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STATE SECTOR IN THE BANKING OF THE INTERWAR POLAND

Successive cabinets of the II Polish Republic adhered to the principles of free-market economy, except for the government of Jędrzej Moraczewski in the late 1918, and of Felicjan Sławoj Składkowski in 1935-39. In such a system, the main responsibility of the state was to define the general framework of economic goals and operations, and not to directly engage in any economic enterprise, which was the sole domain of the private sector. In Poland, however, the principles were not fully respected, and all governments, to a lesser or greater degree, followed the rules of a state-controlled economy. Partially, this was a result of the circumstances which forced governments to undertake some economic actions which, for some reasons, appealed neither to Polish nor foreign investors.

Immediately after gaining independence in November 1918, the Polish state took over an issuing bank, the Polish National Loan Society founded by Germans in the Congress Kingdom of Poland; beside this bank there were three public banks in Galicia, yet it would be difficult to univocally consider them as part of the public sector. In the conditions of a slow but steady economic restoration of Poland, taking place in the post-war inflation period in 1919-1923, private banks started mushrooming, though in general they had very meager capital resources. Some pre-First World War private banks were still in operation, yet during the War and Bolshevik revolution they suffered great losses. In 1918-1923 the number of banks increased from 28 to 111.[1] Despite this increase the government estimated the situation in banking insufficient, and consequently, in 1919 founded two state credit institutions – the State Land Bank and the Postal Savings Bank. However, because of inflation they did not have a chance to develop faster. Moreover, since most credit institutions granted non-valorized credits, bank own resources were diminishing very fast. As a result, the major source of credits was the Polish National Loan Society, which gave credits coming from the inflation emission of Polish marks. When in late December, 1919, private credit institutions granted 79% of all the credits given,

[1] Landau Z., and Tomaszewski J., *Gospodarka Polski międzywojennej* [Polish Economy Between the World Wars], Vol. I 1918-1923, Warsaw 1967. p. 296.

in the succeeding years this number steadily decreased to reach only 29% in late December, 1923.[2] This paved the way for an increasing role of the state sector in banking, which, however, was not the objective of the state economic policy. It will be almost self-explanatory if we remind that the capital of private banks (if we assume 1919 as 100%) dropped in 1923 to 1.7%, while any funds invested in other institutions to 57%.[3]

Transfer from moderate inflation in the summer of 1923 to hyperinflation decreased the credit activity of private banking even more, its major goal now being to protect the available assets from further depreciation. Banking refrained from granting loans, instead trying to invest capitals in real estate, foreign exchange currency and foreign currency, shares, etc. The main source of much of the income of private banking institutions was in various illegal foreign currency operations. Under such circumstances, the state issuing bank became one of the most reliable creditors; so its role on the credit market was becoming more significant, which implied an increasing role of a state in this sector of the economy. The bank now could conduct a specific policy of financing different branches of national economy, or providing funds to various groups of banks, etc.

Initiation of treasury and currency reforms in 1924 by the Prime Minister and the Minister of Treasury Władysław Grabski led to a development of a new banking strategy. The Prime Minister was of the opinion that the Polish National Loan Society should be replaced by a new issuing bank which should be a private joint stock company, not a state bank, since that move would ensure a greater stability for the then introduced new currency – zloty. Following his decision, he founded a Bank of Poland which took over the responsibilities of the then liquidated Polish National State Loan Society. For the Prime Minister it was important to make sure that the board of the newly founded issuing institution would safeguard the state interests to the maximum; yet in this respect he faced a counteraction of organized big business and yeomanry, which – against any former agreements – managed to sneak in a few of its representatives for the posts reserved for people appointed by Władysław Grabski.

Hence it is possible to conclude that the Prime Minister was an advocate of giving support to private, not state banking, especially that he ranked among the adherents of liberal school of economy. In 1924, he made a decision to merge three public Galician banks (the Polish National Bank, the National Reconstruction Bank and the Credit Bank of Małopolska Cities) into one state bank – the National Economic Bank whose goal was to give credits and to serve financially both the public sector and private companies. Also, Grabski revived the economic activity of the Postal Savings Bank and the State Land Bank. He was an adamant opponent of state-controlled management of economy, except for banking. The last move was

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[2] Buczkowski T., Nowak H., "Rozwój kredytu w latach 1918-1928" [The Development of Credit in 1918-1928], *Bilans gospodarczy dziesięciolecia Polski Odrodzonej*. Vol. II, Poznań 1929. p. 120.

[3] Buczkowski T. & Nowak H., *Bilans gospodarczy*, p. 165.

dictated by a weakness of private credit instruments which were disorganized due to inflation, and deprived of capital.

Grabski's actions were justified by an exceptionally difficult situation of private banks, which also needed government's help. Under such circumstances the state had to fill in the resultant gap, since without an effective credit instrument it was not possible to warrant fast economic development.

On 31 December, 1924, private stock share banks had a balance sum equal to 826 million zlotys, the Bank of Poland Ltd. – 751 million zlotys, while state banks – 327 million zlotys.[4] It meant that immediately after the introduction of zloty – the new currency – on the market, private stock share banks resumed their leading role on the market. In 1925, the situation changed dramatically, to become really abject in the summer of 1925 after the zloty exchange rate slumped. The beginning of September witnessed a sudden run on the bank, caused by a decrease of the value of zloty and the resultant fear of share holders about a possible relapse of inflation. In such a situation the government could not stand idle, since a collapse of one bank could have triggered a chain reaction, i.e. withdrawal of shares from other institutions, their insolvency, and in consequence, bankruptcy. This posed a danger of disorganization of the whole Polish banking and credit system. Under such circumstances, the Polish government undertook measures so as to give financial assistance to the biggest Polish private banks. To this effect, in 1925 from state financial resources an Aid Fund for Crediting Institutions was created; its aim being to purge the institutions and to prevent any further collapse of larger banks. The Fund did not cover minor credit institutions, which was done on purpose to regulate the credit market by eliminating weaker partners. This exemplified a state -controlled management, yet it did not follow from any theoretical concepts, but was forced by difficult economic situation.

Despite a considerable financial help given by the state, the balance sums of private banks decreased by the end of 1925 by 32% compared to the sum of June 30 of the same year.[5] At the same time, in 1925 the balance sums of three state banks (the National EconomicBank, the Postal Savings Bank, and State Land Bank) increased by almost 100%, i.e. from 327 ml to 747 million zlotys. This can be accounted for by the fact that shareholders trusted state institutions, where their investments and shares were warranted by the state, more than private credit institutions, where the risk of losing one's deposits was much higher. The last fact was proved by the bankruptcy of some banks, e.g. the Bank of Radom Manufacturers, the Banking House of S. Natanson and Sons, or by putting under supervision such institutions as the Commerce and Industry Bank in Warsaw, Warsaw United Bank, the Polish Commerce Bank in Poznań, the Bank of Polish Christian Merchants and Manufacturers in Łódź, or by suspension of payments by the Bank of M. Stadthagen in Bydgoszcz and the Manu-

[4] *Statistical Abstract of the Polish Republic* 1924: 143, 147-155; 1925/26:307.

[5] *Statistical Abstract of the Polish Republic*: 1925/26: 308.

facturers Bank in Poznań.[6] No wonder then that the worried capital holders transferred their money to state banks, even if that incurred lower interest rates.

During a good economic period in 1926–29 private banks were also booming. This was partially facilitated by state banks which tried not to compete with the private banking system and ceased doing some operations which were warranted for private credit institutions. This period was marked by implementation of an economic policy, tersely expressed by the head of the National Economic Bank, Roman Górecki, who claimed that the objective of the policy is to "(...) provide for good conditions for the development of private initiative and to intervene only when private initiative fails or when the urgent situation of the country demands it ."[7]

In 1926-20 balance sums of private banks increased up to 2137 million zlotys, of the Bank of Poland to 2256 million zlotys, white those of three state banks up to 2802 million.[8] This implied that the state-controlled institutions became predominant. It should be reminded that this took place during an economic boom when private banks were intentionally given some privileges by the government; for instance, in 1928 state institutions stopped allowing credits to individual companies, Yet, even this did not limit expansion of state banks which played a significant role in allowing long-term credits that were accumulated primarily in the National Economic Bank and the State Land Bank.

In this case the main objective of the government was to warrant freedom of action to private banks, by periodically limiting the issue of bonds of subject institutions so that they be taken by private Land Credit Society, City Credit Societies and the Credit Society of Polish Industry. At the meeting of the Board of Directors of National Economic Bank, its head, Roman Górecki, read a letter of the Secretary of Treasury, Gabriel Czechowicz, who "recommends (...) centering the actions of the National Economic Bank around communal credits, while in the field of mortgage credit both for land and municipal estates, leaving more room for private institutions (...)."[9] In the same vein, on March 29, 1928, during a meeting of the Board of Directors of the National Economic Bank, its director, Leon Barański, said: "The Secretary of Treasury intends to revive private issuing institutions, especially so as to serve agriculture; the main idea being to shift the duty from the National Economic Bank into the land credit societies or to land districts."[10] At the same meeting, another member of the Board Stefan Starzyński made a point that "state institutions cannot compete with private institutions. Wherever private capital would

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[6] *Wiadomości Banku Polskiego* [The Polish Bank Newsletter] 1925, p 80; *Die Bank* 1926, p. 417.

[7] Górecki R. "Banki państwowe" [State Banks], *Dziesięciolecie Polski Odrodzonej. Księga Pamiątkowa 1918–1928*. Cracow, 1928. p. 1119.

[8] Landau L. & Tomaszewski J., *Gospodarka*, Vol. II 1924-1929, Warsaw 1971, p. 239.

[9] Protocol No. 2 from the meeting of the Supervisory Board of the National Economic Bank of August 16 and 18, 1927. AAN, the group of the Bank Gospodarstwa Krajowego, Vol. 5, k. 8.

[10] Protocol No. 5 from the meeting of the Supervisory Board of the National Economic Bank of March 29, 1929.. AAN, the group of the Bank Gospodarstwa Krajowego, Vol. 7, k. 9.

manage all right, the National Economic Bank should withdraw."[11] These provisions notwithstanding, issues of state bonds and shares dominated, because state banks enjoyed more confidence as they were secured by additional state warrants. Moreover, having big capitals, state banks were able to secure stable stock exchange; also, they bought the excess of shares, since too great a demand on the stock exchange incurred the slump of share quotations. In this respect private institutions had limited capability; therefore in general, the share rates of long-term bonds of state-controlled institutions were higher than corresponding shares from the issue of long-term credits of private institutions. For instance, in 1928 the bonds of Private Land Credit Societies in the stock exchange in Warsaw were quoted by 53-63%, while those of National Economic Bank and State Land Bank – by 94%; in 1927 47-68% and 94% respectively.[12]

In the mid-1928, the state government pressed for closer dependence of the Bank of Poland,[13] which was partly associated with expiration of the 5-year term of the hitherto head of the Bank, Stanisław Karpiński. He strove for the bank independence of the government, and among others, he opposed Prime Minister Władysław Grabski who in 1925 wanted the Bank of Poland to initiate an intervention policy aiming to preserve the exchange rate of zloty in stock exchanges abroad. Similarly in the April of 1929, the Vice-President of the Bank of Poland, Feliks Młynarski, contrary to government's suggestions, decided to increase the discount rate by the Bank, which stirred genuine irritation of the government. The then Prime Minister, Kazimierz Świtalski, called Młynarski in, and declared that, "in future such ignorance of the Government's will shall never occur."[14] It also prompted the government to undertake steps to take control over the issuing bank On June 8, 1929, at the meeting with the President of Poland, Ignacy Mościcki, and the head of the Secretary of Treasury, Ignacy Matuszewski, the Marshal Józef Piłsudski stated that: "we have to do our best to see to the appointments of the Bank of Poland, so that we would be sure that the people holding the head positions conduct a policy in the interest of the government, and not in the interest of the Bank itself."[15] This was the first signal informing that the government really wanted to subjugate the Bank of Poland, though neither the legal structure nor composition of the shareholders provided for such actions. Józef Piłsudski addressed the issue once again in October the same year. His interlocutor noted down that, "[Piłsudski] outlined a policy to gradually subjugate the Bank of Poland to the government,"[16] and then claimed that when the three-year term of the American financial advisor to the government, Charles Dewey, (who in a way was imposed from the outside in 1927

[11] Protocol No. 5, k.10.

[12] *Abridged Statistical Abstract* 1939, p. 237.

[13] For more information cf. Landau Z., "Rząd a Bank Polski in 1924-1939" [Government vs. The Bank of Poland in 1924-1939], *Materiały i Studia NBP. Zakład Naukowo-Badawczy Bankowości i Pieniądza]*, 1922, No. 28.

[14] Młynarski F., *Wspomnienia* [Memoirs].Warsaw 1971, p. 336.

[15] Świtalski K., *Diariusz 1919-1935* [Diary 1919-1935], Warsaw 1992, p. 458.

[16] Świtalski, *Diariusz*, p.509.

when an international stabilization loan was taken and the resultant international stabilization plan was accepted) came to the end, then "we should stage a war to subjugate the Bank of Poland to the government against the prevalent American tendency."[17] The suggestion of Józef Piłsudski was carried out, and the appointee for the vacant position was the ambassador of the Polish Republic in Washington, Władysław Wróblewski, who had no idea about banking, which made him totally dependent on the Secretary of Treasury and his advisors. Then, a Vice-President of the Bank was appointed, who was a brother of J. Piłsudski, Jan, who did not have any ties with banking either. One of the influential directors of the central bank, Zygmunt Karpiński, wrote in his memoirs that the new President, "never showing any independent thinking in connection with the bank matters, implemented the wishes of the governments and Secretary of Treasury."[18] This is how the Bank became a part of a state management sector, though formally it was still a private joint stock company with a small share of the government in the capital.

As follows from the above, the bank was subjugated not through a purchase of a controlling interest by the government, but by appointments of government-dependent Presidents. In principle, the role of the Board of Directors was not reduced, yet the economic spheres represented by it did not want to provoke a head-on confrontation with the government, since they adopted the position of a weaker side. A weak private Polish capital had to subordinate to the political dominance of the governing political block associated with Piłsudski. One may risk a hypothesis that the primary goal of subordinating the Central Bank was to neutralize any economic power that was independent of Piłsudski. I would even less emphasize here the economic role of the Bank, since in 1929 the economic situation in Poland was generally good; state banks were fully capable to implement the general lines of crediting policy. Under such circumstances subjugation of the issuing bank was not an economic must. It was important, though, from a political point of view in the period of consolidating an authoritarian system of power.

The period of economic growth of 1926-29 resulted, on the one hand, in establishing a relatively dynamic development of the private bank sector, and, on the other, and in spite of the above, in paving the way for the dominance of state banks in the area of crediting. The latter banks were taking precedence mainly due to the confidence and secret support of the state authorities which exempted the banks from main taxes, did not demand from the banks any accumulation of profits, located there any extra resources, and settled all their bills, also for the budgetary units, in the banks. Yet, the major factor responsible for the development of state banks was security of deposits, both those of petty money-grubbers who placed their savings in the Postal Savings Bank and larger deposits placed in the National Economic Bank and Polish Land Bank. Private banks were not able to reverse the trend. Another significant factor in the development of state-controlled bank system was subordination of the staff of the Bank of Poland to governing authorities.

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[17] Świtalski, *Diariusz*, p.509.

[18] Karpiński Z., *Bank Polski 1924-1939* [The Bank of Poland 1924–1939]. Warsaw 1958, p. 210.

The outbreak of Great Depression in the fall of 1929 surprised not only the Polish authorities but also most economisst all over the world. No wonder that no economic revival plan had been ready, which would be designed to alleviate the bad consequences of the slump in business, which in Poland began in 1929, in the fall, and continued – in industry – till 1933, while in agriculture two years more. Since the situation in the countryside and in agriculture was still deteriorating in 1933-35, the pace of industrial revival was extremely limited: the peasants did not purchase industrial goods, and it must be remembered that 70% of the population lived there. Since no economic comprehensive anti-crisis policy was devised, it was only claimed that the major goal was to defend the stability of zloty rate, despite the fact that most of the countries, including all debtors, also Poland, abandoned this policy, instead trying to activate and stimulate manufacture, service, and export through an active monetary policy. Similarly, there was no policy designed to protect the banking system, which was hit by the crisis severely. The major reasons for such a severe blow were that both Polish and foreign capital started to withdraw their money, deposits and also credits, also that there were major difficulties with enforcing the payment of the credits allowed previously and also with clearing stocks whose stock rates slumped rapidly. Under such circumstances, many banks, on the one hand, had to take more money from the banks than in the period of normal economic growth, and, on the other, possessed less and less available assets. This posed the danger of insolvency and bankruptcy.

The pace of withdrawing deposits and shares from private and state banks can be best exemplified by statistical data, though sources differ in numbers.[19] According to the data collected by the Banks Association in Poland, in 1930-1935 the deposits of private banks dropped by 54%, while in the state credit institutions they rose by 52%.[20] The main reason for such a discrepancy in the situation of the banks was the instability and then bankruptcy of a few private banks in 1931, including the Polish Industrial Bank, the Commercial Bank in Łódź, and the Bank of M. Stadthagen in Bydgoszcz. Though they were all local banks their situation disturbed depositors all over the country. The disturbance turned very acute when, in the beginning of May the same year, the condition of a large austrian credit institution owned by the Rotschilds and Amstelbank associated with it became upset. The process of withdrawing money from private banks and partly placing it in state banks was accelerated by a collapse of a few German banks, and then devaluation of pound sterling in Great Britain.

By the end of 1935 the deposits in private credit institutions were equal to 507 million, while in the state ones 1976 million zlotys. Also, the balance sums of the corresponding groups of banks changed: in private ones between 1929-35 they dropped by 37%, in the Bank of Poland by 20%, while in the state banks they increased: in the National Economic Bank by 27%, in the Polish Land Bank by 14%,

[19] Landau Z. & Tomaszewski J., *Gospodarka Polski miedzywojennej* [Polish Economy Between the World Wars], Vol. III 1930-1935. Warsaw 1982. p. 288.

[20] *Report of the Association of Banks in Poland* on 1935, p. 9.

and in the Posstal Savings Bank by 100%.[21] Naturally, this affected the short-term credits allowed. While in 1929-35, on average the level of loans granted in the whole Polish banking system dropped by 26%, in private banks by 57%, in state ones by 10%, and in the Bank of Poland it increased by 11%.[22] Analyzing the data from a different point of view, we can see that in 1929 private banks allowed 49.6% of the whole sum of short-term credits, while in 1935 only 28.6%. As regards the crediting of private institutions it be should pointed out that the role of rediscount in the Bank of Poland was increasing.[23] As follows from all the quoted data, the source of short-term credits was transferring fast from the private to the public sphere. The same phenomenon, though more intensive, was observed for the long-term credits: in 1935, 96% of long-term credits was allowed by state banks, and only 4% by private banks.[24]

To complete the picture of the banking system we should also analyze the effect of aid given by the state to private credit institutions on the degree of their independence. According to the statistics of the Ministry of Treasury in the period of the most intensive withdrawal of credits and deposits between 1931-33, private banks lost 588 million of polish deposits and 330 million of foreign deposits.[25] The state gave them a helping hand, as it feared that the whole banking system might collapse if the greatest private banks went bankrupt. In an application sent to the Economic Committee of Ministers, the Minister of Treasury wrote:

"It should be noted here that the help given by the state to private institutions is necessary not only so as to support private banking; it is dictated by factors of a more general character. The main aim is to maintain stability on the whole credit market and not to let the credit structure fall apart. A serious upset of the private banking system may bring disastrous results for the whole credit apparatus, including both the social and state credit institutions."[26]

Under such circumstances the government felt obliged to launch some purge action of private banks, in a way resembling the one of 1925. For some of the people centered around Piłsudski it was highly disputable whether private credit institutions should be sustained in an artificial way, as the institutions functioned only thanks to rediscount credits taken from the Bank of Poland. In other words, they

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[21] *Abridged Statistical Abstract* 1936, p. 137, 141-2, 144, 146.

[22] *Abridged Statistical Abstract* 1937, p. 203.

[23] Sołowij T., *Rynek pieniężny i stopa procentowa w Polsce"* [Money Market and Interest Rate in Poland], Warsaw 1939, p. 99.

[24] Breit M., "Koniunkturalny rozwój kredytu długoterminowego w Polsce" [Boom-Dependent Development of Long-Term Credit in Poland]. *Prace Instytutu Badania Koniunktur Gospodarczych i Cen* 1935, No.1, p. 95.

[25] Justification of a top secret application of a Secretary of Treasure to Economic Secretarial Committee regarding a settlement of accounts between the State Treasury and Banca Commerciale Italiana in Milan and the Commercial Bank in Warsaw, of February 12, 1935, AAN, an Economic Secretarial Committee group, Vol. 1258.

[26] Justification of a.

maintained that the banks were artificial units and with no major harm done to the economy their task might just as well be carried out by the central bank.[27]

The first private credit institution-assistance act was issued on March 17, 1931.[28] In a short while it appeared that the 20 million earmarked for the purpose was a drop in a bucket of the real needs. As a result, on October 27, 1932 an ordinance of the President was introduced and it regulated the mode of assistance distribution and the amount of money afforded to his effect.[29] It empowered the government to take over part of shares of institutions that got some financial aid. This was the major difference from the solutions proposed in 1925. In all, between 1931-35 the government had to allow 158 million zlotys for the purging of the banking system.

Implementation of the ordinance made the two greatest private banks dependent on the government: the Union of Cooperatives Bank Ltd. in Poznań was directly dependent, while the Commercial Bank in Warsaw indirectly. In case of the former bank, in exchange for providing a substantial financial support the government took over 78% of the shares,[30] which meant a total control of the Bank, while in the Commercial Bank in Warsaw, for fear of being accused of conducting a state-controlled management policy in the area of credits, subjugation followed a different path: the Relief Credit-Institutions Fund granted loans to a group of Wielkopolskie and Pomeranian sugar plants and breweries, for which they purchased part of shares of the Commercial Bank. Such a complicated maneuver enabled the government to have an insight into the policy of the bank, which now had to mind the opinion of share holders dependent on the government. In all probability, the government also secured its influence on other respected credit institutions, yet we do not have any reliable sources confirming the suspicion.[31]

When assessing the amount of balance sums, deposits, and credits, if we were to amend the results by clarifying which banks were directly and which indirectly dependent on the state, then it would turn out that the range of state-controlled management in the banking and crediting zone was much higher than it would seem only on the grounds of traditional classification, qualifying as state banks only the National Economic Bank, the Postal Savings Bank, and Polish Land Bank. In fact, in the late 1930-ties the state sector also included the Bank of Poland, the Union of Cooperatives Bank Income Companies, partly also the Commercial Bank in Warsaw, and the Acceptance Bank founded to clear agriculture off debts.

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[27] "Szturm etatystów na banki polskie" [Run of state-employees on Polish Banks], *Gazeta Bankowa*, 1933, No. 17-18, p. 397-399.

[28] *Journal of Law of the Polish Republic* 1931, No. 36, No. 35, item 271.

[29] *Journal of Law of the Polish Republic* 1932, No. 94, , item 815.

[30] *Report of a Committee for the evaluation of state companies*, Warsaw 1939, p. 193.

[31] For more information about state-controlled employment in private banking, cf. Landau Z., "Etatyzacja polskiej bankowości prywatnej w II Rzeczypospolitej. Referat na konferencję naukową na temat 'Sektor bankowy w procesie transformacji systemowej' [State-controlled Employment in Private Banking.' A Conference Paper about the Banking Sector in the Process of Systemic Transformation]. *Stara Wieś*, 1991.

Improvement of the economic situation in Poland in 1936-39 had a direct effect on crediting institutions. One could observe a rapid increase in deposits both in the private and public sector: compared to the 1930-ties, the increase in the former was 92%, while in the latter – 204%.[32] What is equally important, there was also an increase in the share of private banks in all deposits located in banks, although the data about the increase are very divergent. According to data collected by the National Economic Bank, the number of shares in private banks when compared to all deposits in the whole banking system in 1936 amounted to 17.9%, while in 1937 18.4%, and in 1938 19.2 %. On the other hand, the Bank Association in Poland presented the following figures respectively: 19.7%, 25%, and 27.4%.[33] The differences in the rate of growth notwithstanding, both sources agreed that the share of deposits in private banks was on the ascendance. Even if we accepted the data produced by the Banks Association in Poland, it would anyway be inevitable to conclude that the role of private institutions was quite limited, not to mention that this group also encompassed banks practically dependent on the state.[34]

Similarly, the balance sum of private banks was also increasing fast; nonetheless in 1938 it still amounted to 60% of the figure of 1926, while in the National Economic Banks 154%, State Land Bank 125%, and in the Postal Savings Bank 244%. In 1938, the share of private banks in the whole amount of short-term credits allowed was only 45% in comparison with the amount given in 1929, while of the state banks – 101%, and the Bank of Poland 131%. Also, in 1935-38 the rate of the growth of loans given by the private sector was quite large and close to the figure characterizing other crediting institutions (private banks – 105%, state – 112%, the Bank of Poland – 118%.).[35] All the mentioned data testify to the persistence of a weak condition of private banking sector.

A very important role in advancement of the state-controlled management in crediting institutions was played by the Bank of Poland. As was already mentioned, the appointment of W. Wróblewski to the President of this institution in 1929 made this institution considerably dependent on the Ministry of Treasury. The subjugation was becoming more apparent in the years of economic boom in 1935-1939. One of the instances of the process was appointment of Władysław Byrka to the position of the President of the Bank of Poland by the vice-Prime Minister Eugeniusz Kwiatkowski who wanted to remove the former from the office of the Chairman of the Parliament Budget Commission. This appointment was commented upon by Aleksander Ivanka: "One of the members of the Parliament who was responsible for problems of the treasury was Byrka whose virulent remarks Kwiatkowski feared the most. To include him into his fleet, Kwiatkowski appointed Byrka the President

[32] *A report of the Association of Polish Banks for 1936*, p. 15, for 1937, p. 12, for 1938, p. 11.

[33] *A report of the Association of Polish Banks* for 1936, p. 15, for 1937, p. 15, for 1938, p. 17. *A report of the Association of Polish Banks* for 1936, p. 15; for 1937, p. 15; for 1938, p. 17.

[34] *Abridged Statistical Abstract 1939*, p. 213, 216-217, 219-221.

[35] Skrzywan W., "Kapitalizacja i kredyt w Polsce" [Capitalization and Credit in Poland]. *Polska Gospodarcza* 1938, No. 46, p. 1632; *Abridged Statistical Abstract 1939*, p. 226-227.

of the Bank of Poland."[36] At the same time Kwiatkowski also limited the independence of the Central Bank in two main areas: monetary policy and foreign relations; they both were transferred to the Ministry of Treasury. Ferdynard Zweig, one of the most outstanding Polish economists of the interwar Poland, wrote about the changes in the following way: "The Bank of Poland became only a subjugated tool in the hands of the Ministry."[37] It is there that the decision about introduction in April of 1936 of currency regulation in Poland was taken, and in this case the Bank of Poland had no say.

It should be reminded here that after the death of Józef Piłsudski in May of 1935, two sides fought for the decisive influence on the Bank of Poland: the so-called "Castle" group associated with the President Ignacy Mościcki and the vice-Prime Minister Eugeniusz Kwiatkowski, and the group of the General Staff headed by Edward Śmigły-Rydz. The controversies concerned, among others, the fundamental issues of issuing policy. Kwiatkowski defended the traditional principles of issuing policy, whereas the army representatives demanded some changes to be introduced, including issuing unprotected zloty. This was the way they wanted to obtain money to finance army modernization. The debate was going on, with the Bank of Poland having no influence on it, as its role was confined only to the executive organ and all the decisions were made without its involvement.

The twenty-year independence witnessed a process of gradual subjugation of almost the whole banking system to the state; outside its reach remained only private banks which were mostly based on foreign capital. To count the number of polish banks based on polish capital exclusively, fingers of one hand would suffice, and still some fingers would be free. It should be noted that actually the whole process of the state taking control over the management took place spontaneously (except the move to take control over the Bank of Poland by the "purge" group) and contrary to the professed economic doctrine. Solutions were forced by life itself. In the face of the weakness of Polish private capital and meager interest of the foreign capital in Poland, the state was the only institution able to assist banks in critical situations. At the same time, depositors perceived state banks as more trustworthy, thus in difficult periods one could observe massive transfer of deposits to the public sector. As a result of the interplay of the two factors – distrust in private banks and weakness of the polish private capital – the state was naturally assuming a stronger position in the banking and crediting sectors.

The moot point was that it is not enough to declare one's favor of the idea of private banks. Private banks can function independently and develop provided they have huge capital. If private businessmen do not have enough money, then the banks initially set up as private will gradually become dependent on the state anyway. The private status of the bank is not determined by legal regulations, statute,

[36] Ivanka A., *Wspomnienia skarbowca 1927-1945* [Recollections of a Treasurer 1927-1945]. Warsaw 1964, p. 287.

[37] Zweig F. *Poland Between Two Wars. A Critical Study of Social and Economic Changes*. London 1944. 113.

or even the form of stock company where most of the shareholders are private individuals. The central bank remains private as long as the strength of its private capital guarantees its independence of the state. When the capital appears too weak, then the independence of the issuing bank is fictitious. The weakness of private capital can result both from economic and political premises. When these two factors co-occur then the state assumes the decisive influence on the banks through which it can control most of the national economy. Such was the course of events in the interwar Poland.