arises as to why the Minister of Finance submitted a fundamentally unrealistic budget to the Sejm, when he was aware that such was the case. Serving as testimony to this is the fact, for instance, that even in February, 1931, he was considering a deficit of 300 m. zlotys and the necessity of cutting civil service salaries by about 150 m. zlotys in May or June of that year. One might suppose that Matuszewski's conduct arose, on the one hand, from an aversion to upsetting the optimistic outlook on the country's circumstances created since Piłsudski's *coup* in May, 1926, and, on the other, from a lack of ideas on reducing expenditure. He spoke about this expressly in a speech at a conference held in the private apartment of one of the "Sanacja" leaders, on 24 February, 1931: "However, it would be necessary [...] to say in advance which things will not be accomplished, since tactics hitherto have created complete chaos in state administration, which does not really know which moneys it will be operating on in a month's time."²⁰

Matuszewski was a leading spokesman of the concept of "pulling in the belts," which he put into practice by way of cutting the wages of state employees and reductions in administrative expenses. But it is difficult to say how the fate of finance management would have turned out if Matuszewski had stayed longer in the post of head of the Ministry of Finance. For he was relieved of the post quite suddenly in May, 1931.

Jan Piłsudski took up the post of Minister of Finance in a difficult period for finance. He owed his nomination to the simple

¹⁹ *Ibidem*, p. 442.

²⁰ K. Świtalski, Note of 24 Feb., 1931, AAN, call number No. II/88.

fact that, after Matuszewski's departure, Józef Piłsudski wanted to have a ruthlessly dedicated man in the Ministry, and his choice fell on his brother, who had no training whatsoever for this difficult position, though he was fully aware of this. Thus he took up the post unwillingly. Unfamiliar with financial problems, the new minister was forced to continue Matuszewski's policy, that is, cuts in wage and investment expenditure, and the transfer of some of the financing of investments to credits. At the same time, his entourage was struggling hard to combat rumours of a supposed change in finance policy linked with the new minister.

As early as June, 1931, it turned out that the 1931/32 budget required reductions. In that month, the Council of Ministers passed a resolution on limiting expenditure to the sum of 2,450 m.²¹ Alongside cuts in the wages of civil servants, the decrease in expenditure was to be achieved by amalgamation of offices and abolition of superfluous ones, simplification of the cash-accounts system and so on. During this period, the question of ensuring a balanced budget came to the fore amongst the government's tasks.

In the policy pursued by him within the Ministry, Piłsudski was guided by the aim of lightening the load chiefly of those social groups which played a fundamental rôle in the processes of capitalization, that is, of entrepreneurs and the wealthier agriculturalists, and he placed the burden of balancing the budget chiefly on state employees and invalids, whose incomes decreased by 215 m. over one year.²² In the budget estimates for 1932/33, which he presented in November, 1931, a small deficit in the sum of 77 m. was assumed, income being established at a level of 2,375 m., and expenditure in the sum of 2,452 m.²³ In the face of a drop in the yield from current taxation sources, the Minister of Finance proposed to the Sejm a motion on several new laws, which were intended to lead to an increase in treasury revenues of 130 m. At the same time—consistent with Matuszewski's pro-

²¹ Stenographic report of the session of the Sejm, 9 Dec. 1931.

²² *Ibidem*.

²³ Stenographic report of the session of the Sejm, 4 Feb., 1932, supplement, cards 3 - 8.

capital concept—he decreased by 45 m. receipts under the head of industrial tax. The budget was already unrealistic even as it came under discussion in the Sejm. To the numerous objections pointing out that the budget was extremely optimistic in the face of the steady worsening of market conditions, the Minister replied that in agriculture, for instance, there were real signs of improvement in market conditions.²⁴ This was optimism not supported by the facts. Realists put the figure of budget revenues at between 1,900 m. and 2,000 m.²⁵ This view was much closer to reality—as turned out subsequently.

In the face of the continually worsening financial situation, Jan Piłsudski could not carry on managing the ministry. His place was taken on 5 September, 1932 by Władysław Zawadzki, who had previously fulfilled the function of Deputy-Minister of Finance and, temporarily, of Deputy-Premier for Economic Affairs. He had excellent overall theoretical training, since he belonged to the circle of the most distinguished economists of inter-war Poland, but he possessed only modest experience in the field of finance. He thus pursued a policy which rested mainly in implementing certain theoretical foundations which he adhered to as an economist. We can re-create the concept of Zawadzki's budgetary policy on the basis of a confidential memorandum of his, which was meant to explain and justify the finance policy he pursued to the leaders of Józef Piłsudski's camp. This document was elaborated after Zawadzki's departure from the office of Minister.

First and foremost, we should draw attention to the fact that Zawadzki became Minister of Finance during an unusually difficult period. "Thus the situation in autumn, 1932 appeared as follows: after three reductions and cuts in salaries, the budget was still not balanced; economic turnovers and treasury receipts were continually declining; there was a complete lack of liquid reserves; credit was disorganized, whilst solvency, both of private debtors and the taxpayers, fell to its lowest level; all attempts at securing loans from abroad had failed; the surplus in the balance of trade could only be maintained with the greatest

²⁴ Stenographic report of the session of the Sejm, 6 Nov., 1931, card 67.

²⁵ *Ibidem*, cards 75-76.

effort. The deficit was still so great that any further salary-cuts or budgetary reductions in other areas which came to mind could not reverse it."²⁶

Zawadzki started from the basis that the level of the budget deficit now made it impossible to eradicate it merely through applying the methods of his predecessors, that is, by means of salary cuts and capital-outlay cuts. He considered exploration of the possibility of achieving budgetary economies through a reduction in military expenditure to be wrong. The second basic principle was maintenance of parity in respect of the złoty, and of its exchangeability into gold, and the third—absence of the possibility of securing a balanced budget in the short term. For Zawadzki rightly considered that such a course could weaken still further the pulse of economic life. So that his policy consisted in carrying through relatively small reductions in expenditure in different departments of the budget and of state enterprises, together with the simultaneous introduction of various new, rather minor taxes.

On these principles was based the budget estimates for 1933/34, which anticipated revenues in the sum of 2,089 m., and expenditure of 2,449 m., which meant a deficit of the level of 360 m.²⁷ The deficit was to be funded partly by treasury reserves, and partly by credit transactions if necessary. However, if revenues did not come in at the levels estimated, Zawadzki foresaw the necessity of further economies on the expenditure side. The estimates for 1934/35 were constructed on similar lines. These fixed revenues at 2,117 m., and expenditure at 2,165 m.—a deficit of 48 m.²⁸ The deficit was to be funded in a similar way to the previous year. This meant that "in the current phase of the

²⁶ W. M. Zawadzki, *Polityka finansowa Polski w okresie 1931 - 1935* [*Poland's Finance Policy During the Period 1931 - 1935*], prepared for printing by Z. Landau and J. Tomaszewski, "Kwartalnik Historyczny," 1965, No. 1, p. 133.

²⁷ *Projekt ustawy skarbowej na rok 1933/34* [*Draft of the Finance Bill for the Year 1933/34*], "Polska Gospodarcza", 1932, pp. 1332 - 1335; *Preliminarz dochodów na r. 1933/34* [*The Revenues Estimate for 1933/34*], *ibidem*, pp. 1359 - 1360; H. Bronikowska, *Budżet na r. 1933/34* [*The Budget for 1933/34*], *ibidem*, 1933, pp. 329 - 336.

²⁸ Cf. J. Mieszalski, *Preliminarz budżetowy na r. 1934/35* [*The Budget Estimates for 1934/35*], "Polska Gospodarcza", 1933, pp. 1341 - 1346; H. Bronikowska, *Preliminarz budżetowy na r. 1934/35* [*The Budget Estimates for 1934/35*], *ibidem*, 1934, pp. 4 - 9.

crisis, the government considered an increase in the state's liabilities more in order for budgetary purposes than the imposition of new taxes."²⁹

Neither the minor reductions in expenditure—with the exception of military expenditure—nor the introduction of new taxes led to, nor could lead to the securing of a balanced budget. Precisely for this reason—and this is where the novelty of his programme lay—Zawadzki attached great importance to the issuing of internal loans, the issuing of Treasury Notes, and the carrying-through of certain immediate financial transactions. "The shifting of larger payments to a later period came into play here, as well as financial bills of exchange for monopolies or enterprises [...], the transfer of some outgoings to credit transactions, and finally, short-term loans, and bank liabilities if necessary."³⁰ However, this policy, relying on endurance and self-acting improvement in the budgetary situation, under the influence of improvement in overall market conditions in the economy, did not provide the expected results. In the opinion of the Deputy Minister of Finance, T. Grodyński, "Poland's budget stood on the edge of a precipice at the close of 1935."³¹

Precisely for this reason, as early as August of that year, Walery Sławek's government decided to undertake a fundamental change in finance policy to date, in order to avoid a catastrophe. This was meant to lead to rapid achievement of a balanced budget through a violent and radical increase in taxation (of 231 m.), with simultaneous further cuts in expenditure (of 40 m.), and through imposing obligations on the Polish State Railways, the state enterprise of State Forests, and the Post Office to pay all revenues into the budget, without the right of allocating them to investment purposes. This was to lead as an end result to eradication of the deficit, which was estimated at 290 - 300 m. złotych.³²

The government's resolution indicated a break with Zawadzki's ideas up to that time of aiming at gradual curtailment of the

²⁹ The report of the Bank of Poland, 1933, p. 19.

³⁰ W. M. Zawadzki, *op. cit.*, p. 138.

³¹ T. Grodyński, *op. cit.*, *loc. cit.*

³² Cf. W. M. Zawadzki, *op. cit.*, p. 144.

deficit. A significant proportion of the burden of the plan thus elaborated for balancing the budget was to be taxed to the working classes. Zawadzki himself confirmed this, and wrote that the intentions "would introduce significant burdens, which would fall almost entirely on the working world, whilst economic life would carry only a nominal, minor burden."⁸³ Simultaneously, then, the Minister of Finance worked out a proposal whose aim was correction of the distribution of the new taxes, which "were shocking," as he stated. He intended to "find compensation everywhere for the victims, which, to put it another way, was necessary so as to ensure benefits where the victims were, and to require victims where there could be benefits."⁸⁴ In the event, this plan was not implemented by its author, who—as a result of the new disposition of forces within the leadership of the Piłsudski camp—was replaced in the post of Minister of Finance by Kwiatkowski. Zawadzki's plan became the basis of the activity of the new minister.

The characteristic feature of the programmes of the subsequent Finance's Ministers during the crisis period was the granting of primacy to budgetary interests over the interests of the country's economy treated overall. This qualified isolation of financial management had a negative reflection on the tempo of economic life. For the treasury tried to drain the market to the maximum for its own needs. This took place not only with the aid of traditional taxation methods, but also through the securing of internal loans, bank credits and so on. At the same time, treasury outgoings were reduced.

It would appear that the deflationary budgetary policy—representing a reflection of general deflationary concepts, involving spasmodic maintenance of parity in respect of the złoty and the absence of foreign-currency restrictions—merely served to prolong the crisis. From the point of view of the needs of the country, much more beneficial would have been cautious inflationary financing of state expenditure, which would have allowed the activation of economic life. There is no denying the truth

⁸³ *Ibidem*, p. 145.

⁸⁴ *Ibidem*, p. 147.

of what one of the leading publicists of the mouthpiece of heavy industry wrote: "For the measures adopted thus far in combating the crisis, relying above all on securing a balanced budget by way of radical curtailment of expenditure, are admittedly [...] justified from the treasury standpoint [...], but in economic terms [...] must contribute to the compounding of the crisis which they wish to assuage."³⁵

BUDGET REVENUES

We have already established that one of the fundamental features of the financial crisis was a violent contraction in treasury revenues. In 1933/34, when the level of payments reached its lowest level, budget receipts settled at a level 39% lower than in 1929/30. In the following two years, they showed some improvement, but they were still lower than before the crisis. In the first three years of the slump, receipts decreased in comparison with the year immediately preceding, by 9, 18, and 12% respectively. This was a very serious drop.

Receipts from separate revenue sources diminished in varying degrees. Of the basic revenue groups, payments under the head of public taxes fell most, and these, moreover, constituted the most important source of budget receipts. Amongst taxes, too, the trends of changes were multi-directional. The largest decreases were in receipts from the tax on capital and rents and from industrial tax. This testified to the special position of the group of taxpayers connected with industry, which was consistent with the government's pro-capital attitude during the years 1930-1935. A certain synthetic gauge of the changes which were taking place is represented by the index of the proportion of the tax obligations of hired workers in relation to total direct taxation. Whilst this proportion amounted to 9.5% in 1928/29, in 1936/37 it already amounted to 33.6%.³⁶ Indirect taxes, falling chiefly

³⁵ E. R. [E. Rose], *Przegląd sytuacji* [A Survey of the Situation], "Przegląd Gospodarczy", 1932, p. 804. Rose developed this view in his work *Cel i metody walki z kryzysem* [Aims and Methods in Combating the Crisis], Warszawa 1932.

³⁶ AAN, *Ministerstwo Skarbu*, vol. 5612, card 87.

on the working masses, dropped least, whilst the land tax payed in the country even showed a rise, which, in the face of the exceptional impoverishment of agriculture, testified to the one-sidedly fiscal nature of the state's policy.⁸⁷ Of the taxes falling on the bourgeoisie, only the tax on immovables increased.

After all, the government's entire taxation policy had a distinctly class-based character. In an effort to secure the highest possible revenues—in the prevailing conditions of the crisis—for the state, attempts were made to protect the interests of the entrepreneurs, where this was possible.⁸⁸ On the one hand, this involved increases in indirect-taxation rates and the introduction of new indirect taxes (e.g. on electrical energy for lighting purposes, on animal slaughtering, fats, carbonic acid and sugar starch), and the imposition of income tax on combined earnings obtained by those working for more than one employer, and lowering of the tax-free income level, and, on the other hand, the granting of various tax reliefs and exemptions to management spheres. K. Ostrowski, in researching this question, quotes as examples of the policy pursued, abolition of the tax on capital and rents in relation to the majority of capital receipts, lowering of estate duties and gift tax, reduction of the level of taxation in respect of industrial tax, the lumping of this tax for smaller enterprises, the introduction of a joint turnover tax, and elimination in practice of property tax.⁸⁹

⁸⁷ Cf. M. Mieszczankowski, *Podatki rolne w Polsce międzywojennej* [Agricultural Taxes in Inter-War Poland], "Roczniki Dziejów Ruchu Ludowego", 1961, pp. 114 - 158.

⁸⁸ Cf. e.g. R. Baranowski, *Tendencje polskiego prawodawstwa o podatkach państwowych z okresu 1931 - 1933* [Trends in Polish Legislation on State Taxes from the Period 1931 - 1933], in: *Prace seminarium ze skarbowości i prawa skarbowego oraz statystyki*, vol. II, Wilno 1934, pp. 423 - 461; Z. Knakiewicz, *Polityka podatkowa Polski w okresie kryzysu* [Poland's Taxation Policy During the Crisis], "Finanse," 1965, No. 3, pp. 51 - 58; J. Szpunar, *Polityka podatkowa Polski w okresie wielkiego kryzysu w latach 1929 - 33* [Poland's Taxation Policy During the Period of the Great Depression in the Years 1929 - 33], "Roczniki Dziejów Społecznych i Gospodarczych", 1958, pp. 225 - 272.

⁸⁹ Cf. K. Ostrowski, *Polityka finansowa Polski przedwrześniowej* [Poland's Pre-War Finance Policy], Warszawa 1958, pp. 184 - 192; *Finanse i prawo finansowe* [Finances and Finance Law], in: *Historia państwa i prawa Polski 1918 - 1939*, vol. I, Warszawa 1962, pp. 301 - 303; for numerical data on the fall in direct taxes see Z. Landau, *Sytuacja skarbowo Pol-*

Of course, despite the state's protective policy in respect of private capital, treasury needs forced the government to introduce certain crisis increments to existing taxes, even if they should fall on management spheres as well. In 1931, such an increment to the tax on immovables was introduced, and a crisis increment to income tax (which, moreover, affected earned income to a considerably greater degree than unearned income), in 1933—a 10% increment to land tax and industrial tax, and in 1935—an increment to direct taxation (with the exception of land tax), increased from 10% to 15%. Despite all these increments, taxation of the working masses increased relatively during the crisis, with a simultaneous drop in the burden borne by management spheres. The fundamental premise of taxation policy was the securing of revenues indispensable to the treasury. As a tool for activating the country's economy, taxes were exploited to a minimum. The tax incentives for building enterprises introduced in 1933 - 1934 had such a character, for instance.

Although it clearly favoured the ruling classes, the government's taxation policy was constantly criticized by their representatives. For whilst the government was striving to keep expenditure at a certain minimum level—for which it tried to secure funds in the form of taxes, among other things—capital postulated rather a reduction in outgoings and in the taxes necessary to fund them.⁴⁰ The concepts amongst capitalist circles were intrinsically contradictory anyway, since whilst demanding reductions in treasury outgoings, they simultaneously postulated an increase in state orders placed with private industry, support for export, aid for businesses threatened by bankruptcy, and so on. We find demands for cuts in taxation and other mandatory public payments in almost every proposal from persons connected with management spheres. For example, "Leviathan," an organization representing the interests of substantial industrial and bank capital, in its programme published on 6 November, 1932,

ski w latach wielkiego kryzysu gospodarczego (1930 - 1935) [Poland's Financial Situation During the Years of the Great Depression (1930 - 1935)], "Studia Finansowe," 1977, No. 22, pp. 166 - 168.

⁴⁰ Cf. e.g. C. P. [C. Peche], *Druga strona budżetu* [The Other Side of the Budget], "Polska Gospodarcza," 1932, pp. 537 - 538.

demanded abolition of property tax, lowering of estate-duty rates, a reduction of income tax, and of tax-arrear payments.⁴¹ Other organizations representing the world of business interests announced similar postulates. Parallel demands appeared throughout the entire economic press financed by organizations of capital. On many issues, the government followed the line demanded by management spheres, which found expression in the abolition of property tax, and the lowering of death duties and gift tax and of the tax on capital and rents. Of course, the government could not accept the entire taxation programme of management spheres, since its own needs stood in the way of this.

Whilst the ruling classes demanded cuts in taxation encumbering economic activity, the peasant parties postulated a reduction in country payments, and workers' parties opposed a decrease in the wages of state employees and increases in various fiscal obligations. The resolution of 17 September, 1935, passed at the plenary session of the Central Committee of Trade Unions, contained very severe criticism of the deflationary policy. It declared that "the deflationary policy pursued so far, and the decrease in the standard of living of the working class, of white-collar workers and of the peasants which it entails, has brought no improvement at all—despite its application for several years—and on the contrary—it has contributed to intensification of the current economic catastrophe, whilst the totally different policy applied in other countries, of increasing earnings and purchasing power, has in large measure managed to alleviate the crisis in a short time, and to reduce the number of unemployed."⁴²

Tax arrears were a very real problem from the treasury point of view. Their growth caused difficulties in implementing the plan relating to state revenues. Even in the financial year 1928/29, arrears of direct taxes amounted to 414 m. złotych, and in 1934/35,

⁴¹ Cf. [A. Wierzbicki], *Program gospodarczy Centralnego Związku Przemysłu Polskiego [The Economic Programme of the Central Union of Polish Industry]* (as a manuscript), Warszawa 1933, pp. 14 - 16, 20 - 23, 75 - 84, 124 - 128, 131 - 139.

⁴² *Przeciw "deflacji", przeciw drożyznie, o wyższe płace [Against "Deflation", against High Prices, for Higher Wages]*, "Robotniczy Przegląd Gospodarczy", 1935, No. 5 - 11, p. 35.

to 821 m. złotych. The largest items in arrears were unrealized payments of industrial tax (35%), income tax (33%), extraordinary additions to taxes (10%), land tax (7%), and the tax on immovables (6%).⁴³ This meant that the chief debtors to the treasury were the ruling classes. Apart from arrears in state taxes, arrears also grew in self-government taxes—estimated at 230 m. złotych at the beginning of 1934—and in social services, in the sum of 270 m. złotych, and fire insurance (70 m. złotych). Altogether, then, arrears in mandatory public payments amounted to about 1,380 m. złotych.⁴⁴

Growing tax arrears seriously complicated budgetary policy. Therefore the government attempted to find a solution to this problem. In 1931, a plan was put forward which would enable arrears arising before April, 1929 to be payed in kind, where—in order to encourage taxpayers to make use of this form of regulation of arrears—it was proposed that delivery of goods be counted as tax at a figure 10% higher than current market prices.⁴⁵

In 1932, general provisions were issued aimed at easing the payment of tax arrears for farmers and taxpayers paying industrial tax. They took the form of amortizing uncollected arrears and making the payment of other arrears easier. In view of the very limited scope of these provisions, they were significantly extended in 1933.

Industrial circles, however, regarded the new provisions as equally inadequate, which brought about significant broadening of the scope of the reliefs by the Economic Committee of Ministers (Komitet Ekonomiczny Ministrów) in 1933, but even then they did not satisfy certain groups of taxpayers with larger burdens. In 1935, another change came about in the regulations aimed at easing the payment of tax arrears. In many cases, arrears were reduced by 75%, if the taxpayer was discharging his current obligations in respect of the treasury on time.

During the years when market conditions had been favourable,

⁴³ Z. Landau, *Sytuacja...*

⁴⁴ Cf. F. Czernichowski, *Podstawy likwidacji zaległości podatkowych* [*The Principles of Liquidation of Tax Arrears*], "Polska Gospodarcza", 1935, pp. 603 - 605.

⁴⁵ Cf. *Pobór zaległych podatków w naturze* [*The Collection of Tax Arrears in Kind*], "Polska Gospodarcza", 1931, pp. 1387 - 1388.

the state had accumulated considerable treasury reserves, which represented a surplus in the balance of payments. During the period of economic slump, they became a source for partially funding the deficits. According to information from the Minister of Finance at the beginning of 1931, the reserves amounted to 675 m. zlotys. A significant proportion of this sum was frozen in investments of various kinds. Matuszewski estimated that safe assets amounted only to about 400 m. zlotys, of which 140 m. was contained in securities, 75 m. in shares of the Bank of Poland and about 90 m. in the form of cash.⁴⁶ In practice, it turned out that the entire sum of 400 m. zlotys could not be realized. As early as 1 June, 1931, the Prime Minister, A. Prystor, confirmed that "to a large extent, these reserves are frozen in securities, in investments at the state banks and in loans—a relatively small proportion of them are suitable for realization."⁴⁷ The liquid reserves were used up fairly quickly, for whilst at the end of 1929 the treasury had ready reserves of the level of 255 m. zlotys, at its disposal, at the end of 1932, these reserves amounted to only 9 m. zlotys. Similarly, the surpluses in the Finance Ministry's floating capital decreased from 685 m. zlotys in 1929 to 18 m. zlotys in 1936.⁴⁸ Thus, from as early as 1933, the government had to seek other ways of funding the deficit.

Quantification of the budget's contribution to national income is of fundamental importance for an evaluation of the state's income policy. It is estimated that for the year 1927/28, taxation represented about 13.9% of national income.⁴⁹ There are no similar calculations for subsequent years. Therefore we shall make our own attempted estimate. On one side we shall place data relating to the size of national income, and on the other—

⁴⁶ Cf. *Exposé pana ministra skarbu na Komisji Budżetowej Sejmu* [The Finance Minister's Exposé in the Budget Committee of the Sejm], "Polska Gospodarcza", 1931, p. 199.

⁴⁷ *Przemówienie p. premiera Al. Prystora o programie gospodarczym rządu* [The Speech of Prime Minister Al. Prystor on the Government's Economic Programme], "Polska Gospodarcza", 1931, p. 895.

⁴⁸ Cf. A. Ivànka, *Wspomnienia skarbowca 1927-1945* [Recollections of a Treasury Worker, 1927-1945], Warszawa 1964, pp. 265-266.

⁴⁹ Cf. J. Mieszalski, *Wpływ wzrostu budżetów na obciążenie dochodu społecznego zagranicą i w Polsce* [The Effect of Budget Growth on Taxation of Social Income Abroad and in Poland], "Przemysł i Handel", 1929, p. 755.

data relating to budget revenues. Of course, this information will have an illustrative character only, for want of accurate estimates of national income, and since at the same time, budget revenues constituted only a certain proportion of the state's income. The results of this estimate are presented in Table 2.

Table 2. The Proportion of State Budget Revenues within Poland's National Income During the Years 1929 - 1935

Item	Unit	Years						
		1929	1930	1931	1932	1933	1934	1935
Level of national income according to the estimates of:								
Cz. Klarner	} 1000 m. złotys	26.0	22.3	18.6	15.3	13.7	12.7	12.5
Z. Knakiewicz		17.0	13.0	9.8	7.8	7.4	7.2	8.4
Budget revenues		3.0	2.8	2.3	2.0	1.9	2.1	2.0
Proportion of budget revenues within national income according to the estimates of:								
Cz. Klarner	} %	11.5	12.6	12.4	13.1	13.8	16.5	16.0
Z. Knakiewicz		17.6	21.5	23.5	25.6	25.7	29.2	28.6

SOURCES: Cz. Klarner, *Dochód społeczny wsi i miast w Polsce w okresie przesilenia gospodarczego, 1926 - 1936* [The Social Income of the Country and Towns in Poland on the Period of Economic Crisis, 1926 - 1936], Lwów 1937, pp. 20 - 23; Z. Knakiewicz, *Deflacja polska 1930 - 1935* [Polish Deflation, 1930 - 1935], Warszawa 1967, p. 330; "Mały Rocznik Statystyczny," 1936, p. 265.

As emerges from the data in this table—irrespective of whether we take the estimates based on the data of Czesław Klarner or of Zenobia Knakiewicz as being more definitive—it is a fact that in the years of the crisis, the proportion of budget revenues was gradually rising in relation to national income. However, without conducting special studies, there is no means of establishing whether this proportion amounted to 16% or 28.6% in 1935. In any event, the growth in the budget's contribution to national income indicated the increased rôle of the state as redistributor of national income. The state's share in taking over national income passing through the market (and thus disregarding personal

consumption) was particularly large. One of the Polish economists estimated the proportion of receipts from taxes and monopolies per head in relation to total national income per inhabitant at 10.3% in 1929, and 14.2% in 1934, and in relation to national income passing through the market, at 15.4% and 20.7% respectively.⁵⁰ The growing contribution of the budget to national income, together with the falling trend in wages, brought about a decrease in the total amount of monetary resources remaining at the population's disposal. Whilst in 1929 this remainder amounted to 738 zlotys per inhabitant, in 1934 it amounted to only 486 zlotys, which is to say 34% less.⁵¹ We should remember here that, apart from the state budget, municipal budgets and insurance institutions also had a share in the national income. For 1930, their combined contribution was estimated at 36% of the national income.⁵² This brought about a restriction on the population's purchases, which made it difficult to gain the upper hand over the crisis phenomena. For there was no incentive to increase production.

BUDGET EXPENDITURES

The fall in budget revenues was a sign to implement reductions in expenditures where economies affected individual ministries to varying degrees, as Table 3 partly illustrates.

It emerges from Table 3 that whilst average budget outgoings fell by 26% during the years 1929/30 - 1935/36, in some ministries the reductions were smaller, and in others significantly greater. It is difficult to compare data relating to the levels of expenditures of different departments at different periods, in view of the changes introduced at this time in the sphere of activity of individual ministries, and particularly in view of the closing-down of the Ministry of Public Works on 1 July, 1932, whose functions were assigned to other departments, and of the inclusion

⁵⁰ J. Libicki, *Granice opodatkowania* [Taxation Limits], Kraków 1936, p. 53.

⁵¹ *Ibidem*, p. 45.

⁵² Cf. T. Panek, *Kompresja budżetu* [Budget Compression], "Gospodarka Narodowa", 1931, p. 119.

Table 3. Budget Expenditure for the Years 1929/30 - 1935/36 (m. złotych)

Department	Years						
	1929/30 2993	1930/31 2814	1931/32 2467	1932/33 2245	1933/34 2231	1934/35 2176	1935/36 2221
Total,							
comprised of:							
Min. of War	850	776	761	762	762	762	762
Min. of Internal Affairs	253	242	213	195	198	196	197
Min. of Religion and Education	458	440	357	322	321	307	309
Min. of Public Works	160	132	58	38	—	—	—
Min. of Social Welfare	102	135	155	101	107	65	60
Retirement pensions	153	161	156	162	154	161	172
Invalid pensions	156	161	164	132	127	107	105
Debts	251	267	242	188	175	219	219

SOURCE: "Mały Rocznik Statystyczny," 1931, p. 149; 1932, p. 147; 1933, p. 160; 1936, p. 266.

of the Ministry of Agrarian Reforms within the Ministry of Agriculture. In our analysis, we will have to leave aside these changes to a large extent, which will, of course, somewhat detract from the accuracy of our calculations.

Amongst departments receiving special treatment, where reductions in outgoings took on the lowest levels, were the Ministry of War (a drop of 10⁰/o), the Ministry of Internal Affairs (12⁰/o), the Ministry of Finance (26⁰/o), the Ministry of Justice (27⁰/o), and the Ministry of Foreign Affairs (30⁰/o). In turn, the highest expenditure cuts affected the Ministry of Public Works (a drop of 76⁰/o), the Ministry of Post and Telegraphs (67⁰/o), the Ministry of Agriculture and Agrarian Reforms (64⁰/o), the Ministry of Social Welfare (41⁰/o), the Ministry of Communication (36⁰/o), and the Ministry of Religion and Education (33⁰/o).⁵⁸ The budget

⁵⁸ For more detail on changes in expenditure see A. Robaczewski, *Budżety państwowe (administracji państwowej, przedsiębiorstw i zakładów, monopolów i funduszków) w latach 1926/27, 1929/30, 1933/34, 1934/35* [State Budgets (of State Administration, Enterprises and Works, Monopolies and Funds) for the Years 1926/27, 1929/30, 1933/34, and 1934/35], Warszawa 1934, pp. 76 - 77.

of the Ministry of Industry and Commerce shrank by 46% in 1933/34, but then rose rapidly, and in 1935/36 was only 10% lower than in 1929/30. The budget for pensions and war invalid payment, was very much reduced, whilst the increase in expenditure for retirement pensions was related to the rapid increase in the number of people retiring.

If we wanted to draw any conclusions from these data, it would turn out that departments connected with the class functions of the state received special treatment (the military, internal affairs, justice, foreign affairs), whilst expenditure going to satisfy the needs of wide sections of the population was severely affected. The special treatment would become particularly evident if we took into account in our studies the growth in the purchasing power of the złoty resulting from the significant drop in prices. It has been estimated that, on average, the costs of public administration decreased during the years 1929/30 - 1933/34 by 24%.⁵⁴ Under these circumstances, the real expenditures of some departments turned out to be higher than before the onset of the crisis. This applied to the Ministry of War for instance, where the real level of outgoings rose in 1933/34 by 13% in comparison with 1929/30.

Of course, it is difficult to criticise the state's defence expenditure and its attempts to maintain it at a tolerably high level. But the problem arises of whether, in crisis conditions, it was necessary to increase it at the cost of limiting expenditure for other purposes, serving the entire economy and national culture. For we must remember that the reviving of the country's economic life would have resulted in a growth in budget revenues, which would have permitted prospective increases in military expenditure without fundamental damage to other departments of state life.

Serving as testimony of the scale of the problem is the fact that army needs took up 28.4% of the budget in 1929/30, and 38.6% in 1935/36, which arose, among other things, from the fact

⁵⁴ Cf. L. Landau, *Koszt administracji publicznej i obciążenie podatkowe w dochodzie społecznym Polski* [The Cost of Public Administration and Taxation within Poland's Social Income], "Prace Instytutu Badań Koniunktur Gospodarczych i Cen", 1935, No. 3/4, p. 79.

that, during the crisis period, apart from the expenditure estimated in the budget of the Ministry of War, a further 90 m. złotych were allocated to military purposes, the sum being hidden in the budgets of other ministries. Altogether, then, in 1935/36, the military swallowed up 982 m. złotych in real terms, the figure for 1929/30 being only 851 m. złotych.⁵⁵ To make the picture clear, we should also put in that at this period, Poland allotted a greater percentage of budgetary resources to military needs than any other European state. Next on the list were: Lithuania (27%), Romania (25%), Czechoslovakia and Italy (22% each) and so on.⁵⁶ It would seem that an increase in the military budget at the expense of realizing the many other primary tasks of the state might give rise to objection under the circumstances described. It would surely have been more appropriate to maintain military expenditure at the precrisis level, at the same time improving its utilization.

Whilst military expenditure rose, there was a simultaneous fall in educational expenditure. The reduction in expenditure for schooling needs, among other things left an ever-increasing number of children without school education. The lack of financial resources caused an increase in the number of children per class to 60 and over, the combining of several groups in one room, and a decrease in the number of teaching hours.

The endeavours to lower expenditure above all created pressure on investments and on the earnings of employees paid from the budget, retirement pensions and invalid pensions. Thus outgoings on investments decreased by 65%,⁵⁷ and various actions were taken to cut wages and pensions. From the point of view of budgetary management, the appropriateness of a certain decrease in the level of the earnings of state employees cannot be questioned, since, in view of the fall in prices, the real purchasing-power of wages increased during the crisis years. So that, in view of the financial difficulties, there was no cause to increase the real wages of this group of workers in these difficult years. On the

⁵⁵ Cf. *Polskie Siły Zbrojne w drugiej wojnie światowej* [Polish Armed Forces in the Second World War], vol. I, Londyn 1951, p. 142.

⁵⁶ Cf. *The Armament Book of League of Nations 1934/35*, Geneva 1936.

⁵⁷ Cf. L. Landau, *Koszt...*, p. 78.

other hand, the decrease in the real value of wages—and even in 1932, this dropped to a level 10% lower than the pre-crisis level—resulted in negative consequences in the market. The demand for consumer articles fell, which intensified the crisis. The director of the State Institute for Research into Business Cycles and Prices, E. Lipiński, stated that “within the framework of the state budget, salary-cuts for civil servants were a most important tool in deflationary policy [...] Thanks to the rôle which the wages of civil servants and self-government staff played in Poland, this circumstance exerted a direct influence in the fall in prices and wages throughout the entire economy.”⁵⁸

In turn, the reduction in outgoings on investment brought about a fall in demand for capital goods. In these circumstances, the treasury expenditure cuts contributed to a weakening in the tempo of economic life, which was reflected in the level of budget revenues. So that the deflationary policy brought about the impoverishment of society, which compounded the financial difficulties. Knakiewicz rightly states that “the existence of a deficit and its level do not constitute [...] grounds for reproaching financial management. For it is possible to seek after the creation of a deficit through increasing expenditure whose aim would be to stimulate economic development, in order to achieve a growth in national income as a result.”⁵⁹ So that the fundamental error in finance policy lay chiefly in the fact that the government, in struggling to achieve a balanced budget, took no account of the effect of its activity on the overall shape of the country's economic development.

FOREIGN LOANS

The state's growing financial difficulties contributed to a growth of interest amongst government circles in the possibility of acquiring foreign loans for the treasury's needs. This was expressed in the official mouthpiece of the government camp,

⁵⁸ E. Lipiński, *Kryzys a polityka gospodarcza Polski* [The Crisis and Economic Policy in Poland], “Droga”, 1934, No. 10, p. 864.

⁵⁹ Z. Knakiewicz, *Deflacja Polska 1930 - 1935* [Polish Deflation, 1930 - 1935], Warszawa 1967, p. 244.

“Gazeta Polska,” which wrote at the beginning of 1930 that one of the most important problems of Polish credit policy was the attraction of foreign capital into co-operation.⁶⁰ From as early as 1918, this had been a traditional enough area for seeking a solution to financial difficulties. Matuszewski and his government colleagues remained faithful to it. The question of a foreign loan was discussed at a meeting of the leading activists of the Piłsudski faction. “All of us agreed on the need to secure a loan now, and in this connection, Matuszewski said that the instruction of the Commander [Piłsudski—Z.L.] was such that each loan was to be better and more profitable than those preceding it.”⁶¹ Linked to this direction of activity were, for instance, the passing by the Council of Ministers on 1 March, 1930 of a draft law entitling the state enterprise “Post, Telegraphs and Telephones” to secure foreign loans up to the sum of 175 m. zlotys,⁶² or the elaboration by the Minister of Industry and Commerce of a draft resolution of the Council of Ministers, concerned with facilitating the inflow of foreign capital into Poland, in which, among other things, he wrote “The Council of Ministers pleases to resolve: employment of the greatest possible freedom is enjoined in the area of the inflow of long-term foreign credit, both as regards choice of creditor, and as regards the purposes for which credits are to be allocated.”⁶³

The government conducted fairly numerous negotiations on foreign loans at this time. However, the gathering crisis, the growing budgetary difficulties, the contraction in foreign trade turnover, and, following on from this, the difficulties which arose in respect of the balance of trade and the balance of payments,

⁶⁰ Cf. *Bank Gospodarstwa Krajowego a kapital zagraniczny* [The Bank of National Economy and Foreign Capital], “Gazeta Polska”, 5 Feb., 1930; cf. also J. Kaczkowski, *Kapitały zagraniczne* [Foreign Capital], “Kurier Warszawski”, 6 Feb., 1930.

⁶¹ AAN, *Akta Switalskiego* [Documents on Switalski], vol. IV, card 100; cf. also stenographic report of the session of the Seym, 16 Dec., 1930, col. 54.

⁶² Protocol of session of Council of Ministers on 1 March, 1930, AAN, *Protokoły Rady Ministrów*, vol. 50, cards 9, 186–187.

⁶³ Motion of the Minister of Industry and Commerce E. Kwiatkowski to the Council of Ministers of 7 April, 1930. AAN, *Ministerstwo Spraw Wewnętrznych*, vol. 201, file IV.

occasioned more and more reserve on the part of foreigners as regards providing Poland with loans.

In 1930, only an arrangement with the Swedish financier, I. Kreuger, was negotiated for a second match-industry loan. It was fixed that the state treasury would receive a 6.5% loan of 32.4 m. dollars gross, from which, however, the still unpayed portion of the first match-industry loan from 1925 would be deducted—to the tune of over 4 m. dollars. This arrangement was unprofitable to Poland, for it meant the prolongation by 15 years of a Swedish firm's leasing of the Polish Match Monopoly, an increase in the price of matches, the taxing of lighters (so that they did not compete with matches), the returning to the Swedes of the monopoly on making semi-manufactured articles for the production of matches, lumping of taxes and so on. The profits gained by the Polish state were not commensurate with the costs, particularly as the loan cost 9.44% annually without privileges. Despite this, the government resolved on concluding the agreement, since the treasury urgently needed an injection of cash, and the Bank of Poland foreign currencies, reserves of which had contracted as a result of the withdrawal from Poland of foreign investments and credits. At the same time, the overall condition of Polish-Swedish relations forced the government into conceding to Kreuger. In consequence, however, the loan brought about a violent drop in the use of matches in Poland, and was thus reflected in the profits of the treasury, since budget revenues drawn from the match monopoly decreased.

At the beginning of 1931, the Franco-Polish Railway Society was founded, to which the government gave concessions for completion of construction and for exploitation of a railway line connecting the coal-basins with the port at Gdynia. To cover the costs of construction, the society was to secure in France a loan in three instalments for 1,100 m. francs, with a guarantee from the Polish government. In 1931, 400, m. francs' worth of credit (about 129 m. zlotys) was acquired for this purpose, at the official interest-rate of 6.5%, but according to the government's calculations, the real interest-rate—without the costs of the privileges granted to the French group—amounted to 9.37%. The additional costs were very excessive, however, for the French entrepre-

neurs received 15⁰/₀ interest from sums spent on carrying out the construction, for instance, which raised the actual cost of the loan to 11 - 12⁰/₀. In the view of opposition deputies, the loan was meant to liberate a certain sum in the budget, so that this might be allocated to "patching the holes."⁶⁴ In the same year, a loan of £650,000 (at 8.5⁰/₀) was secured with the firm of "Telephone and General Trust Ltd" for extension of the telephone network.

However, as early as 1932, it was impossible to obtain any foreign loans. The Minister of Finance, Jan Piłsudski, confirmed this at a budget discussion, saying "we should take advantage of the proposition of one loan or another if conditions allowed us to, but today we can not count on this."⁶⁵ Even the second instalment of the French railway loan expected that year did not materialize. Only in 1933 was an agreement favourable to Poland concluded, with English firms, on very modest credit amounting to £1.98 m. for electrification of the Warsaw railway junction, and, in 1934, £4.8 m. for modernization of the brakes of the rolling-stock of the Polish State Railways. Both these credits were of a cash and goods nature, and afforded discernible economic results. They also allowed the transfer of a portion of the Polish State Railways' revenues to the state budget.

During the years of the crisis, there was a decrease in the Polish state's liabilities in respect of foreign loans. On the one hand, this resulted from systematic repayments and from the fact that no new loans were secured, and on the other, from the devaluation of some currencies in which credits had been obtained. Thanks to this, liabilities decreased in terms of zlotys. Poland serviced all issue debts normally during the years of the crisis. However, it took advantage of the Hoover moratorium concerning the postponement of war-debt repayments. Only from 1935 was the capital of the "relief" debt in respect of neutral countries paid off. However, the necessity of servicing the debts of the pre-crisis government, without the possibility of securing new, profitable foreign credits, was a great burden both to the budget

⁶⁴ Stenographic report of the session of the Sejm, 24 April, 1931, col. 47.

⁶⁵ Stenographic report of the session of the Sejm, 4 Feb., 1932, col. 7.

and to the balance of payments. This forced the Polish state into large-scale application of the practice of dumping in foreign trade. For this was the only way of gaining foreign currency for discharging obligations abroad. The servicing of foreign debts also constituted a heavy burden on the expenditure side of the budget, but it did not seem possible at the time to make any reduction as yet.

INTERNAL LOANS

During the years 1930 - 1932, the government chiefly sought the possibility of funding budget deficits through foreign loans, and not through loans issued on the internal market. At this time, internal liabilities had increased relatively insignificantly, though it is difficult to accurately establish their real level. According to the "Mały Rocznik Statystyczny" ["Concise Statistical Year-Book"] 1939, 61 m. złotych were secured on internal credit (disregarding repayments) in 1930, 24 m. in 1931, and 33 m. złotych in 1932.⁶⁶ However, the "Mały Rocznik Statystyczny" 1937 gives different figures: 61, 22, and 13 m. respectively.⁶⁷ These discrepancies emerged from the arbitrary way in which the real internal liabilities of the state were disclosed. M. Ciechocińska, who has studied this question, writes: "The Ministry established the level of liabilities in an arbitrary way, depending on the needs of current policy. Hence the discrepancies in data published by different institutions at the same time."⁶⁸ As an example, the author states that whilst, for instance, the "Mały Rocznik Statystyczny" 1936 put the level of liabilities as at 1 January, 1933 at 540 m. złotych, the sum of 998 m. złotych was disclosed in the *Seym*; the corresponding figures for 1 January, 1934 are 660 m. and 1,142 m., and for 1 January, 1935—1,346 and 2,038 m. złotych. We should add that sometimes, essential discrepancies also existed between successive issues of the "Mały Rocznik Statystyczny."

⁶⁶ Cf. "Mały Rocznik Statystyczny", 1939, p. 373.

⁶⁷ Cf. *ibidem*, 1937, p. 353.

⁶⁸ M. Ciechocińska, *Pożyczki wewnętrzne emitowane przez rząd polskie w latach 1933 - 1939* [Internal Loans issued by the Polish Governments During the Years 1933 - 1939], "Najnowsze Dzieje Polski. Materiały i Studia z Okresu 1914 - 1939," 1960, No. 3, pp. 86 - 87.

For example, the "Mały Rocznik Statystyczny" 1934 put internal liabilities as at 1 January, 1934 at 630 m., but the "Mały Rocznik Statystyczny" 1935 put them at 759 m. złotych.⁶⁹

In the years 1930 - 1932, internal liabilities increased by barely 30 m. złotych, after deduction of repayments.⁷⁰ Amongst the transactions completed in these years, one can mention the issue in 1930 of a few minor loans of little significance for the expenditure side of the budget.

Only Zawadzki, consistent with declared concepts, turned greater attention towards the appropriateness of taking advantage of internal loans for funding budget deficits. To some extent, he was forced to take this step, in view of the fact that all other available sources for acquiring money for the treasury had been exhausted. In 1933, 116 m. złotych were obtained from internal loans (without deducting repayments), in 1934—629 m. złotych, and in 1935—174 m. złotych.⁷¹ These were partly issue liabilities, partly liabilities resulting from the issue of treasury notes, and partly liabilities arising from the securing of loans from other sources. These loans were of fundamental importance in funding budget deficits, but at the same time indicated an increase in the draining of the monetary market by the state.

On 5 November, 1933, an order was given from the President of the Polish Republic on the issue of a 6% internal loan to a nominal value of 120 m. złotych in gold, the so-called National Loan. Although it was officially voluntary, the fact of the matter was that this loan had a compulsory nature for many sections of the population.⁷² Thus subscriptions reached 339.5 m. złotych and almost tripled the sum originally planned. "The possibility of so easily acquiring a sum three times larger than that intended, and thus guaranteeing the funding not only of the current deficit,

⁶⁹ "Mały Rocznik Statystyczny," 1934, p. 198; *ibidem*, 1935, p. 238. Cz. Klarner gives other data still in the book *Długi państwowe Polski* [Poland's State Debts], Warszawa 1939, p. 19.

⁷⁰ Cf. I. Weinfeld, *Skarbowość polska* [Polish Finances], 4th ed., Warszawa 1933, p. 116.

⁷¹ Cf. "Mały Rocznik Statystyczny," 1939, p. 373.

⁷² Cf. e.g. M. Ciechocińska, *op. cit.*, p. 60; K. Ostrowski, *op. cit.*, p. 225.

but also of the following one, was fascinating."⁷³ Therefore the government raised the issue sum to 350 m. złotych. This turned out to be a mistake, since it drained the population's monetary resources to an excessive extent, with loss of current consumption; for the loan was generally paid from current incomes. Zawadzki himself acknowledged this mistake *post factum*, writing: "the proper course would have been to stop at the original sum [...] this way would have considerably raised the state's credit, and would possibly have allowed for the issue of a second loan within a short space of time."⁷⁴

In the same year, the special bonds of the Investment Fund were issued. This was a personal initiative on the part of the Polish President, Ignacy Mościcki, who believed that investment bonds would create a new currency circulating in Poland, and resolve all her monetary troubles. The issue was fixed at 100 m. złotych. In 1935, liabilities under this head amounted to barely 6.4 m. złotych, which testified to the ill-success of the whole campaign

In view of the fact that in 1935, resources from the National Loan were exhausted, it was resolved to issue a new 3% Premium Investment Loan. Officially its purpose was meant to be the financing of state investments (road extension, river regulation, extension of the merchant fleet). "These intentions were not realized. The budget deficit stood in the way, absorbing the sums obtained from the issue."⁷⁵ In this case, too, thanks to the partly compulsory nature of the loan, the subscription reached a higher level than was planned. The Premium Investment Loan had less of a draining character than the National Loan, however, since 50% of it could be paid with bonds from the National Loan. In the final analysis, the subscribers declared 161 m. złotych in cash and 77 m. in bonds from the National Loan. Apart from this, some treasury notes were issued in 1933—these were short-term pledges (in general for 3 - 12 months) of the treasury to purchasers. The upper limit of the issue was initially fixed at 200 m. złotych,

⁷³ W. M. Zawadzki, *op. cit.*, p. 138; AAN, *Protokoły Rady Ministrów*, vol. 67, cards 539 and 613.

⁷⁴ W. M. Zawadzki, *op. cit.*, p. 138.

⁷⁵ M. Ciechocińska. *op. cit.*, p. 69.

but was later raised to 650 m. The notes afforded purchasers a certain amount of interest, and to a considerable extent served the banks for the location of surplus financial resources temporarily free. In 1933, the treasury obtained 108 m. zlotys under this head, in 1934—91 m., and in 1935—100 m. zlotys.⁷⁶ In this case, too, a portion of the issue was allotted to funding budget deficits, and only some went on investment.

Whilst foreign liabilities decreased during the years of the crisis, internal liabilities rose very significantly. Whilst they amounted to 477 m. on 1 January, 1930, they already amounted to 1,705 m. zlotys on 1 April, 1936.⁷⁷ This meant an increase in liabilities of 257%. To a large extent, the liabilities went towards funding the deficit.

As emerges from this short survey, the Great Depression which affected the whole of Poland's economic life during the years 1930 - 1935, did not bypass either the finance system. In turn, the financial crisis, deepened by the government's faulty policy on many issues, led to additional difficulties in the state's economy. However, we must be clear in our minds that in the conditions of overall economic slump, it was impossible to avoid financial difficulties. But the point is, that possibilities existed for at least partially limiting their ruinous consequences, occasioned in particular by feverish adherence to a deflationary policy.

(Translated by Phillip G. Smith)

⁷⁶ Cf. "Mały Rocznik Statystyczny," 1939, p. 373.

⁷⁷ Cf. Cz. Klarner, *op. cit.*, p. 40.