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THE POLISH GOVERNMENT'S MONETARY POLICY IN 1936 - 1939

1. THE CONCEPTS OF MONETARY POLICY

During the Great Depression deflationary policy was binding in Poland. It consisted in maintaining the gold standard at any cost and in adapting the entire economic policy of the state to this task.¹ The deflationary trend was supported by the two managers of the Polish monetary policy during the crisis years, I. Matuszewski,² head of the Ministry of Finance, and his successor, W. M. Zawadzki.³ During the crisis many countries abandoned an orthodox defence of their currency and tried to take advantage of changes in the rates of exchange in order to activate economic life. To achieve this end they devaluated their currencies, and this enabled them to increase exports, a thing of vital importance in conditions of overproduction. Some countries which did not devalue their currency introduced foreign currency restrictions prohibiting the transfer of money

¹ Z. Knakiewicz, *Deflacja Polska 1930 - 1935 [Deflation in Poland 1930 - 1935]*, Warszawa 1967; see also F. Zweig, *O programach walki z kryzysem [The Programmes of Fight against the Crisis]*, Kraków 1933; Z. Landau, J. Tomaszewski, *Wielki kryzys 1930 - 1935 [The Great Depression 1930 - 1935]*, Warszawa 1981, pp. 245 - 250.

² Z. Landau, *Ignacy Matuszewski (1891 - 1946), kierownik Ministerstwa Skarbu [Ignacy Matuszewski (1891 - 1946), Head of the Ministry of Finance]*, "Finanse", 1974, No. 5, pp. 49 - 60.

³ Z. Landau, *Władysław Zawadzki (1885 - 1939). Ekonomista, polityk, minister skarbu [Władysław Zawadzki (1885 - 1939). Economist, Politician, Minister of Finance]*, "Przegląd Historyczny" 1980, No. 4, pp. 753 - 771.

(including foreign currency and gold) abroad without the consent of a state office in charge of foreign currency control. The beneficial aspect of these restrictions was that they made it possible to control the size of imports, limit the repayment of foreign credits, etc.

Throughout the six years of the Great Depression and post-crisis recession Poland retained the forlorn position of defending the gold standard, even though this policy was criticized by many people, among them the prominent economist, A. Krzyżanowski⁴ and the so called "Cracow School"⁵ linked to him.

When taking over the post of Minister of Finance on October 13, 1935, E. Kwiatkowski could either maintain the previous monetary policy or change it. At first he decided to continue it. One can assume that feeling incompetent in monetary matters, he preferred to follow the old line. According to his close collaborator, J. Rakowski, Kwiatkowski "wishing to create a climate of certainty, calm and equilibrium for the development of the economy, knowing the character of the Poles and remembering the results of the inflation after the First World War and also making use of W. Grabski's stabilizing experiences [...] stubbornly defended the stability of the currency. He did not give in to President Mościcki who, meaning well, but having neither the theoretical knowledge nor the experience, supported the idea of a monetary 'revolution' that is, the maintenance of a currency based on the gold standard which, however, would be used only for international exchange."⁶ The intention to keep up the existing

⁴ The plan for financial and economic improvements in: A. Krzyżanowski, *Dolar i złoty oraz inne pisma pomniejszych oraz przemówienia 1931 - 1935* [Dollar and Złoty and Other Brief Papers and Speeches 1931 - 1935], Kraków 1936, pp. 229 - 238. See also A. Krzyżanowski, *Złoto Banku Polskiego* [The Gold of the Bank of Poland], "Przegląd Współczesny", 1932 No. 9, pp. 195 - 200; idem, *Spór o politykę walutową* [Dispute over Monetary Policy], *ibidem*, 1932, No. 11, pp. 334 - 349.

⁵ A. Lityńska, *Szkoła krakowska (1921 - 1939)* [The Cracow School (1921 - 1939)], Kraków 1983.

⁶ J. Rakowski, *Polityka finansowa Eugeniusza Kwiatkowskiego w świetle wspomnień i badań naukowych* [Eugeniusz Kwiatkowski's Monetary Policy in the Light of Reminiscences and Research], "Niepodległość", 1978, No. 11, p. 112.

monetary policy is reflected in the letter to the Polish embassies and legations of January 18, 1936, in which the head of the Press Department of the Ministry of Foreign Affairs wrote: "The Ministry desires it to be emphasized that the rumours concerning a change in the government's financial policy are completely unfounded... No monetary or foreign currency restrictions are foreseen."⁷

Even though Kwiatkowski was against changing the monetary policy, life itself imposed its evolution. The large outflow of gold and foreign currency from the Bank of Poland which took place during the crisis, when foreign creditors started withdrawing their investments from Poland, did not abate when the crisis ended, but went on. This was accompanied by increased purchases of gold coins abroad, in which the well-to-do invested their savings.⁸ The outflow did not end when Kwiatkowski took over the post of minister of finance. In the first few months of 1936 the situation was as follows: "After a period of calm in the first few months, reflected on the money market by a considerable rise in deposits at financial institutions, the situation deteriorated in March and especially in April, when a withdrawal of deposits, a flight of capital and an unprecedented hoarding of gold and money could be observed."⁹ In April 1936 alone, the Bank of Poland lost 57.2 million zlotys worth of gold and foreign currency.¹⁰ This posed the danger of the monetary system breaking down, for the large outflow of gold and foreign currency from the Bank of Poland reduced the backing of the zloty. In this situation a meeting was held on April 21, 1936 under the chairmanship of President I. Mościcki, with the participation of the Prime Minister, invited ministers and directors of state banks. The meeting discussed the question of devaluating the zloty. The main supporter of devaluation was A. Koc, President of the Bank of

⁷ Archives of Modern Records in Warsaw (henceforward referred to as AMR), MŚZ (Ministry of Foreign Affairs), vol. 7169.

⁸ Z. Karpiński, *O Wielkopolsce, złocie i dalekich podróżach. Wspomnienia 1860-1960* [On Great Poland, Gold and Distant Travels. Reminiscences 1860-1960], Warszawa 1971, pp. 184-185.

⁹ Report of the Bank of Poland for 1936, p. 17.

¹⁰ *Ibidem*, p. 23.

Poland. Many participants opposed this conception. Summing up the discussion, Mościcki asked Koc "to state clearly to the employees of the Bank of Poland with whom he discussed the devaluation plan that it has not been adopted. The President regards devaluation as a disaster."¹¹

As foreign currency difficulties increased and the idea of devaluation, which could have eased them to some extent, was rejected, there was no other way out but to introduce foreign currency restrictions, a step taken on April 26, 1936. Their advisability was not generally accepted, the President of the Bank of Poland resigning in protest against the new regulations.¹²

Foreign exchange restrictions did not close the discussion on the advisability of the devaluation of the zloty. A new wave of discussion arose after the collapse of the French franc and its devaluation in September 1936, which was followed by the devaluation of the Dutch guilder, the Latvian lat, the Swiss franc and, in October 1936, the Italian lira. As a result of the devaluation, these countries acquired conditions for increasing their exports and the currency circulation destined to finance economic tasks.¹³ In Poland not only the press and scholars but also politicians took part in the discussion. In order to map out the further course of the monetary policy, a conference was convened

¹¹ H. Gruber, *Wspomnienia i uwagi [Reminiscences and Remarks]*, Londyn 1968, pp. 334 - 340. Koc said later that it was Kwiatkowski who had demanded that he should make this proposal (p. 340).

¹² In a speech made at a meeting of the Council of the Bank, Koc said: "for a long time now there have been differences in opinion on the financial policy between the President of the Bank and the Minister of Finance." The President had opposed foreign currency restrictions as an aim in themselves, being of the opinion that they could only be used as a shield for carrying out a definite economic programme. In this situation Koc resigned when the foreign currency control had been introduced, postponing the time of announcement of his decision only. Minutes of the meeting of the Council of the Bank of Poland of May 11, 1936, AMR, Bank Polski, vol. 70.

¹³ See E. R., *Przegląd sytuacji [A Review of the Situation]*, "Przegląd Gospodarczy," 1936, No. 20, pp. 639 - 642; Dr. T. Ł., *Koniec "Bloku złotego" [The End of "the Golden Bloc"]*, "Polska Gospodarcza," 1936, No. 40, pp. 1163 - 1666; *idem*, *Międzynarodowe skutki ostatniej dewaluacji [The International Results of the Last Devaluation]*, *ibidem*, No. 41, pp. 1189 - 1192.

on October 1, 1936, with the participation of President Mościcki, General E. Rydz-Śmigły, the Prime Minister and ministers: E. Kwiatkowski, Minister of Finance, T. Kasprzycki, Minister of Military Affairs, M. Zyndram-Kościałkowski, Minister of Social Welfare, A. Roman, Minister of Industry and Commerce, and J. Poniatowski, Minister of Agriculture and Land Reform. The conference was also attended by some deputy ministers, senior officials from the Ministry of Finance and presidents of state banks.

Opinions on the advisability of devaluation were divided before the conference. It was supported by experts from the Ministry of Finance and by the Minister of Industry and Commerce. Asked about his views, E. Kwiatkowski said on September 28 "he has not yet formed an opinion on whether devaluation would be advantageous or disadvantageous for Poland. There are pros and cons concerning this. He is under the impression, however, that owing to the specific economic features of the Polish system, many arguments can be cited against devaluation, in spite of the fact that the devaluation of the franc will undoubtedly have an unfavourable effect on our exports."¹⁴

In spite of these cautious words, the Minister of Finance was decidedly against devaluation, and brought round the President and General Rydz-Śmigły¹⁵ to his views, even though the latter had some doubts about the matter. In a conversation with J. Szembek, Deputy Minister of Foreign Affairs, Kwiatkowski said: "the situation inside the country... makes it imperative to take a decision. The news of the devaluation of the franc has given rise to undesirable sentiments and repercussions on the internal market and these must be checked. A declaration should be issued to calm public opinion. This does not by any means forejudge the nature of the moves the government may take later; if the situation requires this, we shall of course not hesitate to devalue the złoty. There is, however, no necessity to do this now, and he is rather against devaluation."¹⁶

¹⁴ J. Szembek, *Diariusz i teki (1935 - 1945)* [Diary and Folders (1935 - 1945)], vol. II, Londyn 1965, p. 285.

¹⁵ *Ibidem*, p. 287.

¹⁶ *Ibidem*, p. 291.

At the conference opinions were divided.¹⁷ After analysing the advantages and disadvantages of devaluation, Kwiatkowski said he was opposed to it. T. Lechnicki, Deputy Minister of Finance, and W. Domaniewski, head of a section in the Monetary Circulation Department of the Ministry of Finance, came out unequivocally for devaluation. They were supported by Director W. Baczyński from the Ministry of Finance. Minister Poniatowski was against devaluation and so were W. Byrka, the new President of the Bank of Poland, and H. Gruber, Chairman of the Postal Savings Bank. The Minister of Industry and Commerce continued to support devaluation, saying it was necessary to activate exports; he stated that if this had to be done, it was better to carry it out together with other states, not separately. R. Górecki, Chairman of the National Economic Bank, was of the opinion that devaluation was premature, but he did not question its advisability in the future. Fearing that devaluation would lead to an increase in prices, the Minister of Military Affairs was against it. Rydz-Śmigły adopted a wait-and-see attitude and suggested that somebody should be sent abroad, above all to London, "to get the run of things and find out what we might get if we carried out devaluation". Mościcki unequivocally supported E. Kwiatkowski's stand and came out against a change of monetary policy.¹⁸

The conference adopted a communiqué which said, among other things: "The members of the Government present at the conference stated that in view of the present situation on the international money market there were no reasons for changing the Government's monetary policy."¹⁹

The Council of Ministers took the same stand on October 5, 1936. However, the people did not trust the official communiqués, remembering the statement made by the Minister of Finance, E. Kwiatkowski, in January 1936, when he said: "All the greater therefore is my surprise and indignation on learning about the

¹⁷ In the light of Szembek's notes, Gruber's assertion that everybody was against devaluation is not correct. H. Gruber, *Wspomnienia*, p. 357.

¹⁸ J. Szembek, *Diariusz*, vol. II, pp. 294 - 297.

¹⁹ *Polska polityka walutowa nie ulegnie zmianie* [Poland's Monetary Policy Will Not Be Changed], "Polska Gospodarcza," 1936, No. 41, pp. 1207 - 1208.

rumours being spread in society about alleged changes in the government's financial and monetary policy. Only speculators and elements alien and hostile to Poland can be interested in spreading rumours of this kind." ²⁰ And yet, less than four months later, the monetary policy was drastically changed through the introduction of foreign currency restrictions.

Following Rydz-Śmigły's suggestion, F. Młynarski, former Vice-President of the Bank of Poland, was sent to London to weigh up the situation. As Młynarski says in his memoirs "Mościcki recognized Rydz-Śmigły's move as a violation of the agreement on the division of powers. A storm in a tea cup broke up. As a result, two guardian angels were to accompany me. One of these was Leon Barański, Director-in-chief of the Bank of Poland, the other was Wiesław Domaniewski, Director of the Monetary Circulation Department of the Ministry of Finance." ²¹

The results of the reconnaissance were interesting. Although the British avoided binding themselves by a formal opinion, they gave the Poles to understand that "Poland's position outside the general devaluation process is incomprehensible and unfavourable." ²² They offered Poland help in carrying out the devaluation. ²³ Młynarski's interlocutors were of the opinion that Poland

²⁰ *Stołość polityki finansowej i walutowej rządu [The Stability of the Government's Financial and Monetary Policy]*. Statement by Deputy Prime Minister E. Kwiatkowski, "Polska Gospodarcza," 1936, No. 3, p. 101. The publication of the communiqué was probably a result of a conference of former prime ministers on the monetary situation of the country. Cf. AMR, K. Świtalski's papers, vol. IV, k. 333 - 335.

²¹ F. Młynarski, *Wspomnienia [Memoirs]*, Warszawa 1971, p. 400. The dispute in question arose as a result of the agreement on the division of powers between the President and General Rydz-Śmigły. Under the agreement, economic matters were in Mościcki's competence. The division of powers hampered the efficient functioning of the state.

²² F. Młynarski, *Wspomnienia*, p. 400.

²³ The Polish Ambassador wrote in his diary: "My most important contact was with Col. Koc, to whom I could impart the important news that there was a real possibility of Poland obtaining British financial help, if we first carry out devaluation and if the post of minister of finance is taken over by a person enjoying confidence in Britain, preferably by Mr. Koc himself... This news came indirectly from M. Norman, Governor of the Bank of England, and was communicated by Nixon with the reserva-

could either carry out devaluation and link herself to the sterling bloc or join the autarchic policy pursued by Germany. "In the view of the British financial circles, the fact that Poland has not carried out devaluation indicates that we have some agreements with Germany in the monetary field." ²⁴ According to L. Barański, the western states were seeking to encircle the Reich. Having failed to do this on the political plane, they were trying to encircle Germany financially. "They would like to secure Poland's cooperation in this activity, hence the British offer to help us carry out devaluation." ²⁵ For political reasons Szembek was afraid of establishing such ties with Britain against the Reich. He was of the opinion that "the help which they want to give us is mainly due to the political reasons; it is intended to serve foreign aims and consequently, we can pay a high price for it, not only economically but also politically." ²⁶

From a purely economic issue the devaluation of the złoty was becoming a political question which, in a way, was to decide whether Poland was ready to cooperate with the West against Germany or not. In line with her policy of courting Nazi Germany, Poland did not agree to such a cooperation. In Great Britain this produced dissatisfaction, as was reflected in the press. For instance, "The Financial News" wrote that Poland's unwillingness to devalue her currency did not stem from political motives, but looking at this objectively, such a policy was bound to lead to a Polish-German rapprochement, since Poland would become increasingly dependent on Germany in her foreign trade.²⁷ Similarly, in another issue the paper stated that Poland was incapable of carrying out devaluation as she feared that this would not be to Berlin's liking.²⁸ Although the information on

tion to keep it secret." E. R a c z y ń s k i, *W sojusznicy Londynie. Dziennik ambasadora 1939 - 1945* [In *Allied London. Diary of an Ambassador 1939 - 1945*], 2nd ed. Londyn 1974, p. 14.

²⁴ J. Szembek, *Diariusz*, vol. II, pp. 324 - 325.

²⁵ *Ibidem*, p. 325.

²⁶ *Ibidem*.

²⁷ Quoted after "Bank", 1936, No. 12, p. 451.

²⁸ "Financial News," of Oct. 10, 1936, quoted after "Bank" 1936, No. 11, p. 351. "The Economist" of May 2, 1936 voiced similar opinions.

Poland's close monetary contacts with Berlin was untrue, the analysis of the situation was correct. A rapprochement with Germany was taking place in economic matters.²⁹

The supporters of devaluation continued to advocate it in the press. However, the more time there elapsed since the devaluation carried out in several European countries in September 1936, the less sense a Polish devaluation had. The supporters and opponents of devaluation used logical arguments based on economic theories and did not bother to work out what profits or losses would result if devaluation was carried out or abandoned. The main argument of the opponents of devaluation was the fear that devaluation would result in rapid price increases on the internal market, which might make it difficult to maintain a balanced budget and carry out the investment programme, and might lower the living standards of a part of the population.³⁰ These fears do not seem to have had realistic foundations. Devaluation did not mean uncontrolled inflation, but a single act lowering the relation of the złoty to gold. As productive capacity in many branches of industry was still not fully put to a good use in Poland, there was no danger that an increased circulation of the Bank of Poland banknotes might result in an additional emission having no coverage in goods.³¹ On the contrary, an increased emission might have led to the widening of the investment front which, through acceleration effects might have ensured increased production not only in the branches of industry working directly for investments, but also in industries producing consumer goods. It might also have created conditions for increasing the prices of agricultural goods, and this was very important after the successive breakdown of these prices in the autumn of 1937.³²

²⁹ See D. Kaiser, *Economic Diplomacy and the Origins of World War II. Germany, Britain, France, and Eastern Europe 1930 - 1939*, Princeton 1980.

³⁰ See T. Łychowski, *Dlaczego nie dewaluacja* [Why Not Devalue], "Gospodarka Narodowa", 1936, No. 11, pp. 157 - 159.

³¹ For similar opinions see W. Ptaszyński, *Krok naprzód* [A Step Forward], "Gospodarka Narodowa", 1938, No. 19, pp. 276 - 279.

³² For arguments of the supporters of devaluation see K. Studentowicz, *Dewaluacja a kryzys gospodarczy* [Devaluation and the Economic

The realization of these facts was slowly gaining ground not only among economists but—as it seems—mainly in the authoritative military circles, which were interested not only in speeding up the investments, restricted by the financial resources at the government's disposal, but also in a speedier rearming of the armed forces. Kwiatkowski had sharp disputes with the military circles over their financial demands.

Whereas 1937 was a calm year in Poland as far as monetary policy is concerned,³³ the following year was not so successful.³⁴ This was due to the aggravation of the international situation. The growing tension necessitated increased armaments, and these required more funds.

Kwiatkowski did not believe a war with Germany would break out, but he was afraid that excessive mobilization preparations would thwart his investment plans. "Without receiving a clear reply to the question [if war breaks out—Z. L.], he did not want to switch over to a war economy [. . .] and ruin his plans, which could be carried out only if normal conditions continued."³⁵ H. Gruber was also convinced that "the attitude of Finance Minister Kwiatkowski was based on his incredibility in the possibility

Crisis], Warszawa 1937; A. Tom, *Poziom cen a dewaluacja* [*The Level of Prices and Devaluation*], "Gospodarka Narodowa", 1938, No. 17 - 18, pp. 257 - 261.

³³ See "Wiadomości Banku Polskiego" for the years 1937 and 1938.

³⁴ The difference was described briefly by Kwiatkowski in a confidential letter to ministers of Sept. 3, 1938, in which he wrote: "In 1937, in view of an active balance of payments and indications of dishoarding, large foreign currency reserves could be secured and a more liberal policy of allocating foreign currency could be pursued. In 1938 the situation changed radically. The extra foreign currency reserves are almost depleted. It is necessary to limit imports in order to balance foreign trade and to reduce the allocation of sums envisaged in the investment plans." AMR, Ministry of Finance, vol. 5059.

³⁵ J. Rakowski, *Polityka*, p. 122. Similarly, in a conversation with J. Szembek, Deputy Minister of Foreign Affairs, Kwiatkowski said on April 26, 1939 "he is afraid that the state of war preparedness, should it last long, would destroy everything he has tried to achieve in Poland to raise the economic level. He himself will not have the necessary strength to start everything anew." J. Szembek, *Diariusz*, vol. IV, p. 577.

of war.”³⁶ This influenced his choice of monetary policy. He was afraid to embark on radical changes, as long as he was not compelled to do so.

He explained his policy towards the growing financial demands of the armed forces in a private letter to S. Sadkowski, former director of the Monetary Circulation Department of the Ministry of Finance. In this he wrote: “Inwardly, I am convinced that since 1935 the Treasury has done everything for the defence of the country that could be done in Polish conditions and along the political guidelines which I received. We have done this silently and without publicity, so that outside the closest circle nobody is even aware of what sums the defence has devoured during the last few years.”³⁷ In another letter he said: “In 1935 I undertook to reform the finances to make rearmament possible, and in the years 1936 - 1939 I gave the armed forces, outside the budget, twenty times more than all the governments had given them from the budget in 1926 - 1936 [...]. Judging by the military exports, which were carried out completely without my control, I concluded that the armament was complete. Hence the effort—which I really prompted—to build the Central Industrial Region, as a question of general industrialization and a supplement in the event of war.”³⁸

The last sentence seems to provide a key to Kwiatkowski's disinclination to change the monetary policy and finance the growing needs of the armed forces. The Minister held the view that Poland was not faced with a threat of war and, secondly, that the armed forces were well equipped, should war break out. One can be surprised that an acting deputy prime minister should have had such a poor understanding of Poland's military situation, but one should bear in mind that he was inadequately informed. The armed forces were of the opinion that the sole task of the Ministry of Finance was to supply financial resources,³⁹ but

³⁶ H. Gruber, *Wspomnienia*, p. 312.

³⁷ Kwiatkowski's letter to S. Sadkowski of Feb. 15, 1940. H. Martin's archives in London.

³⁸ Kwiatkowski's letter to S. Sadkowski of March 17, 1940, *Ibidem*.

³⁹ K. Morawski, Deputy Minister of Finance, wrote: “In the period when the war potential and the economic capacity of a state merge more

at the same time, like the National Unity Camp, they treated the chief of the ministry as an outsider.

Rydz-Śmigły was looking for resources to meet the needs of the armed forces while Kwiatkowski was trying to expand the Central Industrial Region. Their activities were often discordant. In his talks with political and economic leaders, Rydz-Śmigły tried to discover a way to increase the financial resources, which the state needed. For instance, on May 13, 1936, General K. Sosnkowski presented him with his concept of economic policy. He was of the opinion that "the methods of this policy should be adapted to the requirements of the state's defence [...] one cannot hesitate to sacrifice orthodox methods whenever in this way quicker effects can be achieved in armaments and in the expansion of the war industry. This is why I came out in favour of the devaluation of the złoty, combined with an inflation of credits to meet the needs of the state's defence [...]. However, I saw that I was not properly understood, for he (Rydz-Śmigły) polemized with my thesis, saying that our gold reserves were too small to permit a large increase in the emission of banknotes through devaluation."⁴⁰ Another interlocutor was H. Gruber, who advised "a cautious controlled but steadily increasing emission of banknotes, secured by promissory notes of production workshops and the public institutions."⁴¹ This was not a new concept in Poland. It meant a switch over to the controlled inflationary policy, which had been demanded by the Polish Socialist Party during the Great Depression. As I have said above, in conditions where the

and more, this intention to exclude everything connected with state defence from the competence of civilian ministries was undoubtedly erroneous, even from the military point of view. How could the minister of finance secure a harmonious and sensible expansion of the Polish economy if a large part of the building site was inaccessible to him and was cordoned off by a fence bearing a large inscription 'Military Secret'". K. Morawski, *Wspomnienia z pracy w Ministerstwie Skarbu od grudnia 1936 do października 1939* [Memoirs on My Work in the Ministry of Finance from December 1936 till October 1939], "Kultura", 1950, No. 2-3, p. 179.

⁴⁰ K. Sosnkowski, *Przyczynki do sprawy zbrojeń polskich w okresie 1935 - 1939* [Contributions to the Question of Polish Armaments in 1935 - 1939], Londyn 1973, p. 17.

⁴¹ H. Gruber, *Wspomnienia*, p. 320.

productive capacity was not fully utilized, moderate inflation did not entail negative consequences. This idea was raised in 1934 by W. Fabierkiewicz, Director of the Customs Department at the Ministry of Finance,⁴² who in a press article advocated controlled inflation. The result was that he was dismissed.⁴³ Some much more primitive inflationary concepts were contained in I. Mościcki's monetary ideas, without his being aware of this.⁴⁴

The rapid outflow of bank deposits in September 1938, caused by the Czechoslovak crisis, made it necessary to increase the money in circulation to cover the growing payments made by the banks. About 400 million zlotys were then withdrawn from banks. To get this sum, the Bank of Poland increased the circulation by about 40 per cent, as a result of which the cover of banknotes fell below the required 30 per cent. In accordance with regulations, the Bank of Poland should have raised the interest rate and paid a special tax on the uncovered part of the emission, but the Ministry of Finance agreed to waive these two sanctions foreseen in the Bank's statute.⁴⁵ In practice this meant Kwiatkowski's approval of a gradual departure from the orthodox principles of monetary policy. But the departure was caused by non-typical conditions and, in a way, was effected under constraint.

The question of devaluation, though formally foredoomed in 1936, was repeatedly raised in the public forum. The government paid no attention to the demands for devaluation. The question re-appeared at the beginning of 1939. Owing to the growing difficulties in the export of agricultural produce and some industrial goods and the sharp drop in the prices of agricultural products inside the country, agricultural and industrial circles

⁴² W. Fabierkiewicz, *Kuszenie świętego Antoniego* [*The Tempting of St. Anthony*], "Kurier Poranny", Feb. 15, 1934.

⁴³ For more details see A. Ivanka, *Wspomnienia skarbowca 1927 - 1945* [*Memoirs of a Revenue Official 1927 - 1945*], Warszawa 1964, pp. 314 - 316.

⁴⁴ Z. Landau, J. Tomaszewski, *Wielki kryzys 1930 - 1935*, pp. 254 - 256; I. Mościcki, *Autobiografia* [*Autobiography*], "Niepodległość," 1981, No. 14, pp. 112 - 119.

⁴⁵ Z. Karpiński, *Ustroje pieniężne w Polsce od roku 1917* [*The Monetary Systems in Poland since 1917*], Warszawa 1968, p. 153.

proposed the devaluation of the zloty.⁴⁶ In June 1939, the question of devaluation reappeared again in connection with the Polish-British and Polish-French negotiations on credits for the needs of the armed forces. In reply to Polish demands for a 60 million pound loan, the British proposed a commodity credit worth 8 million pounds and 8 million pounds in cash, the latter loan to be granted when Poland had fulfilled certain conditions. At the same time they expressed "the advice, which was almost a demand, that devaluation should be carried out in Poland."⁴⁷ The French took a similar stand.⁴⁸

Kwiatkowski "decided to continue to reject the advice of devaluation, being of the opinion that the sums proposed by the British were insufficient to defend the currency on the new level, all the more so as their use was restricted."⁴⁹ British pressure must, however, have been quite strong⁵⁰ for at a conference with the Prime Minister on July 8, 1939 it was agreed that "should the British side set the devaluation of the zloty as a condition", A. Koc, chairman of a Polish delegation conducting negotiations on loans, "should reserve the right to consult with his government which alone is entitled to take decisions on such matters. Negotiations on this matter would thus be separated from the loan negotiations and a special delegation would be set up for the purpose. The essential guidelines concerning this question have already been laid down in a special directive worked out by Minister Kwiatkowski and Minister Koc."⁵¹ I do not know this directive. However, knowing A. Koc's pro-devaluation stand, one can assume that it was a kind of compromise between the British demands and Kwiatkowski's attitude. However, this is only hypothetical. The question soon ceased to be topical because of the difficulties encountered by Poland in the negotiations on loans.

⁴⁶ H. Gruber, *Wspomnienia*, p. 385.

⁴⁷ K. Morawski, *Wspomnienia*, p. 175.

⁴⁸ *Diplomat in Paris 1936 - 1939. Papers and Memoirs of Juliusz Łukasiewicz, Ambassador of Poland*. Ed. by W. Jędrzejewicz, New York 1970, p. 223.

⁴⁹ K. Morawski, *Wspomnienia*, p. 176.

⁵⁰ See, for instance, "The Economist", of June 17, 1938.

⁵¹ J. Szembek, *Diariusz*, vol. IV, p. 659.

Military circles were becoming more and more convinced that war with Germany was inevitable. A statement to this effect was made by Marshal Rydz-Śmigły at a secret conference on February 9, 1939, in which he said "he reckons with the possibility of a war with Germany breaking out within the next few months."⁵² Kwiatkowski continued to disagree with this view. As late as May 13, 1939, he said in a conversation with H. Gruber that he did not think Hitler would go to war.⁵³

As rearmament had to be speeded up, the armed forces demanded additional resources. These could be gained only by a departure from the existing methods of monetary policy and by increasing the emission without paying any attention to the gold and foreign currency reserves which covered the złoty. Such a possibility was to a limited extent created by the changes made in the statute of the Bank of Poland in February 1939. They foresaw a fiduciary emission, i.e. an emission not fully covered. Its value was set at 800 million złotys and this could be raised up to 1,200 million, if the Minister of Finance agreed. "The changes made in the statute in February 1939 could have been sufficient as the basis for the Bank's activity in times of peace. In the event of war a further great increase in the Bank's activity was to be expected."⁵⁴ However, Kwiatkowski "was still afraid of a large increase in the emission."⁵⁵ At a meeting of the Investment Committee of the Sejm, when some deputies demanded that the emission be increased, Kwiatkowski expressed the view that "the emission must be paralleled by an increase in economic turnover [...]. The circulation is at present modest and will

⁵² H. Gruber, *Wspomnienia*, p. 384.

⁵³ *Ibidem*, p. 388.

⁵⁴ Z. Karpiński, *Bank Polski 1924 - 1939. Przyczynek do historii gospodarczej okresu międzywojennego* [The Bank of Poland 1924 - 1939. A Contribution to the Economic History of the Inter-War Period], Warszawa 1958, pp. 196 - 197. See also T. Sołowijski, *Zmiany statutu Banku Polskiego* [Changes in the Statute of the Bank of Poland], "Bank", 1939, No. 3, p. 276 - 283.

⁵⁵ M. Drozdowski, *Polityka gospodarcza rządu polskiego 1936 - 1939* [The Economic Policy of the Polish Government 1936 - 1939], Warszawa 1963, p. 259.

gradually increase, but the rate of this increase will not depend on our needs and dreams but on our character, on the existence of financial institutions based on the work and reliability of the entire nation." ⁵⁶

The possibilities of a further increase in money circulation were discussed at a conference with the deputy prime minister on February 27, 1939. The management of the Bank of Poland, represented by its president W. Byrka and the director-in-chief, L. Barański opposed this concept.⁵⁷ Discussion on this question was resumed on March 14. As we see, those concerned did not demonstrate excessive haste. Rydz-Śmigły, who was present at the meeting, said "he thinks war may break out in the near future [...]. The present state of the armed forces leaves much to be desired [...]. The Marshal does not set high demands; he thinks that what he asks for is in fact a widow's mite and mentions the sum of 600 million złotych which are needed for the army's investment purposes in 1939."⁵⁸ The Minister of Finance summed up the discussion and said "he send letters to the banks asking them what sums they could declare; he pointed out that it would be necessary to ask the government to explain the financial capacity, since letters were coming in from ministers and the armed forces demanding that they should be financed out of the civil budget." After the discussion and the summing up, the floor was taken by Rydz-Śmigły, who said: "The views I have heard here are, in my opinion, terrifying. You do not want to leave your comfortable rooms and petty tasks and run any risk, gentlemen; you do not want to look for new ways and with your figures you are like Archimedes, whose head was smashed by the invader [...]. We are on the brink of war [...] I am categorically demanding 600 million złotych for the investment purposes of the armed forces and I am determined to get this sum."⁵⁹

⁵⁶ E. Kwiatkowski, *Trzyletni Plan Inwestycyjny* [The Three-Year Investment Plan], Speech by the Deputy Prime Minister and Minister of Finance in the Sejm, "Polska Gospodarcza", 1939, No. 7, p. 265.

⁵⁷ H. Gruber, *Wspomnienia*, p. 385.

⁵⁸ *Ibidem*, p. 386.

⁵⁹ *Ibidem*, p. 387.

In spite of this, as late as the beginning of August 1939, Kwiatkowski was afraid of a decisive espousal of limited inflation. Only a rapid outflow of deposits from credit institutions, caused by the approaching war and fear of the breakdown of banks, forced the government to resume work on changing the statute of the Bank of Poland so as to make its emitting activity more flexible. On August 29, 1939, the Council of the Bank of Poland prepared the material necessary for a General Meeting of Shareholders, which took place on September 2 and made further changes in the statute of the Bank.⁶⁰

Thus, it was only the pressure of immediate needs that forced the government to endeavour to depart from the orthodox policy of defending the rate of exchange of the złoty.

To sum up what has already been said, we must state that on taking over the post of minister of finance, Kwiatkowski was theoretically unprepared to determine the directions of Poland's monetary policy. Hence his tendency to maintain the *status quo*, but the existing situation did not allow him to follow this line. Placed in a compulsory situation, Kwiatkowski tried every time to choose more limited solutions. In 1936, faced with the choice of devaluating the złoty or introducing foreign currency restrictions, he chose the latter solution, although devaluation, combined with restrictions, would have provided greater possibilities of enlivening the economy. In 1939, too, the Minister of Finance formally kept on defending the rate of exchange of the złoty, although in fact he approved of a gradual broadening of the programme for controlled inflation. All these moves were only of a defensive, not an active, character; they were an adaptation to the existing situation and not a conscious effort to make use of the monetary policy for enlivening economic life.

It seems that from the point of view of Kwiatkowski's investment policy and the economic situation it would have been more reasonable to devalue the złoty after the devaluation of the franc and join the sterling bloc, and then to apply a limited inflation. As far as the first question is concerned, this has been

⁶⁰ "Dziennik Urzędowy Ustaw RP" [The Journal of Laws of the Polish Republic, henceforward referred to as Jour. LPR], 1939, No. 87, item 550.

confirmed by J. Rakowski, a close collaborator of Kwiatkowski's, in whose opinion Poland should have devalued the złoty as early as 1931. As this was not done, "a belated devaluation of the złoty, if Kwiatkowski had agreed to such a step, might have contributed," in Rakowski's opinion, "to increasing the trade turnover without leading on the internal market to psychological results disfavoured for internal capitalization and for the import of the machines and raw materials necessary for the industrialization of the country, of which Kwiatkowski was afraid."⁶¹ Rational arguments stressing the necessity and possibility of departing from the fixed rate of exchange in favour of limited inflation were also cited by J. Zdziechowski, who wrote: "One has the impression that instead of applying extraordinary measures, commensurate with the greatness of the moment, use is being made of measures which are limited in advance by the small resources which the Treasury, given the type of its financial economy, can have at its disposal."⁶² It seems that the monetary moves applied by Kwiatkowski were influenced by the question of prestige: defence of the parity of the złoty.

2. FOREIGN CURRENCY RESTRICTIONS

Throughout the Great Depression there was an outflow of capital from Poland. This affected the reserves of gold and foreign currencies, which constituted a backing of the złoty. According to the official balance sheets of the Bank of Poland, the reserves of gold shrank from 701 million złotys in 1929 to 444 million in 1935, and those of foreign coins and bills from 526 million złotys to 27 million, a drop of 37 per cent in the former case and of 95 per cent in the latter.⁶³ The point is, however, that the figures concerning gold reserves only formally corresponded to the reality since in fact a large part of them were attributed as a backing of the credits accorded by the Banque de France to the Bank of

⁶¹ J. Rakowski, *Polityka*, p. 118.

⁶² J. Zdziechowski, *Wizja gospodarcza totalnego pogotowia* [*The Economic Vision of Full Alert*], "Bellona", (London) 1954, p. 51.

⁶³ *Mały Rocznik Statystyczny* [*Concise Statistical Yearbook*], 1936, p. 137.

Poland since 1931. "The gold deposit does not constitute a legal security for the credit and this is why the Bank of Poland was not obliged to deduct the sum of credits from the foreign currency sum shown in the balance sheet. This point was of great importance for thanks to this, the Bank was able to replace the outflowing currency in its current operations by the currency obtained on credit and in this way avoid showing its excessive outflow, which might have caused unrest on the market."⁶⁴ At the end of 1935, the French credits were worth 206 million zlotys and the gold reserves were in practice smaller by this sum. On balance, at the end of that year the Bank had 27 million zlotys worth of foreign coins and notes and 194 million zlotys worth of gold.⁶⁵ This was below the level required to cover the currency circulation.⁶⁶ Moreover, the Bank of Poland made use of credits from the Bank for International Settlements in Basle.

The outflow of foreign currency from the Bank increased even further at the beginning of 1936. The net reserves of gold and foreign currency amounted to only 164 million zlotys in April.⁶⁷

In this situation the government had three possibilities: to continue its monetary policy, which would have ended in the collapse of the zloty when the gold reserves constituting its cover had been exhausted; to devaluate the zloty; or to introduce foreign currency restrictions. The last-named solution was considered to be the lesser evil.

Currency restrictions were not an extraordinary solution applied in Poland only. During the crisis many far more prosperous countries than Poland chose this way out. An early introduction of foreign currency restrictions protected the national gold and

⁶⁴ Z. Karpiński, *Bank*, pp. 135 - 136.

⁶⁵ *Ibidem*, p. 136.

⁶⁶ It is difficult not to agree with K. Studentowicz according to whom restrictions were only introduced after an excessive drop in foreign currency reserves which might have been used to control the rate of exchange of the zloty. K. Studentowicz, *Na nowym zakręcie polityki gospodarczej* [A New Turning of Economic Policy], "Bank", 1936, No. 5, pp. 368 - 378.

⁶⁷ W. Domaniewski, *Default Polski z roku 1936* [Poland's Default of 1936], p. 38. Archives of the J. Piłsudski Institute in New York. A type-written copy in the author's possession.

foreign currency reserves held in banks of issue, counteracted, to some extent, the outflow of capital, and enabled the states to exert an influence on foreign trade. Poland was the only debtor country in Europe not to have introduced foreign currency restrictions.

The advisability of foreign currency restrictions had already been considered during the Great Depression. However, the government, being of the opinion that this might discourage foreign capitalists from investing money in Poland, was against the introduction of restrictions. Foreign capitalists took advantage of this situation to speed up the withdrawal of their assets, being quite certain that the financial situation would eventually force Poland to introduce a policy restricting payments to foreign countries. The process did not slacken when the Great Depression came to an end; it continued and even accelerated in March and April 1936. The situation deteriorated rapidly. Whereas in March the Bank of Poland sold on the average 1.3 million zlotys worth of foreign currencies a day, in the first decade of April it sold 2 million zlotys, in the second decade 2.8 million, and between 21 and 25 April over 5 million a day.⁶⁸ In April 57 million zlotys worth of foreign currency were withdrawn from the Bank. At a meeting of the Council of the Bank of Poland, W. Fajans, one of its authoritative members, said: "Financial life has for a long time been suffering from an outflow of capital. Foreign assets were the first to flow out, followed by vast domestic funds, and for some time we have witnessed small depositors attacking public credit institutions. The Polish economy has practically no reserves."⁶⁹

In this situation the government decided to take an undesired, but necessary step.⁷⁰ Judging by the behaviour on the market and

⁶⁸ Z. Karpiński, *Bank*, p. 169.

⁶⁹ Minutes of the meeting held by the Council of the Bank on April 25, 1936. AMR, *Bank Polski*, vol. 27, k. 92.

⁷⁰ For the reasons of the decision see S. Z., *Reglamentacja obrotu płatniczego z zagranicą* [Control of Currency Traffic with Foreign Countries], "Polska Gospodarcza", 1936, No. 18, pp. 485 - 487; E. R., *Przegląd sytuacji* [A Review of the Situation], "Przegląd Gospodarczy", 1936, No. 9, pp. 281 - 284; R. Koranyi, *Ograniczenia dewizowe w Polsce* [Foreign Currency Restrictions in Poland], "Gazeta Bankowa", 1936, No. 9, pp. 145 - 149.

the growing demand for foreign currency, this move had been anticipated.⁷¹ The state had prepared this move well, as is evidenced by the fact that legal acts regulating the principles of foreign currency restrictions had been worked out by Z. Karpiński a long time before.⁷²

On April 26, 1936, the Council of Ministers, without holding a meeting, adopted a draft decree on currency restrictions with foreign countries and on payments in foreign and Polish legal tenders.⁷³ On the same day the decree was signed by the President and went into force. First and foremost, it prohibited trade in foreign legal tenders. Transactions in them were only to be made by the Bank of Poland and the institutions which were given the powers of foreign currency banks.⁷⁴ Trading in gold and the export of gold were prohibited. The purchase of gold in the country was to be conducted only by foreign currency banks and their agents, and they were obliged to sell the purchased gold to the Bank of Poland. A ban was imposed on the purchase of stocks and bonds abroad; this applied to both foreign and Polish securities. Foreign legal tenders, irrespective of the currency, could not be transferred, or sent abroad or taken out of the country (500 zlotys per passport could be taken out). Exporters were obliged to transfer the foreign currencies obtained by them to the Bank of Poland in return for their equivalence in zlotys.⁷⁵

⁷¹ J. Dziewanowski, *Stosunki walutowe, kredytowe i bankowe (lutym - kwiecień 1936)* [*Foreign Currency, Credit and Banking Relations (February - April 1936)*], "Ruch Prawniczy, Ekonomiczny i Socjologiczny", 1936, No. 4, pp. 676 - 677.

⁷² "On being informed of the government's decision, I took out of the cupboard the draft of the regulation which, drawn up by me a long time ago, was lying concealed as a confidential document and was now to see the light of day." Z. Karpiński, *O Wielkopolsce*, p. 185.

⁷³ AMR, Proceedings of the Council of Ministers vol. 81, Jour. LPR, 1936, No. 32, items 249 and 250.

⁷⁴ For the list of foreign currency banks see "Przegląd Dewizowy", 1937, No. 1, pp. 23 - 24. The list was frequently changed.

⁷⁵ The regulations concerning the foreign currency control in Poland are discussed in B. Fischer, *Reglamentacja zagranicznych obrotów płatniczych i towarowych* [*Control over Currency Traffic and Trade with Foreign Countries*], Lwów 1936; J. Wiślocki, *Nowe przepisy dewizowe*

A special office, called the Foreign Exchange Commission, was set up to control the observance of the regulations. The Commission was also empowered to carry out the provisions of the control regulations, among other things, to issue permissions to transfer and take out foreign legal tenders abroad.⁷⁶

When issuing the decree and the executive provisions, the government published a declaration in which it explained the reasons for the control and its scope. The declaration said: "Poland's foreign trade and credit obligations will continue to be respected in the new conditions of foreign currency traffic. While introducing control over foreign currency traffic for a transitory period, the government declares categorically that the control is meant only to protect the economically active part of society against speculation and economic defeatism." ⁷⁷ At the same time, a special communique was issued by the Ministry of Finance. It stated that the control over foreign currency traffic created no obstacles for normal economic transactions with foreign countries. The supply of raw materials and of the machines and implements essential for production establishments would not be affected by this. Poland's foreign trade and credit obligations would continue to be respected in the new conditions of foreign currency traffic.⁷⁸

[*The New Foreign Currency Regulations*], Warszawa 1936; A. Mantel, B. Matecki, T. Bielobradek, *Polskie ustawodawstwo dewizowe* [*The Polish Foreign Currency Legislation*], Warszawa 1938. These questions were discussed in the monthly "Przegląd Dewizowy", the first issue of which appeared in October 1937.

⁷⁶ For the powers of the Commission see: Z. Karpiński, *O Wielkopolsce*, pp. 185 - 186. The author emphasizes that "the guidelines of this policy were not always clearly put and sometimes the instructions I received from the Minister of Finance, Kwiatkowski, differed from those given me by the Minister of Industry and Commerce Antoni Roman. Antagonism and strife were a frequent occurrence between these two ministries and their chiefs [...]" (p. 186).

⁷⁷ Declaration of the government on control over gold and foreign currency traffic, "Polska Gospodarcza", 1936, No. 18, p. 511.

⁷⁸ J. Dziewanowski, *Ograniczenia dewizowe w Polsce* [*Foreign Currency Restrictions in Poland*], "Przegląd Gospodarczy", 1936, No. 9, p. 285. See also *Kronika dewizowa* [*Foreign Currency Chronicle*], *ibidem*, No. 10, p. 356, No. 11, pp. 393 - 394, No. 12, pp. 462 - 463.

This was a declaration of principles which, however, did not fully accord with reality.⁷⁹

The introduction of foreign currency control automatically led to a widening of commodity control in trade with foreign countries. The minutes of the meeting of the Council of Ministers held on May 5, 1936, say among other things: "A close control over exports, aimed at acquiring the foreign currency which the Bank of Poland needs, is a matter of great urgency; the matter is urgent and could not be settled in a normal way."⁸⁰ Consequently, by its very nature, the foreign currency control had to lead to changes in foreign trade.⁸¹

In accordance with the declaration published by the government in April 1936, the control provisions did not apply to the repayment of foreign debts, which weakened their effectiveness. Foreign currency restrictions were being gradually prepared in this respect too. This was incompatible with the government's earlier announcements, but was dictated by the current needs of the state.

A further broadening of control was necessary in view of the fact that the regulations of April 1936, though they suppressed hoarding, did not succeed in eliminating the outflow of foreign currency from the Bank of Poland.⁸² In May the gold and foreign currency reserves dropped to 152 million złotys.⁸³ In these circumstances, the Foreign Exchange Commission refused to give per-

⁷⁹ *Polityka walutowa Min. Kwiatkowskiego* [Minister Kwiatkowski's Monetary Policy], "Polityka Gospodarcza", 1936, No. 15, pp. 1 - 4.

⁸⁰ AMR, Proceedings of the Council of Ministers vol. 81, k. 439. The same meeting discussed the question of a ban on imports to harmonize them with the foreign currency restrictions (k. 468).

⁸¹ *Zarządzenia Komisji Dewizowej w sprawie obrotów towarowych* [Regulations of the Foreign Exchange Commission concerning Trade], "Polska Gospodarcza", 1936, No. 21, pp. 601 - 602; R. Battaglia, *Polska polityka traktatowa* [The Polish Treaty Policy], "Przegląd Gospodarczy", 1936, No. 10, pp. 323 - 325.

⁸² Speech by W. Fajans at a meeting held by the Council of the Bank of Poland on June 10, 1936. AMR, Bank Polski, vol. 70.

⁸³ *Moratorium transferowe* [Moratorium on the Transfer of Payments], "Bank", No. 7, pp. 1 - 5. For the legal foundation see Jour. LPR, 1936, No. 75, item 534.

mission for payments to French, Belgian and Swedish banks. This led to many diplomatic interventions which were all the more painful as previously the Belgian prime minister, for instance, had been promised that no restrictions would be imposed with regard to Belgian capital. Many countries with which Poland had a surplus in foreign trade balance threatened to introduce clearing in trade with Poland.⁸⁴ At the same time, the foreign currency situation of the state was becoming so difficult that "at the Ministry of Finance there is talk about bankruptcy and the necessity of defaulting on our obligations to foreign countries."⁸⁵

So as not to surprise the governments and banks of the creditor states, the Polish intentions were revealed to them as early as June. On June 25, a special delegation of the Polish government, visiting the United States and headed by A. Krzyżanowski, published an official communiqué on the further repayments of Polish foreign debts. Krzyżanowski announced that Poland planned to suspend the repayments of foreign state- and local-government loans. Repayments were to be made in zlotys into special blocked accounts at the Bank of Poland, without the holders of these accounts having the right to take the zlotys and foreign currency out of the country. The repayment of the principal and interests in foreign currency was to be resumed if changes were made in the terms of repayment.⁸⁶ So as not to infuriate creditors, the interests which matured in July and August were to be paid.⁸⁷

The extending of restrictions to the repayment of foreign debts was a logical consequence of the foreign currency control. It was probably a mistake on the part of the government not to have introduced restrictions on the repayment of foreign state- and local-government loans in April. There was no economic justification for the postponement of a decision in this respect; this may have been due to the fact that the government had had no time for concerting the decision with the governments and banks of

⁸⁴ J. Szembek, *Diariusz*, vol. II, pp. 206 - 207, 211 - 214, 215 - 217.

⁸⁵ *Ibidem*, p. 211.

⁸⁶ W. Domaniewski, *Default*, p. 39.

⁸⁷ *Ibidem*.

the states concerned. Poland was the eighth European country to suspend the servicing of foreign debts in full or in part.

In view of the announcement of changes in the repayments of foreign debts, the necessary modifications were made in the provisions concerning foreign currency restrictions. They were also made stricter.

The introduction of foreign currency control over the repayment of foreign loans was of enormous importance. According to reliable estimates, about 200 million zlotys a year were blocked from being transferred.⁸⁸ A gradual resumption of the repayment had of course to be taken into account, but it would take place on different terms, and this meant a reduction of the annual expenditure connected with the servicing of these loans.

At the same time, the suspension of the repayments of foreign loans meant a stoppage of new loans. No sensible financier or industrialist would have risked investing his money in a country which did not guarantee the return of the loan. The direct danger was not great, for in view of Poland's difficult economic situation and the growing international tension, there was no chance of obtaining large private credits, but so as not to shut the door to future loans, the Minister of Finance issued a regulation on November 8, 1937 that the repayment of foreign loans granted to persons resident in Poland after this regulation came into force and the payment of interest on them would need no permission from the Foreign Exchange Commission.⁸⁹ On November 9, 1937, a certain liberalization was introduced in the turnover with foreign countries on the score of insurance and reinsurance.⁹⁰

⁸⁸ St. Z., *Zawieszenie transferu obsługi pożyczek zagranicznych* [*The Suspension of the Servicing of Foreign Loans*], "Polska Gospodarcza", 1936, No. 27, item 761.

⁸⁹ Journ. LPR, 1937, No. 79, item 576; *Liberalizacja reglamentacji dewizowej* [*Liberalization of Foreign Currency Control*], "Polska Gospodarcza", 1937, No. 47, pp. 1503 - 1504; *Pożyczki zaciągane za granicą w zagranicznych środkach płatniczych* [*Loans Contracted Abroad in Foreign Legal Tenders*], "Przegląd Dewizowy", 1937, No. 3, pp. 55 - 63.

⁹⁰ For the text of Circular Letter No. 25 of the Foreign Exchange Commission of Dec. 4, 1937 see: *Dalsza liberalizacja przepisów dewizowych* [*A Further Liberalization of Foreign Currency Regulations*], "Polska Gospodarcza", 1937, No. 50, pp. 1603 - 1605.

Realistic economic circles did not expect an inflow of new credits after these changes, but they approved of the government's attempts to liberalize the rigid system of control.⁹¹

The modifications were due to the improvement in Poland's monetary situation. The year 1937 was very favourable in this respect. The gold and foreign currency reserves of the Bank of Poland increased from 259 million zlotys to 527 million. However, the following year brought unfavourable changes (a 39 million zloty drop in reserves)⁹² and the government again introduced a stricter control.

In addition to routine matters and the definition of certain concepts, the changes introduced on November 6, 1938 by the amendments to the decree on foreign currency control made it incumbent on Polish citizens to notify the Bank of Poland of the gold foreign currencies, bonds, title deeds and immovables held by them abroad and of the money owing to them there. The Bank was to be entitled to collect the foreign money and gold, and the securities and money owing to Polish citizens were to be sold to the Bank on request.⁹³ The Bank of Poland was to be notified of all this property by December 10, 1938. At the time of notifica-

⁹¹ Czyżby zwrotny punkt w reglamentacji dewizowej? [*Is This a Turning Point in Foreign Currency Control?*], "Przegląd Gospodarczy", 1937, No. 23, pp. 767-768; A. Giżycki, *Po roku reglamentacji dewiz w Polsce* [*After a Year of Foreign Currency Control in Poland*], *Ibidem*, No. 13, pp. 458-461.

⁹² Z. Karpiński, *Bank*, pp. 176-177. The officially published balance sheets of the Bank of Poland did not deduct the obligations incurred as a result of debts in the Banque de France and showed that the gold reserves increased by 10 million zlotys in 1938. Cf. E. R., *Przegląd sytuacji* [*A Review of the Situation*], "Przegląd Gospodarczy", 1939, No. 3, p. 73.

⁹³ Jour. LPR, 1938, No. 85, item 571; E. Weinfeld, *Skarbowość Polska* [*Poland's Finances*], vol. I, 5th ed., Warszawa 1939, p. 83; *Zmiany w reglamentacji dewizowej* [*Changes in Foreign Currency Control*], "Polska Gospodarcza", 1938, No. 46, p. 1676; *Nowelizacja dekretu dewizowego* [*Amendment to the Foreign Currency Decree*], *ibidem*, No. 47, p. 1701; *Nowelizacja dekretu dewizowego* [*Amendment to the Foreign Currency Decree*], "Przegląd Dewizowy", 1938, No. 11-12, pp. 229-265; I. Blei, *Nowelizacja rozporządzenia wykonawczego do dekretu dewizowego* [*Amendment to the Executive Regulation of the Foreign Currency Decree*], "Gazeta Bankowa", 1939, No. 3, pp. 46-49.

tion, the Bank was to be given the right to purchase the money held abroad and was to be entrusted, at its own request, with the encashment of foreign bonds and dividends. Persons failing to fulfil this duty were liable to up to five years' imprisonment, a fine of up to 200,000 zlotys and the confiscation of the undeclared property.⁹⁴

The registration brought significant results. 7.5 million zlotys worth of foreign currency and gold were declared as well as foreign bank accounts worth 22 million zlotys, foreign securities worth about 35 million, and money owing from commercial firms and private persons amounting to 27 million. Out of this, the Bank of Poland managed to encash and collect the equivalent of some 60 million zlotys.⁹⁵ This was a significant sum. It is doubtful if all the assets held abroad were declared. Many private persons continued to hold them.

An obligatory purchase of gold from the population was also being considered, but the idea was given up since the authorities feared that such a regulation would not be observed.⁹⁶

The last important modification of the foreign currency law was made on January 20, 1939. The amendment to the executive regulation of the foreign currency decree was the result of the changes made at the end of 1938. The provisions of the amendment made precise certain decisions of the executive regulation, restricted still further the possibility of taking legal tenders out of the country, and prohibited the holding of legal tenders, gold and securities abroad.⁹⁷

⁹⁴ Jour. LPR, 1938, No. 86, item 583.

⁹⁵ Z. K arpiński, *Bank*, p. 177. Other sources cite a lower sum.

⁹⁶ "Two years after the foreign currency decree, Kwiatkowski had the idea of issuing a decree on the compulsory acquirement by the Bank of Poland of the gold hoarded by citizens... As was his habit, he started consultations on this question. Asked about his opinion on the issue, Wiesław Domaniewski, director of the Currency Traffic Department, replied: 'I would not advise it. Their blood, they will give, but not their gold.'" J. Rakowski, *Polityka*, p. 114.

⁹⁷ Jour. LPR, 1939, No. 7, item 40; *Nowelizacja rozporządzenia wykonawczego do dekretu dewizowego* [Amendment to the Executive Regulation of the Foreign Currency Decree], "Polska Gospodarcza", 1939, No. 5, p. 208.

It is impossible to evaluate today the direct results of these foreign currency restrictions. One can only state in general that they curbed the withdrawal of foreign capital from Poland, although they could not fully prevent it, and that they greatly reduced the burden resulting from foreign loans. In sum, they stopped the outflow of gold and foreign currency from the Bank of Poland, and this was a condition for the implementation of the government's economic policy. The restrictions were naturally inconvenient for exporters and importers and persons wishing to travel abroad, and, in theory, they also hindered the inflow of new foreign capital. I say "in theory" for in the situation prevailing in Poland at that time there was no chance of new private foreign investments, even if the restrictions had not been introduced. One must therefore say that the advantages of the restrictions far outnumbered the inconveniences, even though they did not bring about a rise in the gold and foreign currency reserves, the rise which the government had expected when it issued the regulations of April 1936.⁹⁸

(Translated by Janina Dorosz)

⁹⁸ J. Rakowski, *Polityka*, p. 114.