

PROCEEDINGS
OF THE
SECOND INTERNATIONAL CONFERENCE
OF
AGRICULTURAL ECONOMISTS

HELD AT
CORNELL UNIVERSITY,
ITHACA; NEW YORK,
AUGUST 18 TO AUGUST 29, 1930

The Collegiate Press
GEORGE BANTA PUBLISHING COMPANY
MENASHA, WISCONSIN

1930

3 cents

Poland. Agricultural situation

Indexed

THE AGRICULTURAL DEPRESSION IN EAST EUROPE WITH SPECIAL REFERENCE TO POLAND

S. SCHMIDT

CRACOW UNIVERSITY, CRACOW, POLAND

I WISH, in a brief statement, to call your attention to the situation in East Europe during recent phases of the world agricultural depression. In referring to East Europe, I mean particularly Jougoslavia, Roumania, Bulgaria, Hungary, and Poland. The political situation in Russia, although of great general interest, is such that she can hardly be compared, from the economic standpoint, with the remaining smaller countries.

The five countries of Jougoslavia, Roumania, Bulgaria, Hungary, and Poland cover an area of about 280 million acres, or something like Germany, Austria, and France taken together. The population is now in excess of 70 millions of people. Geographically, these countries differ from each other in many respects. However, in all cases agriculture is the principal industry. Unlike western and central Europe, they have a large rural population, and they all lack large cities. It was in East Europe that the greatest changes in international boundaries were made following the World War.

Cheap labor and the limited use of agricultural machinery are characteristic features of East European agriculture. Gentleman farming still plays an important rôle in Hungary and in some parts of Poland, although in the latter country it is decreasing in importance from year to year. With the foregoing exception, the whole area may be referred to as the domain of small and middle sized peasant farms. A low standard of living prevails, particularly in East Poland and Roumania.

Wheat and corn are the principal crops grown in Roumania and Jougoslavia, while in Poland, rye and potatoes predominate. Eggs and hogs are exported from all five countries to a certain extent. Cheap labor favors the production of root crops, and makes it particularly easy for Poland to compete in the production of beet sugar.

New international boundaries created a peculiar situation in East Europe during the period 1920-1924, a period during which the United States and many other countries of the world were suffering from a severe agricultural depression. In Poland, agriculture

in the former German division was suffering most, as it was hit by a sudden drop in prices. At the same time, prices in the former Russian division did not decline to any considerable extent. Similarly in Roumania and Jugoslavia, changes in international boundary lines make it impossible to make any general statements relative to the agricultural situation in these countries, during the period mentioned. For the above reason, official statistics, so far as they are available, are likely to misrepresent the true situation.

The agricultural situation in East Europe during the above period was influenced by a number of factors. In general, agricultural production tended to decrease rather than to increase. As a result of the Agrarian Revolution, Roumania, which in pre-war times was an important wheat producing and exporting country, shifted to the production of corn. Yields and export sales declined immensely. Another check upon the expansion of production in East Europe was the enormously high interest rates, due primarily to unsettled political conditions. Last but not least, East European states dreamed of self-sufficiency. They were eager to create their own industries at any price. High tariff walls were built up everywhere, largely at the expense of agriculture. During this period one might easily have gained the impression that the agriculture of East Europe would hardly play an important rôle in the near future on European markets.

If I am not mistaken, however, conditions are rapidly changing. First of all, the countries of East Europe have awakened to the fact that the dream of artificial industrialization is not likely to be realized. Though high tariff walls have not been abandoned, it is generally recognized by East European countries that they are primarily agricultural, and therefore cannot afford to neglect this important industry. However, mistakes have been made in attempting to promote the industry. Intensive farming has risen to a kind of general creed. To raise agricultural production to the high levels of Denmark and Germany has become the goal of East Europe. Mussolini's grain "warship" was set as an example. Governments have in many cases brought unreasonable pressure to bear in attempting to bring about greater intensification of production. Little attention has been given to the question of whether or not conditions favor the building up of an intensive system of farming. Two years ago a bill was introduced in our parliament proposing to compel farmers to buy fertilizers. Fortunately

enough, it did not become a law. But similar steps, accompanied by a belief in the power of the government to enforce any economic policy, have been tried in almost every East European country.

In order to understand how the artificial stimulation of agricultural production worked, and how it affected the farmer, it is important to note that this movement started about the time when the prices of agricultural products, as pointed out by Professor Sering, were rising everywhere in Europe. At the same time several loans had been floated by East Europe, mostly in the United States. They served directly or indirectly to push forward agricultural production. Many a farmer at this time incurred heavy debts in spite of the high rate of interest because of comparatively easy money, or because of the hope that high prices would last forever, or even in order to meet taxation requirements.

What is going to be the result? Increased agricultural production, which I do not believe to be fully reflected in official statistics, together with the impossibility of buying industrial products at reasonable prices due to high tariffs, have forced the farmer to sell at low prices. Debts, previously incurred, have increased the pressure. We should not overlook the fact that no one in the world, farming on a commercial basis, can successfully compete with a peasant who is forced to sell his products to pay off his debts. It is not so much increased production as increased pressure to sell which is forcing the peasant of East Europe to throw his products on the market almost regardless of price. Until recently our local prices have not greatly influenced prices on the markets of Central Europe. Eastern grain remained at about the American price level or even higher. However, this relationship is apparently changing from year to year. It is my opinion that in the future, in years when crops in East Europe are good, as for example in 1929, prices on our local markets will rapidly decline, and that prices on the markets of Central Europe will be influenced more, comparatively speaking, by production in East Europe than by world production. Contrary to the experience that prices fluctuate less violently the nearer we approach the ultimate buyer, our prices are undergoing more violent fluctuations than are prices in the great transatlantic surplus areas. Seasonal price changes in East Europe are particularly violent.

We are selling goods that we could consume ourselves, but we are selling them because we cannot afford to consume them. This

is the case, for instance, with Polish eggs and with Polish hogs. In the course of the next few years, Russia may be back on the markets of Europe with large supplies of agricultural products despite the fact that her people may be living on a starvation level.

I agree entirely with Professor Sering that the weakened purchasing power of the European industrial population is forcing agricultural prices downward. However, I venture to express my opinion that the increasing pressure in East Europe to sell, almost regardless of price, will force prices even lower unless something is done to increase the purchasing power of the agricultural products of East Europe, and to enable the peasant to retain for himself a greater portion of those products in order that he may raise his standard of living. This would prevent the eastern peasant from becoming an increasingly keen competitor of commercialized agriculture. If this is not done, the agricultural depression may become still worse. The weakened purchasing power of the industrial population of Europe, together with the increasing pressure on East Europe to sell her agricultural products at almost any price, will make for still lower prices.

Everything which I have said with reference to East Europe holds true for Poland. Poland is more densely populated than the other agricultural countries and could easily make use of all the products which she now sells abroad. For some time she expected to be able to do so. She placed restrictions on the export of agricultural products and tried to develop industries of her own, but failed. In order to maintain a favorable balance of trade, she was forced to remove export restrictions. Poland realized that she was still an agricultural country. From 1926 to the present time, agricultural production has steadily increased, although high tariff walls on industrial articles have not been abolished.

As to the future, I am convinced that if the present political and economic situation in central Europe remains unchanged and if the mutual relations between central and eastern Europe do not improve, that the pressure of our agricultural exports will increase. This will come about even at the expense of further lowering our standard of living. Debts which have been incurred will have to be paid off. Tax requirements must be met in some way. Industrial articles must be imported, unless of course, foreign capital comes in to help develop our industries. Many people in Poland hope that the United States will help do this. The development of

our industries would increase the purchasing power of our people and would doubtless check entirely the pressure of our agricultural exports. It should be stated that something has been done in this direction by the United States. A loan was floated in the United States in 1927, following which Poland was able to stabilize her currency. The possibility of increasing her imports and the per capita consumption of her city population increased, largely as a result of floating the above mentioned loan. However, the effect was short lived, and since 1929 the pressure tending to force the sale of agriculture products has gradually increased, and we are confronted, together with other East European countries, with a severe agricultural depression.

A few figures will illustrate the present position of agriculture in Poland. We shall start with credit, since credit conditions exert such an important influence on agriculture. Sources of long-term loans are extremely limited. A gentleman farmer as well as a peasant must rely, for the most part, on short-term credit in the form of promissory notes to meet his credit needs. These notes are being constantly renewed. It is difficult to estimate the toll taken in the form of interest payments from indebted farmers. During the first part of the deflation, in 1924, interest rates on private loans (which were practically the only ones available to farmers) were as much as 15 per cent monthly. Subsequently, the rate of interest dropped. Comparatively easy money resulting from the floating of an American loan provided a further check. However, interest rates are still in the neighborhood of 12 per cent a year. The private discount rate on first class promissory notes at Lodz, the center of our textile industry, is given in table 1 for the period from July, 1927 to date. For agriculture, this discount rate varies from about 15 per cent in West Poland to 40 per cent in East Poland, 24 per cent being the approximate average.

Let us now consider the course of agricultural prices during the past few years. From 1924, which by the way was the year during which the new zloty currency was introduced, to 1929, the movement of agricultural prices was generally upward (figure 1). They were highest in 1924-25 after a poor harvest. They dropped in 1925-26, but again rose during 1927-28. During 1929 they again dropped to the level of 1924. The wholesale prices of small grains in Warsaw are given in table 2, together with the ratio of such prices, expressed as a percentage, to cash prices in the United

States. Index numbers of the prices of small grains are given in table 3 for each of the three former divisions of Poland. You will notice that for awhile the prices of small grains were higher in Poland than in the United States. Subsequently this differential began to disappear, and about harvest time, 1929, prices in Poland dropped below the American level (table 2). Wheat, which did not precisely conform to this general movement, can hardly be compared with the other grains since our production is low, and furthermore wheat is protected by tariff. However, if you will trace the movement of wheat prices in the remaining countries of East Europe, as well as the movement of corn prices, you will

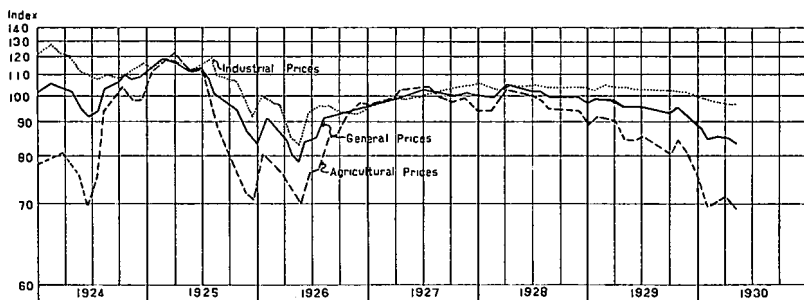


FIGURE 1. INDEX NUMBERS OF AGRICULTURAL, INDUSTRIAL, AND GENERAL WHOLESALE PRICES IN POLAND, JANUARY, 1924, TO MAY, 1930

1927 = 100

Logarithmic Scale

Polish Business Conditions, Vol. 2, No. 1, January, 1929, page 6; Vol. 3, No. 3, March, 1930, page 115; Vol. 3, No. 6, June, 1930, page 186. Published by the Institute for Business Research, Warsaw, Poland.

find a similar dropping off in price during the latter part of 1929 and the early part of 1930.

Low costs of production on the North American continent have been blamed in East Europe for this development. A meeting of the representatives of East European countries is planned for the end of this month in Warsaw to consider some form of agrarian cooperation to protect East Europe against American competition. I do not challenge this cooperative endeavor as such, but I do not find any evidence to justify the statement that low costs of production on this continent caused the sudden decline of prices in Poland. The trouble lies with East Europe and with the general European economic situation. It may also be that the grain trade is taking into account in advance the already increasing

Table 1. Discount Rates in Poland, July, 1927 to May, 1930*

Year	Discount Rate		
	Bank of Poland	Leading commercial banks	Private discount rate on first class promissory notes
1927			
July	8	12	33
August	8	12	29
September	8	12	27
October	8	12	23
November	8	12	19
December	8	12	24
1928			
January	8	12	23
February	8	12	18
March	8	12	19½
April	8	12	18
May	8	12	16½
June	8	12	19¼
July	8	12	19
August	8	12	19
September	8	12	19
October	8	12	19½
November	8	12	19½
December	8	12	19½
1929			
January	8	12	19½
February	8	12	39
March	8	12	22½
April	9	13	22½
May	9	13	20
June	9	13	20
July	9	13	19¼
August	9	13	18½
September	9	13	17½
October	9	13	17½
November	8½	13	17½
December	8½	13	17½
1930			
January	8	13	15
February	8	13	14¼
March	7	12	—
April	7	12	—
May	7	12	—

* Polish Business Conditions, Vol. 1, Nos. 1-12, Vol. 2, Nos. 1-12, and Vol. 3, Nos. 1-6, published by the Institute for Business Research, Warsaw, Poland.

Table 2. Wholesale Prices of Rye, Barley, Oats, and Wheat in Warsaw, and the Per Cent Which Such Prices Were of the Cash Sale Price of the Same Grains in the United States, 1927-1930*

Year	Rye		Barley		Oats		Wheat	
	Wholesale price in Warsaw	Per cent of cash sale price in the United States	Wholesale price in Warsaw	Per cent of cash sale price in the United States	Wholesale price in Warsaw	Per cent of cash sale price in the United States	Wholesale price in Warsaw	Per cent of cash sale price in the United States
Average 1927-28.....	\$1.25	111	\$1.12	136	\$0.68	113	\$1.65	119
Average 1928-29.....	0.98	95	0.91	108	0.57	105	1.46	123
1929.....								
January.....	0.98	94	0.87	132	0.54	104	1.39	115
February.....	1.02	89	0.88	128	0.55	102	1.39	109
March.....	1.03	95	0.89	135	0.59	116	1.53	123
April.....	1.01	102	0.91	142	0.60	120	1.53	130
May.....	0.89	100	0.90	152	0.56	120	1.49	138
June.....	0.82	98			0.47	102	1.41	128
July.....	0.79	76			0.46	95	1.54	117
August.....	0.77	74	0.74	92	0.42	91	1.47	113
September.....	0.71	70	0.72	110	0.39	78	1.22	77
October.....	0.70	66	0.70	113	0.39	80	1.20	93
November.....	0.72	72	0.70	107	0.40	87	1.23	102
December.....	0.71	67	0.71	107	0.39	84	1.21	96
1930.....								
January.....	0.64	66	0.68	106	0.34	73	1.17	95
February.....	0.58	71	0.62	98	0.31	70	1.11	94
March.....	0.52	81	0.58	95	0.28	63	1.09	104
April.....	0.62	98	0.55	90	0.31	73	1.20	111
May.....	0.50	84	0.49	84	0.29	71	1.29	126

* Based on data published by the Central Statistical office in Warsaw, Poland. Prices converted from zloty per quintal to dollars per bushel, by the writer.

Table 3. Wholesale Prices of Rye, Barley, Oats, and Wheat at Warsaw Expressed as Index Numbers of Pre-War Prices in the German, Austrian, and Russian Divisions of Poland, 1927 to May, 1930*
1909-1913=100

Year	Rye			Barley			Oats			Wheat		
	Ger- man divi- sion	Aus- trian divi- sion	Rus- sian divi- sion	Ger- man divi- sion	Aus- trian divi- sion	Rus- sian divi- sion	Ger- man divi- sion	Aus- trian divi- sion	Rus- sian divi- sion	Ger- man divi- sion	Aus- trian divi- sion	Rus- sian divi- sion
1927-28.....	122	155	181	131	155	166	110	139	161	126	143	166
1928-29.....	96	122	143	106	126	133	92	117	136	111	126	147
1929												
January.....	96	122	143	101	121	127	88	111	129	107	121	140
February.....	98	125	146	102	122	128	89	112	130	107	121	140
March.....	101	128	149	104	124	131	95	120	140	117	133	154
April.....	101	128	146	106	126	133	96	122	141	117	133	154
May.....	88	112	130	105	125	132	91	115	134	114	129	150
June.....	80	102	119	**	**	**	76	96	112	108	122	142
July.....	77	98	114	**	**	**	75	94	110	118	134	155
August.....	76	96	112	87	103	123	68	86	100	113	128	148
September.....	70	89	104	84	100	106	63	79	92	93	106	122
October.....	68	87	101	81	97	102	63	80	93	91	104	120
November.....	70	89	104	81	97	102	65	82	95	94	106	123
December.....	69	88	103	82	98	103	64	80	94	92	105	121
1930												
January.....	63	79	93	79	94	100	55	69	81	89	101	118
February.....	56	72	84	72	86	91	50	63	73	85	96	111
March.....	51	65	76	67	80	85	45	57	67	83	94	110
April.....	60	77	90	65	77	81	51	64	74	91	104	120
May.....	49	63	73	57	68	72	47	59	69	99	112	130

* For differences in the pre-war price level in the German, Austrian, and Russian divisions of Poland see Farm Economics, No. 53, page 942.

** Data not available.

output of Soviet Russia. At any rate, East European prices declined in 1929 several months before prices fell on the continent. This is illustrated in figure 2, which shows the course of wholesale prices of rye in Chicago, Berlin, and Poznan from December, 1929 to May, 1930.

Changes in wholesale prices do not, of course fully reflect changes in farming returns. The actual prices received for grains

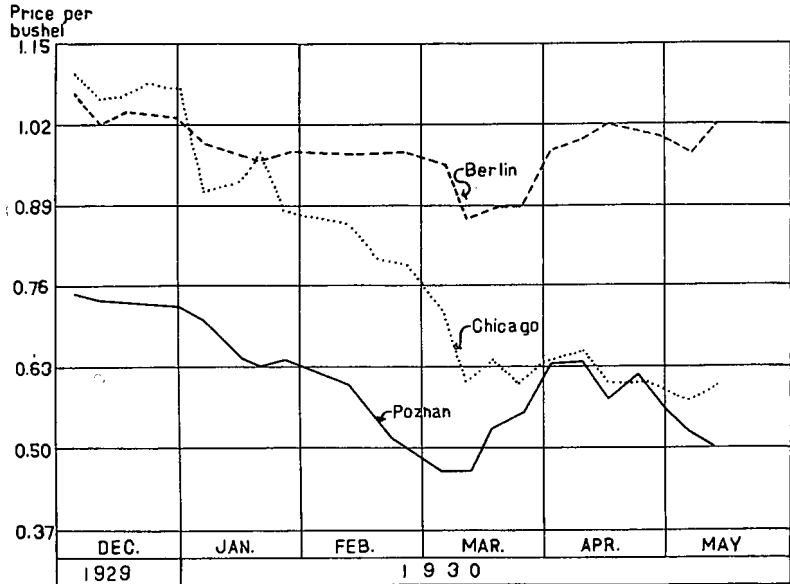


FIGURE 2. WHOLESAL PRICE OF RYE AT POZHAN, BERLIN, AND CHICAGO, DECEMBER, 1929, TO MAY, 1930

Polish Business Conditions, Vol. 3, No. 5, May, 1930, page 153. Published by the Institute for Business Research, Warsaw, Poland.

by producers in Poland and in the other countries of East Europe are far below the wholesale prices shown in table 2. Farm prices in East Europe are probably lower than anywhere else in the world. During several months of last year, rye and barley sold as low as 35 cents a bushel in many parts of Poland, and oats sold as low as 16 cents a bushel.

In considering the agricultural situation in Poland, special attention must be given the rye and potato crops. Due to natural conditions of soil and climate, these are the two most important crops grown in Poland and in East Germany. Shifts in consump-

tion habits among the city population following the World War resulted in a decreased demand for rye bread. An ever increasing surplus of rye influences the prices of other grains grown as food-stuffs. The rye problem is causing much trouble both in East Germany and in Poland. Both countries tried to solve the problem by putting on debentures which, in my opinion, was unfortunate because of the very limited market which exists for rye at the present time.

The surplus of potatoes is also growing. Our last year's crop sold in many parts of the country for as low as 9 cents per bushel, and many farmers were unable to sell their potatoes at any price.

Hogs are becoming more and more important in the exports of Poland. However, the production of hogs is increasing throughout the whole of eastern Europe, and Germany, which heretofore provided the principal market in central Europe for agricultural products, also finds herself with a surplus of hogs.

In concluding my paper, I wish once again to emphasize that if we in East Europe could raise our standard of living instead of lowering it, we would not face a general agricultural depression. What we particularly need is an agreement between East Europe and Central Europe relative to the mutual exchange of goods. If debts were lowered, such an agreement would be made much easier. The agreement would in turn further a better understanding between the respective nations and make for a true peace.