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## INTEGRATION OF MONETARY SYSTEMS IN POLAND AFTER WORLD WAR I AND WORLD WAR II

A well-functioning monetary system has always been an essential element of a normally functioning economy. When after 1918 and in 1944-1945 the economy of Poland was disorganized both as a result of war damage and in consequence of the policies of occupants' administrations, restoration of an efficient monetary system turned out to be one of the most urgent tasks of the state. In Poland, the situation after the world wars was particularly difficult, since the occupying powers consciously had developed monetary systems which suited their war effort, not the future goals of the Polish state.

In 1918, several currencies were valid on the territories to be included in the restored Republic of Poland, which was an aftermath of the period when the country had been divided (since the end of the 18th century) among Russia, Austria, and Prussia. Before the outbreak of World War I, in each respective part of the Polish territory in use was the currency of the occupant state: roubles under the Russian rule, crowns under the Austrian, and deutschmarks in the lands which belonged to Prussia. In 1914-1916, in the course of the war, much of the area had previously belonged to Russia (the Kingdom of Poland and some of the borderlands in the East) fell under the control of Prussia and the Austro-Hungarian Empire. In the German-occupied part of Poland, formerly under the Russian rule, a new currency was introduced – the Polish mark, which was emitted by a newly founded emission bank called Polish National Loan Bank. In the Southeastern territory of the so-called *Oberkommando-Ost*, Germans introduced during the war "ostroubles" and "ostmarks," next to the tolerated roubles proper. In the Southeastern areas which remained an object of conflict involving Poland, Russia, and organizations struggling for independent Ukraine, different administrations would introduce their own short-lived currencies, such as "hrivni" and "karbovance," used next to the old Russian roubles.

Consequently, in the first several months of the restored existence of the state of Poland, a number of different currencies were in use. Their rates of exchange were unstable, since the available amount of each of them was changing, depending on emission, while the population and economic institutions could not be sure which would remain valid in the future. Those who kept sums of different money were afraid that in the case of currency change they would suffer losses so that the demand for U.S. dollars and gold was growing. Considerable and continual changes as regards particular rates of exchange, most of which the state of Poland kept under no control, rendered the Polish government unable to put together any, even relatively real budget, and without one no normal financial policy of the state was possible. Securing current dues in particular regions of the country was becoming a problem because of the shortage of appropriate currency. In Wielkopolska and Pomerania, salaries and all other dues of the government had to be paid in German marks, on the territories of the (Russian) Kingdom of Poland occupied by Germans in Polish marks, in the former Austrian-occupied lands in crowns, and in the East in roubles. No doubt, all that must have been troublesome for the state system in which the revenue service was not yet very professional.

Under the circumstances, one of the first tasks of the newly founded Ministry of Treasury was to undertake preparations for the unification of currency. Apparently, the simplest solution would be to exchange all the currencies in use for a new legal tender, or to choose one of the currencies in use and declare that it extinguishes debts all over the state. The obstacles which made either solution impossible were both political and technical. Since wages and prices in particular regions of Poland differed considerably, it was difficult to determine proper rates of exchange, acceptable by all the parties involved. Subsequent governments of the new state avoided moves which would aggravate separatist emotions of the regions, the currency exchange being potentially one of them. Technical aspects were also very important. The state of Poland was unable to print in a short period of time legal tender that would be difficult enough to forge, or even issue large amounts of the current Polish marks. That was why in the first years of the Second Polish Republic each region had to keep its currency, even though such a state of affairs could not be permanent.

Among the currencies valid in Poland only the Polish mark was valid exclusively within the borders of the state so that the government decided to replace with it gradually all the other currencies in use. Besides, it was taken into account that the occupant left in the chest of the Polish National Loan Bank large amounts of the Polish marks which could be immediately put in circulation, while several printing presses in Warsaw could print

small amounts of new bills. In consequence, on December 7, 1918 the government decreed that the Polish National Loan Bank was the only institution legally entitled to emit currency.<sup>1</sup>

The printing of the Polish marks started in January 1919, however, not according to the pattern established by the German occupation administration, but following a new one defined by the decree of December 31, 1918.<sup>2</sup> The change of the note pattern brought about some currency complications, since the Polish marks emitted during the German occupation (the so-called Kreis notes) were guaranteed by the German government, while the marks printed according to the new regulations were guaranteed by government of Poland. As a result, instead of one Polish mark, two kinds of it were in circulation, which made the variety of currencies in use even larger. Moreover, since the government of the German Reich was considered more dependable than that of Poland, the "Kreis marks" had a higher rate of exchange than the marks emitted by the Polish authorities, no matter that a special decree of the Minister of Treasury strictly forbade making any difference between the two marks.<sup>3</sup> In practice, the decree was meaningless, as the "Kreis marks" went abroad quite quickly, being more acceptable than the Polish marks guaranteed by the government of Poland.

The emission of the new Polish marks did not mean the beginning of currency unification, though it created its necessary preconditions. First, the Polish marks were used to cover the most indispensable needs of the state whose traditional income from taxes, monopolies, and customs were minimal and by no means sufficient. The very process of unification was begun on March 11, 1919, with the introduction of regulations concerning the influx of the legal tender of Russia, Germany, and Austria from abroad, since it competed with the Polish mark and made the exchange rate oscillation more significant. Of course, the rules as such could not improve the situation, but they indicated the government's intentions. First, only Austrian crowns could not be brought to the country, but soon an interdiction on roubles and the German marks followed, though the latter were quickly exempted from the ban, since their shortage on the formerly German territory made normal economic activity difficult.<sup>4</sup> Nonetheless, as Poland's borders were still unprotected by customs, all those regulations could be considered an expression of the state's will that could not be executed in practice.

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<sup>1</sup> *Dziennik Praw Państwa Polskiego*, 1918, no. 19, entry 56.

<sup>2</sup> *Dziennik Praw Państwa Polskiego*, 1919, no. 4, entry 89.

<sup>3</sup> *Monitor Polski*, 1919, no. 228.

<sup>4</sup> *Monitor Polski*, 1919, nos. 45 and 54.

The Polish government was reluctant to unify the currency in particular regions for the fear of negative political consequences of such a decision. Therefore, to minimize the stress caused by the currency exchange, it resolved to divide the process into steps, which allowed the population to adjust to new circumstances and to accept gradually a new currency replacing those in use for many years before. A viable solution was to tolerate two currencies circulating one next to the other for a limited period of time. The Polish mark was introduced in all regions of the country to circulate beside the currency locally in use, with an officially determined rate of exchange. As a result, all the other currencies could be slowly replaced by the Polish mark, while everyone realized that the coexistence of two currencies would not last long, since the state planned to leave in circulation only the Polish mark. Hence, currency owners in the first place got rid of the money to be withdrawn, and the Polish mark started to oust other circulating currencies.

The area where the operation took place first, on April 11, 1919, was the former Prussian territory, excluding regions in which plebiscites were to be organized, i.e. Warmia, Masuria, and Upper Silesia. Next (January 15, 1920) came the former Austro-Hungarian territory.<sup>5</sup> It seems that in both cases a significant factor was the shortage of the German marks and crowns, which made it difficult for the state to meet its obligations. The introduction of the Polish mark solved the problem, as government could begin paying its dues in the national currency the circulation of which was officially regulated.

The final act putting an end to the co-circulation of more than one currency in the state of Poland was the establishment of the Polish mark as the only legal tender. In the formerly Prussian territory (excluding the plebiscite areas) a ban on the German mark was issued on November 20, 1919, after more than six months of the parallel use of both currencies.<sup>6</sup> On March 24, 1920 the government ordered the exchange of the crown into the Polish mark in Galicia and the former Austrian-occupied part of the Kingdom of Poland.<sup>7</sup> As a result, already in April 1920 the Polish mark became the only legal tender in western Galicia, and a month later in the eastern section of the region. Also in April 1920 the International Plebiscite Commission ordered an exchange of the crown into the Polish mark in Silesia around the town of Cieszyn, which in fact need not have been done since ultimately the Entente superpowers decided to incorporate the area into Czechoslovakia. A bill of December 29, 1920 eliminated roubles from the circulation in Poland – after that they were exchanged into the Polish marks.

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<sup>5</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1920, no. 5, entry 26.

<sup>6</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1919, no. 91, entry 492.

<sup>7</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1919, no. 28, entry 166.

In principle, the unification of currency was completed by mid-1920. It did not cause any serious political problems, since the period of co-circulation of two currencies allowed the local communities to adjust to the new legal tender. What brought about much more unrest was growing inflation which reduced savings and resulted in a gradual increase of prices. On the other hand, it diverted the public attention from currency exchange, particularly that the German mark, Austrian crown, and rouble were losing their value faster than the Polish mark. People had no impression that worse currency superseded better one – simply, one bad currency was replaced with another, just as bad as the old one.

Though the unification of currency was over in the first six months of 1920, the expansion of Poland and incorporation of new territories made it necessary to extend the operation. On July 4, 1921 the Cabinet of Ministers extended the withdrawal of roubles on the eastern administrative units which became part of the state in result of the Treaty of Riga.<sup>8</sup> In Upper Silesia, which was incorporated into Poland as late as in June 1922, according to the Polish-German agreement of May 22, 1922 the German mark was to remain the only local currency for fifteen years, but at the end of 1922 a dramatic decrease of its value made the Polish mark, less affected by inflation, an actually parallel currency of the area. Taking advantage of the situation, on December 2, 1922 the Polish government issued a decree anticipating the introduction of the Polish mark as the only currency in Upper Silesia as of November 1, 1923.<sup>9</sup> In 1922-1923, the Polish mark covered all the remaining territories of the state of Poland, which marked a formal end of unification. In fact, however, unification was only apparent, since growing inflation kept the foreign legal tender in circulation. The population put it them more confidence than in the Polish mark, therefore, all significant cash operations were carried out in foreign currency in which (as well as gold) most people made their savings.

The gradual unification of currency had a very significant influence on the rise and functioning of the revenue service and the Ministry of Treasury, since created conditions for preparing the state budget including all the spending of the state.

The lack of a single currency and weakness of the revenue service in the first years of the regained independence made it impossible to specify rules and regulations for the financial policy of the state. In particular regions the local authorities independently made decisions concerning necessary spending. The needed income came from different, often accidental sources and the financial policy had no firm basis. Hence, the first budget prelimi-

<sup>8</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1921, no. 75, entry 514.

<sup>9</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1922, no. 115, entry 1038.

nary for the period of January till June 1919, put forward by the Minister of Treasury, J. Englich, specified only the income and spending for the area of the former Kingdom of Poland and the military spending of Galicia. The government worked on it till the end of February 1919.<sup>10</sup> The preliminary could not cover other regions of the country with different currencies in circulation which could not be exchanged, due to fluctuating rates, into Polish marks. In practice, however, that turned out irrelevant, as the budget bill was not accepted by the Parliament and it had to be replaced with a new preliminary prepared by the next Minister of Treasury, S. Karpiński. Karpiński's preliminary also included just the first six months of 1919 and only part of the country. The coexistence of many currencies still made the preparation of the budget for all the state very difficult. Particular regions of Poland did not have their local budgets, either. For instance, Galicia had no budget at all and money was spent depending on the needs and income. Relatively the best was the situation of the former Prussian-occupied territory, free of combat both during World War I and the Polish-Soviet war of 1920.

Another attempt at preparing the budget was undertaken by the next Minister of Treasury, L. Biliński. In that case, the preliminary was to cover the period from July 1, 1919 till March 31, 1920, but eventually it was not accepted by the Parliament, either. Still, it indicated some progress in comparison with the earlier efforts, since next to the spending and income of the former Kingdom of Poland it included also all the spending of Galicia. The following months brought more attempts at preparing a budget preliminary covering the state spending all over the country, but again, the co-circulation of many currencies made them futile. On March 12, 1920 the Ministry of Treasury submitted to the Parliament a budget bill covering the period from July 1, 1919 till March 31, 1920, as well as an economic and financial plan for the following nine months, but both plans concerned only the former Russian- and Austrian-occupied territories. A preliminary for the former Prussian district was prepared and submitted to the Parliament as a separate document. A general budget could be prepared only after introducing the Polish mark in the whole country, but even then, due to growing inflation, it was not real.

The introduction of a single currency was a necessary precondition of any efforts to level prices all over the country. In 1918-1920, for a number of reasons, prices differed significantly from province to province. First, the prices on the territories which had belonged to the neighboring countries depended on those in their capital cities, which meant that on each area in question they must have been different. Second, during the war the occu-

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<sup>10</sup> Record of a meeting of the Cabinet of Ministers. *Archiwum Akt Nowych, Protokoły Rady Ministrów*, vol. 4, rec. 865-866.

pant administrations introduced regulations concerning particular categories of goods so that next to the prices determined by the market, some were set by the authorities (e.g., produce provided by farmers in the form of obligatory supplies was many times cheaper than on the market; the merchandise purchased by the urban population for coupons was cheaper as well). Third, when the war was over, the extensive damage of the railroad system made it very difficult to distribute produce and manufactured goods, which resulted in enormous local differences in prices of the same products. Fourth, Wielkopolska and Pomerania, which did not suffer from direct war damage, protected themselves by means of tariffs which were to keep the prices relatively low on those areas only. The regional authorities reduced the export of many goods to other parts of the country. Fifth, until the end of the Polish-Soviet war Polish economy was adjusted to the needs of warfare, i.e. the distribution of many resources and goods was controlled by obligatory supplies, coupons, and rations for the active workforce, while prices were regulated. A transition to free trade started as late as in 1921. Finally, prices in particular regions of Poland were expressed in different currency with fluctuating rates of exchange. Under such circumstances, unification remained impossible for a long time.

Introducing the Polish mark as the only legal tender paved the way to the unification of prices all over the country, which was a necessary precondition of the rise of a uniform home market. Without that it would have been extremely difficult to increase industrial output, trade, and the rate of employment. Therefore, as soon as the war in the east had been over, the state made an effort to level prices. The moment was particularly convenient, since the borders had been decided, military activity came to an end, restoration of damage was well under way, free market started replacing economic control, and the currency was uniform.

Already in the end of November 1920 the local authorities of the former Prussian territory decided to adjust over the first six months of 1921 the level of prices to those in other parts of the state. As in that region of Poland prices were actually the lowest, they had to be considerably raised. Afraid of the negative political and economic consequences of such a move, the central government did its best to minimize the inconvenience for the public, i.e. resolved to spend large sums from the state budget on subsidizing bread during the transition from the coupon system to the free market in the west. The local population was badly hit by the growing prices: "Prices of all groceries doubled, while the imported produce was more expensive than in Warsaw. At the same time, the prices of all the manufactured goods went up as well."<sup>11</sup> The process of leveling prices between Wielkopolska

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<sup>11</sup> "Z byłej dzielnicy pruskiej" [From the Former Prussian District], *Przegląd Gospodarczy* 1921, no. 15, p. 573.

and Pomerania in the northwest and the remaining regions of Poland was to be facilitated by a special bill on free trade between the two areas. The bill was debated already in 1921, but it practically became law only in 1924. Big problems as far as prices were concerned appeared when Upper Silesia became part of Poland in 1922. Some difficulties took place also along the eastern border, but since the local agriculture was not yet based on the exchange of produce for money, the changes of prices affected mostly the population of cities and towns.

Thus, after World War I, the Polish state energetically but carefully introduced on all of its territory a single currency. The process was carried out in a way that allowed for maximum protection of the population and economy from its negative consequences. For instance, no quantitative restrictions were imposed as regards the exchange of foreign currency into Polish marks. Such a solution was favorable to the people, but it created a real danger of quick inflation. If the state had decided to exchange only some of the foreign financial resources into uniform currency, a smaller amount of the Polish marks would have circulated on the market. That, in turn, would have created the so-called emission margin, letting the state cover its spending by printing more money without the risk of inflation. Eventually, inflation brought about a serious decrease of the buying power of money so that the population suffered from major losses anyway. Hence, a question arises whether Poland should have decided to exchange all the currency in circulation, but there is no unambiguous answer to it.

Only twenty five years later Poland once again faced the problem of the unification of currency. During World War II, the occupants introduced Soviet roubles in the Soviet zone of occupation, German marks on the territories annexed by the Third Reich, and zlotys in the occupied "*General Gouvernement*". (The zloty emitted by the Nazi-controlled Emission Bank in Poland was called "krakowski" or "młynarka" to mark the difference from the pre-war Polish currency.)<sup>12</sup> When in July 1944 the Red Army reached the territories west of the river Bug, which was a new eastern border of Poland, administration was taken over by the Polish Committee for National Liberation (PKWN), founded in Moscow. Till January 1945 it administered the area between the rivers Bug and Vistula, but when the Soviet military offensives moved ahead to the west, Poland started expanding westward, too, to include some of the land which before the war belonged to Germany as compensation for the territories lost in the east. The authorities evolved as well: after the PKWN, power was taken by the Interim Government

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<sup>12</sup> "Krakowski" (of Cracow), since the headquarters of the Emission Bank in Poland was located in Cracow, while the Bank President's name was Feliks Młynarski.

which in 1945 changed into the Government of National Unity, including some representatives of the Polish emigré government active in London.

One of the first tasks of the PKWN was to regulate the financial situation and take under control the question of currency. In various parts of the territory that it administered current were the German marks, "krakowski" zlotys, and Soviet roubles which the Red Army and Soviet administration spent to satisfy their needs. The PKWN could not exchange all those currencies into its own, since it did not have any. It was a decree of August 24, 1944 which assumed the introduction of new legal tender with the sign of the "National Bank of Poland,"<sup>13</sup> to be ordered and printed in the USSR. The decree specified that the new notes would circulate along the "krakowski" zlotys and roubles. The German marks were not mentioned at all. The first supply of the new currency came in August 1944, but it was too small to exchange for it all the money in use. Only later, larger supplies of notes created conditions to organize an exchange operation.

The first step in that direction was a decree on the withdrawal of German marks in the region of Białystok.<sup>14</sup> Everyone was entitled to exchange three hundred marks. Sums exceeding that amount could be deposited in a bank. The imposed limit allowed the state to obtain a sizable emission margin, quite easy to estimate since while the local circulation might have amounted to 600 million German marks, the amount actually submitted for exchange was only 19 million zlotys,<sup>15</sup> equivalent to about 38 million of German marks. Logically, the next step should have been an exchange of the "krakowski" zloty, yet for some reason a decision in this respect was taken as late as at the beginning of 1945, when it was announced in a decree on depositing and exchange of the notes of the Emission Bank in Poland.<sup>16</sup> The decree covered only the territory between the rivers Bug and Vistula, and had no legal force on the lands liberated from the German occupation in 1945. According to it, every individual who lived on a strictly specified area had the right to exchange five hundred "krakowski" zlotys into five hundred zlotys of the National Bank of Poland, while the remaining "krakowski" zlotys could be deposited in banks. Besides, the same rights had all kinds of state institutions and institutions of local government to which no limit pertained, unlike small businesses which could exchange two thousand zlotys, and bigger companies which could obtain the new zlotys up to fifty percent of their cash resources. In practice, it meant that virtually eve-

<sup>13</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1944, no. 3, entry 11.

<sup>14</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1945, no. 9, entry 43.

<sup>15</sup> Report of the Ministry of Treasury for July 21, 1944 – March 31, 1945. *Archiwum Akt Nowych*, Min. Skarbu, p. 24.

<sup>16</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1945, no. 1, entry 2.

ryone could exchange any sum of money, on condition that he or she had some connections with an institution exempting from limits. Consequently, the emission margin turned out to be very narrow.

Lingering with the exchange of the "krakowski" zlotys on the territories controlled by the PKWN created all kinds of economic problems. People were afraid to make any transactions in the occupation currency, since they knew that after some time it would be withdrawn. Distrust persisted even though the official daily of the PKWN claimed that "by no means can any Polish owner of these notes ... suffer from a loss. Likewise, the value of the zlotys emitted by the so-called Cracow Emission Bank in Poland can by no means be legally reduced, or the currency altogether annulled."<sup>17</sup> Nevertheless, trade did not develop, and the population opened virtually no savings accounts. The situation was somewhat better on the territories where the new Polish zlotys already replaced German marks, since the local communities believed in the permanence of the new legal tender.

Another step toward currency unification was a decree of January 13, 1945 on the withdrawal of the Soviet roubles from circulation in Poland.<sup>18</sup> Their circulation did not make sense any longer, as the Soviet military and civilian administration could satisfy their needs by spending the new zlotys provided directly from the presses where they were printed. The withdrawal of roubles had also some propaganda significance, for it was supposed to demonstrate that Poland was an independent state and not a part of the USSR. Still, many people expressed their mixed feelings about it, because the rouble was considered safer than zloty, and roubles could be sent to family members remaining in the USSR, who could not be helped as easily as before.

The PKWN decrees on the exchange of the occupation currencies had no force west of the Vistula, on the territories liberated from Germans in January 1945. Hence, in order to start any exchange there, new rules and regulations were needed. The government considered the issue only on February 4, 1945, and an appropriate decree was published on the next day.<sup>19</sup> Until then, the newly liberated area was a domain of total currency chaos. No one trusted the occupation currencies any more, for it was known that they had been withdrawn from circulation east of the Vistula, while the new zlotys appeared only sporadically to be accepted quite reluctantly, since people did not know what buying power they actually had. Doing business in the old money was over, and trade in the new currency did not yet begin. Under the circumstances, economy had no chance to develop so

<sup>17</sup> "Złoty pozostaje w obiegu" [Złoty Still in Circulation], *Rzeczpospolita*, August 7, 1944.

<sup>18</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1945, no. 2, entry 5.

<sup>19</sup> *Dziennik Ustaw Rzeczypospolitej Polskiej*, 1945, no. 5, entry 18.

that in many areas the local authorities and representatives of the central government appealed to the population to stick to the German marks and use them in business activity.

The new law on the exchange of the "krakowski" zlotys west of the Vistula differed in some respects from the regulations adopted earlier. Every individual could still exchange five hundred zloty, but institutions had not exchange rights whatsoever. Only in "exceptional and economically justified cases exchange on behalf of public institutions and the institutions of public and social service"<sup>20</sup> was made possible, provided that the Minister of Treasury initiated an appropriate legal procedure. That modification was caused by the previous experience which showed that the first regulations were too liberal, allowing private individuals to exceed the limits, which contradicted the basic purpose of the currency exchange. The authorities aimed not only at the currency unification, but also at obtaining possibly the biggest emission margin. The excessive liberalism of the rules might have "undermined the fundamental principle of the currency reform, which was compression of the cash circulation and respecting the upper limits of emission."<sup>21</sup>

The decision was drastic and might have resulted in suppressing all the economic activity. Firms which were suddenly deprived of all their financial resources, had to take bank credit or apply to the state for subsidies, but banks lost their current resources as well so that they could not offer any credit. The ability to give credit depended on the will of the state which could supply a specific bank with the new zlotys but did not have to. Particularly difficult was the situation of private businesses, that of cooperatives was comparably better, while the best proved the position of state companies which could count on the government subsidies. The population of the territories west of the Vistula, liberated in January 1945, was also in a comparatively worse situation than that on the other side of the river, since it could not find any loopholes in the law limiting the exchange to five hundred zlotys per person, an equivalent of about five dollars.

In certain regions of the country the exchange process continued with many difficulties. There was no transportation to supply notes and communications were functioning badly. The subsidies for the state companies and institutions could not reach all destinations, either. As regards currency, some areas were literally a vacuum so that goods had to be exchanged directly for other goods. The problem must have been quite significant, as it

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<sup>20</sup> Record of the meeting of the Cabinet of Ministers of February 4, 1945. Archiwum Akt Nowych, *Prot. RM*, vol. II, rec. 44.

<sup>21</sup> Report of the Department of Currency Circulation for the period till March 31, 1945. Archiwum Ministerstwa Finansów, fasc. 100, vol. I.

was mentioned in public by the President of the National Bank of Poland, E. Droźniak.<sup>22</sup> That meant the retrogression of economy and prolonged the process of integration of the state.

The decree of February 1945 regulated the withdrawal of the "krakowski" zloty, but in some areas of the Second Polish Republic (1918-1939) west of the Vistula during the war years the German marks were in use and the government had to solve the problem of their future. Yet as far as the exchange of the "krakowski" zloty was primarily an economic issue, the exchange of the marks had also its political consequences. Large amounts of marks were possessed by ethnic Germans and the Polish authorities did not want to exchange them at all. On the other hand, the marks actually possessed by ethnic Poles could not be differentiated from those in the German possession. When the Cabinet of Ministers debated about the problem, all its members argued against exchanging marks into the new National Bank of Poland zlotys. Since it became obvious that such a decision would negatively affect Poles as well, it was suggested that those who did not give up their Polishness during the war could receive five hundred zlotys of aid, which would compensate for the impossibility of exchanging marks. Another solution was to give all Poles five hundred zlotys in advance of their future earnings. Eventually, the government decided that the marks would not be exchanged, but that nevertheless they had to be deposited by individuals in banks to facilitate any future dealings of Poland with Germany. The ministers debated if it was a proper move to make the decision public immediately, or perhaps it should be kept secret until the economic situation came back to more or less normal. They were aware that as a result of their resolution part of the state territory would turn into financial vacuum, which would delay the reconstruction of economy. Ultimately a realistic option was chosen and no public announcements were made. It was agreed that the "decision could become too costly, for it was premature."<sup>23</sup> Just ten days later the Cabinet of Ministers changed its course and resolved to let Poles exchange two hundred marks into two hundred zlotys per person. That lower limit of exchange did not imply any discrimination against Poles who lived on the territories which during the war had been incorporated into the Reich, but it was caused by significant differences in prices. In the former *General Gouvernement* they were much higher than in the former Reich and in the latter area two hundred zlotys equalled five hundred in the former one.

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<sup>22</sup> Speech of the President of the National Bank of Poland, *Wiadomości Narodowego Banku Polskiego* 1946, no. 9, p 3.

<sup>23</sup> Archiwum Akt Nowych, *Prot. RM*, vol. II, rec. 36.

Still, those solutions did not become law, either. The Polish government could not ignore the solutions introduced by the occupying forces in the Soviet-occupied zone of Germany, where five hundred marks were exchanged into two hundred fifty roubles, and since one rouble equalled one new zloty, the exchange of marks had to be carried out accordingly. The decree of February 5, 1945 on depositing and exchange of the German marks on the territories of Poland liberated after January 6 that year specified that the mark would cease to be legal tender only after the process of exchange came to its end, i.e. on February 28, 1945. Hence, the financial vacuum resulting from the withdrawal of marks before their exchange into other currency was reduced at least to a certain extent. On the other hand, the decree stipulated that as long as it were deemed necessary the German coins would be kept in circulation, since Polish coins were not yet available, while some coins were necessary to do shopping, as prices remained relatively low. The gist of the decree was, however, the duty of all those who possessed German marks (regardless of their ethnicity) to deposit them on bank accounts by February 28, 1945. From the deposited sums the citizens of Poland and allied countries could exchange five hundred marks into two hundred fifty zlotys. Ethnic Germans did not have that privilege.

At any rate, the whole Poland had problems caused by the shortage of new currency. The limits of exchange gave the population too little money to serve the developing trade and business activity. Many documents from that period show that barter was becoming more and more popular, and even the state administration sometimes paid for services with all kinds of goods, not with money. Workers' wages were paid in their company's products, since money was not available. The shortage of money in circulation was becoming not just an economic issue, hindering integration and development, but a political problem as well, bringing about a threat of social unrest. The situation was partly caused by the fact that institutions could not exchange their financial resources. Since the credit system was not functioning yet, bank loans were out of the question. Also the system of state subsidies was being organized, and anyway it served only some institutions and state-owned companies.

Judging with the benefit of hindsight, one must admit that as a result of the exchange of February 1945 the state obtained a much larger emission margin than before on the area between the rivers Bug and Vistula, though at the cost of serious difficulties in economy. Moreover, the margin had to be largely used to subsidize both the economy and administration so that its role of an anti-inflation measure was significantly reduced. What the state saved thanks to exchange limits, it had spent to support the economy short of cash. Therefore, an official claim of the authorities that the exchange of

the "krakowski" zlotys in the *General Gouvernement* resulted in the reduction of circulation by 68%<sup>24</sup> must be approached with much caution.

Still, there is no doubt that on the territories which before World War II belonged to the Third Reich the compression of circulation was much bigger. Till the end of the Potsdam conference on August 2, 1945 the status of that area was not fully determined so that Poland had no legal instruments to regulate the local economic and financial conditions. Only after transferring the administration of the so-called "Regained Territories" (the term referred to the formerly German lands in the west and north) to Poland the unification of currency became urgent there, too. The problem was rather complex, since next to the German marks proper, in circulation remained the marks issued by the Nazi occupation administration as well as some new Polish zlotys and roubles. The result was total chaos, with various currencies dominating in particular regions. Prices were very different, too, and the currency mosaic made any leveling extremely difficult. The uncertain status of the German population, which could be displaced at any time, made the chaos even more profound. Under the circumstances, for quite a long time the most popular currency was vodka. According to a Polish settler, "spirits were the coin of the realm, whoever had spirits, could buy anything."<sup>25</sup> Another one remembered: "those who came later, learning from the experience of their predecessors, would bring with them much alcohol, since in Pomerania near Szczecin vodka replaced all currencies."<sup>26</sup>

Once the Potsdam conference had determined the western and northern borders of Poland, the zlotys of the National Bank of Poland could be introduced all over the country. An obstacle, however, was a temporary shortage of notes due to problems with their supply from the USSR. The actual supply did not satisfy the demand, even though the state did not plan to exchange the currency possessed by the local German population who was not interested in it either, expecting to be displaced at any time. The only group interested in the exchange were the local Poles, yet the government did not have any offer for them, except for credit. In such a situation still at the beginning of 1946 "on the newly incorporated territories various currencies were in use with no official approval. A merchant who refused to accept a currency which was not valid would often face a barrel as an ar-

<sup>24</sup> Report of the Department of Currency Circulation of the Ministry of Treasury for the period till March 31, 1945. Archiwum Ministerstwa Finansów, fasc. 100, vol. I.

<sup>25</sup> L. Kukulski, "Gmina w Nowogrodku Pomorskim" [The Commune of Nowogrodek Pomorski], in *Pamiętniki osadników Ziemi Odzyskanych* [Memoirs of the Settlers from the Regained Territories]. Poznań, 1963, p. 436.

<sup>26</sup> F. Buchalterz, "Pierwsze lata nad Odrą na Ziemi Szczecińskiej" [The First Years on the Oder near Szczecin], in *Pamiętniki osadników Ziemi Odzyskanych*, p. 375.

gument."<sup>27</sup> Only gradually, along with the development of the Polish administration and normalization of economic activity zloty started ousting other currencies. Its domination in circulation came at the moment when the displacement of the Germans was practically over – the latter wanted to keep German marks as long as possible, since they were circulating at their destination. In practice, then, the solution of the ethnic problems allowed for full integration of the "Regained Territories" with Poland. The unification of currency triggered the leveling of wages, prices, tariffs, taxes, etc. That, in turn, created a real chance to accelerate the process of economic reconstruction, as well as economic integration of the pre-war Poland with its new territorial acquisitions. On that area there was virtually no exchange of currency as such, which did not mean, though, that the state failed to obtain a significant local emission margin. The circulation of money on the "Regained Territories" was so much limited that emission of currency did not lead to excessive supply of the notes of the National Bank of Poland, since the demand of the economy for zlotys was not satisfied as a result of currency exchange.

Despite all the above objections, the emission margin was very important for the state, as it facilitated for several months the restoration of the state power system and the financing of economy with no danger of inflation. Today some historians believe that the aim of exchange limits was to push the population into poverty. It seems that such a view is wrong, and it should be noted that the idea of limited exchange was supported also by the Delegation of the government in exile in London who could not be accused of communist tendencies. For instance, director of the Delegation's Department of Treasury, J. Zajda, argued in his memorandum written in the final period of the Nazi occupation for a "serious reduction of the circulation of the 'młynarki', which would amount to radical single act of deflation."<sup>28</sup> That was, in fact, the road taken after World War II by Belgium and West Germany. Therefore it seems reasonable to assume that the limits imposed on the exchange of currency by private individuals was motivated only by an intention to counteract quick inflation comparable to that which took place in Poland after World War I also because of the liberal exchange of all the money in circulation.

Finally, it should be realized that no matter what method of unification was chosen, in each case it was a necessary precondition of the normaliza-

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<sup>27</sup> Memorandum of the Central Council of the Merchant Associations in Poland on the settling of merchants on the Regained Territories. Archiwum Ministerstwa Finansów, fasc. 102, vol. 15, rec. 1.

<sup>28</sup> J. Zajda, *Kierunki polityki walutowej Polski w okresie międzywojennym* [Directions of the Currency Policy of Poland between the World Wars]. Poznań, 1986, p. 121.

tion of economy. In the case of Poland, the unification of currency, both after World War I and World War II, was a measure without which no economic integration of the Polish territory was possible. Without a single currency one could not even think about eliminating differences among particular regions of the country. A uniform currency system did not eliminate the local differences by itself, but it created a good chance to start doing it.