Between Depression, Stagnation and Development: The Social and Economic Situation of the Second Republic in the First Years of Independence (Until 1926) Selected Issues

Abstract

After a century and a half of partition, Poland was reborn in the autumn of 1918, though its geopolitical and economic situation remained precarious. On the one hand, there were armed conflicts during which the new borders of the Republic were being shaped, and on the other hand, the economy of the young state was plagued by an economic depression that undermined the foundations of its existence. It took several years to recover from the crises. The main difficulty that successive governments had to face was the need to integrate the three different fiscal and economic systems and policies that had been inherited from the partitioning states: the German Empire, Austria-Hungary and Czarist Russia. It is noteworthy that in the early 1920s two courses of recovery from economic depression were contemplated. The first (“the German course”) was based on the introduction of a new currency with extensive support for the economy with international loans. The second, called “the Austrian course,”...
relied solely on bolstering the economy with foreign loans. In the end, the Poles, under the leadership of Prime Minister and Treasury Minister Władysław Grabski, chose a third path: their own. It consisted of, in particular, a rapid collection of property tax, a sweeping currency reform, increasing the profitability of state monopolies, and implementing audits of public spending. All of these measures, which underwent regular modifications, yielded reasonably favorable socio-economic results. Their consequence was a long, arduous but steady recovery of Poland from the post-war economic slump.

**Keywords**

the Second Republic, Bank of Poland, economy, economic depression, interwar period

The first months of Poland’s independence were a time of tremendous chaos, not only in political terms, but also (and perhaps most importantly) in socio-economic terms. The demise of the partitioning states, and with it the police and law enforcement, resulted in an escalation of petty crime. Its victims were mainly civilians, most often Jews. The inefficiency of the newly established police force structures of the Polish state emboldened armed gangs that most often recruited from former soldiers of armies fighting on the fronts of the Great War (Mroczka, 1990, pp. 165–171; Pająk, 2012, pp. 238–246; Przeniosło, 2007, pp. 116–128; Przeniosło, 2010, pp. 211–245; Meus, 2012, pp. 376–389; Meus, 2021, pp. 38–39). Paradoxically, those who were robbed and escaped the assault alive and unharmed considered themselves lucky. The attackers were not deterred even by police stations. It was not uncommon for assaults to take place even in their vicinity (National Archive in Cracow, hereinafter: ANK, no. 29/268/129, no pagination; ANK, no. 29/268/130). Worse still, the audacity of bandits also led to assaults on police forces. Such a situation occurred, for example, in Bronowice Wielkie, which had been part of Cracow since 1909, where an armed attack on the local gendarmerie station was reported in January 1919. The tense social atmosphere was exacerbated by
a raging economic depression causing the country to suffer from inflation (and later hyperinflation), declining industrial production, a deficit in raw materials and a shortage of credit and working capital. The generally dire economic conditions contributed to the pauperization of the most vulnerable segments of the population. To make matters worse, epidemics of deadly diseases such as Spanish flu, spotted typhus and dysentery, commonly known as or “dirty hands disease,” were on the rise in Poland (Central State Historical Archive of Ukraine in Lviv/Центральний Державний Історичний Архів України у Львові/Центральный Державный Исторический Архив Украины у Львові, hereafter: CDIAL, collect. 567, catal. 1, case 115, f. 3).

The peak of the postwar economic crisis came in 1923. The young country, exhausted by the destruction of the First World War and the border wars with Bolshevik Russia, the Western Ukrainian People’s Republic and Czechoslovakia, had to struggle against economic depression, as well as mounting internal unrest, both social and political. An accurate diagnosis of the roots of Poland’s critical economic situation in the early 1920s was offered by the authors of the Report of the Supreme Chamber of Control on Activities Performed in 1924, who, as keen observers of the social and economic life of the time, reported that it was “the vast scale of public life, inadequate to the income, which was practiced in the first years of our independence, that led to the weakening of the State Treasury and posed the threat of financial disaster” (Archives of New Records in Warsaw, hereinafter: AAN, Supreme Chamber of Control, no. NIK III-19, p. 4). The vast majority of Polish specialists in economics and economic law agreed with the opinion on the state’s deplorable financial condition. One of them, Władysław Leopold Jaworski, associated with the Cracow legal community (a distinguished professor at the Jagiellonian University and a member of the Polish Academy of Arts and Sciences), in the pages of the widely read conservative daily Czas dated October 3, 1923, published a column under the telling title What Should We Do? where he argued that:

The country’s tough financial situation and the difficult foreign situation are stirring up unrest in society. The question that comes to the mind of every thinking citizen is what should we do? In such moments, it is
our duty to give each other encouragement and share every positive constructive thought... I consider the sanitation of finances to be the most important and urgent matter. Our internal as well as external situation depends on it. All efforts should focus on this problem, to solve it first and foremost (Jaworski. W. L., Czas, 1923, no. 221, p. 1).

The onset of the 1920s saw numerous strikes in Poland, which were the aftermath of people's dissatisfaction with the policies of the Polish state, and especially with the “tough financial situation in the country” that Jaworski referred to. Deserting workplaces became the main weapon of socialist groups. The strikes spanned different cities and different occupational sectors. For example, in 1921 the Lublin province was dominated by strikes by train drivers and railroad workers. The latter had already been demanding for several months that their salaries be raised by 100% and that they be granted a so-called “price-spike allowance” of 600 Polish marks due to skyrocketing prices. Strikes in the Lublin region recurred on a regular basis for the next two years, until 1923. Suffice it to mention that as late as October of that year, the strike spread to Chełm, Lublin and Siedlce. Its main instigators were train drivers affiliated with the Trainmen’s Trade Union (Wójcik, 1962, pp. 183–184). In 1923, strikes also broke out in Lesser Poland. In the Borysław-Drohobycz oil basin, so-called “summary courts” were even established for demonstrators under arrest in order to bring the strike situation under control. In turn, in Tarnów, on November 8, seven workers participating in a demonstration organized that day in the streets of the city were killed by soldiers (Naprzód, 1923, 260, pp. 1, 4).

A breaking point in the social turmoil caused by economic depression, as well as political tensions, took place in Cracow, a city that was not without problems witnessed in other parts of the Republic. The former Polish capital had been racked by strikes since 1919 when, as Polish historian Czesław Brzoza observed, “the inflation that occurred in the post-war years led to a steady decline in real wages” (qtd. in Brzoza, 1997, p. 92). Rising poverty among working groups fed social discontent. In the first year of independence, Cracow residents could count on only 40% of scheduled food supplies. Goods arriving in the city were sold at maximum, not to say, prohibitive prices. The limited
supply of food, as well as the high prices, were the cause of famine in the city. In the spring of 1920, a mass demonstration of women demanding bread and meat took place in front of the magistrate’s building (Brzoza, 1997, p. 91). On top of this, almost every city in southern Poland had been experiencing a shortage of fuel, mainly coal, since 1918, which made it impossible for schools, offices and factories to function properly. For example, in Lviv in 1918, electric streetcars were notoriously halted due to outages at the city’s power plant (CDIAL, collect. 717, catal. 1, case 44, pp. 63–65). In the winter of 1918, an order for coal of more than 13,000 tons per month was recorded in Lviv. The demand for more than 7150 tons of coal per month, necessary for the proper functioning of the city, was calculated in Cracow during the same period. A total of 195 Galician towns and villages encompassed by statistics preserved at the Central State Historical Archive of Ukraine in Lviv showed a monthly coal demand of 50,530 tons in February 1918 (CDIAL, collect. 717, catal. 1, case 44, f. 40–43). And while the rough figures refer to the declining period of the Austro-Hungarian monarchy, the problems of coal supply did not improve much after November 1918. Priority was given to industrial plants of strategic importance. These included printing houses, since the printing of notices and announcements guaranteed proper communication between the authorities and citizens. In large cities, every now and then, various professional groups came forward with demands to better their fate. Strikes and demonstrations ensued. For example, in 1919, Cracow printers refused to work which led to a temporary impasse in the publishing and press sector in Cracow. As already mentioned, the turning point in the city came in the autumn of 1923, although some smaller strikes and speeches were recorded earlier in the summer of that year when workers from railroad workshops supported by train drivers refused to work (Brzoza, 1997, pp. 92, 97). An eruption of social discontent took place at the end of October 1923, when the strike was again spearheaded by state railroad workers, who were joined by workers from other professions such as postal employees. Almost 40,000 people participated. The situation in Cracow, as well as in other cities, escalated. On November 5, the strike swept the entire country. Cracow came to a standstill. Public transportation did not run, telephones and post offices did not work,
stores and market stalls were closed, and electric lamps did not turn on in the evening because the city’s power plant workers failed to start work. The regional authorities called for a cessation of strikes. Participation in public gatherings was banned starting the following day. The decision of Cracow Governor Kazimierz Galecki had precisely the opposite effect. Violence escalated on November 6, 1923. Bloody riots involving Cracow workers on one hand and the police and army on the other broke out (Kalicka, 1978). During the day-long riots and regular battles that unfolded in the streets of Cracow (in the area of Dunajewskiego and Basztowa Streets where the Workers’ House was located and in the vicinity of the railroad station), 18 civilians and 14 soldiers were killed. More than 140 servicemen and policemen were taken to Cracow hospitals due to wounds. Material losses in connection with the “Cracow uprising” totaled horrendous amounts. Only the lost or destroyed military equipment was valued at 9.5 billion Polish marks (Brzoza, 1997, p. 99). At this point, it should be noted that the tragedy that played out on the streets of Cracow was the fallout not only of the living and economic situation of Cracow’s workers, but also of dissatisfaction with the results of the parliamentary elections that were held in the fall of 1922. The winner was the Christian Union of National Unity (37.9% of the seats won), i.e., a right-wing grouping that defeated the Polish Socialist Party, which was the main political force of the labor movement (Brzoza, 1997, pp. 94–95), with a score of 26.4%. The epilogue of the “Cracow Uprising of 1923” – as Felicja Kalicka, echoed by Andrzej Chwalba, called the November incidents – had nationwide repercussions. Most importantly, the position of the Polish government led (only since May) by Wincenty Witos was shaken. It survived for a few more weeks, only to crumble in December 1923. The mission of forming a new government was entrusted to the recent Treasury Minister Władysław Grabski, who became – not without difficulty – the statesman of the Polish economy, as will be discussed in more detail later in this text.

Concluding the subject of Cracow, and in particular the “uprising” of 1923, the finale took place the following year. Fifty-eight people who were charged by the prosecutor’s office with participation in the “rebellion” and in “riots” that led to “public violence” were indicted. Those facing charges included two deputies, namely Jan
Stańczyk and Zygmunt Klemensiewicz. In the end, six people were convicted by a final court verdict. However, the crime of “rebellion and riot” was reclassified as theft. The remaining defendants were released from custody. The court’s verdict provoked extreme opinions ranging from elation and satisfaction on the left of the political scene to discontent and dismay on the right (Brzoza, 1997, p. 100).

Moving toward the conclusion of this part of the discussion, it should be indicated that the economic depression that gripped the territories of the reborn Poland covered the entire country, not just the vital urban centers where large industry and commerce were concentrated. The crisis also, and perhaps especially, affected small-town and rural communities. This is evidenced by research conducted in recent years, which shows the post-war decline on a micro-regional and even local scale. In many cases, with the end of the Great War and entry into the 1920s, we can observe the demise of enterprises and economic and financial organizations that had originated in the times of the partitions. Usually, their bankruptcy was caused by wartime destruction (in Galicia), as well as rampant inflation and a decline in the circulation of money and low profitability of production. As an example, I would like to mention the case of the village of Ujanowice, located in the Limanowa district of the then Cracow province, where fierce battles between the Russian and Austro-Hungarian armies were fought in 1914 (the so-called Limanowa Battle). Still during the First World War (in December 1917) a dairy company was launched in Ujanowice to produce dairy products for the regional market. Unfortunately, the poor financial condition of local breeders and farmers did not encourage investment and cooperative activity. Ultimately, the project of a Dairy Cooperative was postponed *ad acta*, in anticipation of better economic circumstances. These did not appear until 1927, nine years after Poland regained its independence. That year, on July 31, a founding group met and constituted a Dairy Cooperative with headquarters in Ujanowice (AAN, group: Cooperative Council in Warsaw, no. 2/213/19605, no pagination; Archives of St. Michael the Archangel Parish in Ujanowice, Liber Memorabilium, vol. 1, manuscript, p. 148). Although this example refers to a single village in Lesser Poland, it illustrates the problems faced in the first postwar years by thousands of similar localities
within the borders of the Second Republic: cities, towns and villages where economic depression dismantled the previous economic mechanisms that had been based on the regional and local cooperative movement, which had actually determined the development of these areas prior to the outbreak of the Great War.

**Remedy**

The state’s response to the economic troubles in the first years of independence was sluggish, on account of highly inauspicious geopolitical conditions. However, the central authorities could not ignore the increasingly dire economic situation and escalating social tensions in the country. The attempt to mend the economy took place in several areas. The repair of state finances was considered the key to success and rightly so. Efforts were made to do this by sealing public spending and properly monitoring it. With this aim in mind, as early as February 1919, by a decision of the head of state, Józef Piłsudski, the Supreme Chamber of State Control (NiKP) was established: an organization dedicated to the control of public spending (Journal of the Law of the Polish State of 1919, no. 14, item 183, pp. 271–275). The work of the state control institution was further clarified by the law of June 3, 1921, which allowed Chamber officials to monitor the state’s income and expenditures, as well as its assets. One way to do this was by supervising the finances of “local government bodies and institutions, establishments, foundations, associations and companies operating with the financial participation of the State Treasury or under its guarantee” (Journal of Laws 1921, no. 51, item 314, p. 886). NiKP district officials, during a period of especially severe economic depression, carried out extensive inspection work to identify all forms of mismanagement. In the first instance, a review of contracts signed by the various ministries was carried out, with a focus on the legitimacy of the funds spent. The auditors’ attention was mainly turned to contracts that the ministries with the largest funds had entered into. Those were the Ministry of Military Affairs, the Ministry of the Treasury, the Ministry of Public Works, and the Ministry of Railways. All agencies and entities subordinate to said ministries were meticulously scrutinized. One such spectacular inspection campaign
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was carried out in Cracow in the second half of 1923. Cracow officials audited the finances of the State Carriage and Harness Factory in Cracow, which was subordinate to the Central Board of Military Manufactures, the office then responsible for the armaments industry, which was cost-intensive yet crucial to maintaining independence. Let me mention that in 1923 alone, the budget of this entity was 83 billion Polish marks, or more than 23 million zlotys. Moreover, the state planned to borrow 5 trillion marks for military purchases. All this made this sector of public spending highly vulnerable to fraud and lack of budgetary discipline (AAN, no. NiK iii-19, pp. 126–128).

The way to implement Władysław Grabski’s plans for reforming the economy of the Republic, and recovering it from the deep post-war recession, was through budget austerity, as well as, and perhaps most importantly, through the introduction of financial discipline to maintain a balanced budget. The government planned to achieve the latter by several means. In order to eliminate the budget deficit, the state was to increase ordinary and extraordinary revenues, the government was to borrow internally and from abroad, and budget expenditures were to be tightened (Landau, 1959b, p. 1185). The first decisions of the new government were the adjustment of taxes and the effective collection of the so-called “property tax” passed by the Sejm as early as August 1923, the proceeds of which were calculated at about one billion gold francs (Journal of Laws. 1923, no. 94, item 746, p. 1086; Journal of Laws 1923, no. 127, item 1044, p. 1535). The tax was to be collected over a three-year period (from 1924 to 1926) in six semiannual one-time payments. The law required all individuals residing in the territory of Poland to pay it, as well as anyone owning real estate or share and working capital associated with an industrial enterprise or farm within the borders of the Republic. The law allowed an exemption from the new tax for selected institutions (e.g., cultural and religious organizations), agricultural estates granted to soldiers of the Polish Army, and farms belonging to settlers in the “eastern borderlands.” Polish state loans were also exempted from the levy (Journal of Laws 1923, No. 94, item 746, p. 1086). The next step was the passing by the Sejm on January 11, 1924 of a law “On the repair of the state treasury and currency reform.” The president’s prerogative included the issuance of regulations with the force of law (on the basis
of resolutions of the Council of Ministers), which was to expedite the implementation of repair programs (Journal of Laws 1924, no. 4, item 28, p. 43). Thus, the government was able to decide on the sale of state assets autonomously. Especially significant, if not the most important clause of the January law, was the “establishment and introduction of a new monetary system, based on zloty monetarism” (Journal of Laws 1924, no. 4, item 28, p. 43). It was decided to establish the relationship of the Polish mark, previously in force in the country, to the new monetary unit. The issue of currency was finally resolved on April 14, 1924 (Journal of Laws 1924, no. 34, item 351, p. 510, §2). President Stanisław Wojciechowski, using the powers granted to him by the law of January 11, 1924, introduced the zloty as the sole legal tender in the country as of July 1 on the territory of the Republic (Journal of Laws 1924, no. 34, item 351, p. 510, §§3–5). Thus, the zloty replaced the Polish mark, which had been compulsory currency in Poland since December 1918 (Journal of Laws 1918, no. 19, item 56, p. 144, Article 4). It is worth noting here that although payments with the Polish mark were officially obligatory from the moment the Polish state was constituted, in fact other currencies were used in many regions of Poland for the following months and years. The fact that the Polish mark would be used for a longer time in the Second Republic was decided by the decree of Treasury Minister Władysław Grabski of December 24, 1919, on the establishment of the exchange rate of the Polish mark to the Austrian crowns, which remained the means of payment in Galicia and Cieszyn Silesia. This decree set the exchange rate between the two currencies at 100 crowns equivalent to 70 million marks. Consequently, residents of the former Austrian partition and parts of Austrian Silesia could now freely exchange Austro-Hungarian currency for the Polish mark (Journal of Laws 1919, no. 96, item 513). Even later, in 1920, German marks, which were used for payment in Greater Poland and Pomerania, were withdrawn from circulation. At the same time, Russian rubles from the tsarist period were withdrawn from circulation with a conversion rate of 216 Polish marks to 100 rubles. The last standardization of the currency took place in the region of Central Lithuania where the Polish mark became a means of payment in 1923, and only for a short time (Leszczyńska, 1997, pp. 316–317). Interestingly, work on
the introduction of a new Polish currency was launched already in early 1919, i.e., at the dawn of the reborn Polish statehood. For reasons of politics and prestige, it was hoped to quickly bid farewell to the Polish mark, which was introduced by the Germans in 1917, and issued by the Polish National Loan Fund: an institution established by a decision of German Governor General Hans Hartwig von Beseler (Komierzyńska-Orlińska, 2018, p. 61). To this end, on February 5, 1919, the head of state Józef Piłsudski issued a decree that was signed by Prime Minister Ignacy Paderewski, establishing a Polish currency called “lech” (Journal of the Law of the Polish State, 1919, no. 14, item 174). During the discussion that swept through the Sejm and the press, other names were considered for the Polish monetary unit. Some of the suggestions included: “piast,” “pol” and “polona.” Eventually, a discussion on the subject came before the Polish Parliament on February 28, 1919. As a result, the złoty was returned to its traditional and historical name (Stenographic Report of the 9th Session of the Legislative Sejm of February 28, 1919, pp. 385–387).

Thanks to the monetary reform, the Polish currency was stabilized, which improved the state’s financial condition in the long term. Paradoxically, however, in the short term (1924–1925), it weakened the position of Polish exporters, who took advantage of the fragile Polish currency (Leszczyńska, 1997, p. 312). The eminent Polish historian Marian Tyrowicz, a native of Lviv, accurately commented on the importance of Grabski’s currency reform, in his memoirs of 1918–1939:

The inflation of the Polish mark, that disastrous legacy of the occupation government in Warsaw, actually created an abnormal social phenomenon both in the life of my city [Lviv – K.M.] and in the whole country.... This horrible life, when even the prices of streetcar tickets or a box of matches skyrocketed by a thousand marks overnight, came to an end in 1924 thanks to Władysław Grabski’s salutary currency reform and the birth of the Polish złoty (qtd. in Tyrowicz, 1991, p. 184).

The introduction of the Polish złoty required the reform of the issuing bank. Until then, the function of the central bank responsible for Poland’s monetary policy had been carried out by the post-German Polish National Loan Fund, mentioned earlier, which issued
the Polish mark. Now its role was to be taken over by the Bank of Poland S.A., whose establishment had been announced by the law of December 7, 1918 (Journal of Laws 1918, no. 19, item 56, p. 144, art. 1). Less than six years after the issuance of that act, on April 28, 1924, the doors of the promised and long-awaited Bank of Poland were opened. Setting up the Bank was entrusted to a group of prominent banking and credit cooperative specialists. The founding team included Stanisław Karpiński – former Minister of the Treasury in the government of Ignacy Paderewski, former director of the Polish National Loan Fund and, finally, president of the Union of Banks in Poland; Bishop Stanislaw Adamski – founder of the cooperative movement in Greater Poland, creator of the Union of Cooperative Societies and then superintendent of the Bank of the Union of Co-operative Societies; Zygmunt Chrzanowski – participant in the Polish delegation during the Versailles Peace Conference where he was responsible for economic affairs; Jan Kanty Steczkowski – co-founder of the Lviv Parcel Bank, former director of the Galician War Credit Facility and director of the Polish National Bank. The last member of the organizing committee of the Polish Bank S.A. was Franciszek Stefczyk – creator and first director of the National Central Fund for Agricultural Cooperatives in Lviv, which operated during the Galician period, a great promoter of the cooperative movement, mainly in rural areas (Morawski, 1998, p. 44).

The newly-established central bank was created on the principles of a private joint-stock bank, which was expected to make it immune from local political upheavals, as well as increase its prestige in the international arena. The latter became the key to gaining access to foreign loans, which was to be instrumental in the recovery of Poland’s economic condition (Grabski, 1927, pp. 23–24). Transparency in the functioning of the National Bank reflected in its organization (joint stock company) fulfilled the demands of the Genoa Conference, which, inspired by the Council of Entente States headed by Great Britain and France, was held in April 1922 in Italy (Morawski, 1998, p. 44). The goal of the meeting of European leaders was to map out directions for the economic reconstruction of the countries of Central and Eastern Europe, including mainly post-war Germany over which there hung the specter of economic disaster (Kumaniecki, 1990, p. 140). The issues discussed in Genoa included those of international trade, transport
and transit, and precisely the stabilization of national currencies. The remedy for the latter problem was sought, among other things, in the establishment of a central reconstruction bank and its branches in all the countries concerned (Józef Piłsudski Institute in America, no. 701/2/61, p. 461).

Bank Polski S.A. launched on April 28, 1924, less than two weeks after its founding meeting. Shareholders included 176,000 entities and individuals. Every fourth share sold (250 thousand bonds) went to private hands, mainly soldiers and representatives of the so-called free professions. Thirty-six percent of the shares were bought by industrial companies, and 14% by commercial banks. Notably, the state treasury held only 1% of the shares, which fulfilled the recommendations of the aforementioned Genoa Conference on the independence of the national bank from the government (Morawski, 1998, pp. 44–45). The first president of the Bank of Poland was Grabski’s trusted associate, Stanisław Karpinski, whose task was to make sure that the institution remained autonomous (Grabski, 1927, p. 18). Undeniably, the establishment of the central bank and the currency reform contributed to the recovery of the Republic’s economy. Sadly, the prosperity did not last long, as another economic crisis was already on the horizon in 1925. Its cause was the so-called “second inflation” triggered by a sharp decline in the value of the zloty against the U.S. dollar. The price of the U.S. dollar rose from the parity level of 5.18 zlotys to 6 zlotys on the stock market (Leszczynska, 1997, p. 318). Several factors contributed to the rising inflation. Chief among them were the growing budget deficit (related, among other things, to rising railroad and army maintenance expenditures), the tariff war with Germany, and crop failures in agriculture. In addition, the crisis was exacerbated by psychological anxiety stemming from the public’s experience of previous years, which resulted in massive buying of foreign currency. In order to save the condition of the zloty, the Bank of Poland began to intervene in the stock market and depleted its own foreign exchange reserves. The failure of the Bank’s board of directors to agree to intervene played a role in the resignation of Prime Minister and Treasury Minister Władysław Grabski. The currency was stabilized in the second half of 1926, that is, after Józef Piłsudski took power following a military coup.
This was achieved with the help of several tools. First of all, appropriate legal regulations were introduced where the exchange rate of the zloty to the dollar was adopted at the stock exchange level rather than at fixed parity. As a result, it was possible to apply for foreign loans (mainly from the United States of America), which were intended to secure the stability of the Polish currency. After heeding the opinion of foreign specialists working under the leadership of Edwin Kemmerer – a professor from Princeton University, who monitored the recovery program in Poland (Leszczyńska, 1997, p. 319) – the so-called “stabilization plan” was adopted in October 1927, providing guarantees for foreign loans in the amount of 62 million US dollars and 2 million pounds sterling. Before that, however, it was necessary to meet some basic conditions that opened up the possibility of repairing the country’s finances. For this purpose, a treasury reserve of 75 million zlotys was established at the Bank of Poland. The issuance of money was left in the exclusive competence of the Bank, which deprived the government of this possibility (Journal of Laws 1927, no. 88, item 789, pp. 1235–1240). Moreover, the silver content of the five-penny coin was reduced, and in the two-penny coin silver was removed altogether by introducing nickel into its minting (Leszczyńska, 1997, p. 319). Still in 1926, the Treasury Ministry instituted temporary rationing of foreign exchange trading. The right to export foreign exchange outside Poland was restricted, and an order to sell “hard” currency – export currency – was imposed (Journal of Laws. 1927, no. 97, item 858, pp. 955–962; Journal of Laws. 1927, no. 97, item 858, p. 1358). These measures led to an increase in the circulation of the zloty. The problem of inflation was resolved, although the road to this goal was bumpy and winding. The large state investments carried out in the 1930s such as the construction of the Central Industrial District and the introduction of sizable amounts of money into the economy did not cause a domino effect. Inflation remained at a fairly stable level until the outbreak of World War II (Leszczyńska, 1997, pp. 320–321).

The fiscal policy of the Polish state, as already mentioned, was heavily dependent on foreign policy. The German Reich, more commonly known as the German Republic or Weimar Republic, played a prominent role in this. This dependence was due to the pegging of the
Polish mark to the German mark, which, of course, was a corollary of Imperial Germany’s policy toward Poles during World War I. The said interdependence was also rooted in the post-partition period, as the most developed Polish provinces like Greater Poland were still tightly linked to the German economic (mainly trade) bloodstream. In 1925, the Polish government, after years of strained relations with Berlin, stepped up negotiations with the authorities of the German Republic for a bilateral trade agreement, similar to those that Poland had previously signed with France, Denmark and the Netherlands (Grabski, 1927, p. 171). An impending expiration of the so-called Upper Silesia Convention of 1922, under which Poles were allowed to import goods from Upper Silesia into Germany duty-free, forced these talks. Additionally, a provision of the Treaty of Versailles granting Poland a most-favored-nation clause in trade with its western neighbor ceased to apply in mid-1925. Bilateral economic relations had to be regulated anew. The German authorities, conscious of the dependence of Polish trade on relations with Berlin, began to lay down conditions that were unacceptable from the point of view of Polish government circles. In order to maintain import quotas to the Weimar Republic, Germany issued political ultimatums, demanding, for example, certain privileges for the large German minority living in Poland. The bilateral talks failed, with the outcome that the resentment, which had been smoldering for several years, turned into a full-scale trade war that lasted nearly a decade (until 1934), which has been referred to in historiography as the “Polish-German Customs War.” Its ramifications for the de facto resurgent Polish economy were incredibly disruptive, especially when it came to the export of hard coal mined in Upper Silesia (Koniecko, 2021, pp. 84–86). The gravity of this conflict was vividly described in the memoirs by Władysław Grabski, the prime minister and treasury minister at the time, who had an excellent insight into its realities:

When contemplating the general situation of Poland and Germany, I realized that Poland, half of whose imports and exports were to Germany, would undergo, in the event of a tariff war, a stronger shock than Germany for which the exchange ratio with Poland was 10% of that with other countries. But I also understood that it was important
for our security and economic independence that we change precisely this ratio of excessive economic dependence on Germany and enter into closer relations with other countries (qtd. in Grabski, 1927, pp. 172–173).

Grabski’s diagnosis was no secret. In general, Polish intellectual and political elites were aware of the imbalance in trade and economic relations with the German Republic. Entrepreneurs, politicians and economists who were mindful of these dependencies sought to change this disadvantageous set-up at all costs. Attempts were made to develop and strengthen economic ties with other countries in the region, using, among other things, personal connections and historical traditions. Hence, as industrialists, merchants and politicians originating from Galicia maintained contact with the Republic of Austria, this country played a not insignificant role. Despite the fact that many members of the intelligentsia in southern Poland were “shaking off their Austrianness”, this did not exclude the interest of some individuals in the former Danube metropolis [Vienna – K.M.]” (qtd. in Tyrowicz, 1991, p. 201). Marian Tyrowicz’s opinion was well-founded, for after 1918 a sizable group of Austrian officials still had Polish roots, which facilitated good relations between Vienna and Warsaw. The strength of Polish–Austrian, as well as Polish–Romanian and Polish–Hungarian ties as a Central European counterweight to German hegemony was pointed out by Marceli Szarota, a chargé d’affaires to the government of the Republic of Austria from 1919 to 1921 (Alabrudzińska, 2021, p. 8). Many interesting economic initiatives were attempted in relations with Austria. One of such projects was the concept of establishing an Austro-Polish Bank bound to Austrian capital. Representatives of the “old” Polish political class and entrepreneurs associated with the southeastern provinces became involved in its creation. The originator of the new bank was Leon Bilinski, once the treasury minister of the Danube monarchy (Biliński, 1925, pp. 371–385). The history of this concept dates back to the early 1920s. The idea of setting up the Austro-Polish Bank was to fill the void left by the liquidated Austro-Hungarian Bank, which was one of the most important banking institutions in Galicia before 1918. Despite the strong commitment of many influential figures, Poland’s progressing economic depression stood in the way of these
ambitious plans (Austrian State Archive in Vienna/Österreichisches Staatsarchiv, Archiv der Republik, no. AT-oesta/AdR BKA 1/BPPD 323, no pagination; Austrian State Archive in Vienna/Österreichisches Staatsarchiv, Allgemeines Verwaltungsarchiv, no. AT-oesta/AVA Justiz JM Allgemein Sig. 2 A 2420.14: Austro-Polnische Bank (II 51 Vz 276), no pagination). Nevertheless, the Republic of Austria remained one of the focuses of developing economic cooperation, both at the macro and micro level. The resources of Polish archives contain many examples of orders from Austria, and Vienna in particular, that ensured the continuity of production and employment in Poland. To provide an example, let me cite the history of the First Małopolska Wood Products Factory BÓR in Jaroszowice in the Wadowice district, whose owner Franciszek Foltyn indicated in an industrial cadastre drawn up in October 1920 that he exported 75% of his products to Vienna (ANK, no. 29/207/81, no pagination). There were numerous similar examples, especially since Austria’s position as a trading partner rose with the onset of the Polish–German tariff war, with Austria – along with Italy – becoming one of the most important importers of Polish coal (Leszczyńska, 1997, p. 313).

Romania emerged as an important trade partner of Poland in the 1920s. Transit of Polish goods through the territory of its south-eastern neighbor allowed access to countries and regions of the Mediterranean through Black Sea ports. Fully using this route, Poland could bypass transit through the German ports of Hamburg and Bremen (State Archives in Poznań, hereinafter: APP, collect: Chamber of Industry and Commerce in Poznań, no. 1452, p. 130). The port of Trieste, Italy, could have been an alternative to both of these, although sea freight costs in that Adriatic harbor were very high and uncompetitive. Thus, despite the relatively low cost of transport by land between Poland and Italy, the profitability of expediting goods via Trieste was not very high. Thus, transit through the territory of Romania, which was politically close to Poland, was growing in importance. Attempts were also made via Romania to find markets in the south-east of Poland, e.g. in Bulgaria (spirits, hops, and agricultural machinery), Greece (wood and machinery products), Egypt (coal, kerosene, and sugar), and even in Persia (cotton, wool, and agricultural machinery) (APP, collect.: Chamber of Commerce and Industry in Poznań, no. 1452,
An opinion expressed by a delegation of the Poznań Chamber of Industry and Commerce in a paper entitled *The issue of transit of Polish goods through Romania*, which was delivered during the convention of Romanian and Polish chambers of industry and commerce in Lviv on September 5, 1930, attests to the potential for exporting Polish products through Romania:

The road through Romania and Romanian ports is a natural route leading from Poland to the ports of the Levant and vice-versa. It would be a mistake to think that only the southern and eastern stretches of our country are interested in transit through Romania, while the gravitational pull of other areas of Poland is different. One should bear in mind that the goods of Western Polish industry [implicitly Greater Poland – K.M.], traveling the road to Romania, account for the longest mileage on PKP tracks [Polish State Railways – K. M] to Śniatyń and Załucz, while when diverting these exports via Trieste from western Poland, they pass immediately at Zebrzydowice from the P.K.P. railroad line to foreign railroads (State Archives in Poznań, collect: Chamber of Industry and Commerce in Poznań, no. 1452, p. 130).

The participants of the Eastern Fair, held annually since 1921 in Lviv, emphasized the significance of the eastern direction (the Soviet Union), as well as the southeastern direction (the Eastern Balkan region) of exports. They showcased and promoted the most outstanding achievements of the Polish economy, which was supposed to boost trade with Soviet Russia, Romania and the Middle East in general. With the benefit of hindsight, it should be said that the Eastern Fair was a successful venture and became a permanent fixture on the European exhibition calendar. It appeared in foreign-language press titles and trade magazines, alongside exhibitions held in Paris, Florence, Zagreb, Trieste and Munich. The fair was very popular in Austria, especially in Vienna where it was possible to apply for participation through the Chamber of Commerce and Industry (*Die Arbeit*, no. 1555, December 16, 1921, pp. 3; *Oesterreich-ungarische Maschinenwelt*, no. 54, July 7, 1922, p. 5; *Tages Post*, no. 189, August 20, 1921, p. 6; *Der Export nach Polen*, *Wiener Morgenzeitung*, no. 1992, August 31, 1924, pp. 13–14; *Pharmazeutische Post*, no. 33, August 18, 1921, p. 266).
In the second half of the 1920s, apart from Austria, Italy and the Kingdom of Romania, Great Britain began to play an important role in the trade of the Second Republic, which was influenced by the miners’ strikes that swept through the British Isles, ultimately resulting in greater interest in Polish coal (Leszczyńska, 1997, p. 313).

A significant share of trade in the 1920s and later fell to the oil industry. Oil extraction and the production of petroleum products were – for good reason – viewed as a key sector of Polish industry, a sector that became immensely attractive to foreign investors. French capital led the way in this area. The unchallenged position of the French sprang from dependencies that were an immediate consequence of the Polish–French trade and political agreements from 1922. Economic relations were supported by the Comité des Pétroles Française de Pologne, founded in Paris in 1920. Bilateral government agreements were concluded for a period of ten years. In 1928, the French expanded their presence in the Polish oil industry by buying up Austrian shares. By 1930, the share of French capital in the Polish oil industry had reached 50.3% (Majewski, 2009, pp. 132–134). Trade in oil commodities also took place with American, British, Swiss and Czechoslovakian markets. In 1932, the Polish authorities, in order to have more control over foreign trade in rock oil and petroleum products, formed a cartel organization operating under the name of Polski Eksport Naftowy (Polish Petroleum Export), based in Lviv. The most important Polish oil companies such as “Gazolina” S.A., “Gazy Ziemne” S.A., “Polmin” Państwowa Fabryka Olejeów Mineralnych (State Mineral Oil Factory), “Nafta” S.A., Galician Carpathian Oil Joint-Stock Society and many others (CDIAL, collect. 284, catal. 1, case 45, f. 1–3; CDIAL, collect. 284, catal. 1, case 106: f. 1–2; cf. Journal of Laws of the Republic of Poland, no. 30, item 306).

**Summary**

After a century and a half of partition, Poland was reborn in the autumn of 1918; however, the geopolitical as well as economic situation of the country remained problematic. On the one hand, armed conflicts were ongoing while the new borders of the Republic were being forged, and on the other hand, the economy of the young state
was hit by an economic depression eroding the foundations of its existence. It took several years to climb out of the crises. To begin with, the difficulty that successive governments had to face was the need to merge the three different fiscal and economic systems and policies that had been bequeathed from the partitioning states: the German Empire, Austria-Hungary and Czarist Russia. I will only point out that this was finally accomplished in the mid-1930s, when in 1934 – after many years of consultation – by an ordinance of Polish President Ignacy Mościcki dated June 27, 1934, a uniform trade law code was introduced for the lands within the borders of Poland, which in principle remained in force until 2001 (CDIAL, collect. 702, catal. 1, case 17, f. 11, 23; Journal of Laws. 1934, no. 57, item 502, pp. 921–975; Kupiec Polski... XVII, no. 12, pp. 4–6). In conclusion, we should reiterate that two courses of recovery from economic crisis were under consideration in the early 1920s. The first (“the German course”) hinged on the introduction of a new currency with substantial backing from international loans. The second, called “the Austrian course,” rested exclusively on bolstering the economy with foreign loans. In the end, the Poles, led by Władysław Grabski, chose a third path. It entailed, among other things, quick collection of a property tax, thorough currency reforms, increasing revenue generation of state-owned monopolies and instituting spending checks for public finances (Grabski, 1927, pp. 30–33). The implementation of the latter task fell under the responsibility of the newly created Supreme Chamber of State Control. All of these steps, subjected to regular adjustments, produced fairly favorable socio-economic results. Their consequence was Poland’s long, arduous but steady recovery from the postwar economic stagnation.

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List of abbreviations

AAN – Archives of New Records in Warsaw
ANK – National Archive in Cracow
APP – State Archives in Poznań
CdiAL – Central State Historical Archive of Ukraine in Lviv
Dz.U. – Journal of Laws
NiKP – Supreme Chamber of State Control

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