CONTROL AND REGULATION OF CAPITAL FLOWS BETWEEN POLAND AND PALESTINE IN THE INTERWAR PERIOD

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Abstract

Palestine was a major destination for migrating Jews in the interwar period, with around 40 per cent of all newcomers coming from Poland. Palestine’s fast economic growth was the result of a large import of capital brought by these immigrants. Throughout the period the main goal of the Polish government was to minimise capital transfers to Palestine while trying to sustain Jewish migration. In 1925 an attempt was made to limit the transfers, but political pressure forced the government to reconsider its position. Between 1927 and 1936 capital moved freely between the two countries, but in order to influence its flow, Polish authorities set up two banks in Palestine, and the extent of capital transfers was monitored by a number of governmental agencies. When exchange control was re-established in Poland in 1936, the Jewish Agency in Palestine and the Polish government signed a transfer agreement, which proved inefficient. Poland terminated the agreement in 1938 and set up a new unilateral transfer system in which the Polish side controlled all aspects of capital flows.

The flow of capital played an important, if hidden role, in the evolution of economic relations between Poland and Palestine. Not as prominent as trade or migration, it nonetheless shaped Polish policy. The purpose of this article is to show this influence and prove that in time it grew to become the most important factor in Polish-Palestinian relations. I will concentrate on
two key periods: the mid-1920s, with their first surge of migration, and the late 1930s, when Poland’s exchange control regime resulted in two subsequent clearing arrangements. The role of capital transfers in the economic development of Palestine is well known, but I have found no studies concerning the Polish part of the issue – in particular ones that would use the archival collections of Archiwum Akt Nowych in Warsaw and the Polish Institute and Sikorski Museum in London. Together with materials from the National Archives in London, they form the basis of this work.

While interwar Palestine was a powerful magnet for Jewish immigrants, its attraction changed with time. There were two main aliya (waves of immigration, plural of aliyah), during which newcomers from Poland dominated: the fourth, or Grabski, aliyah and the fifth, sometimes called the Hitler aliyah. The former, named after Władysław Grabski, author of Poland’s post-war monetary stabilisation, peaked between 1924 and 1926, while the latter was particularly strong in 1932–1936. In total over 330,000 Jews arrived in Palestine during the interwar period, some 40 per cent of them from Poland.

Immigration to Palestine was strictly controlled by the British, who created a system of certificates and categories, each with its own set of rules. Three categories were particularly important: the so-called capitalists, workers coming within the ‘labour schedule’, and dependents. Capitalists were able to enter Palestine without restrictions, as long as they possessed at least £500 (£1000 in the 1930s). They were a crucial source of capital for the mandate. The labour schedule was formed by poorer Jews, allowed to immigrate within the ‘absorptive capacity’ of Palestine, as long as they managed to obtain one of the rare certificates. Finally, dependents were family members of Jews already living in Palestine. Immigrants of the

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two latter groups transferred small sums – Polish consular estimates quote as little as 4–20 £P (Palestinian pounds) per person. Together with funds transferred by capitalists, this formed the first important channel of capital movement from Poland to Palestine. Due to mostly negligible re-emigration, transfers in the other direction were rare.

Migration also created a second channel for moving money. Families in Poland would send funds to Palestine, helping their relatives survive in the new environment. As immigrants established themselves in the mandate, money started flowing in the other direction. The Great Depression significantly undermined the livelihood of many Polish Jews, and these transfers became increasingly important (their role was emphasised by the Revisionist leader, Ze’ev Zabotyński). Statistics of bank transfers and postal orders indicate that, starting in the early 1930s, the balance shifted


in favour of transfers to Poland, and amounted to a few million Polish złoty per year.\textsuperscript{7}

There were other channels of capital transfers, but they either played a smaller role, or are difficult to differentiate from the two mentioned above. Jewish charities gathered money for use in Palestine, as did official Zionist funds (Keren Kajemet LeIsrael, Keren HaJesod, later the Revisionist Keren Tej Chaj), but their Polish branches were famously inefficient, particularly in the 1920s.\textsuperscript{8} Rich Jews from Poland made direct investments in Palestine, and moved their business operations. This was mostly done within migration-related transfers of capitalists.

A number of estimates concerning the quantitative side of flows between Poland and Palestine survive to this day. Since most their components went unrecorded, the estimates are not very reliable. They range from around 10 million to 20 million £P. The high estimate was provided by Kurt Nevratzki, an expert in Palestinian economy and representative of Danzig and Gdynia in the mandate. According to his calculations, capital from Poland constituted around 25 per cent of all flows into Palestine.\textsuperscript{9}

The Poles had three basic goals in their economic relations with the mandate. First, they wanted to push as many Jews out of Poland as possible. Prioritised throughout the period, this became a key issue in Polish politics after the death of Józef Piłsudski in 1935. Second, the government was


\textsuperscript{9} AAN, MSZ, 2309, P. Nawratzki, Memorandum. Bemerkungen zu gewissen Vorschlägen des Berichtes der Royal Commision, Hajfa, Juli 1937, p. 31.
anxious to promote Polish exports to Palestine, particularly after 1932, when Poland’s insistence on deflationary monetary policies forced it to seek a favourable trade balance. The third and final goal was connected with capital flows and evolved slowly.

As the Grabski *aliyah* blossomed in 1925, Polish officials in Jerusalem sent a report to Warsaw,¹⁰ alarming the Ministry of Foreign Affairs that capitalist migration was causing a high level of capital outflow from Poland. The Economic Committee of the Presidium of the Council of Ministers (*Komitet Ekonomiczny Prezydium Rady Ministrów*) tried to reduce these transfers without slowing labour and dependent migration. Starting on 1 August 1925, an administrative decision removed ‘capitalists’ from the legal category of emigrants from Poland. As a result, rich Jews no longer had the right to receive free emigrant passports and had to apply for normal, prohibitively expensive travel documents (up to 500 zł per capita in 1925, the equivalent of a high monthly salary). The Committee’s decision was a practical way of reducing capitalist emigration, but had little legal basis. It didn’t stay in force for long.¹¹

After the decision had been announced, the Palestine Office in Warsaw sent a memorandum to the Polish Emigration Office (*Urzęd Emigracyjny*),¹² a key governmental institution dealing with the problems of emigration. The memorandum remains a fascinating document, mixing truths with half-truths and outright fabrications. Trying to convince the government that the level of capital transfers was low, the Zionists claimed that capitalists constituted no more than 25 per cent of Polish emigrants to Palestine (statistics show the number to have been around 45 per cent between January and August 1925), and that they mostly settled in farms (in fact – mostly in Tel Aviv). The authors then claimed that at most 40–60 per

¹⁰ I wasn’t able to locate a copy of the report at the archives.
percent of funds transferred by Polish migrants had come from Poland: the rest had been sent directly from the USA. They suggested that an average family moving to Palestine on a single capitalist permit consisted of six people, including four adults (another claim challenged by Polish consuls and available data: in the 1930s the number was quoted as two adults). We do not possess factual information to assess all the provided data, but when we do, it is easy to find the memorandum questionable. Surprisingly, the document was quoted verbatim during an inter-ministerial conference in September 1925, which revoked the special treatment of emigrating capitalists. It was decided that no restrictions should be placed on Jewish emigration to Palestine (‘nie powinny być czynione żadne ograniczenia emigracji ludności żydowskiej do Palestyny’). This suggests that Polish officials not only supported Jewish emigration, but also trusted Zionist sources. Surprisingly, the Polish consulate in Jerusalem had not been consulted before the decision was taken – and this did not change until the following year, when consul Otto Hubicki was also instructed to monitor transfer levels. He was immediately able to refute most of the document’s claims, using nothing more than freely available Jewish Agency statistics, and promptly alarmed the Ministry of Foreign Affairs. Tadeusz Zażuliński, his subordinate in Jerusalem, considered the matter even more important. As can be understood from his correspondence, he was in conflict with Hubicki, and considered the latter’s actions to be detrimental to Polish interests. Zażuliński sent his own reports, avoiding official diplomatic post, to alert the Ministry of Foreign Affairs to huge capital outflows from Poland. He attacked the memorandum, but his reports,
with their own questionable claims, can be put on the other end of the spectrum.\textsuperscript{16}

The Grabski aliya coincided with a certain change in the Polish relationship with the Jews and the Zionists in particular. Some concessions to the latter found their way to the anti-climatic ‘ugoda’ of 1925,\textsuperscript{17} but the first major declaration of support came in the form of a letter from the minister for foreign affairs Aleksander Skrzyński to Nahum Sokolow in June 1925.\textsuperscript{18} The minister for home affairs, Kazimierz Młodzianowski, repeated it after Piłsudski’s coup, on 27 May 1926, as did other officials in the following years.\textsuperscript{19} In this new climate, an inter-ministerial conference convened on 7 October 1926 with representatives from the Ministries of Treasury, Internal Affairs and Foreign Affairs, as well as the Emigration Office. Their goal was to address the transfer situation as described in Zażuliński’s and Hubicki’s reports. We possess two minutes from the conference – their content so different, that they could have almost come from two different meetings. One stresses the role played by transfers, while the second tries to make it seem less important (in line with the Treasury’s position). Both minutes agree however, that limiting capitalist emigration had been deemed very difficult within the legal framework existing at the time, and that the government would try to convince Zionists to give

\textsuperscript{16} AAN, MSZ 9930, T. Zażuliński to Polish Consul in Ostrava, 8 Jun. 1926, pp. 55–7; AAN, MSZ 9930, T. Zażuliński to MSZ, pp. 58–9; AAN, MSZ, 9930, T. Zażuliński to MSZ, 18 Nov. 1925, pp. 3–4.


\textsuperscript{18} Walicki, \textit{Ruch syjonistyczny}, p. 53.

Polish Jews more labour certificates. This approach was indeed taken as migration grew in the 1930s.\textsuperscript{20}

Ministry of Treasury estimates from the conference were based on the assumption that it had the power to approve all foreign transfers as a result of the exchange control regime, which was in force in Poland before 1927. While the Ministry of Social Security had given the Palestine Office limited permission to conduct small transfers, Treasury officials believed that it was done on a small scale. These assumptions were proven false by the case of Mosze Dawid Goldstein. An elderly emigrant, in 1926 he tried to transfer 500 £ through the Palestine Office. After failing to receive the money in Palestine, he contacted the Polish consul and to the surprise of Polish authorities, his transfer had not been reported by the Office. Governmental auditors soon moved in, but without much success. The original ministerial permit required all bookkeeping of the Office to be done in Polish. Auditors were only able to find books in Hebrew – practically uncontrollable. This was part of a country-wide Zionist policy. When possible, Zionists kept their books in Hebrew and each year sent them to Palestine, so that no information would be available, should Polish authorities send their officials. This scheme worked surprisingly well. Interestingly enough, the Goldstein case arose soon after a huge financial scandal shook the Palestine Office in Warsaw.\textsuperscript{21}

As migration stopped in the wake of the Palestinian economic crisis of 1926–1927, so did discussion concerning capital flows. The issue was still monitored by the Emigration Office, and appropriate figures were


\textsuperscript{21} AAN, MSZ, 9930, M. D. Goldstein to Konsul Generalny w Jerozolimie, p. 96; AAN, MSZ, 9930, Ministerstwo Skarbu (hereafter: MS) to MSZ, 10 Oct 1927, p. 110.
published in various semi-official Polish balance of payments estimates, but it stopped being a front page question. This changed in the early 1930s with the beginning of the fifth aliyaḥ. Looking at the remaining archival sources, one can identify at least five different institutions, which tried to gauge the level of capital flows to Palestine including various ministries, institutes and Polish consuls in Jerusalem and Tel Aviv. The gradient of opinions was similar to that of the 1920s. Sources in Palestine were alarmed and the Ministry of Foreign Affairs mostly agreed with their claims. On the other end of the spectrum was the Ministry of Treasury, which regularly understated the role of these transfers. Other estimates can be placed between these two extremes.

Migration peaked in 1935, as did the transfer discussion. This coincided with another shift in the government’s Jewish policy. In 1935 all Jewish matters were put under the supervision of the Consular Department in the Ministry of Foreign Affairs led by the rather antisemitic Wiktor Tomir Drymmer. Despite debates, in 1935 there was no legal way of tackling the problem of transfers. During the Great Depression, Poland followed an orthodox monetary policy and joined the Gold Bloc. As a result, money flowed to Palestine freely.

Even though nothing could be done to limit transfers, facilitating money orders from Palestine to Poland was a viable way of influencing the balance of payments. This is what the Polish government tried to do


from the beginning of the fifth *aliyah*. First, in 1929 it co-founded The Immigrants’ Bank Palestine-Poland Ltd. The enterprise proved to be less than satisfying. Inadequately managed by Polish Jews, it long failed to raise enough capital to find a spot on the market. A positive change came with an influx of capital in the mid 1930s, which made the bank independent from Poland.

Second, seeing the slow start of The Immigrants’ bank, Polish officials decided to start another unit in Palestine, by opening a branch of Bank P.K.O. S.A. in Tel Aviv in 1933 and two years later in Haifa. Bank P.K.O. S.A. had been founded as a state-owned bank in 1929, in order to service the Polish diaspora (or Polonia). Its Palestinian branches successfully managed transfers, until exchange control regulations in Poland made their offer unattractive. They also tried to gather the savings of Polish Jews in Palestine, but achieved only modest success, with less than 1 per cent share of the market. In general, the appearance of Polish-funded banks made transfers to Poland easier, but they failed to make a greater impact on the balance of payments. It seems that most customers used Łódzki Bank Depozytowy, then controlled by the Anglo-Palestine Bank Ltd.

The situation changed in April 1936, when Poland introduced exchange control. In order to take part in foreign currency transactions, entities other than Bank Polski needed special permits, granted by the minister of treasury. Likewise, new regulations forbid all trade in gold or foreign securities, and their transfer over Polish borders; citizens leaving the country were allowed to carry no more than 500 zł. These regulations immediately provoked a run on the Tel Aviv branch of Bank P.K.O. S.A.. A month later, in May 1936 a similar system was set up for international trade, with each transaction requiring consent of the minister of industry and commerce. The new legal situation allowed Polish authorities to strictly control gold

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25 N. Landau and Tomaszewski, *Bank*.
26 AAN, Ministerstwo Skarbu (MS), 4340, Polski Instytut Rozrachunkowy to MS, 23 April 1937, p. 6.
and devisen transfers, and thus directly interfere with capital transfers to Palestine.  

While transfers had been stopped, the new situation posed a threat to emigration since the Jewish Agency awarded certificates to countries, which brought the most capitalists to the mandate. In the 1930s impoverished Polish Jews found it hard to procure the necessary funds, while richer strata of the Jewish community were less interested in migration. Now the situation worsened. Both Polish and Zionist officials understood that a new solution was needed, and studied the German system known as Ha’avarah as a successful model for such an arrangement.

Within Ha’avarah, which had been created in 1933, emigrating German Jews would transfer their assets to a central agency, which used them to finance exports of German products to Palestine. Emigrants would then receive money from the sale of these products, losing on average about 35 per cent of their initial capital payments. This allowed German goods in Palestine to be sold below market prices, and their exports surged. The system provoked a serious debate both in the Jewish diaspora, and in the jishuv (the Jewish society in Palestine). It was created at roughly the same time as the boycott movement, initiated by European Jews, and aimed at limiting imports from Nazi Germany. Jews in Europe felt betrayed. Despite its moral and political ambiguities, Ha’avarah proved to be an economic success. It allowed some 20,000 people to come to Palestine, bringing with them around six million £P.

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As early as May 1936, a Palestinian delegation came to Poland to negotiate a transfer agreement. It included two former Polish MPs: Fiszel Rottenstreich and Icchak Grünbaum. The third member of the delegation – Dr. Salheimer – was particularly interesting, since his home institution, the Anglo-Palestine Bank, was responsible for the Palestinian part of Ha’avarah operations. The situation soon became more complicated. Joszua Farbstein, another former Polish MP and erstwhile head of the Department of Industry and Commerce of the Jewish Agency Executive, came to Poland at the same time. The press was rife with speculation and accused Farbstein of attempting to negotiate with the Polish government on his own account. I found no traces of this in Polish archives. Farbstein was not the only Palestinian guest in Poland at the time: Moussa Chelouche, head of the Palestinian-Polish Chamber of Commerce in Tel Aviv, was another. Chelouche, an important figure in the Ashrai Bank and the Immigrant’s Bank Poland-Palestine Ltd, allegedly tried to dissuade the Polish government from accepting the Anglo-Palestine Bank as a major component of the new transfer. Again, I was not able to find any confirmation of these actions, beyond allegations in the Palestinian press. Finally, Poland was in negotiations over their ‘marriage of convenience’ with the revisionist movement. Both sides had to tread lightly.29

After Rottenstreich’s anti-Polish speech in August 1936 the Poles refused to talk to him. Further negotiations were thus concluded with Grünbaum alone.30 Grünbaum was no novice. An important figure in Jewish interwar politics in Poland, he had been one of the creators of the minority bloc in the Sejm. At the same time, institutions in Palestine – including the Anglo-Palestine Bank and the Executive of the Jewish Agency – tried to influence Polish officials through their representatives in Palestine. Since

30 AAN, MSZ, 6275, Note from 12 Aug. 1936, p. 221.
Bank P.K.O. was a plausible Polish choice for the main bank of the new transfer system, particular pressure was put on this subject. The director of its Tel Aviv branch, Tadeusz Piech, was told that his bank was too small, and reminded that it had only survived the banking runs in 1935–1936 with the help of the Anglo-Palestine Bank.  

Palestinian Jews insisted that the new arrangement should not threaten *Ha’avarah*. Since the list of Polish and German goods competing on the Palestinian market was fairly long, a successful agreement with Poland could hurt *Ha’avarah*. Many considered it crucial for the development of the *jishuv*: it guaranteed a substantial flow of capital combined with a relatively low level of capitalist immigration: an outcome which went hand in hand with ruling Zionist ideology. Polish consuls noted that the Jews’ insistence on the role of the Anglo-Palestine Bank was a sure sign that the *Ha’avarah* was considered more important than a possible agreement with Poland (although this logic seems a bit flawed). It was probably understood in Palestine that Poland would not be able to provide the amount of capital the Jews needed (and which they were getting from Germany). Moreover, with the *Ha’avarah* playing such an important role, there was no place for a particularly strong rise in Polish exports.  

Polish authorities were supposedly presented with as many as 68 different transfer proposals. However, as the government had a much stronger negotiating position, it was able to force its own draft of the clearing arrangements onto Grünbaum. It had been prepared by the Ministry of Industry and Commerce, and later accepted by an inter-ministerial conference on 25 September 1936,  

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conference, headed by Wiktor Tommir Drymmer, took place ten days later on 5 October 1936. Apart from important figures from the Ministry of Foreign Affairs, all other interested ministries sent their representatives: the Ministry of Interior, of Social Help, and of Industry and Commerce. The conference dwelled on many topics connected with the transfer and its minutes remain a fascinating read. Negotiations with the revisionist movement were entering into a decisive stage. Officials attending the conference considered them more important than any potential transfer agreement with the Jewish Agency. The Agency itself was deemed too weak to significantly influence Polish trade in the region. The minutes hint that while a transfer system based on a unilateral Polish declaration had been considered, it had been ultimately rejected before the conference. At least one of the reasons for this decision was clear: as negotiations with the revisionist movement were held in secret, the Poles considered talks with Grünbaum a very handy cover (‘pożądana przykrywka’). In this light, the true goal of a possible transfer agreement was to force the Jewish Agency into giving Poland more immigration certificates – preferably around 60 per cent of the global annual number. This was considered particularly important as German Jews were given a rising percentage of certificates.34

When it came to details of the future agreement, Poland was determined to become the stronger partner. In particular its officials decided – proving Zionist fears true – that the clearing in Palestine would be managed by Bank P.K.O.’s Tel Aviv branch. Wanting to avoid giving the Jewish Agency a prestige boost, the government also decided to relegate the signing of the agreement to a lower-tier governmental agency, perhaps the Polish Institute for Settlements (PIR, Polski Instytut Rozrachunkowy), responsible for managing other clearing arrangements. Finally, an internal Ministry of Foreign Affairs meeting was held in late October 1936. Among its participants was Tadeusz Zażuliński – now a department head in the

ministry. He might have considered this his personal triumph: exactly ten years after his point of view on Jewish transfers had been rejected, a system was being set up to address the issue. During the meeting it was concluded that:

‘While the Jewish Agency cannot be considered the sole or indeed the final partner, benefits in emigration and trade make signing an agreement with the Jewish Agency expedient’.35

Before the agreement could be signed, the mandatory ruler of Palestine had to be consulted. Great Britain had signed two trade treaties with Poland: in 1923 and 1935. They forbade all discriminatory barriers for imports of British and colonial goods. Not sure whether they allowed a transfer agreement, the Poles asked the Foreign Office. This provoked a discussion within the British government. Treasury officials stressed that Polish firms were often late in their payments to their British partners. Any agreement, even in the form of a clearing arrangement with a British mandate, which resulted in faster Polish payments to the United Kingdom by slowing other transfers, was deemed beneficial. As a result, Britain gave the agreement the green light.36

With both Poland and the Jewish Agency determined to use the clearing agreement to further their own goals, it comes as no surprise that the system was inefficient, and worked more to limit transfers than to encourage them. Negotiations lasted into 1937. There were a few major points of disagreement between the Poles and the Palestinians. Grünbaum insisted that all transactions within the system should require acceptance of

the Jewish Agency. This notion fell through early, as did the Polish request of a guaranteed allotment of immigration certificates. Moreover, the Jews did not let the agreement only apply to ‘Polish citizens, living in Poland’. On the other hand, the Poles did not agree to give priority to migration-related transfers, and forced a provision, which gave them the power to decide the order of payments within the system. The final agreement was signed on 4 March 1937.37

The agreement made PIR and the Tel Aviv branch of Bank P.K.O. S.A. responsible for everyday management of the clearing, as well as all trade-related transfers, for which they took 0.5 per cent of the value of each payment. A Special Commission (Komisja Specjalna) was created in Warsaw to control the clearing – out of its 13 members, five came from the Jewish Agency, six from PIR, one from Bank P.K.O. and one from the Polish-Palestinian Chamber of Commerce in Warsaw. The Commission had an advisory committee in Palestine, with two members nominated by the Jewish Agency, and one each by the Palestinian-Polish Chamber of Commerce in Tel Aviv, the Tel Aviv branch of Bank P.K.O. S.A. and PIR (the last institution nominated the committee’s chairman). The composition of these bodies was largely a success of Grünbaum – the original project allotted the Jews significantly less power.38

While small non-trade transfers were performed automatically by PIR, a Jewish-controlled agency was set up to manage larger ones. Headquartered in Jerusalem, it was called ‘Halifin’, and operated through a branch in Warsaw (Towarzystwo dla Rozwoju Stosunków Wymiennych Pomiędzy Polską a Palestyną ‘Halifin’ Sp z o.o.). It worked somewhat similarly to Ha‘avarah: around seven per cent of funds paid into the agency was then used for export premiums. This was important, as in 1936 Poland revoked

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many of the premiums that helped Polish exports to Palestine flourish. Through synecdoche the entire agreement was sometimes called Halifin.39

Funds put into the clearing in one country were paid out in the other, when a corresponding payment had been made in the other direction. In this way, Palestinian imports from Poland were supposed to ‘unblock’ migration quotas, in particular money required for capitalists. The list of goods that were able to do it was limited, as the Poles excluded a number of important articles of mutual trade such as wood and metal products.40

This suggests that limiting transfers (and not promoting exports) was the real Polish goal.

There was a crucial difference between Halifin and Ha’avarah, which affected their efficiency. Ha’avarah worked because Jews were willing to pay a heavy price for the possibility to emigrate from Nazi Germany. As a result, both Germany and Jews in Palestine were able to profit from the emigrants’ plight: Germany thanks to surging exports, and the jishuv thanks to low prices of Ha’avarah-sponsored wares. In comparison, Halifin took too small a percentage of the emigrants’ assets to finance significant export premiums. In the Polish system, Palestinian Jews were expected to bear the cost of migration of their Polish brothers (by having to buy relatively expensive Polish goods). This outcome must have seemed rather unlikely, which confirms my point, that the transfer was designed to limit capital flows, rather than profit from emigration.

In 1937 the Polish government gave official support to an alternative transfer solution, proposed by Michał Glazer, a Polish-Jewish economist. His system was more along the lines of the Ha’avarah: with emigrants


losing 15–25 per cent of their funds and the difference being invested in special governmental agencies. The Ministry of Foreign Affairs supported Glazer in his efforts to present his project to major powers, including the United States and Great Britain. Copies were also sent to various embassies in Warsaw. Archival sources suggest that it wasn't the technical solution to the transfer problem which earned Glazer the support, but rather the way in which he explained Polish-Jewish relations. In depicting them as the logical result of a historical and social process, his proposal fell in line with the official Polish interpretation, presented in diplomatic fora. In this way, support given to Glazer can be understood as a way of strengthening the official doctrine, with the economic arguments mostly ignored.41

During the first year of its operation some 4.5 million zł went into the system in Poland, and was met by only around three million zł in Palestine. As a result, some 1.5 million zł became blocked. This situation confirmed the importance of the provision giving Poland the power to decide the order of payments. It allowed Polish authorities to push their exports and at the same time limit transfers. There was another problem with the agreement: in all its calculations, it used the official Warsaw pound sterling exchange rate, c. 25 zł/£, while in Palestine the market exchange rate slowly moved up to as much as 40 zł/£.42

The situation resulted in abysmal capitalist emigration and negligible transfers. During the 15 months before the clearing agreement was scrapped, only ten capitalist families managed to make it to Palestine within the system – and even then only thanks to Bank P.K.O. S.A., which tried its best to make the process faster.

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In 1938 negotiations with revisionists reached a different stage and the clearing in its original, inflexible form offered Poland no advantages. Thus in May 1938 Poland unilaterally renounced it. Palestinian reaction was hostile: much blame was put on the Halifin branch in Poland for not adequately promoting the transfer. The Polish side, on the other hand, blamed the Jewish Agency, claiming that it had done nothing to increase Palestinian imports from Poland.\(^43\) Both sides were right to a degree: the agreement did not work properly, because neither party wanted it to work. It can be argued however, that the Polish decision to significantly limit capital transfers had, by far, the greatest impact.

The Jewish Agency sent a new delegation to Poland: this time Icchak Grünbaum was accompanied by Dr. Werner Feilchenfeld, an expert from Ha’avarah. The subsequent negotiations were very telling. Jewish representatives wanted Halifin to take more money from emigrating Jews, so that it could be used to finance more imports from Poland, with Łódzki Bank Depozytowy as the only official bank.\(^44\) In other words, they wanted a system more like the Ha’avarah, which allowed higher emigration, while at the same time profiting the jishuv.

After two months, negotiations came to a halt and on 9 August 1938 the transfer agreement expired. Soon afterwards, on 13 September 1938, Poland unilaterally introduced a new transfer system via a governmental declaration.\(^45\)

The new, declaration-based clearing came into force on 15 September 1938. According to Polish consul Tadeusz Piszczkowski, it aimed to achieve an absolute balance of payments between Poland and Palestine.\(^46\) Under its

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\(^{44}\) AAN, PIR, 118, Memo ‘Linie wytyczne układu w przedmiocie zmiany umowy clearingowej’ by I. Grünbaum and W. Feilchenfeld, 14 Jun. 1938.


\(^{46}\) AAN, MSZ, 6276, T. Piszczkowski do MPiH, 21 Mar. 1939, p. 9.
rule, the Foreign Currency Commission in Warsaw (Komisja Dewizowa) had to confirm all non-trade capital transfers to Palestine. If its decision was positive, the commission could take one of two actions. The transfer could simply be allowed to proceed (and would then be registered on a special PIR account). More interestingly however, the Commission could deem the transfer important enough to go through ‘PIR settlement’ (‘rozrachunek PIR’). This settlement system worked similarly to the previous clearing agreement, although on a much more limited scale. Transfers to Palestine were executed only after certain goods of a corresponding value had been imported from Poland. The Ministry of Industry and Labour controlled the list of these ‘unblocking’ goods, and it remained very limited,\(^{47}\) including mostly food, cement, furniture, various paper-related goods and leatherwear. Citrus-trade operated separately, but was also controlled by PIR.

Poland achieved full control over legal transfers to Palestine in a much more flexible system than the agreement from 1937. As the declaration excluded most trade from the settlement, it made Polish exports independent. The fact that standard, small transfers were made easier promoted migration, while the possibility of moving transfers of a higher value to the settlement system made sure that the outflow of funds wasn’t too big. On the other hand, archival reports suggest that the settlement system came to a halt with limited trade in related goods. Consul Piszczkowski blamed the Jewish Agency, pointing out their complete désintéressement in increasing imports from Poland.\(^{48}\) But why would the Agency pander to Polish claims?

In early 1939 another Polish Jew, Dr. Emil Shmorak, became the new director of the Department of Trade and Industry of the Jewish Agency’s

\(^{47}\) ’Wykaz artykułów, których ekspor dopuszczony jest do odmrażania należności zablokowanych w Polskim Instytucie Rozrachunkowym w Warszawie’, Palestyna i Bliski Wschód, 7 (1938), 9, p. 235; L. Lewite, ‘Działalność Izby ... 1938’, p. 90.

\(^{48}\) L. Lewite, ‘Działalność Izby Handlowej Polsko-Palestyńskiej w 1937 r. na tle ogólnej sytuacji w Palestynie’, Palestyna i Bliski Wschód, 7 (1938), 5–6, p. 111.
Executive. Shmorak was one of the Jews who had blamed the Agency, rather than Poland for the meagre results of the first clearing agreement. He was seeking rapprochement with Poland and wanted to negotiate a new deal.\textsuperscript{49} In February 1939 the Economic Adviser (\textit{Radca Ekonomiczny}) of the Polish Ministry of Foreign Affairs urged his government to adopt a new economic policy towards Palestine,\textsuperscript{50} one based on the free flow of foreign exchange in mutual trade and unhindered by clearing regimes. In his opinion, only the transfer of capital by capitalists should continue to be controlled via a \textit{Ha’avarah}-like system, with proceeds used for export premiums. Such a system, his note explained, would spur migration and help with the balance of payments. Between the adviser and Shmorak, a new solution seemed imminent.

Despite these rather sensible proposals, the arrangement between Poland and Palestine remained unchanged, primarily because of the Ministry of Treasury and Drymmer’s Department. In April 1939 the latter’s officials declared in a memorandum that there was nothing to be gained from any agreements with the Jewish Agency, itself too weak to affect anything in Palestine. The abysmal emigration situation during the Arab uprising had led them to believe that the framework of the unilateral declaration gave Poland greater flexibility and was completely adequate. They stressed that Polish policy had been expressed most fully in a declaration by viceminister Jan Szembek: while Poland did not aim to get devisen from Palestine, it would not agree to any loss in this regard.\textsuperscript{51} The situation remained unchanged. It should be stressed that this strict approach was not limited to Polish relations with Palestine, as the Sanacja government fought to keep the economy afloat. For example, in late 1938 it launched a campaign against tourist agencies in a bid to limit the outflow of capital.

\textsuperscript{49} AAN, MSZ 9936, T. Piszczkowski to MSZ 22 Feb. 1939, pp. 3–5.
\textsuperscript{50} AAN, MSZ, 9936, MSZ Economic Adviser note, 24 Feb. 1939, pp. 17–9.
\textsuperscript{51} AAN, MSZ, 9936, Departament Konsularny MSZ note, 4 Apr. 1939, p. 6.
Sources point to a very low effectiveness of the Polish-Palestinian system and significant delays in payments, although the effects varied depending on the type of transfer. Private (non-settlement) transfers fared fairly well: 0.8 million out of one million zł was transferred before September 1939. Similarly, citrus trade closed with 6.2 million zł transferred out of 8.5 million zł paid by Polish importers. Other results were much worse. It seems that not a single złoty from the charity-private institutions account (mostly used by Keren Kajemet LeIsrael and Keren HaJesod) made it to Palestine. The ‘PIR settlement’ account proved equally ineffective, as did other, less important ones. In total, only 2,500 out of a total of 724,400 zł was transferred. The outbreak of the war made any further changes impossible. At least one Palestinian company was not discouraged by German tanks in Warsaw, and in October 1939 demanded compensation from the Polish government-in-exile (then in France). Unsurprisingly, considering the situation, none was given.

Over 20 years of mutual relations the Polish government changed its stance on capital transfers to and from Palestine. In the 1920s and early 1930s, they were considered less important than emigration. It can be argued that this was possible for two reasons: first, Poland was still able to afford a relatively small outflow of capital (a few tens of millions of Polish złoty a year, while in the 1920s the global annual figure of imports reached 2–3 billion zł). Second, Palestine was able to take in a relatively large number of immigrants (even if much less than the United States before the first world war), and Poland accepted capitalist migration as long as it meant the departure of a significant number of Jewish labourers. Both of these circumstances changed in the late 1930s, and Polish policy followed suit. The Great Depression undermined Poland’s financial position, and if the outflow of capital to Palestine in 1935 amounted to the estimated

52 AAN, MSZ, Polskie Towarzystwo Handlu Kompensacyjnego Sp. z o.o. to MSZ, 30 May 1939, p. 45.
53 AAN, AAN, PIR, 143, Remanent wpłat w Polsce, 31 Dec. 1939; AAN, PIR, 147, passim; AAN, PIR, Mill Products Ltd to Polish Government in France, 15 Oct. 1939.
value of 80–100 million zł, then it was equivalent to some ten per cent of total Polish exports in that year. Political changes in Palestine resulted in a much smaller allotment of migration certificates by the British. At the same time, Ha’avarah played an important role in the economic life of the jishuv, making a new, rival transfer system less attractive to Palestinian Jews, especially if it was less likely to bring comparable advantages. When emigration seemed unlikely, limiting the outflow of capital became the primary goal of Polish politics in Palestine. These points arguably explain both Polish actions in 1925–1926, and the changing clearing situation in the late 1930s, which limited transfers to Palestine more than promoting them.
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