

The Growth of the State Sector in the Polish Economy in the Years 1918-1926

Wojciech Roszkowski

Central School of Planning and Statistics, Warsaw

Although individual and collective forms of property had existed earlier, the economic role of the state became a subject for debate during the XIXth century when capitalist free enterprise made the ideology of liberalism popular and governments attempted to abandon most of their economic activities. Since then theoretical concepts of nationalization became a major element in the socialist programme while the economic role of the state increased during World War One when the belligerent countries followed the policy of war economy. Strict controls over production and distribution were imposed for instance in Germany and Austria-Hungary, and when in November 1917 the Bolsheviks took over in Russia they started to introduce doctrinal nationalization. The days of a traditional economic system based on private property seemed to be numbered.

Poland was reborn as an independent country in November 1918. Her economy was backward as a result of a century of agrarian stagnation and XIXth century partitions. Economic development had been damaged during World War One and her independence was to face major threats from her mighty neighbours. Despite the threat of revolution the Polish economic system remained what it had been before the Great War, although the economic role of the state was from the beginning of the Polish Second Republic quite considerable.

The territories which were gradually incorporated into Poland in the years 1918-1922 included a number of very differentiated areas. This was because for more than a century indi-

vidual parts of Poland had developed in a close relationship with the economies of Germany, Russia and Austria-Hungary. In the former Russian areas only the so called Kingdom of Poland had a developed industrial base and had supplied manufactured goods to the vast Russian market. In the east, Kresy Wschodnie was a backward rural area. In the Austrian area there was some industry near Cracow and in the oil mining region south of Lvov, but Galician agriculture had suffered from the total lack of foreign markets and local incentives for development. On the other hand, Prussian Poland had had many opportunities and both Upper Silesian industry and Poznań farming were important centres for supplying German markets. But these traditional links were broken after World War One, forcing the Polish economy to make a great readjustment.

The lost markets had to be substituted.¹ Moreover, the Polish economy was affected by disastrous war damage. The total values of material losses in Poland during World War One has been estimated at 10 billion French francs, (i.e. about 11% of the national capital²). These losses were later increased by the Polish-Ukrainian and Polish-Soviet military operations. The two calamities — war damage and the need to readjust the economy to the new market situation of Poland in Europe — had caused the industrial output of Polish territories to fall to 35%

¹ Z. LANDAU, J. TOMASZEWSKI, *The Polish Economy in the Twentieth Century*, Croom Helm, London & Sydney 1985, p. 11-27; W. ROSZKOWSKI, *Polska międzywojenna — kraj stagnacji gospodarczej?* (Interwar Poland — a Country of Economic Stagnation?), "Przegląd Powszechny" 1982, no. 5, p. 238-242; W. ROSZKOWSKI, *Poland's Economic Performance Between Two World Wars*, "East European Quarterly" (Boulder, Colorado, U.S.A.) vol. 20, no. 3, pp. 285-297.

² W. GRABSKI, *Wyjaśnienia dotyczące ratyfikacji traktatu pokojowego z Niemcami i umowa wielkich mocarstw z Polską przez delegata pełnomocnego Polski na kongresie pokojowym w Paryżu* (Comments on Ratification of the Peace Treaty with Germany and the Agreement of Great Powers with Poland by the Polish Delegate Plenipotentiary at the Paris Peace Conference), Paris 1919, p. 23.

³ Calculated according to I. SVENNILSON, *Growth and Stagnation in the European Economy*, Geneva 1954, p. 304-306, Table A.66.

of 1913 levels in 1920/21.³ This is the scale of the economic problems Poland had to face at the start of her independent life.

The enormous economic difficulties facing Poland were aggravated by the weakness of the fiscal system. There were nine different fiscal systems, and the shortage of personnel, war damage and postwar chaos made it impossible to collect regular taxes. At the same time, the creation of the new state and military expenditures meant that spending was much higher than revenues. In November 1918 the Polish Ministry of Treasury had control only in the former Kingdom of Poland, but at the beginning of 1919 its control was extended on the Białystok region, in April 1919 to ex-Austrian Galicia, in November 1920 to Kresy Wschodnie, in January 1922 to Pomerania and the Poznań region, in March 1922 to the Wilno area and in June 1922 to Upper Silesia.⁴

The excess of expenditure over revenue was so high that it could be covered only by new issues of banknotes. Inflation resulted which did not stop even after termination of the Polish-Soviet war. Without an active government policy, inflation could not be healed. But successive governments understood that inflation benefited entrepreneurs. Inflationary prosperity accelerated postwar reconstruction, and government non-secured loans kept on being granted to subsidize private business. This however meant the continuation of inflation, which changed into a hyperinflation in 1923. Monetary chaos ensued causing the market to collapse and violent protests by workers.

The economic future of Poland hung by a thread. In December 1923 a new cabinet was formed under Władysław Grabski whose main task was to rescue the budgetary and monetary situation. A special property tax was introduced, other taxes were revalued and government expenditure was curbed. In March 1924 the budget was balanced for the first time, follow-

⁴ B. MARKOWSKI, *Administracja skarbowa w Polsce* (Fiscal Administration in Poland), Warsaw 1931, p. 75.

ing which a newly created private issuing *Bank Polski* started exchanging depreciated Polish marks into new złoty banknotes. Although the Grabski reform could not heal all the problems of the Polish economy, it probably saved her independence. Unlike the monetary reforms carried out in other East Central European countries at that time, the Polish reform was financed practically without foreign aid and the burden was born by the Polish propertied classes.⁵

The Polish economic system was based on private property. According to an estimate that the Polish authorities prepared for the League of Nations, the state owned about 10% of the 1921 value of the Polish national property.⁶ In the Russian area the share was a little less, in Galicia about 10%, and in the Prussian area about 11%.⁷

Most Polish scholars in the first years of restored independence did not favour economic intervention by the government,⁸ and most economists followed the traditional ideology of free trade. They believed that free competition was the best instrument for maintaining equilibrium and encouraging steady growth. This was the view of Professor Adam Krzyżanowski and his liberal Cracow school.⁹ Professor Władysław Zawadzki

⁵ Z. LANDAU, J. TOMASZEWSKI, *Gospodarka Polski międzywojennej* (Polish Interwar Economy), vol. 2, Warsaw 1971, p. 185-211.

⁶ *Memoriał o znaczeniu gospodarczym Polski dla Rady Wykonawczej Ligi Narodów* (Report on the Economic Significance of Poland for the Executive Council of the League of Nations), "Praca i Opieka Społeczna" 1922, no. 1, p. 89-94.

⁷ *Projekt ustawy o naprawie skarbu R.P. z 1.III.1924* (Draft of the Polish Treasury Recovery Act of March 1, 1924), The Sejm Documents, Term One, no. 269, Appendix 7.

⁸ For details cf. W. ROSZKOWSKI, *Gospodarcza rola państwa w polskiej teorii i publicystyce ekonomicznej i społeczno-politycznej lat 1918-1924* (Economic Role of State in Polish Economic, Social and Political Theory and Journalism in the Years 1918-1924), "Ekonomista" 1978, no. 3, p. 615-645; K. DZIEWULSKI, *Spór o etatyzm. Dyskusja a wokół sektora państwowego w Polsce międzywojennej 1919-1939* (Controversy over Statism. Discussions Concerning the State Sector in Interwar Poland 1919-1939), Warsaw 1981.

⁹ A. KRZYŻANOWSKI, *Założenia ekonomiki* (Principles of Economics), Cracow 1920, p. 32.

claimed that government enterprises were less efficient than private ones since the latter could not adopt profitability as the only criterion of success while their decision-making structures were too slow to react to market fluctuations.¹⁰ The ideology of *laissez-faire* was also supported by the Central Association of Polish Industry, Mining, Trade and Finance, jokingly called "Leviathan". Here the liberal ideology was somewhat paradoxical since it was opposed to monopolization even though "Leviathan" was dominated by big monopolies.

Most of the National Democratic economists adopted the principles of the neo-classical theory of free competition. Roman Rybarski, Stanisław Głąbiński, Władysław Grabski and other representatives of the "national school" favoured private business activity, but they were more moderate in their evaluation of the government enterprises.¹¹ Catholic thinkers were of the same opinion, with the exception of Leopold Caro who argued for wider government participation in the economy and developed his own version of statist solidarity.¹²

Supporters of the co-operative movement like Edward Abramowski, Stanisław Wojciechowski or Romuald Mielczarski strongly criticized the negative effects of free competition, but they also opposed projects for reconstruction of the economic system through the state bureaucracy.¹³ Such projects were put

¹⁰ W. ZAWADZKI, *Przedsiębiorstwo państwowe jako forma organizacji produkcji* (Government Enterprise as a Form of Organization of Production), "Ruch Prawniczy i Ekonomiczny" 1922, no. 3, p. 470-472.

¹¹ R. RYBARSKI, *Idea gospodarstwa narodowego* (Concept of National Economy), Cracow 1919, p. 268; S. GŁĄBIŃSKI, *Etatyzm a gospodarstwo narodowe* (Statism and the National Economy), "Ruch Prawniczy i Ekonomiczny" 1922, no. 3, p. 464-469; W. GRABSKI, *Projekt programu polityki ekonomicznej i finansowej Polski po wojnie* (Draft Program of Polish Economic and Financial Postwar Policy), Warsaw 1920, p. 5-30.

¹² L. CARO, *Ku nowej Polsce* (Towards New Poland), Lvov 1923, p. 69-75, 113-117.

¹³ E. ABRAMOWSKI, *Idea społeczna kooperatyizmu* (Social Ideology of Co-operatism), Warsaw 1918, p. 21-39; S. WOJCIECHOWSKI, *Kooperacja w rozwoju historycznym* (Historical Development of Co-operatism), Warsaw 1923, p. 382 ff.

forward by the socialists. But at the beginning of the Polish Second Republic their academic leaders also followed the "Kathedersozialismus" and Zofia Daszyńska-Golińska or Stanisław Aleksander Kempner were by no means radicals.¹⁴ If they advocated a government-run reconstruction of the economy, what they meant was a moderate programme for the development of islands of state capitalism. Communist advocates of nationalization were not influential. But a complex programme for a government-controlled economy was formulated by Julian Husarski, a more radical "statist" from Józef Piłsudski's circle. The idea of greater government intervention in the economy was also found support among other Piłsudskite leftists like Stefan Starzyński.¹⁵

Nationalization was seen quite differently in this political perspective, but the desire to nationalize was popular only for a short time. In November 1918 revolutionary forces swept through Poland from the east and from the west. Since the programme of the revolutionaries disregarded the ambitions of the Poles to regain their national independence, and the Provisional Head of State Józef Piłsudski, whom the major political forces in Poland supported as a symbol of united statehood, nominated many socialists to his first government under Jędrzej Moraczewski. This cabinet proclaimed "nationalization of coal, oil and salt mines, transportation and some other industries" as well as "participation of workers in factory administration".¹⁶ These laws were passed by the parliament, and the proclamation of the

¹⁴ Z. DASZYŃSKA-GOLIŃSKA, *Etaryzm w dziedzinie gospodarczej* (Statism in Economy) in: *Studia społeczne i gospodarcze* (Social and Economic Essays), Warsaw 1925, p. 96; S.A. KEMPNER, *Teoria demokracji* (Theory of Democracy), Warsaw 1921, p. 27 ff.

¹⁵ W. ROSZKOWSKI, JULIAN HUSARSKI — *pionier kapitalizmu państwowego w Polsce* (Julian Husarski - Pioneer of State Capitalism in Poland), "Przegląd Historyczny" 1981, no. 3, p. 447-460.

¹⁶ E.KI. J. MORACZEWSKI, *Przewrót w Polsce*, cz. I., *Rządy ludowe* (Polish Coup, Part One: People's Governments), Cracow 1919, p. 109; "Monitor Polski" 1918, no. 211.

Moraczewski government of 20, November 1918 was a reflection of the socialist programme. But it was aimed mainly at attracting the revolutionary masses to the idea of independent Poland and its democratic institutions.

All through December 1918 the Moraczewski cabinet was criticized and opposed by both the political right and by internationalist revolutionaries. The latter were marginalised when their programme was taken over by the socialists and transformed into a democratic programme. When Piłsudski felt the wave of support for leftist feelings begin to subside in January 1919, he formed a wider coalition with Ignacy Paderewski. When his cabinet was recognized by the victorious Allies the right wing pressure on the government decreased. The elections held in January 1919 confirmed the decline of socialist influences: the parliamentary right, centre and left obtained roughly equal support. It was in these circumstances that the nationalization programme was implemented but it lacked the support of a parliamentary majority.¹⁷ In November 1919 Paderewski summed up the course of his government: "Poland is going neither leftwards nor rightwards; she is going forwards".¹⁸

This does not mean that the Polish government had withdrawn from any economic intervention. On the contrary, an empty treasury and a shortage of necessities, aggravated by the continuation of military operations on the eastern borders, made it necessary for the government to introduce rationing, to set up state distribution offices and to develop state monopolies. This was the beginning of "war statism". The Polish government was also gradually taking over state property which had belonged to the governments of the partitioning powers.

After the Polish-Soviet armistice of October 1920 govern-

¹⁷ W. ROSZKOWSKI, *Stosunek rządu polskiego do przedsiębiorczości państwowej w latach 1918-1924* (Attitude of the Polish Government Towards State Economic Activity in the Years 1918-1924), "Przegląd Historyczny" 1980, no. 3, p. 516-536.

¹⁸ *Sprawozdania stenograficzne z posiedzeń Sejmu R.P.* (Record of Polish Parliamentary Proceedings), November 12, 1919, no. 97/22.

ment controls disappeared. But war statism was dismantled gradually due to the very tense provisioning situation. The state distribution offices were not dissolved until mid-1921. War statism was finally abolished by Antoni Ponikowski's cabinet in the autumn of 1921. The treasury ministers who followed, like Jerzy Michalski, Jan Kanty Steczkowski and Władysław Grabski were well-known as anti-statists. But some government enterprises survived. Due to the constant budget deficits the government had to develop a system of tobacco, liquor and salt monopolies. At the same time the weakness of private business made it difficult to sell the government enterprises taken over from the partitioning powers. In the budgetary and monetary reforms of 1924 the Władysław Grabski government offered several government companies for sale but in vain. Therefore, despite continuation of the free trade ideology, the Grabski cabinet maintained the existing state sector and made substantial efforts to rationalize its organization and to raise its efficiency.¹⁹

In order to describe the formation of the government sector in the Polish economy it is necessary to describe various forms of indirect and direct government control. Due to war damage production was insufficient to cover the market demand, and the Moraczewski government kept in force the regulations of the partitioning powers regarding the sequestration of raw materials, semi-products and industrial goods. The decree of November 23, 1918 referred to the former Kingdom of Poland and West Galicia. Execution of the government control was delegated to the Ministry for Provisioning which had been established in October 1918 by the Regency Council set up by the Central Powers in the Kingdom of Poland.²⁰ As the provisioning situation in other parts of Poland differed, the Warsaw government, which gradually took over administration in Great Poland, East Galicia, Kresy Wschodnie, Pomerania and Upper

¹⁹ W. ROSZKOWSKI, *Stosunek...*, p. 528-535.

²⁰ *DZIENNIK Praw Państwa Polskiego* (Current Legislation Record of the Polish Republic), 1918, no. 14, item 30.

Silesia, frequently maintained the regulations existing in these regions.

The Ministry of Provisioning exercised control through specialized administrative bodies. Chronologically the first of these bodies was the Government Office for Purchase of Necessities/Polish abbreviation PUZAPP/founded in December 1918. The PUZAPP was given the monopoly right to buy all necessities and some industrial raw materials abroad. But a foreign trade monopoly was officially introduced in February 1919 and import licenses were issued by a special commission of the Ministry of Industry and Trade. Insufficient coordination of the activities of both these bodies led to a lot of confusion, however.

The Ministry of Provisioning also administered a number of distribution institutions whose structure was very complicated. There were special offices for distribution of salt, potatoes, oil and coal. The coal distribution system was the one that changed most frequently. At first there were three bodies which in April 1919 became the State Coal Administration. But each of the provinces had its own system. There was a Coal Inspectorate in Cracow, a Provincial Coal Office in Poznań and another inspectorate in Cieszyn. Unification of the whole system was carried out in October 1920 when the government began to dismantle the control system.

Apart from the central civil administration bodies, the distribution of goods was controlled by local self-government institutions like the Department of Provisioning in East Galician Lvov, the National Council in Cieszyn Silesia, Central Food Supply Administration of the Poznań National Council, by the Ministry of the Former Prussian Partition or by the Civil Administration of Eastern Territories. Additionally, military supplies were controlled by a special Chief Bureau of Military Supplies/Polish abbreviation GUZA.²¹ No wonder that the decision-

²¹ W. Roszkowski, *Kształtowanie się podstaw polskiej gospodarki państwowej w przemyśle i bankowości w latach 1918-1924* (Formation of the State Sector in Polish Industry and Banking 1918-1924), Warsaw 1982, p. 96-103.

making process was too long and inefficient. For instance during the 1920 military operations, when the demand for clothing and uniforms was high, factories at Bielsko and Żyrardów had to wait for months for deliveries to be accepted while government partners coordinated their proceedings.²²

The control system was aimed at keeping prices of rationed goods low. But not all production went to the government-controlled market. Speculation was curbed by a special Office to Combat Usury and Speculation established in January 1919, but despite harsh measures the office could not master the situation which was due to a general shortage of goods.

Government controls did not only cover distribution. Through recordings of stocks, standardization of consumption, introduction of quotas and control of prices, the government tried to create a kind of a planned system. But their efforts were not very successful. Control offices lagged behind changes of the market situation and were unable to precisely record and coordinate requirements and supplies. The army sought supplies outside the network, sometimes even through direct requisitions, while ordinary people suffered from inflationary speculation.

Therefore soon after the armistice with Soviet Russia the control system began to be gradually dismantled. At the end of 1920 the first control institutions were dissolved and in January 1921 prime minister Wincenty Witos suggested dismantling the offices controlling coal, oil, timber as well as those providing the army and civilians with necessities. As soon as the market situation improved in July 1921 the Ministry of Provisioning was wound up and a free turnover of coal was introduced. By December 1921 the whole control system had been abolished.²³

The Polish government had also intervened directly in the

²² A. WIERZBIKI, *Wspomnienia i dokumenty 1877-1920* (Memoirs and Documents 1877-1920), Warsaw 1957, p. 513.

²³ J. TOMASZEWSKI, *Handel reglamentowany w Polsce 1918-1921* (Trade Control in Poland 1918-1921), "Zeszyty Naukowe SGPiS" 1966, no. 59.

administration of certain private firms. A decree of 22, November, 1918 laid down that industrial plants which were abandoned by the occupation authorities and not taken over by its legal owners could be subject to compulsory administration. In practice, the government administrators had taken over control of only a few dozen factories of major national importance. These included, for example, the "Hrabia Renard" coal mine in Sosnowiec, a textile factory in Żyrardów, The Premier Oil and Pipe Line Company Ltd., the Płock power plant, the "Blachownia" iron mill near Częstochowa, the B. Handtke Co. as well as certain branches of the huge Vereinigte Königs- und Laurahütte concern in Polish Upper Silesia. By the end of 1921 there were still 15 factories under compulsory government administration, but during the normalization of the economic situation all of them returned to their legal owners.²⁴

One of the major economic measures undertaken by the Polish government in order to accelerate reconstruction of the national economy was to supply credit through the state banks. Control of the credit operations was in the hands of the Polska Krajowa Kasa Pożyczkowa (PKKP), a government bank of issue founded in December 1916 by the German occupation authorities and taken over by the Polish government on 11 November, 1918. A general programme of government assistance to private business was worked out in June 1919 and passed by the Sejm in July 1919. Altogether in 1919 the PKKP granted credits to the value of 23 million Polish zlotys (1924 parity), and in 1923 another 81 million zlotys of credits. In terms of the overall value of credits granted in Poland, the share of the PKKP credits grew from 21.2% in 1919 to 70.8% in 1923.²⁵ Most of the government credits were not secured on

²⁴ *Sprawozdania z czynności Najwyższej Izby Kontroli Państwa za rok 1923* (Report of the Supreme Chamber of State Control for 1923), p. 282-283; for 1924, p. 391.

²⁵ T. BUCZKOWSKI, H. NOWAK, *Rozwój kredytu w latach 1918-1928* (Development of Credit Activity 1918-1928) in: *Bilans gospodarczy Dziesięciolecia Polski Odrodzonej* (Economic Balance Sheet of Decade of Independent Poland), vol. 2, Poznań 1929, p. 120.

assets, which in view of a growing inflation meant that they depreciated and gradually became subsidies. During the first five years of the life of the independent Polish State, private businessmen obtained about 675 million złotych (or about 110 million US \$) in depreciated credits.²⁶

The printing of banknotes could not increase real values, and the inflationary issues could only change the distribution of the national product. But as long as the government was benefiting from new issues thanks to the so called "inflationary tax", all users of depreciated Polish marks (especially those who had to keep them for a long time, that is the workers and clerks) gradually saw their purchasing values decline. It was they who ultimately financed reconstruction. With the Grabski reform the government credit operation was stopped and the PKKP was wound up. Responsibility for the central issuing bank went to the private joint-stock Bank Polski.

As well as the PKKP, the Polish government had taken over three banks which had been established by the Galician independent government before 1918: the Bank Krajowy (National Bank) renamed the Polski Bank Krajowy (Polish National Bank) in 1922, the Galicyjski Wojenny Zakład Kredytowy (Galician Wartime Credit Institution) renamed the Państwowy Bank Odbudowy (State Reconstruction Bank) in 1922 and the Galicyjski Miejski Wojenny Zakład Kredytowy (Galician Urban Wartime Credit Institution). The credit and debit balances of these three banks were amalgamated with the Bank Gospodarstwa Krajowego (Bank of National Economy), a united government bank for industrial and trade credits which was established in May 1924. In February 1919 the Polish government had also founded a special Państwowy Bank Rolny (State Agricultural Bank) to provide credits for land purchases. Inflation meant that this bank suffered from the depreciation of its credits and it re-

²⁶ J. ZDZIECHOWSKI, *Mit złotej walury* (Myth of Gold Currency), Warsaw 1937, p. 292.

ceived no help until the Grabski bank rescue operation of May 1924. In February 1919 the government-run Pocztaowa Kasa Oszczędności (Postal Savings Bank) was established for deposits, savings and current accounts, as well as discounting bills, issuing money orders and other operations. The Polish government had also taken over shares in other joint-stock banks from the Galician independent government.²⁷

As well as direct credit, the Polish government gave bank guarantees to private industrial and trade enterprises to guarantee foreign credits. If the foreign debtor failed to pay the government paid, but thanks to inflation and prosperity this happened only occasionally. Other indirect government policies included public works. In 1919 about 93,000 workers were employed in this programme but later on, due to increasing industrial employment, this action was limited.²⁸ One should also mention government orders since these were an important factor in stimulating prosperity during the Polish-Soviet war, the system of advance payments for deliveries, and government financing of private construction of factories and future supplies.

These measures were usually interconnected and took a different shape in each individual case. For instance, a private munitions factory in Warsaw received from the government huge advance payments for deliveries, with guaranteed profits at the rate of 20% of costs, but deliveries were systematically delayed. Several officials from the Ministry of Military Affairs probably personally benefited from this procedure.²⁹

Finally something should be said about direct government

²⁷ W. ROSZKOWSKI, *Kształtowanie...*, p. 111-112, 185-209.

²⁸ W. LANDAU, *Uwagi o stanie bezrobocia, robót publicznych i pośrednictwa pracy* (Remarks on Unemployment, Public Works and Employment Agencies), "Biuletyn Ministerstwa Pracy i Opieki Społecznej" 1919, no. 5, "Kalendarz Robotniczy PPS" 1924, p. 172.

²⁹ P. STAWECKI, *Z dziejów przemysłu wojennego II Rzeczypospolitej* (Out of History of Armament Industry of the Second Republic), Part One, "Wojskowy Przegląd Historyczny" 1971, no. 1, p. 286-291.

participation in productive activities. This occurred in the following fields: mining and metallurgy, the chemical industry, armaments, other industries, transportation, government monopolies, agrarian reform and forests.

The mining enterprises taken over by the Polish government included the Brzeszcze coal mine near Oświęcim which had belonged to the Austro-Hungarian government, a sulphur mine at Pośadza near Miechów and a copper ore mine at Miedziana Góra in the Kielce province and twelve salt mines. Among the latter was the oldest active industrial plant in Poland (and perhaps in Europe), the Wieliczka salt mine which had been operating for almost a thousand years. Most of the salt mines had also belonged to the Austro-Hungarian government, the only exceptions were: the formerly Russian Ciechocinek salt works and the Inowrocław mine which had been established by the Prussian government. The Polish authorities also inherited a joint-stock potassium salt company which worked two mines at Kałusz and Stebnik in East Galicia. The controlling interest of this company (called TESP in Polish) had been the property of the Galician independent government and was taken over by the Warsaw government in 1920. The Polish government also took over 50% of the shares in a mixed Franco-Polish coal mining company "Skarboferm" which worked three mines in Polish Upper Silesia. The mines had belonged to the Prussian government. The French investors were allowed to take half of the company's shares as a reward for French support for Polish claims to Upper Silesia. The Polish government also became owner of the Blachownia iron mill, formerly the property of Grand Duke Michael Romanov, 50% of the shares in another Franco-Polish company "Tarnoferm" that worked a silver and lead mill at Strzybnica, which had previously belonged to the Prussian government, as well as several thousand hectares of coal and oil deposits. The Polski Bank Krajowy held shares in many other mining and metallurgical enterprises while two government zinc plants, five calamine mines and two coal mines

were leased to private enterprises. The whole government complex was managed by the Chief Administration of Government Mining and Metallurgical Plants attached to the Ministry of Industry and Trade.³⁰

One of the largest industrial plants taken over by the Polish government after the World War One was an oil refinery in Drohobycz and its satellites. It had been founded by the Austrian government and was then taken over by the Russians, recovered by the Austrians and then occupied by the Ukrainians for half a year. The Polish authorities took it over in May 1919, reorganized it and called "Polmin". Another big chemical firm was taken over in Upper Silesian Chorzów. This was a big nitro-compound factory which had been established by the German government, then fictitiously reprivatized and was finally taken over by the Polish government despite strong protests from the German management. The dispute over the Chorzów factory dragged on for years and was finally settled by the Hague Tribunal in 1928. The factory remained in the hands of the Polish government, although it had to pay compensation to the previous owners.³¹ The Polish authorities also disposed of a share in the "Azot" company in Jaworzno and in some minor chemical plants.

The partitioning powers had carefully avoided locating armaments plants in the Polish territories. In 1918 Poland had only five minor military repair workshops, therefore. The requirements of the Polish army were constantly growing, and whereas in November 1918 the Polish armed forces numbered 6,000 soldiers, during the Russian offensive in the summer of 1920 there were about 1 million soldiers. "In 1920 the Polish

³⁰ S. ŚWIĘTOCHOWSKI, *Państwowe przedsiębiorstwa górniczo-hutnicze* (State Mining and Metallurgical Plants), Warsaw 1924, p. 7-31.

³¹ S. KRUSZEWSKI, *Majątek państwa polskiego* (Property of the Polish State), Warsaw 1931, p. 314-336; J. POPKIEWICZ, F. RYSZKA, *Przemysł ciężki Górnego Śląska w gospodarce Polski międzywojennej 1922-1939* (Upper Silesian Heavy Industry in the Polish Interwar Economy 1922-1939), Opole 1959, p. 199 ff.

army carried out one of the most astounding supply improvisations in the history of warfare" wrote a Polish general.³² After several unfortunate attempts to stimulate private arms production, a Central Administration of Military Works was established in 1922 to run the existing workshops and to construct new factories. In June 1922 the government decided to erect four factories: a cannon factory in Radom, a munitions factory in Skarżysko Kamienna, a gunpowder and explosives factory in Pionki, as well as a factory for making calibrated instruments in Warsaw. The Pionki factory started production in 1924, the Skarżysko plant in 1925, the Warsaw factory in 1926, while the first Radom guns were manufactured in 1927.

Other industrial enterprises belonging to the Polish government included the State Printing Works, the mint and the Government Telegraph and Telephone Works. The Ministry of Public Works administered several small timber processing factories. The tobacco monopoly was gradually buying out private cigarette factories. In January 1924 there were 8 tobacco works in the hands of the government and later on the whole tobacco industry was purchased by the state monopoly. The Polski Bank Krajowy also held shares in about 50 other industrial firms. Altogether in 1924 the capital stock of all government industrial enterprises and the value of government owned shares was about 275 million zlotys or 53 million US \$.³³ A more thorough inventory for 1926 shows their value to about 380 million zlotys or 73 million US \$.³⁴

Due to the very difficult monetary and budgetary situation, the Polish government gradually developed a system of state monopolies. The tobacco monopoly had existed in Austria-Hungary. In 1918 there were seven systems for taxing tobacco

³² A. LITWINOWICZ, *Powstanie i rozwój polskiego przemysłu wojennego* (Creation and Development of Polish Armament Industry), "Gospodarka Zachodnia" 1939, no. 37, p. 128.

³³ W. ROSZKOWSKI, *Kształtowanie...*, p. 154.

³⁴ S. KRUSZEWSKI, *Majątek...*, p. 407-409.

in Poland. The whole system was unified on the principle of a state monopoly of production and distribution in June 1922. The government had bought out all private factories by the end of 1924 and in the meantime private factories were permitted to produce on licence. A liquor monopoly had also existed in Russia and the Russian parts of Poland. It was maintained in the former Russian parts of the country until 1921 when a uniform duty on alcohol consumption was introduced combined with free trade in liquor. The Grabski reform in July 1924 established a monopoly of distribution. But apart from several government distilleries production was still in private hands. The salt monopoly had existed in Austria-Hungary and after 1915 it was introduced in the so-called Kingdom of Poland during the occupation by the Central Powers. In the former Prussian areas there was free trade in salt, but monopoly over salt distribution was introduced in December 1924. Most of the output came from government mines, and the only private salt works functioned in Wapno. Some salt was also manufactured as a side-product in other private firms. In 1920 a lottery monopoly was also established throughout Poland, with slight differences in individual regions, until these were standardized in May 1924. In the years 1918-1921 there was also a temporary sugar monopoly, which was later changed to a duty on consumption.³⁵

In 1926 the value of the tobacco, liquor, salt and lottery monopolies was estimated at 136 million zlotys, that is 26 million US\$.³⁶ The monopoly revenues depreciated because of inflation, but after the Grabski reform they became a stable source of budget revenue. For instance in 1924 the government monopolies gave a total net income of 154 million zlotys or 30 million US\$.³⁷

Before the World War One most of the railways had be-

³⁵ W. MATEŃKO, *Zagadnienie monopolii skarbowych w Polsce* (Problem of State Monopolies in Poland) Warsaw 1939, p. 111-121, 203-206, 358-360.

³⁶ S. KRUSZEWSKI, *Majątek...*, p. 408.

³⁷ W. ROSZKOWSKI, *Kształtowanie...*, p. 226.

longed to the partitioning powers. Railways in Galicia were taken over by the Polish authorities as early as in October 1918, in the Kingdom of Poland in November 1918, and in the Prussian areas from the beginning of 1919 (formally after ratification of the Versailles Treaty in 1920). The take-over of formerly Russian government railways by the Polish government was confirmed in the Polish-Soviet peace treaty signed in Riga in March 1921. The decree of 8, February 1919 separated railway management from the Ministry of Transportation and set up a new Ministry of Railways. In 1924 the Polish government railways covered 16,687 kilometres of track, 5,000 locomotives, 10,200 passenger cars and 131,200 freight cars. Inflation meant that low freight rates stimulated business activity and reconstruction, but aggravated the budget deficit. The Grabski reform raised and stabilized the rates. As a result in 1924 the government railways already earned about 74 million złotych in profits. In 1926 the Polish State Railways (Polish abbreviation PKP) were organized as a commercial enterprise, and its property was estimated at 7,466 million złotych or 1,436 million US \$. The Polish government also possessed inland navigation lines and facilities including the Bydgoszcz Canal, the Ogiński Niemen-Dnieper Canal, the Augustów Biebrza-Niemen Canal and others with a total value of about 340 million złotych, not to count river ports, water craft and repair works.³⁸

The postal service had also been run by the partitioning governments. At first it was taken over by the Polish Ministry of Internal Affairs and from 1919 — by a special Ministry of Post and Telegraphs (Polish abbreviation MPT) which exercised the government monopoly over communication services. In January 1924 this was replaced by the General Administration of Post and Telegraphs within the Ministry of Industry and Trade. In

³⁸ S. KRUSZEWSKI, *Majątek...*, p. 117-130; J. GOŁĘBIEWSKI, *Sektor państwowy w gospodarce Polski międzywojennej* (State Sector in the Polish Interwar Economy), Warsaw 1985, p. 16-24.

1927 the MPT was restored. The whole property of the government post, telegraph and telephones amounted to about 230 million zlotys (44 million US \$) in 1926.³⁹ The initial holding of the Polish government in the Polskie Radio (Polish Broadcasting) company, founded in 1925, was 40%; later this increased.⁴⁰

In 1918 the Polish government had also inherited property rights to landed estates and forests. Some had been the property of the Polish kings and the Polish-Lithuanian Commonwealth. In the XIXth century most of these estates and forests had belonged to the partitioning powers and were owned by their royal families or the German Colonization Commission, the Russian Bank Włociański or as "donations", that is to say the estates were given to Russian or German officials who had been especially active in the suppression of the Polish nation. Altogether in 1926 the Polish government had about 637,000 hectares of farmland. In addition the Ministry of Agriculture and Land Reforms, which administered these estates, possessed 66 mills, 23 brickyards, 6 quarries and some other industrial facilities, as well as experimental farms (Puławy, Dublany etc.) and studs like Sieraków, Janów Podlaski or Sądowa Wisznia. The forests, which were taken over from the Russian, German and Austro-Hungarian authorities, were organized in 1924 under the administration of the Polskie Lasy Państwowe (Polish State Forests) which was subordinated to the Ministry of Agriculture and Land Reforms. In 1930 an independent Chief Administration of State Forests was established. By 1926 the total area of government forests amounted to 2,482,000 hectares.⁴¹

The overall distribution of the capital belonging to the Polish government in 1926 can be found in Table 1. This does not in-

³⁹ S. KRUSZEWSKI, *Majątek...*, p. 136.

⁴⁰ *Encyklopedia historii gospodarczej Polski* (Encyclopedia of Economic History of Poland), vol. 2, Warsaw 1981, p. 85-87, 108.

⁴¹ S. KRUSZEWSKI, *Majątek...*, p. 105-116, 410.

clude government debts. The total national capital of Poland in 1926-27 was estimated by Bohdan Dederko at 143 million złotych, so the government's share would amount to 11.1%.⁴²

Table 1
THE POLISH GOVERNMENT'S PROPERTY IN 1926

Group	Million złotych	Million US \$
1. Non-productive property in government administration	3,364	647
2. Landed estates	559	108
3. Forests	2,681	516
4. Transportation and communication	8,467	1,628
5. Industrial enterprises	347	67
6. Shares in private industry	32	6
7. Monopolies	136	26
8. Banks	75	14
9. Shares in private banks	5	1
10. Mineral resources	278	53
Total	15,944	3,066

Source: S. KRUSZEWSKI, *Majątek państwa polskiego* (The Property of the Polish State), Warsaw 1931, p. 407-410.

The Polish government's intervention in the economy was gradually extending. After the years 1918-1921, sometimes called war statism, inflation continued and so did the government's economic intervention. State intervention was given a new incentive in 1922 when construction of the state armament industry started, the formerly Prussian enterprises in Upper Silesia were taken over and the inflationary credit support system began. The Grabski reform of 1924 did not change this trend. The only example of reprivatization was the establishment of the Bank Polski in place of the government PKKP. Other state banks were reorganized and strengthened and so was the system of monopolies. The government did not succeed in selling any major enterprise while in the stagnation years 1924-26 other

⁴² B. DEDERKO, *Majątek narodowy Polski* (National Property of Poland), Warsaw 1930, p. 9-48.

companies and industrial shares were taken over by the Polish state.

The running of government enterprises in the first years of independence left much to be desired. Although some seemed to increase production, employment and labour efficiency, the government sector was not economically self-sufficient and required subsidies. This is not proof of the inferiority of the government's economic activities, since in the years of reconstruction even private firms were largely stimulated by depreciating credits. The whole Polish economy had been destroyed and its reconstruction was costly. The main problems lay in the excess of bureaucracy and in the inflexible organization structures which made the operational costs of government firms higher than those of private business.

When evaluating the economic efficiency of the Polish state economy of the years 1918-1926 one cannot avoid considering a general dilemma: what was the ultimate goal of government enterprises — profits or the satisfaction of social needs? In private business there were hardly any profits without serving the public and without profits private firms cannot survive too long. Government enterprises could more frequently derive profits from their monopolistic position or special privileges, but could also function without them thanks to budget grants. Generally the government sector more or less satisfied the widely understood social, economic or military requirements, but was costly, inflexible and inefficient.

To some extent this was because at first all receipts and expenditures of government enterprises were included in budget estimates, while most current money operations had to go through treasury channels. The managers of state enterprises were frequently nominated from among administration officials and were subject to provisions of administrative law. At first there was no distinction between public utilities and productive firms, so that the unlimited responsibility of the treasury for the financial activities of state enterprises and easy access to govern-

ment credits and grants eliminated all warnings against symptoms of failure. Tax reductions in these enterprises were frequently treated as a part of profits. Without incorporation it was not possible to change the status of government enterprises.

The idea of commercialization of government enterprises has developed since 1920. For the first time commercial principles were introduced in the statute of government printing works in 1922. In the same year a similar statute was given to the Central Administration of Military Works. In the Grabski reform there were plans for incorporating state railways, monopolies, salt mines and other enterprises. Finally in 1924 all government enterprises were divided into three groups: those controlled directly by state administration (group A), those separated from the budget and entering it only with net results of activity (group B) and the monopolies.⁴³ But it was not until March 1927 that a commercialization law was passed.⁴⁴

The development of state intervention in the Polish economy in the years 1918-1926 had several causes. Firstly, it was an inheritance from the governments of the partitioning powers. Re-privatization of previous government enterprises was unlikely in view of the weakness of Polish private business. Secondly, maintenance of government enterprises was frequently due to strategic reasons: the state had a clear interest in developing armament production in Poland. Government enterprises also kept up employment. Thirdly, even after the termination of war statism in 1921 and even after reconstruction was over, the Polish government needed stable budget revenues. Therefore the system of state monopolies was not only maintained but extended. The development of State intervention in Poland in the first years after independence was therefore not a result of a nationalization programme but of necessity.

⁴³ W. ROSZKOWSKI, *Kształtowanie...*, p. 78-95.

⁴⁴ *Dziennik Ustaw R.P.* (Current Legislation Record of the Polish Republic) 1927, no. 25, item 195.