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## Colonial expansion or vital assistance? French capital and interwar Poland

The acquisition of foreign capital remained a perennial goal of consecutive governments of the Second Polish Republic, a goal which characterized the new state's foreign economic policy. It remained important throughout the interwar period, although its strength somewhat diminished after the first difficult years of Polish independence.

French capital, both in the form of government loans and private investments, achieved particular importance, representing some 20% of all foreign investment. While American control over the economy of Poland was greater numerically (Landau and Tomaszewski, 1964, p. 21), Paris played the double role of a primary ally and critical contributor of capital. This twin contribution did strengthen some parts of the Polish economy, *inter alia* by allowing the capital-poor state to pursue investments in infrastructural bottlenecks (Widernik, 1984; Szmidtke, 2005). At the same time, however, it allowed France to force important concessions from its eastern ally. Enjoying the protection of Quai d'Orsay and other privileges, French companies were able to take control of significant rents in the Polish economy, and often defy Polish law. This process of increased economic control introduced by France in Central and Eastern Europe based on Paris' geostrategic position has been called the "imperialism of the poor" (Soutou, 1976). In Polish historiography this process was thoroughly condemned, with Polish policy generally viewed as a series of costly mistakes.

In the article I argue that both of these interpretations need to be reconsidered. While French actions were indeed a form of imperialism, it needs to be noted that in most cases Poland was the initiating party, rather than simply the object of imperialistic aggression. Moreover, while French capital was costly, Polish attempts at attracting it were both relatively successful, and, in many cases, indispensable to the Polish economy.

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To achieve this, I will answer three questions. First, what were French reasons for investing in Poland, and Polish objectives when looking for French capital? Second, how did Poland's stance towards economic support from its Western ally change? Third, what were the positive and negative consequences of the presence of French capital in interwar Poland? These three questions will be discussed in the three consecutive parts of the paper.

As this paper argues for the need to reinterpret conventional narratives on French engagement in Poland, it is primarily based on a new analysis of the most relevant existing literature. This is coupled with a study of two groups of sources: French archival documents located in the Archives Diplomatiques in La Courneuve, and Polish coverage of the largest French capital-related conflict in interwar period in 1932. Due to the length of the article, references are kept at a minimum. Methodologically, the paper belongs to economic history, and is based on the document analysis. I believe this approach, rather than cliometrics, is better suited for the selected topic. On the one hand, the questions I pose require a study of diplomatic and political matters, and not quantitative data, on the other, due to the destruction of interwar archives, and the scarcity of estimates of macro- and microeconomic Polish interwar indicators, the data itself is hardly usable.

In French historiography, the topic has been best tackled in two unpublished PhD theses by Christophe Laforest (2001) and Mylène Mihout-Natar (2002). The latter in particular provides a comprehensive bibliography. In Polish writing the issue is less studied. The best work on the subject, by Zbigniew Landau and Jerzy Tomaszewski (1983), concentrates on a single French investment in the textile plant in Żyrardów, but contains an investigation of its context.

## REASONS BEHIND THE PRESENCE OF FRENCH CAPITAL

There were three main sources of broadly defined French capital in the Polish economy. Some private investments, mostly in heavy industry, coal mining, and oil extraction, took place before World War One, amounting to about 380 million gold francs. To these there were added new private engagements of c. 600 million gold francs in the interwar period. Their focus was similar, with important outlays in Silesian and Galician mining. Finally, the French state provided significant loans to its Eastern ally, primarily for military expenditure (Łaptos, Majewski, 2013; Mazur, 2013), and for financing the process of taking over German-owned companies in Silesia. "Skarboferm" – the largest coal mining company in Poland through much of the interwar period – was the principal example (Szmidke, 2005).

Much of French private investment was done in co-operation with the French government, which negotiated with its Polish counterpart. According to Christophe Laforest (2001), Quai d'Orsay had three main goals. First, France tried to use the post-war geopolitical circumstances to forge a strong position in Poland and weaken

German influences in the country. Many French actions in Silesia can be directly linked to this goal (Wala-Menou, 2011). Second, Quai d'Orsay aimed to strengthen Polish dependency on France in order to guarantee the existence of the French–Polish alliance in the future. Finally, France tried to help stabilise the economic situation in Poland, and thus improve the usefulness of its Eastern ally. Consequently, there were both French government-led loans, and support of Hôtel Matignon and the palais de l'Élysée for the entrance of private capital. In the latter case, Polish concessions were not only used to strengthen already existing French companies in Poland, but also as a way of luring French capital to engage in the East with the prospect of extraordinary profit, despite the perceived risk.

French engagement in the Galician oil industry requires further discussion. French companies had invested heavily in the region before World War One and returned with additional outlays once hostilities had ended. In total, Poland's Western ally controlled some 70% of capital in the oil extraction industry. This engagement, with noticeable government support, formed part of a wider French energy policy in the region. After the experience of the Great War, France saw Polish oil fields, together with extraction in Romania, as strategic resources for her energy needs (Mihout-Natar, 2002).

Such a state of affairs – together with the huge asymmetry in power between the two countries, would suggest the clear leading role of France in these investments, nonetheless, Poland often remained the initiating party. This can be seen on many levels, perhaps most clearly in the Paris mission of professor Artur Benis in 1920 (Landau, Tomaszewski, 1959), when Warsaw tried to win Paris' support in Silesia through a series of concessions. In the case of the Bank of Silesia, the primary reason for the French engagement was the fear that the Poles would find other partners for their projects<sup>2</sup>.

The reasons for the Polish initiative were threefold. In the early 1920s, the primary motive was the need for money for reconstruction and taking over companies previously owned by the Central States. Starting from the mid 1920s, capital was needed for major investments, such as the coal trunk line, the harbour in Gdynia, and, just before the Second World War, the Central Industrial Basin. Finally, loans were necessary for financing the Polish military. In all three cases French capital played an appreciable role. Polish concessions were thus a consequence of the significant demand for capital, the asymmetry of power between the two states, and the generally difficult situation of creditor countries in the interwar period (Nötel, 1986).

More generally, the lack of capital in Poland was consistently considered a major obstacle to development. Attempts at attracting investors at least partly characterized financial policy in the 1920s, and remained visible in the next decade. In 1938

<sup>2</sup> Archives Diplomatiques, La Courneuve, Ministère des Affaires étrangères, Correspondance politique et commerciale / Z-Europe / Pologne, 220, Note from 15.03.1921, f. 23.

Leopold Wellisz published a book on foreign capital in Poland. Aimed at an international audience, with a foreword by money doctor Edward Hilton Young, it is read today almost like an advertisement – a tool for getting more foreign investment.

### POLISH POLICY TOWARDS FRENCH CAPITAL

Throughout the interwar period, the Poles were forced to accept the asymmetrical demands of Paris. To understand this acceptance, it is useful to turn to Robert D. Putnam's modelling of international negotiations as a two-level game (Putnam, 1988). In this model, any agreement between states depends on two factors. First, negotiators from the countries in question try to come to an understanding. Later, this agreement has to be accepted on their respective political scenes. Acceptance can mean formal ratification in a democratic republic, or just the lack of dissent in an authoritarian state; a negotiator knows that he can only agree to an outcome that will be ratified. This seems like a paradox. The stronger the negotiator's position at home – i.e. the more he can count on ratification – the weaker he is in the negotiations, since his opponents know that he can force the acceptance of a larger set of outcomes. Likewise, the more difficult the domestic situation of the opposing side, the larger concessions they are, *ceteris paribus*, willing to make.

This model is easily applicable to the Polish-French interwar experience. In the early 1920s the desperate situation of the Polish state meant that almost any French demand would be accepted. Thus, the Third Republic was able to gain significant concessions, and the Polish reaction was reduced to grumblings among the politicians. In later years, as the pressure on Warsaw lessened, so did the power exerted over it by Paris. This was visible when in 1925 the Poles declined to receive the fourth instalment of a military loan (Laforest, 1999). After Józef Piłsudski's coup of 1926 the Polish government became stronger, but the economic development during the boom years until 1929 made significant French investments unnecessary (except for the harbour in Gdynia). The two-level aspect of negotiations is also present. The French side sometimes used the necessity of parliamentary ratification of treaties as a tool in negotiations. The same tactic could not be used by Poland in the early 1920s, when the very existence of the state was under attack, and after the 1926 coup, which allowed Piłsudski to pursue his own directions in the foreign policy.

The Great Depression brought further developments. On the one hand, a beleaguered Poland sought French assistance once again – and did indeed receive some, although less than had been asked for. On the other hand, as Landau and Tomaszewski (1964) argue, the weakening of the Polish-French alliance meant, that a firmer stance against some of the most egregious abuses of French capital in Poland could be taken by the government. They can be partially interpreted as a lightning rod for public anger during the height of the Depression. Hence came harsher treatment of

French capital, something which its American or British counterparts did not experience. In the two strongest reactions, the Polish state took over two French-owned companies and arrested some of their top-level management.

The change is easy to date. When in April 1932 the Swiss director of one of these companies (the Żyrardów textile plant) was killed by a disgruntled ex-employee, the government suppressed some of the more radical press coverage of the happenings in the factory, called by the left-wing press ‘a colony of foreign capital in the heart of the Republic’ (Obarski 1932). Interestingly enough, the killer was sentenced to only 5 years in prison, and was released after serving only two. When the conflict re-emerged in 1934, the broad coverage in the semi-official „Gazeta Polska“ reminded French diplomats of a state-coordinated press campaign (Dąbrowski, 2014). A similar change can be seen in regard to the Warsaw electric plant, where the French abused their pre-World War One ownership to demand excessive electricity prices. It can be argued that this change was part of a wider move towards economic nationalism by the Second Polish Republic (David, 2009).

It is interesting that this conflict took place at the same time as Warsaw and Paris co-operated in monetary matters, as members of the Gold Bloc. Starting in July 1933 both states redoubled their resolve to stay on the interwar Gold Standard. This decision had vastly different contexts in both states. Paris was a major lender, and the devaluation of the franc would incur significant losses for its financial sector. Warsaw, on the other hand, was a creditor, with its loans denominated in foreign currencies. Both states were joined in their inflationary experience in the 1920s, and both paid a heavy price for the deflationary policies required to stay on gold (Bernanke, Mihov, 2000). It is doubtful whether their cooperation in the Bloc, which lasted until 1936, had any relation to activities of French capital in Poland.

Soon after the death of Józef Piłsudski in 1935, the Polish-French conflict abated, and France once again emerged as a beacon of hope for the Poles. As negotiations for the Rambouillet loan proceeded, Poland was forced to accept the dominant French position once more, and conceded in both the Żyrardów, and the Warsaw electric plant conflict.

#### CONTRIBUTIONS OF FRENCH CAPITAL AND THE PROBLEMS IT CAUSED

It is difficult to separate the loudest scandals from the history of other forms of French presence, often more benign, since the former have dominated the Polish historical sources. It is clearly visible in multiple publications of Zbigniew Landau and Jerzy Tomaszewski, who studied the various forms of French presence, from loans (Landau, 1961), through negotiations, to the operation of French-owned companies. These authors paint a bleak picture, in which the activities of French capital, like those of capital from other countries (Landau, Tomaszewski,

1964, p. 9) were a significant factor which contributed to the poor results of the Polish economy in the interwar period. This was caused mainly by quasi-colonial policies of foreign-owned companies – exploitation of the workforce, lack of investment, concentration on short-term profits, and the transfer of these profits abroad. These companies often avoided paying taxes by window-dressing, and flouting the law. During the Great Depression, foreign-owned companies were quick to pull out of Poland, contributing to the dramatic fall of production and rise of unemployment. French capital was notorious for its state-defying actions even in the generally lawless landscape of foreign capital presence in Poland. This stemmed from the significant power of French lobby groups, which translated into much arm-twisting performed on their behalf by French diplomats in Warsaw.

This model of speculative, pro-cyclical, short term-focussed investment brought with it few of the advantages traditionally associated with the inflow of capital, such as positive spill overs. French investments were typically insular, concentrated on the rapid generation of profit, often (as in Galicia or Silesia) through the extraction of resources.

The composition of French investment – with important outlays into mining, and infrastructure which allowed the exportation of said resources – ostensibly followed the pattern of pre-war colonial investment. Some commentators did not shy away from this comparison, declaring French actions colonialism (ironically, this happened at the same time as some Poles pushed for the country's own colonial expansion (Kowalski, 2010)). This notion found its parallels in language – as Maria Pasztor notes (1999), French elites would describe the Poles as “big children“, “savages“, and “Eastern“, replicating colonial tropes.

This picture is overly negative. As Rudolf Nötel states, while foreign capital ‘added almost nothing to the solution of the agonizing problem of industrialization in [the less industrialised states of Central and Eastern Europe – JŁ], it effectively promoted structural adaptations to changed territorial patterns and rapidly advancing industrial technologies’ (Nötel, 1986, p. 287). In the difficult 1930s, intra- and inter-enterprise co-operation offered by foreign capital somewhat mitigated the disintegration of international economic ties.

More importantly, it was thanks to the availability of French capital, limited as it was, that Poland was able to take control of important mines and factories formerly owned by Austrian and German capital. While the actions of some French capital owners proved detrimental to the cause, as they protected German owners in Silesia, nonetheless, without capital from the West it is difficult to imagine the functioning of such effective enterprises as „Skarboferm“. Polish profits would have been greater had the new state taken direct control of more production facilities, but such a scenario was not feasible directly after World War I.

There were also some more direct positive consequences of French presence in Poland. The two most obvious examples can be found when considering the financing of the most important Polish infrastructural investments of the in-

terwar period. Both the harbour in Gdynia (the largest construction project taken abroad by French capital in the interwar period), and the coal trunk line, indispensable for Polish foreign trade, particularly during the difficult years of the Great Depression (Łazor, 2017), were completed thanks to French capital. French engagement in these endeavours can be linked to the last of the three goals pursued by Quai d'Orsay: stabilizing the Polish economy, in order to create a viable ally in the East. Both could also be considered to have been aimed at weakening Germany.

## CONCLUSIONS

In French-Polish relations, Poland played the role of the junior ally, and in interwar diplomacy, as ever, juniors had to pay respect to their elders. In this particular case, respect translated into a series of concessions, which cemented significant French presence in the Polish economy. French actions were seen by some in the interwar period to be a form of colonialism. Nonetheless, the quasi-colonial expansion did not constitute the main thrust of French investment in interwar Poland. I have argued that it should rather be interpreted from the Polish perspective as a necessary concession, unavoidable by a peripheral state in the interwar period. Arguably, without some crucial French investments, Polish governments would have found managing the newly-created state an even greater ordeal.

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### Summary

France was a major source of foreign capital for interwar Poland, both through government loans, and private investment. The French presence was particularly strong in the extraction and paper industries, in energy production, and in banking. French engagement was partly a consequence of

the alliance between the two countries, and can be seen as an element of France's security policy in the East. Poland was forced to give its ally costly concessions, including special treatment of French companies. Hence, Poland can be seen as the object of quasi-imperial expansion, and in the interwar period the left accused France of colonial policies. Nonetheless, Poland remained the initiating side of many negotiations with the French. In Polish historiography this economic foreign policy towards France is often interpreted as a series of costly mistakes. Considering the difficult situation on interwar financial markets, Polish policy can be seen, however, as successful, as it allowed the new state to achieve many of its goals. These included taking over German companies in Silesia, significant investments in infrastructure (including the harbour in Gdynia and the coal trunk line), and outfitting the Polish army. The high cost of French capital was a consequence of the asymmetry of power, and the large needs of the new state.

*Keywords:* Poland, France, foreign investments, interwar period, foreign capital.

## **Eksplansja kolonialna czy konieczna pomoc? Francuski kapitał i międzywojenna Polska**

### *Streszczenie*

Francja była kluczowym źródłem kapitału zagranicznego dla międzywojennej Polski, tak poprzez pożyczki dla państwa, jak i inwestycje prywatne. Francuzi byli szczególnie silnie obecni w przemyśle wydobywczym, papierniczym, w produkcji elektryczności i w bankowości. Francuskie zaangażowanie było częściowo pochodną sojuszu między obydwoma państwami i stanowiło wyraz polityki bezpieczeństwa III Republiki. Stroną inicjującą rozmowy w tym zakresie byli jednak z reguły Polacy, którzy za udział Francuzów zmuszeni byli słono płacić politycznymi i gospodarczymi ustępstwami. Choć takie polskie decyzje były krytykowane, w trudnej sytuacji okresu międzywojennego dostęp do kapitału na nawet tak niekorzystnych warunkach był dla warszawskich rządów konieczny. Dzięki francuskiemu zaangażowaniu udało się nie tylko formalnie przejąć dawne niemieckie przedsiębiorstwa, ale również podjąć najważniejsze inwestycje państwowie w okresie międzynarodowym – budowę portu w Gdyni oraz magistrali kolejowej. Pieniądze francuskie były też konieczne dla uzbrojenia polskiej armii. Tak negocjatorzy francuscy, jak i prywatni przedsiębiorcy znad Sekwany działały w Polsce z pozycji siły. W polskiej prasie pojawiały się oskarżenia zachodniego sojusznika o działania kolonialne. W czasie rozluźnienia sojuszu w ostatnich latach wielkiego kryzysu władze polskie podjęły bardziej zdecydowane stanowisko wobec Francuzów. Wyrazem był m.in. konflikt wokół Żyrardowa i elektrowni w Warszawie. Ostatecznie jednak starania o pożyczkę z Rambouillet przesądziły o wygaszeniu konfliktów przez stronę polską.

*Słowa kluczowe:* Polska, Francja, kapitał zagraniczny, okres międzywojenny, inwestycje.

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