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The Great Economic Crisis in Poland (1929–1935) in the Context of the Global Crisis

Wielki kryzys gospodarczy w Polsce (1929–1935) na tle kryzysu światowego

• Abstract •

The aim of the article was to analyze the causes and consequences of the great economic crisis in Poland in the context of the world economy and the global crisis. The first symptoms of the crisis became evident in June 1929, when production began to decline, and in August that year price drop began. After these events, the economic situation in Poland was systematically deteriorating. The year 1935 can be considered the end of the crisis in Poland, despite the fact that the industrial crisis began to break through gradually already in 1933. The great economic crisis was a global phenomenon, even though it did not start in all countries at the same time. It depended on the internal economic situation of each of them. It stood out against the background of previous economic crises due to the fact that only the introduction of state interventionism in the form of the "New Deal" program in the USA brought about an improvement in the situation, and therefore, in 1933, some economic recovery began in the world. However, in some parts of the world (including Poland), due to the specific features of their economies, the crisis lasted until 1935. The crisis of 1929–1935 was rightly called

• Abstrakt •

Celem artykułu było przeanalizowanie przyczyn i konsekwencji wielkiego kryzysu gospodarczego w Polsce na tle gospodarki i kryzysu światowego. Pierwsze jego symptomy dały znać o sobie już w czerwcu 1929 r., kiedy zaczęła maleć produkcja, natomiast od sierpnia tego roku rozpoczął się spadek cen. Po tych wydarzeniach sytuacja gospodarcza w Polsce systematycznie się pogarszała. Za koniec kryzysu w Polsce można uznać 1935 r., mimo że kryzys przemysłowy zaczął się stopniowo przełamywać już w 1933 r. Wielki kryzys gospodarczy był zjawiskiem globalnym, chociaż nie rozpoczął się we wszystkich krajach jednocześnie. Zależało to od wewnętrznej sytuacji gospodarczej każdego z nich. Wyróżniał się na tle poprzednich kryzysów gospodarczych m.in. tym, iż dopiero wprowadzenie interwencjonizmu państwowego w postaci „Nowego Ładu" w USA wywołało poprawę sytuacji i w 1933 r. rozpoczęło się pewne ożywienie gospodarcze na świecie. Jednak w niektórych częściach świata (w tym w Polsce) w związku ze specyficznymi cechami ich gospodarek kryzys trwał aż do 1935 r. Kryzys lat 1929–1935 słusznie nazwano „wielkim", nie tylko z powodu problemów gospodarczych, ale

"the great crisis", not only because of economic problems, but also due to political consequences, i.e., the strengthening of totalitarian systems in Western Europe and the growing importance of the communist movement around the world (the USSR was the only country not affected by its consequences). The great economic crisis was characterized by:
1. longevity – in industrial countries it lasted until 1933, and in agricultural countries until 1935;
2. depth of impact – it covered all areas of the economy: industry, agriculture, domestic and foreign trade, transport, monetary and credit system;
3. wide geographic scope – it covered all countries of the world connected with the world capitalist system and capitalist economies;
4. the scale of the decline in economic growth rates – in the history of economic crises to date, the world economy has not experienced such a deep collapse and stagnation.

Keywords: Great Crisis; industrial and agricultural crisis; economic downturn; deflation; stagnation; economic recovery; boosting the economic situation; public spending; foreign trade; state interventionism

także brzemiennych w skutki następstw politycznych, wśród których wymienia się umocnienie się systemów totalitarnych w Europie Zachodniej oraz wzrost znaczenia ruchu komunistycznego na całym świecie (ZSRR jako jedyne państwo nie był dotknięty następstwami kryzysu). Wielki kryzys gospodarczy cechował się:
1. długotrwałością – w krajach przemysłowych trwał do 1933 r., a w krajach rolniczych aż do 1935 r.;
2. głębokością oddziaływania – objął on wszystkie dziedziny gospodarki: przemysł, rolnictwo, handel wewnętrzny i zagraniczny, transport, system pieniężny i kredytowy;
3. szerokim zasięgiem geograficznym – objął wszystkie kraje świata związane ze światowym systemem kapitalistycznym oraz gospodarkami kapitalistycznymi;
4. skalą obniżenia wskaźników wzrostu gospodarczego – w dotychczasowej historii kryzysów ekonomicznych gospodarka światowa nie przeżyła tak głębokiego załamania i stagnacji.

Słowa kluczowe: Wielki Kryzys; kryzys przemysłowy i rolny; załamanie koniunktury; deflacja; stagnacja; ożywienie gospodarcze; nakręcanie koniunktury; wydatki publiczne; handel zagraniczny; interwencjonizm państwowy

Introduction

The Great Economic Crisis (1929–35), also known as the Great Depression, which began in 1929, was the deepest ever to affect the world economy. Its impact was extremely severe, because of the crisis' unexpected nature (Hoover, 1952). The crisis engulfed almost the entire capitalist world and all major production sectors. In Poland, a gradual disappearance of the system of parliamentary democracy was observed until 1926. Economic issues played a secondary role in the coup d'état of May 1926. The decline of faith in the liberal economic system and in the economic policy based on liberal principles contributed to the approval on the part of the society of the use of force. The May Coup took place during the so-called "second inflation". By leading to the depreciation of the zloty's exchange rate from the beginning of 1926, inflationary developments led to the appearance of an inflationary export premium, which stimulated the economy. The Sanacja [the Sanation political movement], to some extent, continued the policy of the Minister of Treasury (J. Zdziechowski) of sustaining moderate inflation. The Sanacja governments strengthened favorable economic factors, i.a., by carrying out the second stabilization reform in 1927 (the first government headed by J. Piłsudski as prime minister). This second wave of inflation was less pronounced, but the psychological fear of inflation lingered. However, it was not necessary to implement monetary reform. In 1927, the zloty was formally devalued – by 42% – against the dollar. Since the establishment of the government of W. Grabski in 1924, the dollar was worth 8.91 zlotys. Stabilization process was secured by an "inflationary" loan from abroad amounting to 62 million dollars (US) and 2 million pounds (UK). However, its cost was to allow foreign countries to control the monetary policy in Poland. The issuance's "security" was increased from 30% to 40%, and in fact at the beginning it reached as much as 70%. In practice, the authorities were gradually making Bank Polski S.A. [the Polish National Bank] dependent on the government, although the Bank was formally a joint-stock company in which the government did not have a controlling stake. Deflationary policy constituted fundamental premise of all reforms, under which it was necessary to reduce budgetary expenditures and increase budgetary revenues (Plutyński, 1932).

The period of 1926–1929 witnessed economic growth, with the economic situation improving much faster than in other phases and subperiods of the two interwar decades. From 1929, individual countries with a market economy experienced a crisis encompassing all sectors, which was the deepest and longest in the world's history. Overproduction played a major role among the causes of the crisis. The dispute between historians revolves around the question of whether and to what extent errors in economic policy caused the collapse to take apocalyptic proportions. After the visible symptoms of the crisis had been revealed, the Federal Reserve System (US central bank) introduced a policy which supported both "overheated" production lines and stock exchange speculation. October 1929 saw a crash on the New York Stock Exchange, but the economic downturn (lower prices and lower production) was visible as early as at the beginning of that year. Within a few days of October 1929, share prices tumbled by half, with the similar sequence of events occurring in other economies (Aldcroft & Morewood, 2013, pp. 76–100). The duration of the crisis varied in case of different countries. It was shorter but more severe in more developed and highly industrialized countries, lasting there until 1933. In the agro-industrial and agricultural countries the crisis was less severe, but longer (lasting until 1935).

There were, however, exceptions to the above rule. One of them was the economically lagging, agricultural-industrial Poland (approximately 80% of the rural population, 80% share of agricultural production in the GDP). Poland experienced a longer crisis, which lasted until 1935, but at the same time was one of the deepest in the world – it took the form of the simultaneous agrarian and industrial crisis. The industry of the Second Polish Republic behaved as if it were the industry of the USA or Germany (Zawadzki, 1938). The post-crisis production level in Poland was 40% lower compared to the pre-crisis level, while in the world production declined, on average, by 30%.

This study analyzes the courses of the Great Depression in Poland, focusing on its symptoms and effects – both immediate and long-term ones. It was written based on the critical assessment of the available economic and political science literature. The author's main hypothesis is that very strong capital ties with other countries constituted the main reason for such a strong slump in Poland. Until the May Coup, foreign capital was afraid to invest in Poland, while after the coup, Poland's situation was considered stable (no frequent changes of governments). Before the crisis, about 30–40% of Poland's capital stock was in foreign hands. Hence, actions aimed at stimulating and destimulating business cycle in the world were quickly visible and felt also in Poland. Also in Latin America, the agricultural and raw materials dependent countries underwent a deep crisis, as they were very closely linked by capital ties to highly developed economies (Górecki, 1935). The phenomena that shaped the great crisis in Poland varied depending on the sector – whether industry, agriculture, finance, or foreign trade.

1. **A characteristic aspect of the crisis was the decline in industrial production and prices**. Indicators for the global economy showed a 33% decline in prices and a 33% decline in production. In Poland, production decreased by over 43%. Such a huge drop in production created other problems. High unemployment was one of them. Before the crisis, in economically developed countries it amounted to 16 million people, while during the crisis, it increased to 50 million people. In the USA alone, 12 million people were unemployed, i.e., 20% (according to official estimates) of labor force, and in Germany, about 43% of those employed in industry were jobless (Overy, 1996). These were underestimates covering only the registered unemployed. These statistics did not encompass partial unemployment, e.g., those working twice a week with a properly adjusted wage. Unemployment resulted from employment cuts and plant closures. Another characteristic of this crisis was the rapid growth of monopolistic and oligopolistic associations. The prices of products produced by monopolistic associations fell much slower than those of individual enterprises. By controlling the entire branch, monopolies influenced prices (Kindleberger, 1973). Moreover, monopolization was helpful in exports. Monopolies could

fight effectively to remain in external markets. Due to overproduction, individual countries resorted to protectionism. Monopolies could afford losses in external markets while keeping these markets, because the costs of exports were covered with sales at high prices in their home country. In Poland, the production and sale of sugar was controlled by the sugar cartel, which exported it at dumped prices (below world prices and production costs) of PLN 0.17 per kg, while in Poland sugar was priced PLN 1.44 per kg.

2. **In agriculture**, the crisis had a bit different character. Despite the drop in prices, there was no decline in agricultural production, on the contrary – it even increased. Agricultural producers, in the face of decreasing production profits, expanded production level. For this reason, the supply was increasing while the demand was falling. We had to deal with a faster decline in prices for agricultural products than for industrial ones (price scissors No. 1). In order to buy the same amount of industrial products, farmers had to produce much more agricultural products. Price scissors No. 2, in turn, consisted in a decrease in the share of the agricultural producer in the retail price of goods (Skodlarski & Matera, 2003). Purchase prices of agricultural produce fell faster than trade margins, transport costs, etc. If before the crisis the price of a bag of wheat was PLN 9, of which the producer received PLN, after the crisis these figures were respectively: PLN 4 and PLN 2.

3. **The currency crisis**. After World War I, the system of gold currency was not reinstated (Zdziechowski, 1937). However, in the second half of the 1920s, convertibility into gold was restored in a different shape. Two slightly different forms of this system of gold-plated currency were established:

a) under the gold-bar currency system the national currency was convertible into gold bars, i.e., a large sum had to be exchanged (in 1929 in Poland, a gold bar cost PLN 10,000);
b) the gold exchange standard, under which domestic currency could only be exchanged for foreign currency. The general rule was to make such an exchange difficult. The great economic crisis led to tensions in trade balances, and it was necessary to regulate budget deficits with gold. Hence, the freedom of currency exchange was generally abandoned, exports of currencies were forbidden, and the convertibility of statutorily devalued currencies into gold was suspended. However, some countries have defended their currencies' exchange rates. Hence the "Golden Block" was formed, which also included Poland. The states of the "Golden Bloc" have introduced neither a ban on

exchange nor devaluation (Robbins, 1937). Eventually all countries, not only Poland, abandoned these tactics, which was a mistake due to the effects of actions aimed to counteract the crisis (Bloomfield, 1959). Deflationary policy was supposed to attract foreign capital, but counteracting the crisis should rather entail expansion of the money circulation instead. The inflows of capital did not materialize while deflation made it very difficult to overcome the crisis.

4. **Foreign trade**. In the conditions of overproduction, individual markets were closed behind protectionist barriers, which made conducting export activity very difficult (Miduch, 1928). Even Great Britain resorted to protectionism. Thus, there was an over 30% decline in international trade. Opportunities to increase exports – through a dumping policy – were urgently sought. From Poland's perspective it seems imperative to analyze the economic policy of the Sanacja camp governments. In the world, the great crisis activated the economic policy of states, marking a turning point from the belief in a liberal economic policy in the sphere of internal trade (Landau, 1936, pp. 2–9). Most states moved to state interventionism – an attempt at a top-down approach to jump-starting the economy. The governments formed by the Sanacja camp in the years 1929–35 did not pursue a particularly active and stimulating economic policy. However, as the crisis continued (1932), a hesitation towards moderate interventionism can be seen. In 1929–32, there was no anti-crisis policy and a strategy of simply waiting the crisis out was pursued. Ignacy Matuszewski (the Minister of Treasury until 1931) pursued a deflationary policy and opposed all attempts at an active economic policy. The next Minister of Treasury, Jan Piłsudski (whose nomination constituted an example of nepotism), did nothing but drink tea (earning the nickname of 'John the Risk-taker') and cared only about loans for the army. In 1932, W. Zawadzki became the Minister of Treasury and departed from the completely liberal policies of his predecessors. Thus, starting from autumn of 1932, a more active policy was conducted. It consisted of:

- reimbursement of customs duties on exports and of subsidies in case of exports sold at dumping prices;
- launching actions aimed at raising prices of agricultural products: debts of agricultural holdings in state-owned banks were canceled and the intervention purchase of agricultural products by the state was initiated;
- attempts were made to lower prices for industrial goods produced by monopolies (it was assumed that it will allow prices to reach the bottom-level faster). Therefore, an anti-monopoly act was introduced, which, however, stood in contradiction to the strategy of export-expansion (as only

monopolies were able to export). Therefore, in practice only non-exporting monopolies were subject to government's actions;
- attempts were made at reducing unemployment, which was estimated at 1 million people (i.e., at 50% of industrial workers and 30% of white-collar workers); public works were introduced, employing 100,000 people, private enterprises were supported by actions to stave off their bankruptcies (Kalecki, 1933). When the enterprise became insolvent, it was taken over by the state (statism) – in 1929–35, the state sector grew from 10% to 30% of the shareholders' capital.

Regardless of the reorientation towards interventionism, attempts at stimulating the economy were unsuccessful, and the Polish economy did not overcome the crisis. Deflation was the factor responsible for this, since its very presence was contrary to the principles of interventionism (Zweig, 1930). Deflationary policy consisted in, i.a., limiting budget expenditures, instead of increasing them in line with the precepts of interventionism. The deflationary character was specific to the entire economic policy of the Second Polish Republic.

5. **Agricultural reform and state intervention**. The Second Polish Republic was an agricultural-industrial country, characterized by a clear predominance of agriculture. About 75% of the population lived in the countryside and only 25% in cities. The economy was at a fairly preliminary stage of industrial development, which resulted from historical events, in particular from: agrarian dualism, 17^{th}-century wars, and political dependence. Poland underwent a late unfinished industrial revolution. There were two fundamental problems and barriers to the development of industry in interwar Poland: the weakness of internal market (dominant poor rural population could not constitute important recipients of industrial products) and the weakness of private capital. The land reform and state intervention of the 1930s constituted an attempt at overcoming these barriers and creating development impulses. It was hoped that the state intervention would substitute for private capital and the state was to take responsibility for industrialization (Gryziewicz, 1950). However, the above attempts were not fully successful, and in 1939, the rural population in Poland still constituted 70% of the country's inhabitants.

On the other hand, the problem of the agrarian reform stemmed from a specific, internal feature of Polish agriculture, i.e., the disproportionate ownership structure, with a very narrow minority owning the vast majority of holdings. The number of farms above 100 thousand hectares accounted for only 0.5% of the number of farms in Poland, but they covered 30% of all agricultural land and 45% of the utilized agricultural area. Small farms owned 45% of agricultural land and 40% of utilized agricultural area. Most of the peasant farms were economically weak and ineffective. Such a disproportion translated into agrarian overpopulation, i.e., the excessive number of "hands" available to work in the agriculture. About 4–5 million people employed in agriculture were "redundant", meaning that their departure from this sector would not impact the level of agricultural production. Agrarian overpopulation constituted also a profound political problem. The overpopulated villages revolted very often – there were numerous riots and peasant strikes. While about 2 million people emigrated from rural areas, 1 million came there in response to the news about reborn Poland. It was believed that giving land to a part of society would solve the problems.

Throughout the entire period, the Sejm (Parliament) was engaged in a stormy debate on the land reform. The idea of reform was supported by the pro-independence left and PSL-Piast. The right wing and the Christian Democrats were against it. This problem strongly divided the entire political scene of that time. The following arguments were made in favor of the reform:

- economic one – it was assumed that the agrarian reform would expand the internal market in Poland and that peasant farms would be strengthened, so that peasants could become buyers of industrial products. It was also believed that the larger the endowments, the more the demand would increase. So, the agrarian reform was treated as the driving force of the revolution;
- social one – reducing the agrarian overpopulation would lead to the elimination of overpopulation in the rural areas;
- ethical one – the need for reform stemmed from social justice;
- political one – threat of peasants' uprising or revolution (in 1920 in the territories occupied by the Red Army, the peasants made the so-called wild parcelings).

The opponents of the reform put forward the following counter-arguments:

1. economic one – large-scale agricultural property is more productive (roughly by 20–30%), thus agricultural production would decline after the land reform. This would increase the prices and the cost of living in cities, and therefore the cost of industrial production. It was not believed that the possible demand side effects of the reform would outweigh its supply side effects;
2. social ones – the reform would not solve the problem of rural overpopulation, because there was not enough land to divide;
3. ethical ones – "sanctity" of private property was not be infringed upon;

4. political ones – in the borderlands, the reform would hit the Polish landed gentry and strengthen the Belarusian and Ukrainian peasants.

In 1919, the Sejm passed by a vote of 183:182, a resolution in favor of the land reform. However, the opponents managed to make it only a resolution, and therefore an expression of the Sejm's view, and not a binding law. In July 1920, as the Red Army was approaching Warsaw, the same Sejm unanimously adopted the Land Reform Act. It formulated the principle that only land surpluses above 180 hectares would be parceled – in case of Eastern Borderlands and in Greater Poland (Wielkopolska) only estates over 400 hectares would be parceled out, while in case of industrialized estates only those over 700 hectares. It was supposed to be a compulsory reform, with parceled landowners entitled to damages equal to half the market price of the parceled property, and the reform was supposed to be carried out by state offices established especially for this purpose. Peasants were to receive land on the basis of cheap loans, and war invalids of 1920 for free (the right wing ridiculed this latter concept, asking "how would a disabled person work the land?"). Church properties would be also allowed to be parceled out (Poland had not yet signed the concordat with Vatican at that time). Peasants who participated in parceling carried out in the areas occupied by the Red Army were to be excluded from the parceling under the new law.

Article 99 of the March Constitution adopted in 1921 stated that private property in Poland is protected and can only be expropriated with full compensation. Due to the inconsistency of the act underlying the reform with the constitution, the agrarian reform was suspended until the act was brought into line with the constitution. In addition, authorities focused on dealing with hyperinflation, which put the problem of land reform on the back burner. In May 1923, the Lanckorona Pact brought the Chjeno-Piast government to power. In November, the draft bill of 1920 was re-drafted in a withered down form, but a split in the PSL [Polish People's Party] led to the fall of the government. In December 1925, W. Grabski's design was approved (which happened after his departure from the government). The new act adjusted the parceling rules to the constitution. Only the surplus land was supposed to be parceled and the limits were left unchanged with some exceptions. But the reform was to be basically voluntary, and the annual parceling would cover 200,000 hectares (implying a very gradual and slow reform) and was to be carried out by selling the land to peasants at market prices. It was only when less than 200,000 hectares were parceled out annually that state offices engaged in compulsory parceling in order to achieve the goal. Therefore, only rich peasants who already owned land, had access to the land distributed in the scope of the reform. There were some excesses in the Sejm during the reform's approval when communist deputies who whistled whistles to obstruct the proceedings were forcibly removed by the Marshal's Guard.

The land reform in the shape stipulated by the respective parliamentary Act was implemented only in the years 1926–28. Subsequently its implementation was prevented by the Great Depression. After the Sanacja's agreements with the landed gentry (Niasviž, Dzikówka), the authorities did not force them to parcel out. After 1928, annual parceling never reached 200,000 hectares. In 1934, Juliusz Poniatowski (man from the circle of President I. Mościcki) became the Minister of Agriculture. He acted to accelerate the reform. The rate of parceling increased but barely exceeded 100,000 hectares per year. The voivode of the Polesie region, Wacław Kostek-Biernacki, threatened to close Poniatowski in a "cap" if the latter appeared in his area, so the Minister was avoiding Polesie from a distance. By 1939, a total of 2.5 million hectares had been parceled out, with at least 2 million hectares still remaining intact (including the surplus provided for in the Act). Thus, the land reform proved to be gradual and was not completed. In Europe, radical land reforms (with low compensations) were carried out by Hungary, the Baltic states, Finland, and Romania. Apart from the fact that these countries were more industrially developed than Poland (Kalecki & Landau, 1935), the Polish agrarian reform did not lead to a significant transformation of the agricultural structure into an industrial one. Perhaps 20 years were not enough to make such a transformation possible.

The Polish agrarian reform also did not lead to an increase in demand. Consequently, the state interventionism in favor of the industry remained the only salvation for the industrialization effort. Before the mid-1930s, it was impossible to take such measures: first, it was necessary to integrate the economy, then there were problems with inflation and, finally, the great economic crisis. In the post-crisis world, there was a very favorable atmosphere for state intervention (Lipiński, 1936). In the 1930s, such an intervention took on a completely different character than ever before. While liberal standards prevailed from the end of the mercantilist era to the great economic crisis, interventionism appeared only episodically to solve a specific problem, and was always selective (i.e., targeted at certain parts of the economy) and indirect (through taxes, interest rates, etc., and not direct production or ownership decisions). The period of World War I constituted an exception, because of the transition to a state-military economy's model. The Great Depression brought about a significant change in the nature of interventionism, as it destroyed the belief in the functioning of automatic mechanisms in the economy. The state interventionism has become permanent, being resorted to not only in the periods of economic downturn. In addition, it was comprehensive (encompassing the entire economy), and next to indirect measures, there were also direct measures implemented, such as elements of planning, state's management of assets, investment and other forms of intervention.

6. **Interventionism was understood as any interference in the functioning of the economy**. The stimulation of the economy was a form of state interventionism that took place from the 1930s, and was aimed at, i.a., achieving and consolidating positive business cycle developments (Kalecki, 1936). It could only take place in capitalist economies (Zweig, 1933). Statism, in turn, constituted a form of interventionism, being its radical tool leading to the expansion of the state sector by the state taking over plants or building state-owned industrial plants on the basis of state investments. Nationalization, on the other hand, implied building the state sector by a way of introducing specific acts, i.e., regulatory changes.

John Maynard Keynes laid the foundations for the concept of a new economic policy, based on the premise that the automatic market mechanisms worked imperfectly, and in the long run an imbalance between supply and demand would appear (liberals reasoned the opposite) which was required to restore the balance. Moreover, according to Keynes, the cause of periodic crises (states of overproduction) was different: they arose not because the supply was too large, but because the demand did not keep up with it. Hence, the conclusion was drawn that during the crisis it was necessary to spend, not to save. It was then necessary to increase investment and consumption demand. The demand (not supply) was supposed to be expanded by investment expenditures (primarily infrastructural or defense investments). Keynes' theory brought about a revolution in economics. Two models have emerged in the world that put it into practice: the American model (the New Deal during F.D. Roosevelt's presidency) and the German model (Nazi economy). Common to both concepts was stimulation of the economy to boost demand, while the two models differed in all other aspects (Munting & Holderness, 1991). In the American one, most of the activities were focused on increasing incomes of the population, rather than on investments. In the Third Reich, investment demand in the armaments sector was stimulated (Teichert, 1984). In the US, government policy was accompanied by an increase in incomes, while in the Third Reich, wages and prices were frozen, with the active social policy being maintained. The financial policy was also different: in the US, it was slightly pro-inflationary (Roosevelt devalued the dollar by 41%); while in Germany, there was an attempt, forced by circumstances, at creating economic autarky limiting the convertibility of international commodities and currencies (Landau, 1939). In Germany, apart from stimulating the economy, state intervention also entailed preparation of state economic plans (4-year economic plans). We were clearly dealing with statism there, and even the introduction of prescriptive elements and central planning. It was an attempt to build a command state-economy based on private property. All of this, of course, was not the case in the US.

Sławoj-Składkowski's government, with the Deputy Minister E. Kwiatkowski, not only continued alongside the existing lines of intervention, but also introduced new elements (Zweig, 1932). Central planning began and investments leading to the expansion of the state's direct control over various spheres of economic life, such as: heavy industry, industrial and agricultural prices, raw material supplies, and foreign exchange controls (Malinowski, 1932). The second half of the 1930s was a special period of the Second Polish Republic. Piłsudski died in 1935, which resulted in fights inside the Sanacja camp (decomposition of the power camp). From 1935, a strictly authoritarian constitution was in force, creating greater opportunities for the government's interventionism. Kwiatkowski was the Deputy Prime Minister and the Minister of Treasury in the governments of Kościałkowski and Sławoj-Składkowski (established in 1936). Previously, in the years 1926–1930, he was the Minister of Industry and Trade. The expansion of Gdynia into an important seaport in the second half of the 1920s was associated with the name of E. Kwiatkowski (Drozdowski, 1963). However, he did not enjoy the trust of J. Piłsudski and had to resign after disputes with the latter. He worked as a factory director, and after Piłsudski's death, he returned to the government, as previously mentioned, as the Deputy Prime Minister and the Minister of Treasury (Kwiatkowski, 1932).

After Piłsudski's death, power was divided between the two strongest Sanacja's camps: the so-called 'castle group', centered around I. Mościcki, and the group of General Inspectorate of Armed Forces (henceforth referred to by Polish abbreviation GISZ), centered around Rydz-Śmigły. In 1936, both groups reached a power-sharing agreement. During this period (until the World War II), the Minister of Foreign Affairs J. Beck was person number 3 in Poland while E. Kwiatkowski, a personal friend of Mościcki, was person number 4. The Prime Minister Sławoj-Składkowski had a weak position, he rather worked to reconcile conflicting parties and promote outhouses (wooden toilets placed in farmyards in order to improve sanitary conditions).

The goal of E. Kwiatkowski was to use interventionism in order to meet three needs: boost the economy, expand the military potential, and turn interventionism into a driving force for Poland's industrialization. These ambitious plans required changes in financial policy (Einzig, 1932). Kwiatkowski wondered whether the devaluation would be beneficial, but – unlike the GISZ group – he was not eager to pursue it. In 1936, Kwiatkowski introduced foreign exchange rationing: the liberal approach towards currency and precious metals was over, and any exports required a license granted by state institutions. All imports were to be licensed by the state, and sums expressed in foreign currencies had to be resold to the state. The idea was to prevent the outflow of foreign currencies from Poland, which, assuming the outflow's large dimensions, could pose a risk of depletion of foreign currencies and gold at Bank Polski S.A. Western capital also had to be retained inside the country. We attempt to prove that these steps were belated. From the mid-1930s, the amounts of foreign currencies taken out of the country were equal to the average amounts invested by both private capital and the state. These actions by Poland led to the erosion of the Golden Bloc (Młynarski, 1931). The Bloc's other countries introduced a devaluation of gold, which led to the Bloc's collapse. Later in Poland, an obligation to resell currencies to the state for zlotys was introduced, but the devaluation was not carried out. A policy of avoiding budgetary deficits was pursued and the zloty's exchange rate was to be stable. A devaluation of the dollar by 40% in 1934 meant that one dollar cost about 5 zlotys, not about 9 zlotys. In Poland (and everywhere where high inflation and hyperinflation were experienced), there was a refusal to finance interventionism through inflation. However, in 1938, Kwiatkowski, succumbing to pressure from people gathered around Rydz-Śmigły, allowed inflation to occur, and before the war there was even an additional issuance of zloty, which was necessary if Kwiatkowski wanted to at least partially implement his plans (Radocki, 1939).

Elements of central planning have emerged in free market economies. Central planning included: 1) sectoral duty – applied only to certain branches of the economy (Kwiatkowski planned only state investments); 2) in a free market economy, planning was not of a "command" nature but constituted assumptions of a policy rather than requirement to pursue given actions; 3) the planning had general character – Kwiatkowski planned only the amounts that were scheduled to be spent on individual investments and general priorities for the industry. The 4-year plan (1936–40) assumed state investments at the level of approximately 2.4 billion zlotys and the construction of 400 new plants, more or less evenly distributed across Poland. Obviously, the plan had certain propagandist elements as well, and the vast majority of its investments was channeled to the area of the Central Industrial District (known under Polish abbreviation – COP), located at the confluence of the San and Vistula rivers. The creation of COP was planned as early as in 1928, but it did not materialize then because of the crisis. Kwiatkowski expanded the area of COP, which was located in the area at the border of lubelskie, krakowskie and lwowskie voivodeships. 15% of Poland's population lived in this area. This very location was chosen for strategic reasons, but at that time nobody considered the possibility of an attack on Poland from the south. In the past, there was the

Old-Polish Industrial Region there (Dziemianko, 2004). The area had some raw materials, good food supplies and expanded labor base (the agrarian overpopulation in these areas amounted to 450–700 thousand people). Both private and public sector investments were supposed to be implemented within the framework of the plan, but in reality the latter predominated (Wellisz, 1938). Private sector was weakened by the crisis, and foreign capital was not only generally moving out of Poland due to the deteriorating international situation, but also was never interested in greenfield projects (Teichova, 1982). People associated with GISZ developed a 6-year plan for the development of the armed forces. Therefore, the race for state funds began. Kwiatkowski's investments were 60% military and 40% strictly civilian. Despite this, there were accusations from the military and numerous conflicts took place. Actually, two plans were implemented. The 6-year plan predicted investments worth 3 billion zlotys, which was much more than those assumed under the Kwiatkowski's plan. The state budget financed part of investments, while the rest came from internal loans (various defense funds were established, which sometimes met with a considerable response). The 4-year plan (financial expenditure plan) was finalized already in 1939. A lot of industrial plants working for the army were placed in the COP: the steel industry (the steelworks in Stalowa Wola, which operates till today), the chemical industry, the energy industry (thermal and water power plants were established). The interventionism of Kwiatkowski was therefore oriented for military purposes. The chemical and metallurgical industries also largely served the needs of the army and were close to German standards. The statist policy was activated in Poland during the Great Depression by the state taking control over blocks of shares in enterprises. Such a form of statism did not disappear, but Kwiatkowski added to it a new form of intervention – building plants from scratch. In addition, many solutions were used to limit the market mechanism. This started with foreign trade: by introducing foreign exchange restrictions, the state took control of exports and imports (Górecki, 1946). The consequence of the expansion of heavy industry was the state's control over it. In addition, top-down price controls were introduced: price caps and even directly controlled prices were applied. Moreover, compulsory conciliation frameworks were also used in case of labor conflicts.

At the end of 1938, Kwiatkowski presented a 15-year plan. It was an investment plan aimed at full industrialization. The plan was divided into five 3-year phases, each scheduled to implement a different plan. The plan was supposed to eliminate the differences between Poland A and Poland B (Kwiatkowski, 1938). The plan's implementation was scheduled to commence in 1939. There was high probability that it would be financed in part by inflation, as internal loans could no longer be counted on to a sufficient degree (Drozdowski, 1961).

From the point of view of the business cycle developments, the period of interventionism was related to the growth phase (Zweig, 1937). Poland was strengthened by the addition of economically strong Zaolzie region. In the agriculture situation was worse, as the sector started to experience a collapse in the form of a 20% drop in prices. Though generally the period was characterized by positive cyclical developments, it has not been definitely ascertained to what extent it was the result of investments under Kwiatkowski's plan and to what extent it stemmed from improvements in the world economy (Gruenfeld, 1936).

From the military perspective, the investments were undertaken too late. In terms of industrialization, the magnitude of the challenge exceeded the timeframe of the 4-year plan, which created only 100,000 jobs in the COP area (Gołębiowski, 2000). Employment in industry increased from 17% to 20% of the total number of employees. The period in question could be regarded as an initial stage of the industrialization policy. Against the background of two basic models – American and German – Kwiatkowski's interventionist policy was definitely closer to the German solutions. The demand was mainly directed at armaments – the goal of E. Kwiatkowski's policy was not only to stimulate the economy, but also to industrialize and arm the country. Currency restrictions introduced in Poland were similar to those which functioned in fascist countries (Zdziechowski, 1955). Contrary to the situation in the US, in Poland there was no currency devaluation. However, in Poland the scale of investments and the priority for armaments was much smaller than in Italy and Germany, and consumption was reduced only through internal loans, without freezing of prices and wages.

Summary. Balance of achievements of the Second Polish Republic

The economic situation in the interwar period looked as follows: collapse of 1918–1919, economic boom of the 1919–1923 period (rearmament of the army and favorable inflation mechanisms from 1921); post-inflation crisis (hyperinflation) in the years 1923–1926, an upward phase of the cycle in the years 1926–1929 due to good situation in the world economy and the second inflation (export premium) as well as the stabilization of the zloty by the Sanacja governments and the inflow of capital after the May Coup; great crisis in the period 1929–1935; and state's interventionism of E. Kwiatkowski in the years 1935–1939 (Radocki, 1939). There is a dispute between historians as to whether the economic situation of the Second Polish Republic should be compared with 1913 or with the beginning of the 1920s. In the case of 1913 being taken as a reference point, production in 1938 was lower, and per capita it declined by 18–19%. This period can therefore be defined as one of stagnation or even decline in the economy. However, 1938 is often compared to 1922 (when Upper Silesia became a part of Poland), partially because in 1913, the Polish territories belonged to other countries, and such comparisons do not make sense. Compared to 1922, in the period before the outbreak of the war production per capita increased by 20% (Landau, 1968, pp. 253–271).

Compared to other countries, Poland posted a higher growth rate than Great Britain, Italy, Germany, but lower than Finland, Hungary, Latvia, Lithuania, Romania (that is, other lagging countries, similarly to Poland). Poland was not the growth leader in the group of agro-industrial countries (Lewis, 1949). Looking at the structural changes, we discern that in 1922, over 70% of Poland's population lived in the countryside, while in 1938, still about 70% lived there. In 1938 in Hungary, city dwellers constituted approximately 45% of the population, while in the Balkan countries approximately 20% of the countries' inhabitants (Zweig, 1944). Poland's share in international trade was declining. When summarizing the economic results of the Second Polish Republic, one should rather abandon the comparisons of the growth rate in favor of structural ones (Kożuchowski, 1938).

Three big problems of the Second Polish Republic remained unresolved: agrarian overpopulation, weakness of the internal market (the level of demand has not changed, which constituted a permanent barrier to development), and the lack of domestic capital (weak Polish capital for historical reasons – industrialization did not generate capital). Foreign capital did not want to flow in because Poland's independence was perceived as not permanent (Gryziewicz, 1951). When foreign capital arrived after 1926, it quickly reached 30%, but it had two important features: it was invested in already established enterprises, with majority of the profits being repatriated from Poland, because there was no room for safe investments. Therefore, foreign capital could not become the flywheel of industrialization. The peak share of foreign capital in industry (47%) was achieved in 1934, and subsequently it exhibited a downward trend.

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