

# **A STUDY OF THE INTER-WAR ECONOMIES OF POLAND AND ROMANIA**

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## **Abstract**

The present economic crisis has highlighted a country in transition to a market economy, which has not experienced economic recession: Poland. The Polish experience cannot be overlooked because the country's positive economic evolution was completely different from the evolution of the largest European economies, many of them facing distressful situations for long periods of time.

The question to be addressed in this paper is „Could the present economic realities be partially influenced by the historical evolution of a country?“ In an attempt to provide an answer to this question, the present paper will highlight the social and economic developments in Romania and Poland in relation to developed countries for the period 1918-1938 and will conduct a comparative analysis between the two countries. The conclusions of the present study will be the starting point in a comparative analysis of the two countries in the post-war period.

**Key words:** inter-war period, economic development, comparative analysis, Romania, Poland

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## **Introduction**

The general terms for the development of Poland and Romania during the inter-war period, and implicitly the economic framework, were influenced by two decisive circumstances: (1) the balance of the World War I, including all its immediate consequences, as well as the major changes it caused or triggered for a long period afterwards and (2) the foundation of national states, which now disposed of more resources and possibilities, and whose economic policies confronted with a better situation compared to the one existed in the pre-war period.

Overall, the economic development of Poland and Romania, and the consolidation of their productive forces, have recorded an outstanding progress and determined a series of important transformations in the economic and social life of the two countries. In the inter-war period (1918-1938) the two countries experienced a similar evolution, passing through many stages. In the period between 1919 and 1922, the destructions caused by the World War

I were still being felt; the interval 1922-1928 corresponds to a rather shy development, when the reconstruction of each country's economic potential takes place and their industrial and agricultural potential increases progressively, followed by a political and economic unification process. The years between 1929 and 1933 were affected by the great economic crisis, which was characterized by high inflation rates, increased levels of unemployment and poverty. The period between 1934 and 1938 was the period of economic re-launching of Romania and Poland, due to protectionist economic policies and to state intervention in the economy, but none of them could recover the gap as opposed to the continent's developed countries.

The aim of this paper is to provide an answer to the question of whether a country's current economic situation can be explained by means of its historical evolution. We try to come up with an answer to this question by comparatively analyzing Romania and Poland during the inter-war period and searching for possible causes of their different evolutions so far in their manner of development between the two world wars. The paper is structured as follows: Chapter 1 provides a general view of Poland and Romania during the inter-war period and Chapter 2 briefly analyses the two countries' economies during the same time frame. We conclude by accentuating on the peripheral character of both countries' development in the inter-war period and on the lessons to be learned from here for their current economic situation.

## **1 A general view of Poland and Romania during the inter-war period**

### **1.1 Poland in the inter-war period**

By the coincidence of a number of favorable circumstances, Poland succeeded to regain its independence in November 1918, after 123 years from its partition in 1795 (the third part of the Polish-Lithuanian Union), when its territory was divided by neighboring empires Prussia, Austria and Russia. The borders of the Republic of Poland were established as a result of various conflicts and treaties, and the country bordered in 1922: Czechoslovakia, the Free City of Danzig, Lithuania, Latvia, Romania, the Soviet Union and the Baltic Sea near the city of Gdynia. In 1922, Poland had an area of 388,634 km<sup>2</sup>, being the sixth European country in terms of its territory after USSR, France, Spain, Germany and Sweden, while the population in 1921 amounted to (without Vilnius region and a part of Silesia- regions of inter-war Poland after 1922) 27.2 million inhabitants, with a lot of minorities and a resulting 70.2

inhabitants/km<sup>2</sup> density. (Stachura, 2004). Table 1 provides data on the nationalities' structure in Poland in 1921.

**Tab. 1: Poland. The 1921 national census results**

	Nationalities	Number of citizens	%
1	Polish	18,814,239	69.20
2	Ukrainians	3,898,431	14.30
3	Jews	2,110,448	7.80
4	Belarusians	1,060,237	3.90
5	Germans	1,059,194	3.90
	Others	234,168	0.90
	<b>Total</b>	<b>27,176,717</b>	<b>100.00</b>

Source: Stachura (2004)

During the inter-war period, the population of Poland increased by about eight million people, meaning 34,848 million inhabitants at the end of 1938<sup>1</sup> and the density increased from 70.2 to 89.4 inhabitants/km<sup>2</sup>. The 123 years of foreign occupation (Austria, Russia, Germany (Prussia)) left deep influences because each and every former empire implemented different political and economic systems, cultural traditions and many different levels of civilization (Zarnowski, 1973; Wolf, 2005). Landau (1985) considers that during those times Poland was forced to manage a lot of obstacles because of: (1) the large economic, cultural, moral and law disparities between the country's different regions; (2) the highly unstable political life, with 31 governments in about 20 years; (3) the hard devastation suffered by Poland in the World War I<sup>2</sup> (Landau, 1985).

## 1.2 Romania in the inter-war period

After the First World War, Romania succeeded to unify all its historical provinces: Bessarabia (March 27, 1918), Bukovina (November 12, 1918), Transylvania and Banat (December 1, 1918). As a result, Romania increased its area from 137,000 km<sup>2</sup> (before First World War) to 295.049 km<sup>2</sup>, similar in area (but not as population) with England or Italy. The population of Romania increased from 7,897,311 inhabitants (before the war) to 16,267,177 inhabitants in 1918 and to 18,057,028 in 1930 (Bulei, 2011). In terms of population structure, 71% were Romanians, 7.9% Hungarians, 4.4% Germans, 4% Jews, 3.2% Ruthenians and

<sup>1</sup> Estimation, according to Zarnowski (1973).

<sup>2</sup> Except for France, Poland was one of the most affected countries by the war. From a total area of 388.634 km<sup>2</sup> of inter-war Poland, 335,000 km<sup>2</sup> were affected by military operations and 100,000 km<sup>2</sup> were affected by extremely hard battles (Landau, 1985).

Ukrainians, 2.3% Russians, Bulgarians and 2% others. In 1930, the rural population was 79.90% and 20.10% of the urban population (Bulei, 2011).

After the war, Romania had to rebuild its economy with the aim of the concluding political, social and economic unification. The economic and social development of Romania in the inter-war decades was significantly influenced by the evolution of the international situation, mostly by the World War I reparation problems, the deep inter-war crisis, economic policies of the developed countries etc. Like Poland, Romania had an unstable political life: for example, in the first decade after the war, Romania had 11 governments and in the second 14 governments, which means 25 governments in 20 years. Obviously, these changes affected the coherence of the state's general and economic policies.

## **2. A short comparative analysis between the economies of Poland and Romania in the inter-war period**

The social and economic development of Romania and Poland in the inter-war period was fuelled by an extraordinary effort of the people that tried to “burn” the stages incurred on the modernization path by the western countries. As a result, both countries ended up with an incomplete assimilation of certain fundamental aspects characterizing the societies of developed countries (Josan, 2004).

The countries' political, economic and social modernization was to a great extent the result of a diffusion process of certain values and forms of institutional and economic organization from the Occident to Romania and Poland, as the genesis of the new institutions and new methods used to organize production were not determined, in the first place, by the existence of objective internal factors. At the end of the inter-war period, the societies of the two countries were still in a stage of economic and social polarization, far from the level of industrial civilization predominance that is based on diminishing of discrepancies and preponderance of middle classes in the economic life.

Taking into account the information regarding their natural, human and economically productive potential, Romania and Poland were situated in the inter-war period among the first countries in Europe, but from the point of view of the economic and social development level, their status was fundamentally different compared to the potential status. A first proof is provided by data regarding the national income per capita, which constitutes the measure of one country's economic development level (see Table 2).

**Tab. 2: National income per capita in Romania and Poland in 1938**

	Country	Level \$/capita	Gaps compared to Romania	
			Absolute	Relative (%)
1	Great Britain	378	302	397.37
2	Switzerland	367	291	382.89
3	Sweden	367	291	382.89
4	Germany	338	262	344.74
5	Netherlands	324	248	326.32
6	Denmark	318	242	318.42
7	Belgium - Luxembourg	285	209	275.00
8	Norway	252	176	231.58
9	Ireland	248	172	226.32
10	France	237	161	211.84
11	Austria	181	105	138.16
12	Finland	180	104	136.84
13	Czechoslovakia	174	98	128.95
14	Italy	127	51	67.11
15	Hungary	111	35	46.05
<b>16</b>	<b>Poland</b>	<b>104</b>	<b>28</b>	<b>36.84</b>
17	Greece	80	4	5.26
<b>18</b>	<b>Romania</b>	<b>76</b>	<b>0</b>	<b>0.00</b>
19	Bulgaria	68	-8	-10.53
20	Yugoslavia	68	-8	-10.53
	Average level of countries above	222	146	292.11
	USA	521	445	685.53

Source: Dobre (1996)

As one may observe, of the 20 European countries included, Romania, with a national income per capita of 76 dollars, was situated in 1938 on the 18<sup>th</sup> place, after Poland, which was on the 16<sup>th</sup> place (with a national income per capita of 104 dollars). Nevertheless, both of them were far from the developed countries, as the only countries with a national income per capita that was closed to the more advanced European economies were Yugoslavia, Bulgaria, Greece and Hungary. Romania's national income was 3.75 times smaller than the Belgium's, and even if we compare it to Czechoslovakia, the gap was greater than 1:2. Romania was slightly after Poland and it was only placed on a relatively good position in terms of South – East European context (Dobre, 1996). The size of this synthetic indicator reflects that the Romanian and Polish production potential was still very low in 1938.

Regarding the development of agriculture, we may unquestionably say that at the end of the inter-war period Romania had not really started the restructuring its agricultural production. This reality was reflected in a low level of the Romanian agricultural productivity (see Table 3), which in 1938 was of only 80 dollars/person in agriculture, as opposed to 130 dollars/person in Poland, 200 dollars/ person in Czechoslovakia or 560 dollars / person in Great Britain (Dobre, 1996).

For what concerns the development of industry during the two inter-war decades, the Romanian and Polish industry recorded its most significant development in all sectors of national economy. In terms of absolute growth, Romania and Poland had good industrial progress but the population of both countries was rising much faster than in the western developed countries. In these conditions, the gains in per capita growth were often modest (Aldcroft, 2011).

**Tab. 3: Agricultural productivity in European countries, 1938**

Country	Dollars/person in agriculture
Great Britain	560
Netherlands	500
Sweden	470
Denmark	440
Switzerland	430
Belgium and Luxembourg	400
Ireland	310
Germany	290
France	280
Czechoslovakia	200
Norway	200
Austria	160
Hungary	150
Italy	130
<b>Poland</b>	<b>130</b>
Finland	110
Bulgaria	110
<b>Romania</b>	<b>80</b>
Average of the 18 European countries	210

Source: Dobre (1996)

Overall, the progress of Romanian industry was scarce, even if compared to Poland's. At the end of the inter-war period, Romania was placed on one of the last places in Europe for a significant number of relevant indicators for the industrial development level. The calculations regarding the industrialization levels of different countries for the end of the inter-war period are doubtless in this regard, as presented in Tables 4 and 5.

**Tab. 4: Industrialization levels of different European countries in 1937 (indexes per capita, United Kingdom = 100)**

European average	49.1
Austria	37.2
Belgium	109.9
Bulgaria	3.7
Denmark	43.1
Switzerland	71.4
Finland	38.9
France	58.1
Germany	90.6
Greece	5.4
Ireland	15.7
Italy	27.6
Yugoslavia	6.3
Norway	41.7
Portugal	10.7
<b>Poland</b>	<b>15.2</b>
United Kingdom	100
<b>Romania</b>	<b>5.9</b>
Spain	12.5
Sweden	73.8
Nethelands	63.5
Hungary	21.3

Source: Murgescu (2011)

**Tab. 5: Industrial development level in Romania and other European countries, 1938**

Country	Net industrial production (\$/capita)	Industrial work productivity (\$/person occupied)	Steel production (kg/capita)	Sugar production (kg/capita)	Cotton yarn production (kg/capita)	Electric power production (kWh/capita)
Great Britain	140	850	221.5	11.5	10.0	708
Germany	132	810	331.1	26.1	6.0	809
Belgium	99	750	272.2	29.5	8.7	591
Denmark	86	900	6.9	57.4	?	302
France	76	580	149.4	24.2	6.0	500
Czechoslovakia	57	450	121.4	41.8	5.7	267
Ireland	43	830	?	26.0	?	129
Italy	41	450	53.1	8.0	4.1	355
Hungary	26	340	70.8	13.9	2.3	121
<b>Poland</b>	<b>21</b>	<b>400</b>	<b>41.6</b>	<b>13.3</b>	<b>1.8</b>	<b>115</b>
Greece	?	?	2.8	?	2.2	67
<b>Romania</b>	<b>13</b>	<b>290</b>	<b>14.0</b>	<b>5.5</b>	<b>0.8</b>	<b>58</b>
Bulgaria	10	300	?	3.6	1.8	37
Yugoslavia	?	?	14.8	4.9	1.2	71
(according to age 16-22 EU countries)	78	710	140.5	18.4	5.1	467

Source: Murgescu (2011)

In the next table we also present the evolution of per capita GDP in Romania and Poland after the second war.

**Tab. 6: Evolution of per capita GDP in Romania, Poland and Europe<sup>3</sup> (1938-2002) (1990 international Geary-Khamis dollars)**

	Romania	Polonia	7 East European Countries	average 12 West European Countries	Romania compared to average 12 WEC	Poland compared to average 12 WEC
1938	1,242	2,182	1,764	4,818	0.26	0.45
1950	1,182	2,447	2,111	5,018	0.24	0.49
1960	1,844	3,215	3,070	7,607	0.24	0.42
1970	2,853	4,428	4,315	10,959	0.26	0.40
1980	4,135	5,740	5,786	14,057	0.29	0.41
1989	3,941	5,684	5,915	16,824	0.23	0.34
1995	3,174	5,623	4,998	17,215	0.18	0.33
2000	3,002	7,215	5,804	18,740	0.16	0.39

**Source:** Maddison (2003) and own calculations

The gaps between both countries and west European developed countries were not improved (Axenciuc, 1997; Pascariu, 2011 and Dadak, 2012) and Poland had a better evolution especially in the last years before joining the UE, based on important reforms in the economy (Hustad, 1996 and Prochniak, 2011).

## Conclusion

Analyzing the inter-war economies of Romania and Poland, we could consider their evolution as similar. Both countries have made important progress but not enough to produce radical changes because of too short period of time (only about 10 years (from 20 years) represented an increase over the pre-war period). These countries had to manage hard problems that could be depressing only reading them: territorial adjustments and their consequences in terms of economic reorganization; financial chaos (especially during the inter-war Great Depression) including unbalanced budgets, inflation and currency instability; balance of payments problems, unemployment, rapidly rising population and agrarian reform; political instability and weak administrative organizations; lack of a balanced economic structure and shortages of almost everything. All these problems maintained their national economies at the periphery of developed countries, a status still encountered in this part of Europe sixty years later. The present status of the economies of Romania and Poland is a result of economic decisions, and especially the collapse of communism, but the influences countries' historical evolution have to be taken into consideration.

<sup>3</sup> Average of 12 West European Countries (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Norway, Sweden, Switzerland, UK) and average of 7 East European Countries (Albania, Bulgaria, Czechoslovakia (or Czech Republic and Slovakia), Hungary, Poland, Romania, Yugoslavia (or former Yugoslavian area).



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