

The economic, financial and legal situation of private estates in Poland during the interwar period

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Abstract. The bad economic situation for agro-forest farms in Poland during the interwar period was caused by war damage, a global economic crisis, crop failure, indebtedness prior to World War I, and by tribute payments towards rebuilding the country. Although the timber harvest was substantial, farm owners were forced to take loans. In 1938, the debt level of agro-forest farms accounted for 18 per cent of their total value. The average debt level for this period oscillated between 9.8 and 126.0 PLN/ha⁻¹. The assistance programme implemented by the government provided for a reduction in the interest rate of loans, particularly for farms with an area up to 300 ha.

Key words: forestry history, private agro-forest farms, loans, debt, state assistance

1. Introduction

Raised from time to time in the media, the issue of return of private agro-forest farms taken over by the state after the Second World War, totally omits the matter of the financial burden of these estates and particularly the type and level of their pre-war debts. Meanwhile, this issue should be included in the process of reprivatisation, as well as the legal regulations in this area. The study is an attempt to explain this complex and difficult financial and economic situation, as well as the law one of private agro-forest farms in Poland in the inter-war period.

The aim of this study was to present and evaluate economic, financial and legal situation of private agro-forest farms, the causes of their debt and state credit policy implemented in relation to those estates in Poland in the interwar period.

Source information and figure data necessary to achieve this goal were primarily derived from the literature, yearbooks (mainly pre-war ones) and provisional forest management plans found in the Bureau of Forest Management and Geodesy in Warsaw. Essential part of this information, particularly on type and size of the debts, was obtained from archives of Modern Records in Warsaw.

The basic research method adopted in this study was an analysis and evaluation of the collected factual material concerning the issue of private agro-forest farms in Poland in the interwar period. This method was used to present complex economic, financial and legal background of agro-forest farms and explain the reasons of this background, as well as consequences for the owners of the estates.

2. Economic and financial situation of private agro-forest farms in Poland in the interwar period

2.1. Characteristics of private estates and share of private forests in total forest area

Total amount of agro-forest farms in Poland in the interwar period was - according to second, after the I World War, Census of 1931 (first performed in 1921) – 3 261 909 with total area of 30 340 669 ha (Statistical Yearbook 1935). They were mostly small farms with an area less than 5 ha (64,6 %). Share of farms with the area of 5–10 ha amounted to 22, 5%, 10–20 ha – 9, 6% and 20–50 ha was 2,4%. Farms with the area up to 50 ha made up 99,1% of all estates in Poland. Total amount of farms larger than 50 ha was 30 079 with the area of 14 344 156 ha what made up 47,3% of total farm area in the country (Statistical Yearbook RP 1935, Orlikowski 1938).

In the interwar period, non-state forests had much larger area than the state-owned forests (Table 1). At the beginning of that period their area was 68,1% of total forest area, including private forests which took up 65,8% and the church and other public forests taking up 2,2% (as of 1928).

According to Czarnecki (1927), big share of private ownership of forests was mainly due to sale of state forests by conqueror governments in the XIX century and redistribution of private property (e.g. transfer to other owners estates confiscated for taking part in uprisings).

In the new estates arising from sale of private property or redistribution of confiscated properties, the great forest ownership dominated (Miklaszewski 1928).

In Poland, in 1938 there were 5282 thousand ha of private forests. They belonged to about 474 thousand of owners (Table 2). Up to 98% of that number were the owners of small forests (less than 50 ha) with total area of 930 thousand ha of forests. They took up

Table 1. The share in the area of state and non-state forests in Poland in 1923 and 1937

Year	The total forest area	The share of forest area	State forests		Private forests			
					total		within: small private property	
					'000 ha	%	'000 ha	%
1923	8969,4	23,1	2861,0	31,9	6108,4	68,1	1915,1	21,4
1937	8623,9	22,2	3338,6	38,7	5285,3	61,3	929,9	10,8

Source: Czarnecki 1927; Miklaszewski 1928; Statistical Yearbook 1928.

Table 2. The size of private forest holdings in 1938

The groups of private estate area	The total area		The number of estate owners		
	ha	'000 ha	%	total	%
<50 ha	930	17,6	464	28	98,0
50–150 ha	467	20,8	5	694	1,7
150–500 ha	630		2	156	
>500 ha	3 255	61,6	1	596	0,3
Total	5 282	100,0	473	874	100,0

Source: Molenda 1960.

17,6% of total area of private forests. Since 1923 the mentioned group of owners increased 4 times as far as area is concerned and 20 times in terms of number of owners (Broda 2000). According to Broda (2000) “the statistical growth of small forests took place only partially at the cost of other groups of owners, but to a greater extent as a result of growing fragmentation of peasant property and disclosure of various forest parcels which were not subject to the supervision of the government 15 years earlier”. From 1923 to 1937 the share of large ownership forests (more than 500 ha) decreased by 12,2% of total area of private forests. That loss was due to the implementation of the law on agrarian reform, redemption of easements and uniting action (Molenda 1960).

The size of private forest holdings had a significant influence on the performance of management, especially on the level of their debt. Generally, small farms easily adapted to the harsh economic conditions in the interwar period. That is why holdings with average area of 50 – 500 ha and over 500 ha were the most indebted ones (Statistical Yearbook RP 1935; Orlikowski 1938).

2.2. Economic and legal situation of private agro-forest farms

In the interwar period (especially in its first part), the economic situation of private agro-forest farms was extremely difficult. That was due to many reasons, both independent ones of the farm owners and the consequences of the management style. The first group were the causes of low level of management in the forests of agro-forest farms during the partition of Poland as well as economic policy of the invaders in relation to private property. As a consequence, in the mid-twenties of the interwar period the average volume increment of the stands in private forests of small property (less than 50 ha) was 1,62 m³/ha; in the forests of large property (over 50 ha) it was 2,62 m³/ha; whereas in the state forests it was 2,85 m³/ha (Statistical Yearbook 1927).

A heavy burden for the owners of landed estates came by way of an agrarian reform (the parcelling out of land of large property in order to enfranchise smallholders and landless) and the purchase of easements (rights of the rural population to benefit from the court forests – Broda 1999, 2000). Unfortunately, that encouraged illegal forest fellings over economically justified level. And the so-called forest tribute (a kind of tax in the form of wood to rebuild the country from the war damage)

significantly made things worse. The Act on that case was adopted by the Parliament in July 1923. The tribute was obligatory for the owners of forests with the area over 30 ha, in eastern voivodeships and partially in Białystok region it was over 50 ha. The tax was set at 30% of total volume of industrial wood harvested during annual felling budgets: for the forests with no easements it was for 10 years (1923–1933), and for easement forests it was 5 years (1923–1928), (Broda 2000).

Also, the state forests participated in wood supply to the poorest people and in rebuilding of war-damaged farms in rural areas. The formal basis in that respect was first after war, legal act on state forests, i.e. order of the Council of the Ministers of 30 December 1918 on conservation and use of forests and parliamentary law in this case of 28 February 1919. However, since 1923 the above obligation had been shifted mainly on private forests (Broda 2000).

Interwar legislation on protection and management of private forests was very modest in terms of quantity of legal acts. It should be noted that until 1927, the legislation of invader countries was in force (in relation to state forests – until 1928); the legislation which did not interfere into affairs of private property. The Polish law in that period was the above-mentioned order of Council of Ministers and Decree of the Head of the State of 16 January 1919 on conservation and use of forests and on organising of forest protection offices (Broda 1999). The main legal act was the order (Decree) of the President of the Republic of Poland of 24 June 1927 on reclaiming forests which were not the property of the state. The above regulation concerned the whole country, and thus eliminated the pre-existing, partition legislation. Unfortunately, that Decree – according to Broda (2000) – contained serious gaps and ambiguous terms. Moreover, protection regulations included in the Decree were subject to far-going liberalisation (e.g. facilitated change in the use of private forests for purposes other than forestry, allowed to cut tree stands at any time, in any place) which lasted until the end of interwar period (Broda 1999).

In the interwar period, forests of medium and large estates were not subject to adequate supervision and protection of forest protection service workers due, to the low number of that service. According to Barański (1928) there were on average (depending on the voivodeship) from about 30 thousand to 162 thousand ha of forests per one forest protection commissioner. Forests of large property in the east and in the Lwów voivodeship required special supervision and protection

(where they made up 50 and 56% of the non-state forest area. Those forests were the subject of interest and penetration of various trade companies dealing with wholesale purchases of large areas of stands in order of their exploitation and sale of harvested wood (Barański 1928).

In the early years of the interwar period there was a significant depletion of forest area in Poland. The biggest loss of forests in 1919–1925 took place in the eastern voivodeships (54 ha per thousand hectares of forest area) and central ones (38 ha) and the lowest in the western (1 ha) and southern voivodeships (4 ha). In the whole country the average loss of forest land in 1925 as compared to that of 1919 was 33 ha per thousand hectares (Barański 1928).

The obligation of parcelling land estates to smallholders and landless arose due to the law of the agrarian reform of 1920 (amended in 1925). Elimination of the easements consisted in giving part of the forest land to peasants in exchange for a waiver of their right to free use of the remaining forest. According to the

official report from 1923 for about 4,6 mln ha of forests being in the records of forest protection offices, over 37% were charged by easements.

Also merging land farms, regulation of the borders and related changes in some area of forest to another type of use played a big role in the process of decreasing of forest area (Broda 2000).

Overall, the losses of forest area in the interwar period due to the parcelling of land, liquidation of easements, the action of merging farms were compiled by Broda (2000) on the basis of the Statistical Yearbook from 1938 and 1939 (Table 3). This statement is incomplete because it does not contain data concerning the state forests for the first years after the war (the losses of state forests accounted for only 6% of the total surface loss of forests in Poland) and does not include small forest properties. It can be assumed that overall loss of forest area in the interwar period was much higher than indicated in Table 3.

Total logging in private forests in 1923–1925 amounted to 54,76 m³ (on average 18,25 m³ annually).

Table 3. The reduction in the forest area in the interwar period due to the regulation of ownership relations (after Broda 2000)

Forests	Years	The reduction in the forest area (in '000s ha) due to the			
		lotting out an estate	winding up of an easements	merging action	total
State	1925–1937	30,3	12,3	15,0	57,6
Private	1919–1937	336,9	335,3	203,5	875,7
Total	1919–1937	367,2	347,6	218,5	933,3
(%)		39,3	37,3	23,4	100,0

Table 4. The volume of annual logging in private forests in 1923-1925 (million m³ – after Broda 2000)

Logging	1923	1924	1925
1. In accordance with volume possibilities in forest with forest management plans	3,15	3,88	4,42
2. Exceeded volume possibilities in forest with- and without forest management plans, on permission of forest protection authorities	12,81	5,39	12,90
3. Illegal	1,16	0,88	0,73
4. On an areas with changed harvesting methods	2,35	2,74	4,35
Total annual logging	19,47	12,89	22,40
Theoretical (permissible) volume of logging in accordance with increment	11,50	11,50	11,50

That meant exceeding of increment of over 63%. The consequence of excessive felling was a rapid loss of forests in the country. During the first eight years after regaining independence, the loss amounted to 288,5 thousand ha (Broda 1999).

As a result of excessive logging, area of non-renewed forest increased every year. For example in 1923 the forest owners were obliged to make outstanding afforestation in the area of 97 thousand ha but only 6 thousand ha were afforested. The following year only 8 thousand ha were afforested out of 120 thousand ha, whereas 29 thousand ha of new felling area appeared.

In 1925 less than 16 thousand ha out of 170 thousand ha of outstanding logging area were afforested whereas 54 thousand ha of stand area were cut. In 1926 there were over 208 thousand ha to be renewed and afforested (Ihnatowicz 1928).

Due to the decrease in the area of private forests and their destructive logging, alarming statements on that subject appeared in the Polish press (Barański 1928). An author of the article said that in Poland the surplus of high class timber over the internal demand was only

1,5 mln m³, while during four years 30 mln m³ were harvested instead of permissible 6 mln m³.

The excessive logging, in the interwar period, is estimated for at least 200 mln m³ of large timber including 85 mln m³ of high class timber. As a result, economic potential of forests decreased from about 1 billion m³ in the mid-twenties to about 770 million m³ at the end of interwar period and in increment from 23 to 17 million m³ per year. The biggest logging – over 45 mln m³ of large timber – took place in 1927 in connection with the highest export prices at that time, cutting down stands damaged by pine noctua and pine moth gradations as well as expected announcement of the law on non-state forests management (Broda 2000).

The excessive burdens of the owners of landed estates (agrarian reform, purchase of easements, forest tribute) contributed to a significant (often illegal) logging. Decreasing of forest area and stand volume increment intensified economic difficulties (e.g. delays in renewals of post-harvesting area). Difficult financial situation of the owners of those estates forced them to take various kinds of loans and thus gradual increase of debt.

Table 5. The level and structure of wood harvest in the state and non-state forests in the interwar period (after Broda 2000 and Molenda 1965)

Ownership categories	Harvesting of timber			
	permissible		real	
	large timber	within: high class timber	large timber	within: high class timber
	total in the years 1919–1939, million m ³			
a) state	160	90	161	97
b) private*	180	85	380	170
total	340	175	541	267
	average in year, m ³ /ha			
a) state	2,80	1,60	2,80	1,70
b) private*	2,15	1,02	4,53	2,03
total	2,41	1,25	3,86	1,91

* private forests of an area > 30 ha (> 50 ha in eastern voivodeships and part of Białystok voivodeship)

3. Debt of private landed estates in the interwar period and its structure

3.1. Causes of debt of private landed estates

The root cause of indebtedness of agro-forest farms (especially those with area bigger than 50 ha) were outstanding debts from the period before regaining independence. Those households were indebted mainly in Russians banks such as: Szlachecki Bank, Tulski Bank, Wileński Bank Ziemski (Vilnius Land Bank) (Symonowicz 1936). In addition, as a result of war operations during the I World War some farms were devastated and their property was heavily damaged. Means necessary for their operation were obtained from the sale of timber or borrowing from the banks or individuals. Taking loans to pay off prewar obligations as well as to rebuild estates after the ravages of war and to manage the farms thereafter was the cause of debt for the owners of farms, especially those with an area over 50 ha (Orlikowski 1938).

Another very important reason of indebtedness of the estate owners was a few years harvest failure caused by bad weather conditions, especially excessive rainfall during the growing season in 1926, 1928 and 1933 (Nowogródek voivodeship / Wilno (Vilnius) voivodeship) as well as hail in 1930 (Nowogródek voivodeship) and drought from 1933–1935 (Poznań and Pomorze (Pomerania) voivodeships – Symonowicz 1936).

The next reason for the deepening indebtedness of agro-forest farms in the interwar period was generally difficult economic situation in Poland (e.g. due to the customs war with Germany) as well as the economic crisis which affected the entire world economy in the late twenties and early thirties. It was particularly acute for households already being in debt. Under pressure from creditors, the owners of the farms sold their livestock at auctions (3–4 times cheaper than a few years earlier) and later on also their land. The owners of some estates, defending themselves before the auction, took bank loans regardless of the interest rate. The source of income from the sale of land soon began to shrink due to the lack of interest in buying it (Orlikowski 1938).

The most difficult situation was in those estates where their owners ran up a debt several times: first to pay their financial obligations before World War I, and then because of the reconstruction of farms damaged

during war operations (1914–1920) or for covering losses due to crop failure. Reconstruction of those households lasted until 1928, i.e. the beginning of the global economic crisis.

Economic and financial situation of some of the agro-forest farms also worsened due to lack of relevant knowledge and skills in management, finance and accounting in agricultural economy. Such a difficult situation of those households lasted till the protective legislation for private estates was introduced, i.e. the second half of 1933 (Orlikowski 1938).

Economic difficulties and rising debt of private landed estates due to tax liabilities and benefits in kind for the purposes of agrarian reform and the purchase of easements as well as for the reconstruction from the devastation of war, contributed to seeking additional funding that resulted in bigger loggings and deforestation of private forests. Those burdens were especially heavy to the owners of medium and large-sized estates.

3.2. Indebtedness of landed estates in Vilnius and Nowogródek voivodeships

The structure and level of indebtedness of landed estates in the interwar period in Poland were investigated in relation to the voievodships for which the source materials were available (including information from the Archive of Modern Records, yearbooks and literature). Collected data enabled the presentation of the size and structure of debt of the estates in Vilnius and Nowogródek voivodeships and estates associated in the Towarzystwo Kredytowe Ziemskie (Land Credit Association) in Warsaw (Broda 1999, Czarliński i Mikołajczyk 1938, Orlikowski 1938, Symonowicz 1936).

According to Symonowicz (1936) private farms in Wilno and Nowogródek voivodeships ran into debts as a result of taking loans in the form of financial and commodity means. The first was concerned with liabilities to banks, credit unions, savings associations and individuals as well as the so-called prior claims (state and municipal taxes, social security, property one etc.), whereas cargo debts included obligations to agriculture and commercial cooperatives, trading companies and individuals. Cargo loans were in the form of seed material or fertilisers.

The form of management of the estates also influenced the volume of debt. Farms run by the owners were usually less indebted than those leased. That phenomenon was observed all over the country (Broda 1999).

Table 6. Indebtedness of agricultural farms with an area of over 50 hectares in the voivodeships of Vilnius and Nowogródek as of 1 July 1934 (after Symonowicz 1936).

The type of mortgage creditor	The value of receivables	
	‘000s of PLN	%
1. Banks, credit co-operatives and savings associations	46 626	52,29
2. Agriculture and commercial co-operatives	1 000	1,12
3. Tax offices, social and estate insurance company	11 904	13,35
4. Private persons	22 636	25,39
Total	89 166	100,00

In 1934 indebtedness of agricultural farms with area of over 50 ha in the region of Wilno and Nowogródek (there were more than 7 thousand of them in those two voivodeships), exceeded 89 mln PLN (Table 6). The study by Symonowicz (1936) shows that indebtedness of 557 estates surveyed in those voivodeships (which made up only 8% of the total number of farms), amounted to 18 092 PLN. Total amount of debt of those estates accounted for over 20% of debt of all estates with area of over 50 hectares in the two voivodships. Total debt of households in Wilno voivodeship was 9 172 158 PLN, i.e. 67,32 PLN/ha, whereas in Nowogródek voivodeship it was 8 919 574 PLN, i.e. 68,20 PLN/ha. Meanwhile, according to Central Statistical Office (Statistical Yearbook 1936) the average gross income for crop production in Poland stood at 79,21 PLN/ha, while for animal production it was 127,82 PLN/ha.

Indebtedness of the estate owners grew systematically. That was true for all agro-forest farms in Poland. Debt of some estates exceeded even their overall value which prevented liquidation of debt by selling them. The owners of those properties could not find buyers willing to take over the obligations. The situation started to be very difficult because all income in many farms was taken over by creditors and spent on current taxes. Estates with area over 300 ha were the most indebted.

Small farms had the least obligations. The cost of debt handling (interests and instalments) often exceeded the income of farms (Czarliński i Mikołajczyk 1938).

The most commonly used interest rate of given loans amounted to 10–16% per annum. Loans were

taken from the banks usually at 6–8%, rarely less than 4%. Loans with the highest interest rate were granted by commercial companies and individuals (16–20%). Among the latter, there were loans with the interest rate even above 20% (Czarliński i Mikołajczyk 1938).

3.3. Indebtedness of landed estates associated in Land Credit Association in Warsaw

Land Credit Associations (LCA) were formed in Poland mostly by indebted landowners who collectively guaranteed, by means of their fixed properties, the safety of debt securities issued by them. Members of the associations were also people granting loans to landowners in the form of cash or securities, whose guarantee was a share capital resulting from the sale of shares or property (estates) pledged against the loan taken. Transferring property as a pledge was confirmed by a borrower with the so-called mortgage bonds. Loans and credits were also granted to landowners by institutions which were not associations, i.e. by banks (e.g. agriculture and mortgage ones), savings and credit cooperatives (Czarliński i Mikołajczyk 1938).

Credit associations emitted bonds which were repurchased by their members. Mortgage bonds issued by heavily indebted landowners were entered into a mortgage (as a caveat – limitation of the right in rem in fixed property). Mortgage loans were granted under the guarantee of real estate (buildings and land) including forest soil. Mortgage debts were very seldom made under the guarantee of forest stand. Credit institutions then reserved themselves many rights for the supervision of the forest farm, the way it was managed; furthermore

they even priced its value and determined the payment timing (Czarliński i Mikołajczyk 1938).

LCA based in Warsaw was established in 1925 to provide loans under mortgage of land real estates. It had the right to make any kind of legal action, taking on commitment and signing agreements for crediting indebted estates. The association was subject to the supervision of the Minister of Treasury through the permanent government commissioner appointed by the Minister of Treasury.

From the formal point of view, the activity of LCA was regulated by the decree of Minister of Treasury issued in consultation with the Minister of Justice on September 3, 1932 (Journal of Laws 1933). According to Article 3 of the LCA Statue (which is an annex to the mentioned decree), members of the association could be the owners of indebted estates with mortgage loans. Article 136 of the Statue specified the responsibility of LCA – in the first instance – for liabilities arising from mortgage bonds issued by borrowers and only then for obligations arising from its other activities.

Warsaw LCA worked in all districts of the voivodeships of: Warszawa, Łódź, Kielce, Lublin, Białystok, Polesie, Wołyń, Poznań, Pomorze, Lwów, Stanisławów and Tarnopol. Association did not have its agendas in Nowogródek and Śląsk (Silesia) voivodeships. In Kraków (Cracow) voivodeship LCA did not have its branches in 9 out of 18 districts, i.e. Kraków district, Limanowa, Mielec, Myślenice, Nowy Sącz, Nowy Targ, Wadowice and Żywiec districts.

Based on the data included in the report of Main Directorate of LCA in Warsaw, it can be stated that the number of indebted estates at the end of 1938 was 7775 and the area 1 283 678 ha (LCA Report 1939). The estimated value of indebted estates was 1 269 658 PLN, while the value of debt (non-remitted debt) of those estates was 228 969 PLN (Table 7). So indebtedness of analysed estates constituted 18% of their value. The share of forests in the total area of estates associated in LCA was 24%. The most forests (more than 99% of the total area) were attributed to large land estates (with area over 500 ha, i.e. 79%) and medium-sized (with area 50 – 500 ha, i.e. 20 %).

The debt of the estate owners associated in Warsaw LCA at the end of 1938 (due to non-remitted loans and their handling) was in total more than 247 mln PLN (Table 8). Only 5% of the total sum was the debt of smallholders (up to 50 ha). The most indebted were the medium-sized estates (with area 50 – 500 ha) which share in total debt amounted to 60,56% and large estates (with area over 500 ha) – 34,33%. Out of total amount of loans for the sum of 229 mln PLN – which made up nearly 93% of the total debt- almost 90% made up mortgage bonds issued mainly in the Polish currency, as well as in American and French one. Those bonds were the most common form of security of granted loans. Indebted land estates whose owners were unable to pay off their liabilities, were taken over by LCA (LCA Report 1939).

Table 7. The debt level of the landowners associated in Land Credit Association (as of 31 December 1938 after TKZ Report 1938)

The estate area	The number of estates	The total estate area	The value of estate	The value of non-remitted debts
ha		ha	‘000s of PLN	‘000s of PLN
1	2	3	4	5
< 50 ha	4 089	53 260	60 457	11 497
50–500 ha	3 093	626 960	755 146	138 799
>500 ha	593	603 458	454 053	78 673
In all	7 775	1 283 678	1 269 656	228 969

* In the table have not been included 22 estates of 18 262 ha area (lack of data), which had non-remitted debts of 247 000 PLN.

4. Crediting the economic activity of private landed estates and state assistance in their debt reduction

4.1. Structure, level of credits and means of crediting of private agro-forest farms

In the early years of the interwar period, loans to finance activity of agricultural estates were granted almost exclusively by individuals. As new credit institutions appeared, private loans were completed and next replaced by credits provided by institutions. The earliest, crediting of larger land ownership started. In recent years of the interwar period, there was a quick reduction of the flow of credits from the private sources of capital at the parallel slow development of structured crediting (Orlikowski 1938).

The most popular among the owners of the agricultural estates was short-term borrowing, especially for the purchase of seeds for sowing cereals and fodder for domestic animals. Loans were usually granted by Bank Gospodarstwa Krajowego (National Economy Bank) (BGK) and Państwowy Bank Rolny (National Agricultural Bank) (PBR). Significant loans for that purpose were also granted by municipal savings banks, credit unions and individuals. Taking out those – in the nature of things – expensive loans was uneconomic in the long term. Especially because of lack of long-term loans, short-term loans were used for investments with long-term depreciation. The universality of that phenomenon, in the face of collapsing of agricultural prices in 1929 significantly deepened negative effects of the crisis for both a debtor and creditor (Carliński i Mikołajczyk 1938).

In the early thirties, there was the greatest crisis in agriculture. Almost the entire effort of the country was directed towards minimising the effects of the collapse of farm profitability through the gradual introduction of protective legislation in the field of crediting. At the same time, the system of agricultural credit was developed. The increase in demand for loans with the caution of creditors in granting loans, contributed to developing of a new form of short-term credit in the form of material and personal security (e.g. when taking cereal loans). That method of securing loans became a common form of inflow of floating assets into agriculture (Carliński i Mikołajczyk 1938; Orlikowski 1938).

During that period, there were no significant changes in the structure of the loans. Economic and

financial situation of agro-forest farms did not change considerably. Apart from the statutory reduction of interest rate of former debts, there was no reduction in credit interest of short-term loans, except for the new special loans. Long-term credit became slightly cheaper due to reduction in interest rates and administrative costs. But due to almost total disappearance of that type of loan, the reduction should be considered as writing off the old debts (Symonowicz 1936).

Comprehensive, writing-off legislation for agriculture was created in terms of the least possible intervention in private law relations of creditor and debtor. The main objective was to enable indebted land owners to survive the crisis. So the issue of agricultural debt was not resolved, neither through statutory reduction nor a long-term postponement of payment. As a result, the problem of liquidation of pre-crisis debts was shifted to the period of economy recovery (Symonowicz 1936).

Half of the short-term debt and three quarters of the long-term one (within the structured credit and excluding of private debts) were attributed to the farms with area over 50 ha. To debts of farms with area less than 50 ha charged by long-term credits, there should be added 623 mln PLN of liabilities due to indebtedness of estates caused by reconstruction of the agricultural system. That increases the average charge of 1 ha of agricultural land by 31,9 PLN, i.e. the total long-term charge of those small farms was 41,7 PLN/ha. The data does not include difficult to estimate private liabilities. In the early thirties due to writing-off legislation, inflow of private credits to agriculture and the level of indebtedness, as far as individuals are concerned, were significantly reduced (Orlikowski 1938).

Rules of granting loans had an impact on the situation of agro-forest estates. It should be stressed that one of the conditions to grant a loan was – besides being creditworthy – the possibility of its security through the estate of a borrower. That was strictly connected with spreading of mortgage regulation of ownership titles that had its reflection in land registers. Mortgage security (entry in a land register about debt charge of the property) was the basis on which a long-term loan could be granted. Difficulties in providing mortgage security were one of the reasons why a long-term loan – which is the most appropriate form of credit in agriculture – could not develop on a larger scale. The scale of that phenomenon is illustrated by the information given by Orlikowski (1938). According to the author in 1937 in Poland, the number of holdings with land registers

Table 8. The structure and level of indebtedness of the landowners associated in Land Credit Association (as of 31 December 1938) in '000s of PLN (after TKZ Report 1938)

Specification	The estate area			
	< 50 ha	50–500 ha	>500 ha	in all
I. Non-remitted loans				
by mortgage bonds of 5 th series, rate 4,5%	10 415,7	125 315,0	71 171,7	206 902,4
by mortgage bonds of 6 th series, rate 4,0%	390,7	3 432,9	2 287,3	6 110,8
by mortgage bonds of 1924' series, rate 4,5%	59,6	1 363,3	1 035,5	2 458,4
by mortgage bonds of 1929' series, rate 6,0%	246,4	4 691,9	2 827,3	7 765,7
in ready cash	384,8	4 134,9	1 458,6	5 978,3
Total I	11 497,2	138 938,0	78 780,4	229 215,6
II. Loan interest liabilities				
loan rates, interests on account of delay	686,2	10 230,6	5829,1	16 745,9
other liabilities	454,8	562,8	263,1	1 280,7
Total II	1 141,0	10 793,4	6 092,2	18 026,6
In all	12 638,2	149 731,4	84 872,6	247 242,2

amounted to 1666,8 thousand (52% of all households) including 1618,9 farms with area less than 50 ha. Such a significant share of farms without the land register – especially those of large land ownership – was the reason that their owners could not obtain cheap credit which required appropriate security. They were often forced to use usurious loans, which in turn led to a rapid falling into the so-called debt trap.

Another factor for the proper crediting of agriculture was the state and organisation of agricultural credit apparatus. The network of credit institutions was not sufficient. In various districts, lack of such institutions prevented the estate owners from obtaining a loan. Also, the financial condition of credit institutions was a significant obstacle in obtaining credit. The breakdown of solvency of farmers during the crisis, placed agricultural credit institutions in a very difficult financial situation (Orlikowski 1938). In 320 out of 1568 municipalities of central and eastern voivodeships, there were no Kasy Stefczyka (Stefczyk Cooperative Credit Unions) or any other municipal loan and savings banks, while in other cases the poor financial condition of some

of those institutions made it impossible for them to grant loans from their own funds. That meant that about 20% of the owners of agricultural estates could not use local credit institutions. Calculating the working capital of existing local savings banks and comparing it with the number of households, it appears that together they were able to provide a loan of just 37,1 PLN per one farm (based on 31 December 1935; Orlikowski 1938).

Under the guidance of the Ministry of Treasury, measures were taken to improve the financial state of agricultural credit institutions. As regards the organisation of agricultural credit, prime costs of credit institutions were reduced (prime costs caused an excessive increase of interest/credit rate). However, those actions were not sufficient due to the lack of budget funds. Enormous credit needs in other areas of the economy, especially in industrial investments being built at the time Central Industrial District, significantly limited the possibilities of supporting agricultural loans (Orlikowski 1938).

Since 1935 there has been a revival in crediting of agriculture. The action of crediting started from

governments' activity that took into account the basic needs of agriculture. Those needs resulted either from phenomena of agricultural structure or the conditions or needs of production. Year after year, total sum of credits increased, especially those which met the special needs of agriculture. Besides the regular activity aimed at generating favourable conditions for the inflow of working capital loans from the capital market, new types of loans for agriculture were created (Carliński i Mikołajczyk 1938).

4.2. Credit policy of the state in relation to the agro-forest estates

The difficult economic and financial situation of most estates required – since 1931 – directing to the country a significant financial aid from the state budget. The formal basis for that assistance was the package of legal articles brought into force since 1933, that is

1) Act on facilitation for credit institutions granting deduction to debtors of agricultural debts of 24 March 1933 (OJ RP No. 25, pos. 211), formulating the rules of help to credit institutions (Articles 1–4) and the essence of the appointment and activity of Bank Akceptacyjny (Acceptance Bank) (Article 5–8),

2) Directive of the Minister of Treasury on the rules of the state assistance to the institutions making agreements with debtors in relation to agricultural debts of 26 June 1933 (OJ RP No. 50, pos. 967),

3) Directive of the Minister of Treasury on the rules of the state assistance to the institutions making agreements with debtors in relation to agricultural debts of 11 December 1934 (OJ RP No. 109, pos. 967),

4) Decree of the President of the Republic of Poland of 30 September 1935 (OJ RP No. 71, pos. 449) amending the Order of the President of the Republic of Poland of 24 October 1934 on conversion and arranging of agricultural debts and the Act of 28 March 1933 on mediatory offices for the property affairs concerning farm owners,

5) Decree of the President of the Republic of Poland of 14 November 1935 (OJ RP No. 82, pos. 507) on amendments to the Law on facilitation for credit institutions granting deduction to debtors of agricultural debts.

Under the Act of 24 March 1933 on facilitation for credit institutions granting deduction to debtors of agricultural debts, Acceptance Bank was established. The main goal of that bank was the conversion of short-term liabilities by the so-called conversion systems. The

essence of the conversion system was to spread short-term liability for 10–14 years, parallelly at a lower rate (to 4,5% for farm with area to 300 ha and 6,5%–7,0% for larger farms). Deadline for making conversion agreements was set finally on 31 October 1936.

To facilitate the credit institutions to carry out the conversions of their agricultural receivables, the state assistance predicted an amount of 150 mln PLN. That help was intended for:

a) covering the losses incurred by debt institutions due to lowering interest rates of converted debts,

b) covering 50% of any losses on debt capital (loan amount).

The intention of the Law on establishing of Acceptance Bank was to sort out the financial situation of landed estates by organising (granting) acceptance credits in the form of bills of exchange with short, usually up to 1 year, time of acceptance. The Bank carried out an extensive information campaign on benefits for both farmers and creditors due to conversion of short-time liabilities by preferential loans. As a result of that action, conversion agreements between creditors and debtors started to be made. Only at the beginning the creditors showed unfavourable attitude, while farmers were all the time sceptical about that kind of state assistance. So they postponed the term of making an agreement, expecting lower interests and other additional amenities.

The opinion on unfavourable attitude of farmers to the idea of converting debts was expressed by the Komitet Konwersacyjny (Conversion Committee) (which was an appeal institution). According to that Committee, popular laws restricting the recovery of debts were the reason for the delays in making agreements by farmers. On the basis of those laws, mediatory offices (for private debts) and Acceptance Bank (for bank debts) were established.

As a result of the activity of mediatory offices, judicial supervision over farms giving hope for overcoming financial difficulties was introduced. During the period of supervision, a farmer did not have to pay interests, whereas that obligation existed in the case of debts converted by Acceptance Bank. Farmers who through those offices received in the court a decision on suspension or excluding from execution movable property or postponing the auction of property, did not rush with rearrangement of their liabilities. That caused prolongation of judicial proceedings and enormous accumulation of cases on payments postponement (especially in the former Prussian partition). The cases

lay in the courts for months while the farmers did not pay off their financial commitments (even interests on loans).

5. Summary

The difficult economic and financial situation of private landed estates (agro-forest farms) in Poland in the twenties and thirties of the XX century was caused by indebtedness before World War I, the war devastation in 1914–1920, the tribute to rebuild the country, the global economic crisis in the early thirties, crop failure (excessive rainfall, drought etc.), and sometimes the lack of appropriate knowledge and skills of the farm owners in management, finance and accounting in agriculture economy. That situation was initially worsened by the absence of homogeneous law regulations on forests of particular partitions, as well as a coherent system of financing of private estates, particularly state assistance in their crediting.

The basis for the state financial aid for private estates was the package of law regulations implemented since 1933. Under those regulations, deadline for paying off short-term liabilities was extended, interest rates on loans were reduced (especially for farms with area up to 300 ha), as well as the crediting system and debt reduction system for agro-forest farms was improved.

In order to compensate for losses in farming, the owners massively exploited their forests and took out loans on unfavourable terms. Despite the significant harvesting, the owners of those farms were forced to take loans. In 1938 the debt of agro-forest farms accounted for 18% of their total value. The level of average debt ranged from 9,8 to 126,0 PLN/ha.

Obtaining timber in the interwar period, considerably exceeded the size of current increase in supply of wood. The condition of private forests gradually deteriorated due to excessive felling, increasing the area which had not been renewed and underinvestment of forest holdings.

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