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Poland, the international monetary system and the Bank of England, 1921–1939

William A. Allen



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and the Bank of England,
1921–1939**

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Abstract

The paper uses archive material, mainly from the Bank of England, to give an account of the relationship between Poland and the international monetary system between 1921 and 1939, as seen from the United Kingdom. It describes the 1923 – 1924 Hilton Young mission of ‘money doctors’ and its role in the establishment of the Bank Polski and the introduction of the złoty in 1924; the abandonment of the złoty’s gold parity in 1925; the tortuous negotiations leading to the stabilisation programme and stabilisation loan of 1927, including the Bank of England’s unsuccessful efforts to induce Poland to accept the oversight of the League of Nations; Poland’s gold purchases after the stabilisation loan; the process of deflation during the Great Depression; the abortive discussions in 1934 – 1936 of the possibility of Danzig, Germany and Poland pegging their exchange rates to sterling; the imposition of exchange restrictions in 1936; debt default in 1937; and the approach of war. It also provides information about the management of Poland’s gold and foreign exchange reserves. The narrative makes clear that it is impossible to understand Poland’s international financial affairs without reference to the international political tensions of the period.

JEL codes: E42, E58, F33, F34, F52, N34, N44.

Keywords: Poland, United Kingdom, international monetary system, Bank Polski, Bank of England, złoty, gold exchange standard, foreign exchange, sterling bloc, exchange restrictions, default, Genoa conference, money doctors, stabilisation, League of Nations, Polish Corridor, Federal Reserve, Bank of France, Reichsbank, J.P. Morgan, Council of Foreign Bondholders, Danzig, Germany, France, Norman, Hilton Young, Grabski, Karpiński, Młynarski, Barański, Koc, Strong, Harrison, Moreau, Niemeyer, Siepman, Schacht, Kemmerer.

List of abbreviations

AHC	Accepting Houses Committee (United Kingdom)
BIS	Bank for International Settlements
BOB	British Overseas Bank
BOE	Bank of England
BP	Bank Polski
CFB	Council of Foreign Bondholders (United Kingdom)
DOT	Department of Overseas Trade (United Kingdom)
ECGD	Export Credits Guarantee Department (United Kingdom)
FBPC	Foreign Bondholders' Protective Council (USA)
FO	Foreign Office (United Kingdom)
FRBNY	Federal Reserve Bank of New York
HMG	His Majesty's Government
GDP	Gross Domestic Product
PKKP	Polska Krajowa Kasa Pożyczkowa
PKO	Powszechna Kasa Oszczędności

1. Introduction

This paper gives an account of the relationship between Poland and the international monetary system between 1921 and 1939, as seen from the United Kingdom. It brings to light information from the Bank of England's archives, and draws also on information from other archives, and on published accounts of related aspects of Polish financial developments in this period.¹ The latter include, in particular, Pease's (1986) exploration of the relationship between Poland and the United States from 1919 – 1933, Lojkó's (2006) description of Poland's financial relationship with the United Kingdom, up to 1925, and Leszczyńska's (2013) account of Polish monetary policy from 1924 – 1936. As all of them implicitly or explicitly acknowledge, no complete account of Poland's international financial affairs can ignore contemporary political developments in Europe.²

Poland, which had disappeared from the map in 1795, regained its sovereignty in 1918 after Russia, Austria and Germany had collapsed and the First World War had ended. Poland's borders with Germany were settled by the Treaty of Versailles (1919), but its other borders were determined only after a series of military conflicts with Soviet Russia and Soviet Ukraine, Lithuania and Czechoslovakia, which continued until 1921. A transitional national currency, the Polish Mark, had been introduced in 1917, and in 1919 it was enacted that the future currency would be the złoty, to be issued by a Bank Polski.

¹ I have photocopied the great majority of the papers in the BOE files (leaving out only those which seem of little or no interest), and some papers from the British National Archives. They are available to view on Google Drive. User name: Polandinterwarproject1; password: Warsaw12. There are also extensive BOE files on Danzig, which I have not copied. Fforde (1992, appendix B) gives an account of the Bank of England's post-1939 relationship with the Bank Polski.

² Rothschild (1974, chs 1 and 2) provides an excellent summary of political events in central and eastern Europe in general, and in Poland in particular.

2. The Brussels and Genoa conferences

The pre-1914 international monetary system had no codified rules. It was based on the gold standard. London was the centre of the world's financial system, and sterling its main currency, because the United Kingdom had large external assets, comfortably larger than its liabilities, and London had the most active financial markets. Moreover the British government was conducted according to classical liberal principles: the government was small, and public spending in 1913 amounted (according to current estimates) to 13% of GDP. The government had very little control over either the volume or the direction of British overseas investment.³

During the war, Britain's net external assets were dissipated, and extensive economic and financial controls were introduced.⁴ In all the belligerent European countries, prices rose greatly. The value of the stock of gold, relative to that of global output and demand, was greatly reduced. After the war, therefore, things were completely different. Nevertheless, there was a widespread desire to return to 'the world of yesterday', at least in monetary affairs. The post-war international monetary system was designed at the Brussels (1920) and Genoa (1922) conferences, but the United States took part in neither.⁵

The Brussels conclusions urged sound public finances, a return to gold and a return to free trade. They acknowledged that some countries would need to borrow for longer than the usual period of commercial credit to re-establish their finances, but rejected the idea of inter-government loans. The more detailed Genoa resolutions reiterated the desirability of currency stability. For European countries, that meant returning to gold, but the choice of parity was

³ Atkin (1970, p 324).

⁴ Morgan (1952, ch II and VII C).

⁵ Nurkse and Brown (1944, ch II), Myers (1945, p 493), Clarke (1973), Sayers (1976, pp 153 – 163), Kindleberger (1984, pp 333 – 336), Orde (1990, pp 104 – 107, 204 – 207), Eichengreen (1992, pp 154 – 162), Schuker (2003), Boyce (2009, pp 38 – 45).

left to their individual discretion. Central banks should be free from political pressure and conducted solely on lines of prudent finance. They should cooperate among themselves, and the Bank of England was enjoined to call a meeting of them to decide how co-operation should be brought about.⁶ Stabilisation of currencies should be preceded by balancing of the government budget; in some countries, however, it was recognised that a stabilisation loan might be needed.

In order to centralise and coordinate the demand for gold, and avoid 'those wide fluctuations in the purchasing power of gold which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves' the Genoa conference advocated an international convention, aimed at economising on gold and thereby mitigating the deflationary pressure that a general return to gold at the old parities would create.⁷ That should embody a gold exchange standard, in which gold would be withdrawn from general circulation and concentrated in central banks. Moreover, central banks would hold not only gold itself but also approved assets denominated in gold-based currencies in their reserves, and would maintain convertibility at a fixed price into gold-based currencies, but not necessarily gold itself. In 'gold centres', however, central banks would ensure convertibility of their currencies into gold itself.⁸ There was in this a great deal of self-interest on the part of the United Kingdom, which intended London to retain a place as a 'gold centre' in the international system alongside New York, to have its currency used as a reserve currency by other countries, and thereby to raise credit more easily to sustain its economy.⁹ Frank Nixon, a former British Treasury official who was at that time the acting director of the League

⁶ The meeting never took place. See Sayers (1976, pp 160 – 162), Cottrell (1997, pp 41 – 43).

⁷ International Economic Conference (1922), Resolution 9.

⁸ Resolution 11, and Hawtrey (1922). Ralph Hawtrey, a British Treasury official, drafted the Genoa resolutions.

⁹ Eichengreen (1992, p 159), Schuker (2003, p 84).

of Nations Economic and Financial Section, was told by several delegates from eastern European countries

‘that they had felt left out of the discussion from the start and had not felt able to introduce the questions in which they were interested. Like Austria, he [Nixon] said, these countries were prepared to subscribe to general statements about sound financial policy, but would only undertake an obligation to apply such conditions if credit were assured at the same time.’¹⁰

Feliks Młynarski, who was for a time Deputy President of the Bank Polski, accurately diagnosed the instability of the Genoa structure, and there are signs that his views influenced the BP’s reserve management policy (see Appendix 2).¹¹

The post-war shortage of gold made it impossible to return to the liberal pre-war financial order, at least in the United Kingdom. Control of capital issues, which had been imposed during the war, was retained afterwards, at some times by statute, and at other times by ‘moral suasion.’¹² And Montagu Norman, the Governor of the Bank of England since 1920, aspired to govern not only the Bank of England but also the financial reconstruction of Europe.

¹⁰ Orde (1990, pp 204 – 205).

¹¹ Młynarski (1929). Eichengreen (1992, p 203) identifies Młynarski as a precursor of Robert Triffin.

¹² Atkin (1970).

3. Inflation, the Hilton Young mission, and the advent of Grabski, 1923-1924

Poland, like other countries in central Europe, experienced hyper-inflation in the first half of the 1920s, owing to the government's inability to balance its budget in times of military conflict.¹³ The Polish mark depreciated by 449% against the dollar in 1922, and by 24,260% in 1923.

At the beginning of February 1921 the Polish government approached the British Legation in Warsaw about the possibility of appointing a British financial adviser, 'owing to the lack of anyone capable of managing the finances of this country.' The adviser would be offered the post of Assistant Manager of the note-issuing bank, the Polska Krajowa Kasa Pożyczkowa (PKKP), which would in future become the Bank of Poland; he would be 'intrusted with the management of all affairs connected with foreign exchange, the Warsaw exchange, import, export and banking. The invitation resulted from discussions between R.E. Kimens, the commercial secretary at the British Legation in Warsaw, and the Polish government; Kimens thought that Prime Minister Wincenty Witos and Finance Minister Jan Kanty Steczkowski had overcome domestic opposition to it.¹⁴

The Foreign Office invited Lieutenant Commander Hilton Young, M.P., D.S.O., to take the post. In their letter to Young, they said that 'as a party to the Treaty which brought the state of Poland into existence, His Majesty's Government assumed a certain moral obligation to assist her so far as they reasonably could to overcome the extraordinary difficulties with which she was inevitably to be confronted.'¹⁵ Young accepted, but said that he did not want to devote more

¹³ Zweig (1944, pp 33 – 38), Leszczyńska (2013, ch 2).

¹⁴ Max Muller – F.O., 3rd February 1921, NA T160/110/8.

¹⁵ Paraphrase of telegram to Mr Max Muller; Gregory – Hilton Young, 1st March 1921, both attached to F.O. – Treasury, 18th March 1921, NA T160/110/8.

than two or three months to the job.¹⁶ However, Young was appointed Financial Secretary to the Treasury on 2nd April 1921 and as result could not take up the invitation to Poland.¹⁷ Efforts to find a replacement evidently failed.

William Max Muller, the British Minister in Warsaw, had ‘tentative discussions’ in 1922 with the Polish Foreign Minister, Gabriel Narutowicz, about appointing a British financial adviser. Young, having ceased to be Financial Secretary to the Treasury in October 1922, again agreed to accept the job, but was then appointed to be National Liberal Chief Whip in the House of Commons. For a long time, the government looked for alternative candidates. Both John Gregory (Foreign Office) and Otto Niemeyer (Treasury) thought it important that the adviser should be somebody already well-known. Young, asked yet again, declined initially, but Niemeyer persuaded the Prime Minister, Stanley Baldwin, to write to him urging him to accept. Young agreed in August 1923 to go to Warsaw for two months only, and added that he would need to be accompanied by one or two specialists.¹⁸

In the meantime, when Narutowicz’s successor, Count Skrzyński, visited London in March 1923, the Foreign Secretary, Lord Curzon, ‘referred no fewer than three times to the appointment of a British financial adviser to assist in the rehabilitation of Poland’s finances.’ Skrzyński saw the adviser’s functions as extending beyond giving advice to restoring Polish credit in the world’s money markets so as to facilitate an external loan.¹⁹

¹⁶ Hilton Young – Gregory, 1st March 1921, attached to F.O. – Treasury, 18th March 1921; O’Malley – Fass, 29th March 1921, NA T160/110/8. This account of the Hilton Young mission supplements those of Orde (1990, pp 276 – 278) and Lojkó (2006, chapter 6.2 – 6.4).

¹⁷ “General Post”, 2nd April 1921, TDA.

¹⁸ Gregory – Niemeyer, 21st April 1923; Gregory – Niemeyer, 2nd May 1923; Niemeyer – Gregory, 23rd May 1923; Niemeyer – Gregory, 20th June 1923; Baldwin – Hilton Young, 7th August 1923; Hilton Young – Baldwin, 14th August 1923, NA T160/110/8.

¹⁹ Max Muller – F.O., 6th April 1923; Gregory – Niemeyer, 21st April 1923; Niemeyer – Gregory, 24th April 1923; Gregory – Niemeyer, 2nd May 1923; Niemeyer – Gregory, 23rd May 1923, NA T160/110/8.

It was quickly agreed that J.H. Penson would join Young's mission. Niemeyer noted that he had specialised for several years in Polish finance, spoke Polish and Russian, and 'knows everyone there.'²⁰ It proved harder to find a currency expert. The eventual solution was to take two people: Frank Nixon of the League of Nations, and H.A. Trotter, a former Deputy Governor of the Bank of England.²¹ Hilton Young and Trotter were unpaid, while Penson and Nixon were paid by the Polish government.²²

In London, the Polish government made inquiries with J.P. Morgan about possible government borrowing.²³ Norman's diary records a meeting on 15th September, with Arthur Gairdner of British Overseas Bank 'and 2 Poles', and notes '20 mins gossip. They sh^d [should] follow advice of JPM [J.P. Morgan] & Co.'²⁴ It was widely accepted in Poland, following Genoa, that currency stabilisation would require a new central bank, and Morgan had advised that capital equivalent to 150 million Swiss francs would be needed.²⁵ The Finance Minister, Władysław Kucharski, who visited London in October, went so far as to announce, not credibly, that Poland had reached an agreement with J.P. Morgan about the founding of such a bank with a capital of \$30 million (155 million Swiss francs), with a syndicate of British financiers, in which Morgan would participate. Kucharski intended that the state should hold no more than 25% of the capital.²⁶ Kucharski also sought, separately, a loan of \$50 million to provide finance over the period until the budget could be balanced. Norman

²⁰ Niemeyer – Hilton Young, 16th August 1923; Phillips – Rowe-Dutton, manuscript note, 24th August 1923, NA T160/110/8. Penson later co-edited the Cambridge History of Poland (1941).

²¹ Hilton Young – Niemeyer, ms, 24th September 1923; Niemeyer – Nixon, 25th September 1923, NA T160/110/8; Oxford Dictionary of National Biography. Norman suggested Trotter (Norman's diary, 20th September 1923, BOE ADM 34/12).

²² Niemeyer – Lindsay, 5th October 1923, NA T160/110/8.

²³ Pease (1986, p 17), Lojkó (2006, pp 307).

²⁴ Norman's diary, 15th September 1923, BOE ADM34/12.

²⁵ Leszczyńska (2013, pp 103 – 104), Lojkó (2006, p 307).

²⁶ *Manchester Guardian*, 1st October 1923; *Morning Post*, 5th October 1923, BOE OV 110/21.

told him, however, that ‘any negotiations must necessarily depend on the outcome of Commander Hilton Young’s mission of investigation.’²⁷

The Hilton Young mission of ‘money doctors’ arrived in Warsaw on 7th October 1923.²⁸ In that month, the average price of dollars in Polish marks was about three times what it had been in September. The mission was in principle independent of the British government, but the government, in particular Niemeyer, took a very close interest in it. Young ‘formed an early opinion that in the present state of the country’s finances the only way in which these vicious [inflationary] circles could be broken was by a heavy blow upon the weak point of expenditure.’ He was shown a draft budget for 1924, ‘which professed to balance at 1550 million gold francs... It appeared to me that these budgets had no relation whatever to realities.’ He put these opinions ‘before, in turn, M. Kucharski, M. Witos, and the President’, and said that the maximum sustainable budget would be about 900 million gold francs. The draft budget was withdrawn and a new one produced, in which expenditure was 1,089 million gold francs and revenues 1,112 million gold francs. Despite Young’s objections, the budget was introduced on that basis. At Young’s suggestion, Kucharski stated in his budget speech that if the budget went off track, he would use his powers to restrict expenditure further. Meanwhile, the Minister of Military Affairs, General Stanisław Szeptycki, had resigned on account of prospective cuts in his budget.²⁹

Young repeatedly advised Kucharski to postpone the establishment of a central bank and the issue of a new currency until after the balancing of the budget ‘was an accomplished fact, or at least well on the road to being so.’ This advice cannot have been unexpected: Polish economists, including Zygmunt Karpiński and Feliks Młynarski, had explained that a balanced budget was a necessary

²⁷ Lojko (2006, pp 307–308).

²⁸ Max Muller – F.O., 14th October 1923, NA T160/174, Leszczyńska (2013, pp 111–117).

²⁹ Hilton Young – Kucharski, 29th October 1923; Max Muller – F.O., 31st October 1923, T160/174.

precondition for a stable currency. The government, however, was impatient to stabilise the currency in order to neutralise attacks from the opposition. Reading in the press that the government was preparing the necessary legislation and intended to introduce it to the Sejm before the end of November, Young threatened to abandon his mission.

It became certain on 12th November that there would be a general election in Britain. Young had to return, so as to defend his seat in Parliament (he lost it). He told Prime Minister Wincenty Witos that he would leave Nixon and Penson in Warsaw to continue their work, 'provided that he received an assurance from the Government that they would abandon the idea of introducing the bills for the Bank of Emission and the new currency.' He received no such assurance initially, but at the last moment Witos gave way and agreed to postpone the legislation until the budgetary situation would permit.³⁰

Nixon took charge of the mission during Young's absence. He and Penson did much useful work in assisting the improvement of customs revenue and tax collection.³¹ Tensions about the establishment of the bank of issue persisted, and Nixon unsuccessfully requested the early return to Warsaw of Young and Trotter.³²

On 19th December, the Witos administration was replaced by a non-parliamentary government led by Władysław Grabski, who was both Prime Minister and Minister of Finance.³³ Nixon wrote to Young that Grabski 'had no programme beyond the reform of the finances'; in other words, he had the same programme as the Hilton Young mission. In January 1924 the Sejm awarded Grabski special authority for six months to carry out his reforms,

³⁰ Max Muller – F.O., 14th November 1923, NA T160/174, Leszczyńska (2013, pp 104 – 105).

³¹ Nixon – Hilton Young, 24th December 1923, NA T160/174.

³² Leeper – F.O., 6th and 8th December 1923, NA T160/174.

³³ Polonsky (1972, pp 117 – 122) describes Grabski's accession to power, and Heydel (1939) gives an appreciation of his career.

enabling him to take any financial measure without consulting it. Grabski had wanted a year, and he had to hurry. Nixon quickly made contact with Grabski, and evidently won his confidence and became a close and trusted adviser: between 7th and 22nd January, he had nine meetings with Grabski, who told Nixon that he ‘wishes in future to consult with us on every decision of importance.’³⁴

Nixon and Penson reported in early January that Grabski would not try a new currency until the budget was balanced, and that he was enthusiastic about the idea of foreign experts reorganising the financial administration; Nixon told London that the need was urgent.³⁵ However, by 14th January the position on the currency seemed to have changed: Grabski regarded the statutes of the bank of issue as ‘already agreed’ but was willing to take further advice and review them if necessary.³⁶

Meanwhile, in England, Hilton Young himself had been drawing up a plan for the extension of the mission. The key provision was that:

‘All laws, decrees and other proposals for financial action will be shown to the mission in order that they may have an opportunity of tendering advice before action.’³⁷

By the time Young wrote these words, Nixon and Penson had achieved the ambition that they expressed, and all the influence that the British government could realistically have hoped for on the affairs of a foreign country.

³⁴ Nixon – Hilton Young, 24th December 1923, NA T160/174; Leszczyńska (2011, p 19); Morawski (2004, p 16); Nixon, ‘Interview with Mr. Grabski, January 7th, 1924’, NA T160/174. Nixon recorded the meetings and the records are in NA T160/174.

³⁵ Penson – Niemeyer, 2nd January 1924; Leeper – F.O., 8th January 1924, NA T160/174.

³⁶ Nixon – Hilton Young, 15th January 1924, NA T160/174.

³⁷ Hilton Young, ‘Proposed financial mission to Poland’, 20th January 1924, NA T160/174.

Young told Nixon that, when he returned to Warsaw, he did not intend to stay any longer than necessary to establish the basis of the extended mission.³⁸ He arrived on 25th January after ten weeks' absence, and met Grabski the same day. He did not invite Nixon to the meeting. Grabski told Young that he did not intend to appoint a financial mission or a financial adviser at the present time; he might however ask for a manager for the central bank, and an adviser on government accounts or funding.³⁹ As reported later by Rex Leeper of the British Legation in Warsaw, Young 'gathered that [Grabski] had changed his opinion and no longer favoured the opinion that the mission's work should be extended to an examination of the whole administrative apparatus.' Young suspected that Grabski's change of mind had been influenced by France, but cited no evidence. Leeper urged Young to speak to Grabski again, but Young declined to do so, and was not prepared to contemplate any official assistance short of a financial mission or adviser. Young concluded that 'the only course open to him was to produce his report, wind up his mission and return home.' Leeper raised the subject of Grabski's change of mind with the Polish Foreign Minister, Karol Bertoni, but to no avail.⁴⁰ Nixon resigned from the mission.⁴¹

The report, dated 10th February, recommended a balanced budget and discussed how it could be achieved. Until the budget was durably balanced, it would be premature to introduce a new currency. External borrowing would not be possible unless Poland was willing to concede to the lenders some degree of foreign control over its finances. The central bank should be wholly privately owned and should hold as large as fund as possible of currencies with stable exchange rates – 'dollars, sterling and so forth, to be used as reserve for the protection of Polish currency from undue fluctuation in exchange value.'⁴²

³⁸ Hilton Young – Nixon, 14th January 1924, NA T160/174.

³⁹ Hilton Young – Niemeyer, 25th January 1924; Hilton Young – Gregory, 27th January 1924, NA T160/174.

⁴⁰ Leeper – F.O., 30th January 1924, NA T160/174.

⁴¹ Nixon – Niemeyer, 3rd February 1924, NA T160/174.

⁴² Lojkó (2006, pp 310 – 313); pp 59, 61 and 65-69 of typescript of report.

Of course the fund of currencies could be obtained by borrowing if the other conditions were fulfilled.

Grabski told Max Muller on 5th February that the Polish government wanted ‘a limited number of financial experts to assist in directing the work of certain branches of the fiscal administration, and not a mission with a financial adviser at its head, such as he gathered Commander Hilton Young now considered indispensable.’ Max Muller made it politely clear in his *post-mortem* report to London that he thought Young had been unreasonably intransigent.⁴³

Grabski, in his memoirs, had nothing good to say about the mission.⁴⁴ He could reasonably have said that the mission’s recommendation to delay creating a new currency until he had balanced the budget was unwelcome, conveyed disrespectfully by Young, and perhaps unrealistic in the political environment of the time. Most important, it did not lead to the much-desired loan. Nevertheless the recommendation was well-founded, as became apparent in 1925.

Back in London, Nixon called on Norman for 1¾ hours on 22nd February. Norman’s record of the discussion about sending advisers to Poland ended with the following questions:

‘Is this a feasible scheme and are we willing to give it moral support?

Is it wise to leave Poland derelict and helpless?

Should we come into collision with Germany or with France?’⁴⁵

He reported to the BOE Committee of Treasury on 27th February 1924 that according to Nixon:

⁴³ Max Muller – F.O., 6th February 1924, NA T160/174.

⁴⁴ Grabski (1927, pp 12 – 14).

⁴⁵ Norman’s diary, 22nd February 1924, BOE ADM34/13; ‘Bank Polski: history of relations’, 31st December 1927, BOE OV110/24.

‘conditions generally in Poland were very unstable and...the real reconstruction of that country could best be brought about in the first place by building up a Civil Service which at present did not exist.’⁴⁶

The Bank of England believed that ‘the advice given by the Hilton Young mission was almost entirely disregarded and as regards the foundation of the State Bank the Poles, in the words of Sir Otto Niemeyer of H.M. Treasury in a letter of the 17th April 1924, “proceeded entirely contrary to that advice.”’⁴⁷ Niemeyer was guilty of grotesque exaggeration. It is true that Grabski set up a new central bank before balancing the budget, but on the most important issue, Grabski followed the mission’s advice by cutting state expenditure, increasing taxation, and valorising taxation on a gold basis. These changes were the foundation of Poland’s eventual financial stabilisation.

British commercial banks had also taken an interest in Poland. Above all the British Overseas Bank (BOB), which had been founded in 1919, established the Anglo-Polish Bank in Warsaw in 1920, in co-operation with A. Peretz and Co. of Warsaw, and took a stake of over 50%. BOB for example helped finance the annual sugar crop with credits of £2 million in 1924 and £3 million in 1925, at 10% interest.⁴⁸

Poland obtained a military loan from France in January 1924, which appears to have been for a maximum amount of Fr. Fcs. 400 million, of which Poland renounced 100 million in April 1925 when the Dillon loan had been agreed (section 4).⁴⁹ The British Treasury resented the loan, because France was at the same time claiming that it could not settle its wartime debts to the United Kingdom.⁵⁰

⁴⁶ Committee of Treasury minutes, 27th February 1924, BOE G8/55.

⁴⁷ ‘Bank Polski: history of relations’, 31st December 1927, BOE OV110/24.

⁴⁸ ‘City news in brief’, 5th September 1919; ‘City notes’, 11th March 1920; ‘British loan to Polish sugar industry’, 23rd February 1925; ‘City notes’, 26th February 1925; all in TDA; Landau and Morawski (1995, p 361).

⁴⁹ Press cutting, ‘French loan to Poland’, 1st May 1925, BOE OV110/21.

⁵⁰ Schuker (1976, pp 98 – 99), Orde (1990, p 276).

4. The foundation of the Bank Polski and the first stabilisation programme, 1924–1925

The Bank Polski was set up, the PKKP closed, and the złoty established as Poland's currency, in April 1924.⁵¹ The BP's statutes took some account of the conclusions of the Genoa conference: they provided that the note circulation had to be backed at least 30% by gold (coins and bars) as well as foreign currencies (and certain instruments denominated in those currencies) not subject to major exchange rate variations – i.e. fixed to gold.⁵² They did not, in practice, ensure that the BP would be free from political influence.⁵³ The złoty's prescribed gold value was the same as that of the Swiss franc. The first President of the BP was Stanisław Karpiński. At the end of 1924, the currency circulation, including currency issued by the Treasury, was zł 24 (about £1) per head of population.

The BOE's early relations with the BP were largely confined to opening an account for it, and to undertaking foreign exchange transactions for it in London. These activities are described in sections 11 and 12.

In November 1924, an internal BOE analysis foresaw a budget deficit for the year of 'not more than 75 million zlotys.'⁵⁴ Poland was anxious to borrow abroad. In September 1924, the Bank Gospodarstwa Krajowego (National Economic Bank) contracted to issue a bond for \$9.7 million nominal arranged by Ulen and Co of New York to finance public works projects. It was expensive: 8% interest and 15% commission to Ulen. After tortuous negotiations, in February 1925 Poland secured a loan of \$50 million at 8% in New York, arranged by Dillon, Read and Co, who were regarded in New York as less-than-

⁵¹ Its foundation and history are described by Leszczyńska (2011). Von Thadden (1994) and Polanski (2017) describe Poland's monetary policy in this period.

⁵² Leszczyńska (2011, p 21)

⁵³ Landau (1997, pp 76 – 78).

⁵⁴ 'Poland', 7th November 1924, BOE OV110/21.

conservative upstart investment bankers. \$35 million would be available immediately; as to the remainder, Dillons retained an option to offer the bonds on 1st August. Moreover, Dillons extracted, and subsequently enforced, a promise from Poland to purchase up to \$7.5 million of any unsold bonds.⁵⁵

Norman discouraged lending to the Polish government, but he drew a distinction between the government and the central bank. On 23rd January 1925, C.F. Whigham of Morgan Grenfell and Co., the London bankers, sent to J.P. Morgan and Co in New York a cable conveying Norman's views about Poland:

'Have seen Governor [Norman] who tells me that Bank of Poland was established after consultation with an advisory Committee which went out from here and included such names as Hilton Young and H.A. Trotter formerly Deputy Governor of Bank of England. The Polish authorities did not in fact adopt in their entirety the recommendations of this advisory Committee but upon the representation of the Polish authorities that they had endeavoured to do so as far as was politically possible the Governor consented to open at the Bank of England an account for the Bank of Poland...

As regards general conditions Poland is probably in for a troublous time politically and in every way and it would be inadvisable to consider granting any financial facilities to the Polish Government. The Governor however draws a clear distinction between the Government and the Central Bank. Whatever troubles there may be ahead the present conglomeration known as Poland with its large population must have some economic life and among the necessary means to this end is a Central Bank. It is also desirable that the Central Bank should have affiliations with the Central Banks in other countries or where this may be for some reason impracticable with the next most suitable banking

⁵⁵ The negotiations and the unhappy fate of the loan are described by Pease (1986, ch II).

institution or firm. Through such affiliations much good influence may be brought to bear upon the Polish situation by those in other countries who are working in the cause of general economic reconstruction in Europe.

To sum up the Governor feels that Poland as a nation has before it every kind of trouble. He would not be prepared to grant facilities to the Polish Government.⁵⁶

In February, Grabski sent a negotiator to the League of Nations, but the secretary-general told him that any credit would be bound to the agreement of the Bank of England and the establishment of an independent controller at the Polish Ministry of Finance. There was some debate in Poland about whether to ask for the League's assistance, but Grabski was opposed.⁵⁷

On 20th May, Karpiński wrote to Norman asking if the BOE would be willing to make short-term seasonal advances to the BP against the collateral of gold, which was to remain in Poland but under the control of the BOE.⁵⁸ Norman proposed, in reply, advances secured one thirds by gold and two thirds approved foreign bills. The gold would have to be shipped to London.⁵⁹ Karpiński asked whether the shipping of gold to London was unavoidable. Norman's reply left open the possibility of a loan secured entirely by bills, and, seemingly *à propos* of nothing, expressed the hope that Karpiński 'would be able to report that relations between your country and the City of Danzig are developing towards a satisfactory settlement at an early date.' Karpiński took the trouble to write back to Norman, acknowledging his letter and reporting substantial increases from 1913 levels in Danzig's trade.

⁵⁶ 23rd January 1925, BOE OV110/21.

⁵⁷ Von Thadden (1994, pp 158 – 159), citing Grabski (1927). The secretary-general was a British diplomat, Sir Eric Drummond. Zweig (1944, p 39) describes the debate.

⁵⁸ Karpiński – Norman, 20th May 1925, BOE OV110/21.

⁵⁹ Norman – Karpiński, 28th May 1925, BOE OV110/21.

On 6th July, Norman wrote to Karpiński to say that Benjamin Strong, the Governor of the Federal Reserve Bank of New York, would be in London at the beginning of September and suggesting that Karpiński might himself come to London then to 'exchange views'.⁶⁰ Karpiński declined the invitation in a letter of 17th August, on the grounds that in the absence of his deputy, he could not leave Warsaw even for a short time. He noted that Poland's adverse trade balance had caused Poland's reserves to fall and that the złoty had depreciated.⁶¹

Meanwhile the banking situation in Poland had deteriorated. R.E. Kimens, the commercial secretary to the British Legation in Warsaw, reported that in 1924, owing to the stabilisation of the currency, banking operations, which had earlier been to a large degree speculative, had been placed on a 'sounder basis'; while there had been 'practically no failures', some banks had gone into liquidation and others had amalgamated.⁶²

On 30th May 1925, Feliks Młynarski, vice-president of the BP, sent to Norman a copy of a booklet he had written, drawing attention to 'the connection between the reform of the currency in Poland and the results of the Genoa Conference, which at present, when England returns to the gold standard, are taking a new significance.'⁶³ Norman's reply stressed the importance of budget balance and, noting that the outturn for 1924 in Poland depended on non-recurrent receipts such as a capital levy, wondered whether those receipts could be replaced by sustainable revenues.⁶⁴ Młynarski said that public spending could be cut if

⁶⁰ Karpiński – Norman, 9th June 1925; Norman – Karpiński, 20th June 1925; Karpiński – Norman, 2nd July 1925; Norman – Karpiński, 6th July 1925, BOE OV110/21.

⁶¹ Karpiński – Norman, 17th August 1925, BOE OV110/21.

⁶² 'Polish banking', Daily Telegraph, 20th May 1925, BOE OV110/21.

⁶³ Młynarski – Norman, 30th May 1925, BOE OV110/21. Britain returned to the gold standard in April 1925.

⁶⁴ Norman – Młynarski, 5th June 1925, BOE OV110/21.

necessary, and that the revenues from the capital levy could be replaced by state monopolies and internal loans. He added:

‘If the stability of the zloty will remain firm for three years, new capital will appear on the market created by economic life in sound currency conditions. Hence not only the budget secures the stability of the currency but vice versa the stability of the currency secures the budget.’

Młynarski also delivered a prescient warning:

‘I think that, as long as Europe remains in a state of economic disintegration and has to bear the supremacy of the redundant gold holdings of the United States, no stabilisation can be considered permanent. Let us take Germany, for instance. The trade balance of Germany, from the 1-st of October, 1924, to the 30th of April, 1925, discloses a deficit of 3119 million marks. If the influx of foreign credit should be stopped, could the stabilisation of the mark be considered to be a permanent one?’⁶⁵

When the government could find no other form of financing, it was able to issue Treasury notes or token coins (Figure 1).⁶⁶ This facility, initially intended to be temporary, violated the principles of the gold standard, because the Treasury currency was not backed by gold.⁶⁷ The amount outstanding rose from zł 123 million at the end of 1924 to zł 244 million at the end of June 1925 and zł 433 million at the end of December 1925. In June 1925, as its reserves dwindled, the BP ceased accepting Treasury currency in payment for sales of foreign exchange.⁶⁸

⁶⁵ Młynarski – Norman, 1st July 1925, BOE OV 110/21.

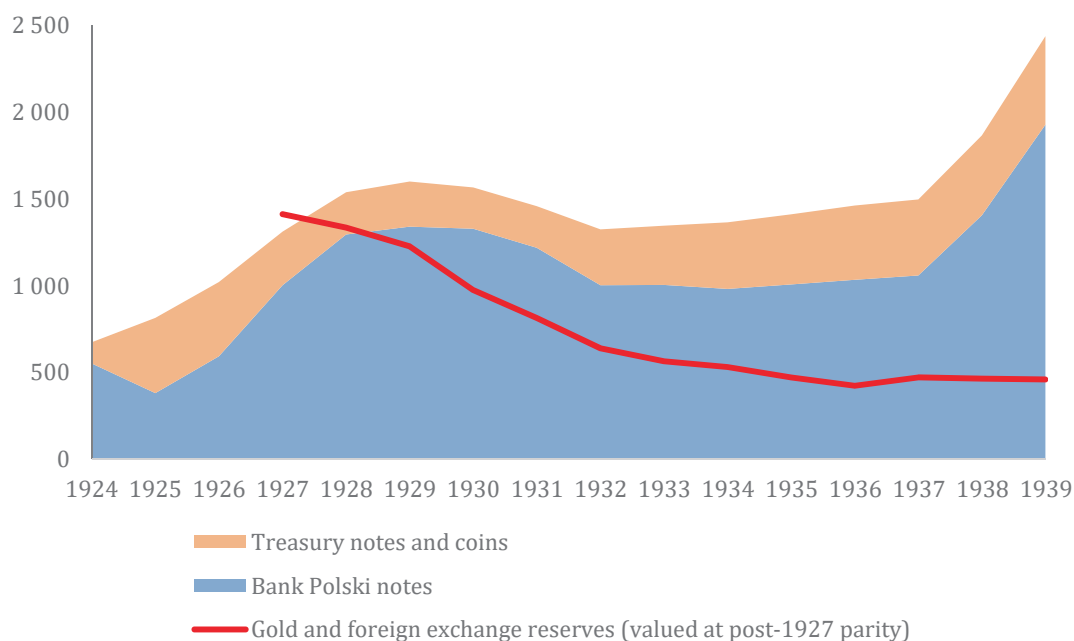
⁶⁶ Until 1929, the currency issued by the Treasury was in the form of coins and small denomination notes; from 1930 it was only in the form of coins.

⁶⁷ Leszczyńska (2013, p 120).

⁶⁸ Młynarski (1926, pp 7, 13 – 14).

Figure 1

Currency issued by Bank Polski and by the Treasury,
and gold and foreign exchange reserves, 1927–1939
(zł millions)



Sources: Karpiński (1958, pp 236 – 237); *Concise Statistical year book of Poland*, Sep 1939 – Jun 1941, Polish Ministry of Information, London 1941; *Mały Rocznik Statystyczny* 1938, Warszawa 1938. The data for 1939 relate to 20th August (currency) and 30th June (gold and foreign exchange).

As its reserves fell, the BP adopted a more restrictive lending policy, but cut its discount rate from 12% to 10% to support the economy; moreover tariffs were increased and other discouragements to foreign payments introduced.⁶⁹ It is clear that there was a conflict between domestic objectives and maintaining the price of gold.

On 21st July, Jerzy Zdziechowski, then the reporter-general on the Budget in the Sejm, called on the Deputy Governor (Sir Alan Anderson) and Comptroller (Sir Ernest Harvey) of the Bank of England, Norman being away. ‘He [Zdziechowski] said the return to the Gold Standard after a period of inflation must hurt

⁶⁹ Leszczyńska (2013, ch 3.4).

balance of trade at first and it had hurt theirs, but they had succeeded in balancing their budget for the first five months of 1925... What he wants, to cut a long story short, is a Loan. I [probably Anderson and not Harvey] told him our Loan counter was closed for the moment.⁷⁰ At this time an embargo on foreign loans was in operation to protect the Bank of England's reserves following the return of the pound to the gold standard, which had taken place in April.⁷¹

⁷⁰ 'Interview with Mr. Zdziechowski', 21st July 1925, BOE OV110/21.

⁷¹ Atkin (1970, p 330).

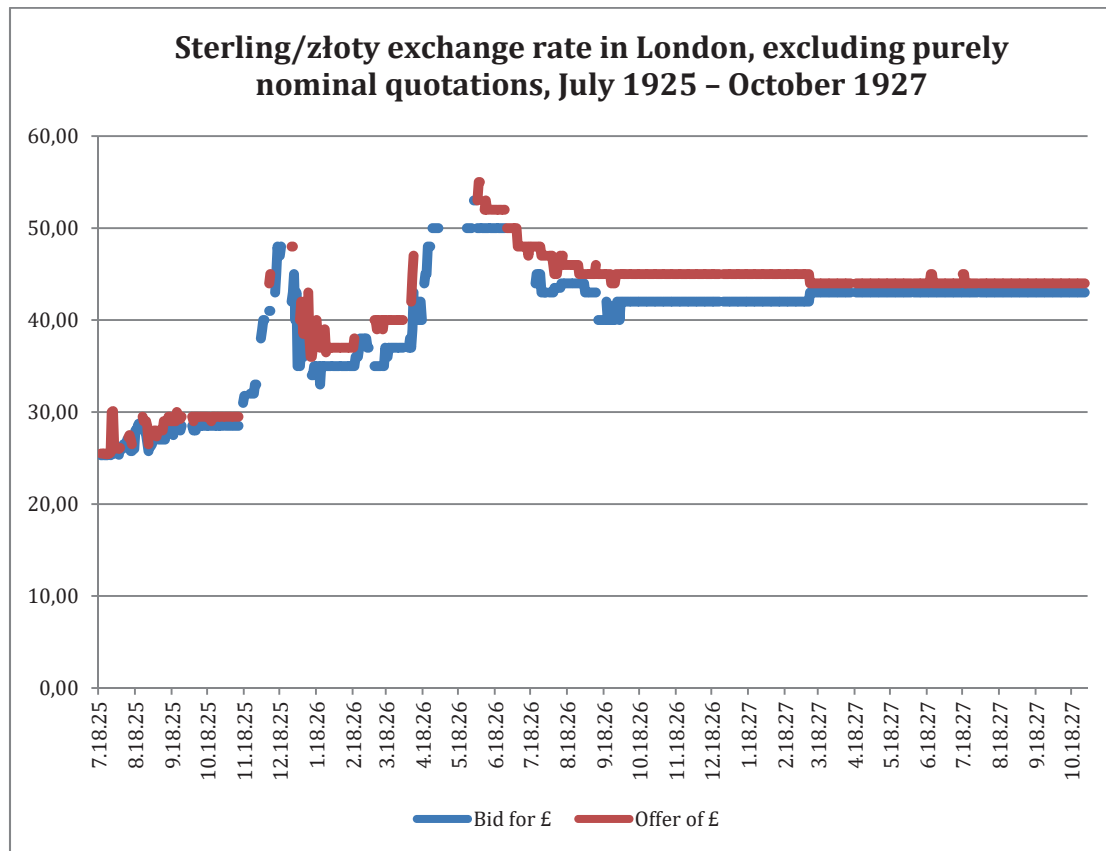
5. The depreciation and re-stabilisation of the złoty, and the loan negotiations, 1925–1927

The initial depreciation of the złoty: July – November 1925

The złoty began to depreciate on 27th July 1925 (Figure 2). On most days until 13th November a two-way złoty sterling rate in London was reported in *The Times* newspaper: on 13th November the rate was 28.50 – 29.50 (zł per £), compared with 25.30 – 25.40 on 25th July: a depreciation of about 16%. Between 31st July and 20th November, the BP's disclosed gold and foreign exchange reserves fell by zł 20 million, despite drawings on loans including \$10 million from the Federal Reserve Bank of New York, negotiated in August, 20 million Swiss francs from the Swiss Bank Corporation, and \$6 million from the Swedish Match Corporation, finalised in September, secured on the match monopoly in Poland. The BP was supporting the złoty at a somewhat depreciated level.⁷² The note cover ratio (statutory minimum 30%) fell from 52.3% on 10th July to a low point of 43.9% on 20th August.

⁷² Smith (1936, pp 153 – 155), von Thadden (1994, pp 159 – 165). On the Federal Reserve loan, see Pease (1986, pp 53 – 54), on the Swiss Bank loan, see Leszczyńska (2013, p 151).

Figure 2



Source: TDA.

Early attempts to borrow

After the late-July depreciation of the zloty, Grabski believed that only foreign credits could help to avoid further depreciation. He approached the League of Nations again, but again, the terms offered were unacceptable to him since they included a British controller in the Polish Finance Ministry and possibly also at the Bank Polski.⁷³ Polish officials continued trying to raise money, including from the Bank of England and the Federal Reserve. Młynarski visited the BOE on 31st August and 1st September: Strong was visiting Norman at the time, and Młynarski saw them together on 1st September (presumably this was the meeting that Karpiński had declined). The BOE archive contains a 22-page document, which according to the note written on it in pencil, in Norman's

⁷³ Von Thadden (1994, p 161) citing Tomaszewski (1961, p 18).

handwriting, was 'from M. Mlynarski, Aug 31 25 (also BS).'⁷⁴ It consists of a description of the BP and its establishment and by-laws, its independence from the State Treasury, recent budgetary developments, its balance sheet, the effect of BP actions on the Polish economy, the deterioration of the trade balance in 1924 and the first half of 1925, and the prospects of an improvement. It speaks of 'sound foundations', but goes on to say that the stabilisation of the zloty is obstructed by the shortage of gold and foreign currencies. 'The supply on hand of foreign currencies dropped to ninety-one million zloty' – about £3¼ million. It continued:

'With the continued shrinkage of the supply of foreign currencies at the disposal of the Bank the reserve ratio will decrease and the Bank of Poland will be compelled further to curtail the circulation of its bank notes and to cancel its discount credits... As it is, the opinion is prevalent in Poland that while the Polish currency stands at par with gold currencies of other countries, this Polish currency is nothing but a "cross of gold" to which the Bank of Poland is trying to nail the Polish Body Economic.

The situation of the currency in Poland would present an entirely different aspect if the Bank of Poland had at its disposal a special foreign reserve credit intended exclusively for the purpose of making permanent the stabilisation of the currency, and for unforeseen developments such as poor crops, etc.'⁷⁵

The note constitutes a sophisticated loan application, and Norman called Mlynarski a 'nice theorist' in his diary note. However, the loan application was

⁷⁴ 31st August 1925, BOE OV110/21. BS was Benjamin Strong, who was visiting London. Lojkó (2006, p 315) does not attribute the 22-page note to any author, but I believe it is Mlynarski's work.

⁷⁵ 31st August 1925, BOE OV110/21. Emphasis in original.

rejected the following day. Norman's account is worth quoting in full, because of what it reveals about his attitudes:

'B.S. [Strong] and I had various talks with M. Mlynarski. His sole immediate object was to get a credit, if possible, for two years against Polish Treasury Bills. This proposal we both declined even to consider. The Federal Reserve Bank have already given a credit against gold, which he accepted simply for its psychological effect in Poland, and I said that I could not go beyond the suggestions in my letter to M. Karpinski of the 28th May.

B.S. had a meeting with M. Mlynarski and Logan with the object of a credit from Dillon, Read & Co. pending the issue of the further \$15 million Polish Bonds: Logan is in communication with New York on this subject.

Mlynarski came in to say good-bye, and when he was alone with me asked if there were any steps which his country could take to get the financial help they so sorely needed. He thought his Government would do anything in its power to this end. I said to him as man to man that the Public of this country and probably in America too were dissatisfied with the *geographical and* political conditions of Poland – the alliance with France, the big Army, &c. and with the way she seemed to behave to her neighbours, e.g. Danzig and the Post Boxes. In any case her geographical position between Russia and Germany was a difficulty and a danger. I thought it would be scarcely possible to raise money until this feeling had passed away: it might be improved if the Pact is accepted. Meanwhile I suggested as a possible means that the League should be asked to establish a permanent Commission in Poland, more or less on the lines of the Greek Refugee Commission, ostensibly for the purpose of collecting hypothecated revenues and co-operating in financial matters generally,

especially with the Bank Polski. I thought this might give a feeling of security in this Market, and if the Commissioner were to be an American in the American Market as well.’⁷⁶

Leon Barański, who was a Ministry of Finance official in the 1920s, much later claimed that there had been a misunderstanding between Norman and Młynarski: Norman wanted foreign bankers to control ‘tariffs’, by which he meant customs tariffs, but Młynarski thought he meant railway rate tariffs. Chase National Bank made the point clear and their later negotiation succeeded.⁷⁷

Norman’s diary for 1 September describes Młynarski as an ‘earnest theoretical German-hating enthusiast.’ Poland wanted to avoid the League of Nations for fear that it carried the stigma of destitution and receivership, and that a loan from the League of Nations might be used as a means of advancing Germany’s territorial claims.⁷⁸ Norman’s account of his discussion provides evidence that the latter fear was warranted. And Norman, replying to a letter from Sir William Goode, who had just been appointed an adviser to the Polish government, which drew parallels between Poland and Hungary, noted that Poland had ‘a very solitary and isolated existence’ outside ‘the League’s family.’⁷⁹ Goode called on Norman on 13th October but according to Norman only ‘talked generally.’⁸⁰

⁷⁶ Norman, 4th September 1925, BOE OV110/22. The two italicised words were added to the typescript in manuscript, in Norman’s handwriting. ‘Post boxes’ referred to the dispute over the Polish postal service in Danzig, which was a manifestation of Polish-German tensions in the Free City. See ‘The Danzig dispute’, TDA, 17th January 1925; Mason (1946, pp 153 – 154). James A. Logan was associated with Dillon Read.

⁷⁷ Interview with R.S. Sayers, 10th April 1969, BOE ADM33/25.

⁷⁸ Pease (1986, p 55), Costigliola (1979, p 100).

⁷⁹ Goode – Norman, 22nd August 1925; Norman – Goode, 31st August 1925, BOE OV110/21; Goode – Norman, 9th September 1925, BOE OV110/22. For more on Goode, see von Thadden (1994, pp 163 – 164) and Marcus (2018, pp 81 – 83).

⁸⁰ Annotation on Goode – Norman, 10th October 1925, BOE OV110/22.

Mr Dickson of the British Trade Corporation wrote to Norman on 22nd September asking about the whether the granting of commercial credit to a Polish company, guaranteed by the Polish government, ‘would conform to the general policy of the Bank of England’, in the light of a newspaper report suggesting that the Polish government might submit its finances to the control of the League of Nations, as Austria had done. Norman saw Dickson the next day and said that the Bank would not object in principle to commercial credits against early exports, provided that bills were no longer than 60 days and not renewable.⁸¹

Bank failures

An epidemic of bank failures which followed the depreciation of the złoty gave rise to frequent reports on individual banks issued to British traders by the Department of Overseas Trade, based on information assembled by Kimens.⁸² An official Polish analysis attributed the problems to the illiquidity of the banks’ assets and the withdrawal of a quarter of all bank deposits (up to 20th September) as the złoty depreciated. The Government had provided credit of zł 25 million in total to the ‘most important’ banks affected by the crisis, mainly for the repayment of international short-term deposits. ‘On the other hand, assistance has been given by consolidating the obligations of Polish banks towards foreign banks, by means of an eventual long term guarantee by the National Economic Bank, and by exercising government control over those banks.’⁸³ Norman advised the Exports Credit Committee ‘to decline any further commitments which involve collections through the Banks until the whole position can be elucidated.’⁸⁴

⁸¹ Dickson – Norman, 22nd September 1925, BOE OV110/22; Norman diary, 23rd September 1925.

⁸² Copies are in BOE OV110/1, 3, 22 and 23, and G30/7. See also Landau and Morawski (1995, pp 363 – 364).

⁸³ Poklewski-Koziell – Harvey, 14th October 1925, BOE OV110/22.

⁸⁴ Norman – Niemeyer, 27th October 1925, BOE OV110/22.

The Bank Polski's accounting

The BP shipped £1,250,000 of gold to London in late September 1925 as part of the security for its \$10 million loan from the Federal Reserve. The BOE noticed that the BP return for 30th September showed an increase in 'foreign balances, bills and money' of \$545,000 since 20th September, and a slight increase in gold holdings. The Federal Reserve Bank of New York's returns showed an increase of \$567,000 in 'foreign loans on gold' between 23rd and 30th September.⁸⁵ Norman wondered whether BP was including pledged gold among its assets and drew Strong's attention to the figures.⁸⁶ Strong noted that the BP balance sheet had recorded an increase in 'liabilities in foreign exchange' and suggested that the increases in 'foreign balances, bills and money' and in gold were 'doubtless due to other causes.'⁸⁷ Norman, implicitly not believing in the 'other causes', replied that 'it is a doubtful principle to include pledged gold in their stock.'⁸⁸ He raised the matter with Młynarski when he saw him on 3rd November: 'M. Mlynarski was understood to say that the gold which had been sent abroad as security was shown separately on the asset side, and that so much of the credit as was used was shown as a liability.'⁸⁹

Further attempts to borrow

Poland continued to seek an international loan as a means of re-stabilising the złoty, despite Norman's rebuff.

Dillon Read had requested and evidently been granted an extension of their option to issue the residual \$15 million of Polish bonds from 1st August 1925.⁹⁰ Strong cabled Norman on 7th October to say that 'Dillon is considering Polish

⁸⁵ 'Polish gold sent to London', *Financial News*, 9th October 1925; 'Bank Polski: gold and foreign balances', 21st October 1925, BOE OV110/22.

⁸⁶ Norman – Strong, 21st October 1925, BOE OV110/22.

⁸⁷ Strong – Norman, 10th November 1925, BOE OV110/22.

⁸⁸ Norman – Strong, 3rd December 1925, BOE OV110/22.

⁸⁹ 'Poland', 3rd November 1925, BOE OV110/22.

⁹⁰ Pease (1986, p 37).

situation and will keep me advised. I shall need to know your position and your views as to possible assistance in London.’⁹¹ Norman did not reply until he had seen Młynarski, who called on him on 3rd November, *en route* from Warsaw to New York to talk about the forthcoming expiry of the option. Młynarski said that BP had used up nearly all of its foreign currency reserves (zł 244 million), the whole of the Dillon loan (zł 123 million) and the whole of the match monopoly loan (zł 36 million). That amounted to zł 403 million and he expected that the total would be increased to zł 450 million by drawings from the FRBNY credit. Moreover the demand for coal and sugar had weakened, and ‘the note circulation, exclusive of the subsidiary circulation [Treasury currency], was approximately the equivalent of \$3 per capita.’ Poland needed a loan. Norman thought that they would need at least zł 450 million (\$80 million) to replace the foreign exchange that they had lost, and perhaps twice the amount to put their currency on a sound basis. Młynarski said that neither he nor Grabski would object to an adviser appointed by the lenders, but ‘they did not think any control of a nature similar to that imposed by the League of Nations in the case of Hungary and Austria was necessary, as Poland was balancing its Budget and trade would be favourable if sufficient capital were provided.’ Norman thought some form of control would be needed, and that ‘it would be necessary for various charges to be created in favour of some Body who would supervise the tariff, agree to Budget items (e.g. military expenditure), and to external financing. This control would have to be exercised not for one year but for many.’⁹² Norman replied to Strong that ‘Polish position appears somewhat worse than it was in September... I see no prospect of loan or credit operations in this Market except possibly under effective foreign control which he [Młynarski] considers out of the question.’⁹³

⁹¹ Strong – Norman, 7th October 1925, BOE OV110/22.

⁹² ‘Poland’, 3rd November 1925, BOE OV110/22.

⁹³ Norman – Strong, 4th November 1925, BOE OV110/22.

Meanwhile, in the British Treasury, Frederick Leith-Ross had told Niemeyer that he had been informed by Julius Hirsch, a former Staatssekretär in the Reichswirtschaftsministerium, that Germany would be willing to lend Poland £50 million (about \$250 million) but only on condition that Poland ceded the Corridor to Germany. 'This the Polish reps would not consider & the discussions were broken off.'⁹⁴ And in early December, two members of the Rothschild family asked Norman about a possible loan to Poland against the tobacco monopoly. 'I say in confidence that they sh^d avoid all such transactions: not even worth discussion at present.'⁹⁵

The depreciation of the złoty, November – December 1925

The attempt to stabilise the złoty ended in November (Figure 2). 'After a sharp decrease in reserves during the first ten days of November 1925, Karpiński refused to continue support for the złoty's exchange rate... Karpiński's adamant stance led to the resignation of the Grabski Cabinet on 13th November.'⁹⁶

For some weeks thereafter, the market in London was generally illiquid: there were no reported bids for złoty and only infrequent offers (Figure 2). Two-way prices appeared on a few days in December and on 31st December the quoted spread was 40 – 45, a depreciation from July of about 75%. On 18th December BP had ceased to provide foreign exchange freely on to buyers, restricting sales to 'economically justified purposes.' At about the same time, the new Finance Minister, Zdziechowski, urged the BP to use all available funds to support the złoty, and quotations improved slightly between then and the end of the month. There was no appreciable fall in the BP's disclosed gold and foreign exchange reserves after November.

⁹⁴ Leith-Ross – Niemeyer, 4th November 1925, NA T176/23, also in BOE OV110/22.

⁹⁵ Norman's diary, 2nd December 1925, quoted by Kynaston (2017, p 581).

⁹⁶ Landau (1997, p 80); 'Polish cabinet resigns', Financial News, 14th November 1925, BOE OV110/22.

Two distinct explanations of the depreciation were current at the time.⁹⁷ One was that the budget had not been properly balanced, as the increase in the Treasury note circulation showed, there was an external trade deficit, partly the result of temporary influences such as a poor harvest and low coal and sugar prices, which was not matched by capital inflows or use of reserves. The new parity was simply unsustainable, and the result was withdrawal of foreign credit, foreign deposits and some domestic deposits.⁹⁸

The second explanation emphasised malevolent actions on the part of Germany occasioned by resentment of its post-war territorial losses. It was a major foreign policy objective of the Weimar Republic to achieve a revision of Germany's eastern frontier in which the city of Danzig, the Polish Corridor, and Upper Silesia would be restored to Germany.⁹⁹ Under the Treaty of Versailles, Danzig had become a Free City under the League of Nations, though most of its inhabitants were ethnically German; the 'Corridor' adjacent to Danzig provided Poland with access to the sea, but divided East Prussia from the rest of Germany; and Upper Silesia was an important industrial region. A trade war involving tariffs and trade restrictions broke out in June 1925, following the end of the five years in which Poland, as a signatory of the Treaty of Versailles, had Most Favoured Nation status in Germany.¹⁰⁰

Młynarski (1926) ascribed the depreciation to a poor harvest in 1924, unusually low prices of coal and sugar, and a 'credit boycott' of Poland organised by Germany, including propaganda in the United States which had caused the amount raised by the Dillon loan to fall short of expectations. He believed that if the Dillon loan had succeeded, it would have enabled Poland 'to maintain the stability of her currency in a period preceding the realisation of a new bountiful harvest and to change her commercial balance from a passive

⁹⁷ Leszczyńska (2013, ch 4.3) reviews possible explanations of the fall of the złoty.

⁹⁸ Smith (1935, p 153).

⁹⁹ Von Riekhoff (1971, ch IX), Holborn (1969, ch 10).

¹⁰⁰ Von Riekhoff (1971, pp 164 – 171).

into an active one.¹⁰¹ He largely exonerated Polish fiscal and monetary policies. The marketing of the Dillon loan in the United States was seriously impaired by discussion of the German proposal, made in January and later adopted at Locarno, for a European security pact that would leave open the possibility that its eastern frontiers might be revised. The proposal 'evoked an uproar in Poland and Czechoslovakia.'¹⁰² Zweig (1944) said that the outbreak of the tariff war 'was a signal for the general recall of large German short-term credits, and to some extent of other credits also. The second issue of Dillon's 8 per cent loan had fallen through, owing mainly to the tariff war.'¹⁰³

It is undeniable, in the light of the evidence cited by von Riekhoff (and discussed further below), that Germany tried to undermine Poland's stabilisation and to use Poland's financial problems as a means of achieving the territorial revision it wanted. The second explanation of the depreciation of the złoty therefore carries some force. However, the claim that Poland's own policies played no part in the fall of the złoty is implausible. Poland had made good progress towards achieved budgetary sustainability, but it had not achieved it; nor had it amassed sufficient reserves or borrowing facilities to sustain itself in the meantime. And a trade war had broken out. The złoty was overvalued.¹⁰⁴ Before the event, Młynarski himself had thought that the introduction of the złoty before the budget was balanced would be premature.¹⁰⁵

British investment in the Bank Polski?

Landau, drawing on Polish archives, says that Młynarski's discussions with Norman in autumn 1925 had 'led to the possibility of British investment in the

¹⁰¹ Młynarski (1926, p 55).

¹⁰² Gasiorowski (1958), von Riekhoff (1971, ch 5), Cienciala and Komarnicki (1984, ch 10), Pease (1986, p 35).

¹⁰³ Zweig (1944, p 41).

¹⁰⁴ Leszczyńska (2013, ch 4.5).

¹⁰⁵ Quoted by Leszczyńska (2013, p 115).

Bank of Poland.’ He adds that the BP’s council decided in December 1925 that either Młynarski or Konstanty Skirmunt, the Polish Minister in London, should ‘clarify whether the Bank of England was prepared to indicate a financial group for undertaking a new issue of shares on behalf of the Bank of Poland. If the Bank of England agreed, then the Council of the Bank of Poland would invite a representative of either Norman or the group that he had nominated to come to Poland to examine the situation and discuss terms and conditions.’¹⁰⁶

In December 1925, the Polish government intimated that they had decided to invite a British adviser to join the BP with full powers of control, and that they would be glad if the BOE would nominate the adviser, possibly in conjunction with the Federal Reserve. Leith-Ross (Treasury) was reluctant to proceed in the absence of evidence that the Poles ‘really are prepared to set their house in order.’ Norman’s views, conveyed in his absence to Skirmunt in a letter from Anderson, were that

‘As a general principle the capital of a Central Bank should not be held by foreigners...

It would be premature to send a representative of the Bank of England to Warsaw in view of the examination which is to be undertaken by Professor Kemmerer...

Poland must be considered as a whole and not piecemeal – the problem of your National Bank is part of the larger problem of the financial and general stability of Poland; as to which he [Norman] does not feel able to reply hastily or without full consideration.’¹⁰⁷

¹⁰⁶ Landau (1997, p 81). There is no reference to the subject in the BOE’s records of Młynarski’s visits.

¹⁰⁷ ‘Bank Polski: history of relations’, 31st December 1927, BOE OV110/24. It is clear that the inquiry about which Leith-Ross wrote to Anderson was about subscription of capital as well as nomination of an adviser.

Negotiating a loan: foreign control, territorial issues and the League of Nations

Poland remained anxious to borrow. A lengthy and complicated series of discussions with bankers and central bankers in the United States, the United Kingdom, France and Germany, and with the League of Nations, took place from late 1925 about what foreign control over Poland's finances would be required as a condition for the loan, whether Poland should borrow under the auspices of the Financial Committee of the League of Nations, as other countries had done, and whether an adjustment of the post-Versailles border between Poland and Germany should be a precondition of any loan.

Professor Edwin Kemmerer of Princeton University, the peripatetic 'money doctor', was employed by Dillon Read as a consultant, and received an annual retainer.¹⁰⁸ Towards the end of November 1925, Młynarski had been exploring the possibility of raising a loan secured by the state tobacco monopoly. Bankers Trust Co expressed an interest, and on 30th November the Polish cabinet gave them an option on the contract. This development led Dillon Read, for competitive reasons, to secure an invitation for Kemmerer to visit Warsaw briefly in early January.¹⁰⁹ Kemmerer provided a possible way of getting a loan without the League of Nations.¹¹⁰ Hjalmar Schacht, the President of the Reichsbank, managed to secure a meeting with Kemmerer on 11th January at the railway station in Berlin. Schacht 'launched into a harangue on the eastern borderlands, pounding his fist and raising his voice in declaring Germany's determination to "fight for [the Corridor] diplomatically, legally, using all methods, peaceful or otherwise.'" He thereby made Kemmerer 'certain that German motivations concerning the stabilization of Poland were neither disinterested nor welcome.'¹¹¹ Schacht's account of the meeting does not mention that episode, but says that Polish circles were seeking capital for a

¹⁰⁸ Schuker (2003, p 67).

¹⁰⁹ Pease (1986, pp 60 – 61).

¹¹⁰ Pease (1986, p 65).

¹¹¹ Pease (1986, p 63).

49% share in the BP from ‘friends of Poland’, such as the Banca Commerciale in Rome and the Vienna Rothschilds, who hoped for Norman’s support.¹¹²

The credits granted to Poland by foreign banks for intervention purposes were extended in January for a further 3 months. The loan of \$10 million from the FRBNY was repayable after a year. Dillon Read had recently remitted to BP \$1.1 million to complete the first and only instalment of the bond issue.¹¹³

An internal BOE note summarised the situation, and the BOE’s views:

‘As a result of the trade difficulties the valuta reserves of the Bank Polski became so depleted that the proportion of their reserve to notes outstanding has recently nearly shrunk to the statutory limit of 30%, and they have been forced to restrict and ration credit very severely. This, in turn, led to default on the part of many other Banks in respect of their foreign engagements and engendered internal distrust and withdrawal of deposits.

At the same time this distrust showed itself in a flight from the zloty, which is believed to have been accentuated by German speculators. The Bank Polski has never, and the Government has not since February 1924, yielded to a general policy of inflation: though the Government have issued a rather large total of Treasury Notes. Nevertheless there has been extreme scarcity of currency.

Credit cannot be much expanded except by means of foreign borrowings. The Bank Polski has received some temporary advances from the Federal Reserve Bank of New York and elsewhere, but it is

¹¹² Stresemann – German Embassy in Washington, 16th January 1926, ADAP B II 1, pp 110 – 111.

¹¹³ ‘Ost-Express’, 11th January 1926, BOEOV110/23.

probable that the condition of Poland is such that it can only be satisfactorily settled by means of a large long-term loan accompanied by foreign control. Professor Kemmerer has recently been to Warsaw to give advice. He has just left Poland again and is reported as being moderately optimistic.

The Government has drastically curtailed imports and turned an adverse into a favourable trade balance. They have reduced the Budget expenditure (including Army estimates) and the Exchange has recently improved.’¹¹⁴

The złoty recovered much of its lost ground in January 1926 (Figure 2). While Norman was in the United States that month, Jan Ciechanowski, the Polish Minister in the United States, told him that Poland would not seek assistance from the Financial Committee of the League of Nations: it would not compromise its sovereignty.¹¹⁵

However, Seward Prosser, the President of Bankers Trust, suggested in a cable to Norman on 29th January that, to the contrary, Poland would accept League of Nations control as a condition of a substantial loan. This was based on a conversation with a Polish senator called Hammerling.¹¹⁶ Norman reacted immediately and wrote to Sir Arthur Salter of the League of Nations, enclosing a copy of Prosser’s cable. Revealing a great deal about his own attitudes, Norman commented:

‘Locarno should have changed the outlook of the Poles and so should the admission of Germany to the League. Poland is an important part of Europe although the Poles (having always been professional

¹¹⁴ ‘Bank Polski’, 15th January 1926, BOE OV110/23.

¹¹⁵ Chandler (1958, pp 391 – 392).

¹¹⁶ Prosser – Norman, 29th January 1926, BOE OV110/23.

revolutionaries) seem to be a strange mixture of intense Nationalism, childish optimism and good intentions.

What am I to say to Prosser, or to convey to him through a discreet channel?'¹¹⁷

Salter's reply to Norman, though courteous and respectful, was a cold shower: 'We have never at any time had any application from Poland for aid in her reconstruction. We cannot act in any way without such an application.' '...Poland has given us no indication that she is likely to apply.' Nevertheless, Salter agreed with Niemeyer, and therefore probably also with Norman, about what should be done in Poland.¹¹⁸

Undeterred, Norman cabled to Prosser:

'Provided formal application is made and that support of responsible parties in New York and London is assured suggested programme seems possible of accomplishment.'¹¹⁹

The following day Norman cabled to the FRBNY:

'2. Polish Minister [Skirmunt] called to-day to request visit of Representative to Warsaw as examination by Kemmerer has been completed and perhaps report has been made.

3. I replied that visit at present inadvisable and would be useless, repeating arguments used by Strong and myself in New York to Polish

¹¹⁷ Norman – Salter, 1st February 1926, BOE OV110/23. Norman had shown a draft of the letter to Niemeyer, at that time a Treasury official, for his 'approval in principle.' Norman – Niemeyer, 1st February 1926, NA T176/23.

¹¹⁸ Salter – Norman, 5th February 1926, BOE OV110/23.

¹¹⁹ Norman – Prosser, 9th February 1926, BOE OV110/23.

Minister to Washington and suggesting that no separate loan should be attempted until comprehensive plan by competent foreign experts had been adopted.

4. He replied that Polish experts would shortly be requested to evolve plan and that Poland needed money urgently.

5. I said that no plan of Polish experts was likely to carry conviction with foreign Bankers and investors and that isolated issues of Polish loans was a mistake.

6. Minister seemed quite doubtful whether suggestion for plan by foreign experts was feasible at this stage and I therefore did not mention League by name.¹²⁰

At the end of February, Norman began talking to German diplomats about Poland. On Sunday 28th, he visited Albert Dufour-Féronce, the counsellor at the German Embassy in London. According to Dufour's account, when asked about combining financial stabilisation with a territorial settlement, Norman had sympathised with the intention but expressed reservations as to practicality.¹²¹

It was at around this time that Strong decided to break with Norman and support a loan to Poland outside the auspices of the League of Nations: 'an advisory mission and eventually... the co-operation and counsel (in selected matters) of an American expert' would suffice. He confirmed this in a letter to Ciechanowski on 5th March.¹²² His change of mind proved decisive. Perhaps not having been told of it, Norman continued to press for a League loan. However, in March, despite prolonged negotiation, the League could not reach agreement

¹²⁰ Norman – Case, 10th February 1926, BOE OV110/23. Norman sent a copy to Salter.

¹²¹ Sthamer – Auswärtiges Amt, 1st March 1926, ADAP, B II 1, pp 193 – 197.

¹²² Pease (1986, pp 65, 69)

on the admission of Germany, partly because of disagreements related to the status of Poland. The episode damaged the League's reputation, and the case for Poland applying for a League loan. The matter was postponed until the autumn, when Germany was admitted.¹²³

Dwight Morrow, a partner of J.P. Morgan and Co., wrote to Norman on 12th March to report that Prosser had told him that 'while Poland was very glad to submit herself to a control set up by yourself and Governor Strong of the Federal Reserve System, under no circumstances would she submit to any control by the League of Nations.'¹²⁴ Norman replied that Prosser was about to visit him, but that he would be less glad to see Fischer, who was coming with Prosser, 'because Fischer has been talking a good deal in Paris on quite different lines from those which I hope Prosser will follow.'¹²⁵ At the meeting on 27th March, Norman told Prosser and Fischer that Poland was 'not competent to manage her own affairs and would not be an effective borrower without some control of finances directed over a number of years. Isolated loans were fatal to Poland and Dillon Read & Co., or the National City Bank, or whoever it was that had arranged the early loan, had done a lot of harm.' Control would be arranged through an international committee like the Dawes Committee or a League of Nations committee. The former would be difficult to set up, whereas the latter was already working. He had been told that League control was a political impossibility, but it would come about 'provided that Mr. Prosser and his friends, including the British group (and ignoring for the moment the difficulties created in Paris), would adopt the plan of no League no money and stick to it.' 'It was ultimately agreed (quite willingly by Mr. Prosser) that Mr. Fischer should tell the Poles that the Governor and the Bankers Trust

¹²³ 'Failure at Geneva', 18th March 1926, TDA; von Riekhoff (1971, pp 125 – 130).

¹²⁴ Morrow – Norman, 12th March 1926, BOE OV110/23.

¹²⁵ Norman – Morrow, 24th March 1926, BOE OV110/23.

Company stipulated for a comprehensive plan devised by Foreign experts and carried out foreign control over a period of years.¹²⁶

Norman wrote again to Morrow to say that he had had ‘a long and very satisfactory talk with Prosser. He could not be more helpful and promised to require from the Poles that their scheme of reconstruction and control must come through the Financial Committee of the League.’ Fischer had denied taking any other position in Paris.¹²⁷ And he wrote to Niemeyer asking him to arrange for pressure to be put on the Poles.¹²⁸ Niemeyer wrote to Max Muller, urging a League of Nations solution, and saying that he had some reason to believe that the Polish attitude to the League was rapidly changing. Max Muller’s reply expressed general agreement, but doubted that Polish opinion was in fact changing.¹²⁹

On 27th March, Dr. G.W.J. Bruins, the League of Nations Commissioner for Currency at the Reichsbank, sent Norman his impressions of a visit to Poland. They were pessimistic. He had met Zdziechowski, who had said that, at the present exchange rate, he would be unable to raise the present income of the state above zł 1,500 – 1,550 million a year. Expenditure was zł 2,000 million a year or more, and Bruins doubted whether he could reduce it by enough. He thought Karpiński ‘a tired man’ and he did not like Młynarski much. He added that

‘the eagerness for foreign credits was very strong on all sides. Hopes were entertained that it would still be possible to come to an arrangement with the Tobacco Trust and the Bankers Trust Company of New York on the question of the tobacco-monopoly and much confidence was also shown in the endeavours of Sir William Goode.

¹²⁶ Skinner, ‘Poland’, 29th March 1926, BOE OV110/23.

¹²⁷ Norman – Morrow, 27th March 1926, BOE OV110/23. Either Prosser did not know of Strong’s change of mind, or he was dissembling.

¹²⁸ Norman – Niemeyer, 27th March 1926, BOE OV110/23.

¹²⁹ Niemeyer – Max Muller, 29th March 1926; Max Muller – Niemeyer, 7th and 15th April 1926, NA T176/23.

The Minister also told me that Professor Kemmerer had said, that he would probably come back in a few months with some other American experts and he hoped that this would lead to a new arrangement with Dillon Read.¹³⁰

Bruins did not say anything about foreign control, but Norman did not fail to do so in replying to his letter: he thought that the political opposition to League of Nations control was due to a misunderstanding of what it implied.¹³¹

Norman met Dufour-Féronce again on 8th April. Dufour reported to the German Foreign Ministry that Norman was eager to enlist German participation for the international stabilisation action in Poland. He had apparently been impressed by the argument that there could be no lasting peace in Europe until the German-Polish border problem had been solved. He was therefore applying his influence with American and British financial circles to dissuade them from extending loans to Poland until the Corridor and Upper Silesian questions had been discussed. Moreover, if Poland approached the League of Nations, the League would insist on Poland settling its political and economic differences with its neighbours before agreeing to the large loan that Poland needed.¹³²

Soon afterwards, in a long letter to his ambassador in London, the German Foreign Minister Gustav Stresemann, referring to Dufour's meeting with Norman, welcomed the interest of influential English circles in the German-Polish border question. He set out his analysis and policy with brutal clarity:

¹³⁰ Bruins – Norman, 27th March 1926, BOE OV110/23.

¹³¹ Norman – Bruins, 15th April 1926, BOE OV110/23.

¹³² Sthamer – Auswärtiges Amt, 8th April 1926, ADAP B II 1, pp 289 – 295; von Riekhoff (1971, pp 259 – 260). Neither of Norman's discussions with Dufour-Féronce (28th February and 8th April) is recorded in his diary.

‘1. A peaceful solution to the Polish border question, which does justice to our demands, will not be attainable without the economic and financial plight of Poland reaching extreme levels and reducing the entire Polish state to powerlessness. As long as that country retains any of its strength, no Polish government will be in a position to engage in a peaceful understanding with us on the frontier question. [...]

3. So, broadly speaking, it will be our goal to postpone a final and permanent stabilisation of Poland until the country is ripe for a settlement of the border question that we want and until our political position is sufficiently strengthened.’

Stresemann added that Schacht shared his view in all points.¹³³

On 26th April, Norman wrote to Schacht: ‘I have been hoping for some months that foreign advice and control would come to be accepted by the Poles however much they may have objected to the idea at first: and there would then remain to be considered later whether it would be possible to add political changes and arrangements to the financial conditions which would naturally be required for any scheme of stabilisation.’¹³⁴

From the League of Nations, Salter wrote to Niemeyer on 3rd May telling him that he understood that the British Legation at Geneva was actively pressing the Polish government to apply to the League, but ‘they have an extremely hazy idea of what an application to the League means: the impression which is being derived is...that once Poland has brought herself to the point of applying, the money will come back by return of post.’ Niemeyer’s reply blamed Max Muller – ‘not one of the most intelligent or tactful of creatures’ – and expressed anxiety

¹³³ Stresemann – Sthamer, 19th April 1926, ADAP B II 1, pp 363 – 376, author’s translation; partly quoted, in English translation, by von Riekhoff (1971, pp 260 – 261).

¹³⁴ Norman – Schacht, 26th April 1926, BOE OV110/23.

that Americans mistrusted the League and would try to install their own control over Polish finances. Finally: ‘...so far as this country is concerned I hold the view that a Polish loan of sufficient size could not be floated except on a League scheme, and I should certainly do my best to prevent any other kind of loan in this country as I should regard it as likely to fail in its object, and also very likely to result in the loss of the bondholders’ money.’¹³⁵

The złoty’s recovery in January was only temporary, and by the middle of April the market in London had become illiquid once more (note the paucity of offers of sterling in Figure 2). The government was unable to agree on fiscal tightening measures and fell on 5th May 1926.¹³⁶ Marshal Piłsudski’s *coup d’état* took place between 12th and 14th May, and for a time it was unclear what was happening. Gairdner wrote to Norman on 2nd June to say that he was going to Poland the following Saturday (5th June); he described the *coup* as ‘unfortunate’ and Piłsudski as ‘out of his element in questions of statesmanship or economics.’¹³⁷

Strong was in London in early May, and discussed Poland with Norman. The Polish ambassador to London, Skirmunt, sought Strong out and asked him to ‘win Montagu Norman away from the League of Nations program, which he said was utterly impossible for Poland.’ Strong made it clear that ‘as the result of the recent Geneva performances, everybody in America regards the League as a nest of intrigue, and he could not put over in America a League loan.’¹³⁸ Strong himself wrote:

‘Norman and I had two very full talks and agreed that there were three possible courses of action for Poland: One was League action, which

¹³⁵ Salter – Niemeyer, 3rd May 1926; Niemeyer – Salter, 7th May 1926, NA T176/23.

¹³⁶ Leszczyńska (2013, p 166).

¹³⁷ Gairdner – Norman, 2nd June 1926, BOE OV110/1.

¹³⁸ Niemeyer – Salter, 7th May 1926, NA T176/23. The ‘recent Geneva performances’ would have been the negotiations over Germany’s admission.

Norman favored but which he admitted would be impossible until after the fall meeting and then only if a satisfactory adjustment of the disputes which arose at Geneva was effected. I have explained to him, and he understands, that in the meantime of course the patient might die. The second course, which I favored, was to have Kemmerer's mission expanded so as to include representatives of England, France, Holland, possibly even Switzerland and Sweden, and if the Poles could be persuaded, a German representative, so as to make a full-dress international inquiry, with such official or unofficial support from governments as it might be possible to arrange. If the program could be worked out in that fashion, then the degree of control to be exercised would of course be a matter of negotiation, and the controller would probably have to be an American. To this program Norman said that, while he would not commit himself permanently, he did not object in principle, as he thought it was feasible, might overcome the disadvantages of the League plan, but would involve getting up an organization, which with the League was already prepared to function instantly.

The third program would be a practically American one, built up around Kemmerer's report. With that Norman would not associate himself, as he did not believe that an effective control could be devised by that method.¹³⁹

Schacht visited Norman from 27th – 29th May, after the *coup d'état*. The German government already knew that, before the *coup*, Strong had been in favour of financial support for Poland, and wanted to reach agreement on it with

¹³⁹ Strong – Harrison, 15th May 1926, FRASER strong_1000_7_1_europe_trip_april_30_july_16_1926, quoted by Chandler (1958, pp 394 – 395). Jan Ciechanowski, the Polish Minister in the United States urged Strong to adopt the third, American-only, option (Chandler 1958, pp 395 – 396).

Norman.¹⁴⁰ Schacht said that there could be no satisfactory economic development in Poland while Poland was in political conflict with its main neighbours; it was implicit that he wanted Norman to agree that any stabilisation loan should be subject to political conditions. Norman however made it clear that Strong wanted to pursue the stabilisation of Poland unconditionally. Border adjustments would not be possible and should not be linked with stabilisation. Norman tried to interest Schacht in a stabilisation operation without political conditions, but Schacht demurred.¹⁴¹

The *coup* did not disturb Poland's borrowing plans. On 28th May, the new cabinet reaffirmed the plan for a second Kemmerer mission, which reassured the U.S. government; in any event, the U.S. government was well-disposed to Piłsudski.¹⁴²

Despite what he had said to Schacht, Norman remained open to the idea that boundary changes might accompany a loan agreement. On 3rd June, he wrote to S. Parker Gilbert about his discussion with Schacht:

‘... it was most evident that in any future plan all the Germans would be insistent on political and geographical changes – at least regarding the Corridor and perhaps Silesia – as a sine qua non to any goodwill. I have heard this before but less definitely and it certainly raises large questions for any Committee, or for any form of financial stabilisation and control (note added: including Kemmerer). I should like to know what you think, though the question of Poland can hardly be urgent.

¹⁴⁰ Message from Wallroth to German Embassy in London, 1st May 1926, ADAP B II 1, p 436.

¹⁴¹ Schacht's account of the discussion, 28th and 29th May 1926, ADAP, B II 1, pp 489 – 492; see also Pease (1986, pp 75 – 76).

¹⁴² Pease (1986, p 75), Costigliola (1979, pp 94 – 96).

I believe a result of Locarno was to leave boundaries for settlement solely between the two countries concerned, was it not?'¹⁴³

Norman wrote again to Gilbert, on 12th June about 'a long and friendly visit from Clarence Dillon', of Dillon Read & Co.:

'About Poland he maintained that he was the only American Banker of the Polish Government and that his future course would be guided by Kemmerer's report... He did not seem at all pessimistic about the future of Poland and I can only suppose that he was whistling to keep his courage up. When I said that nothing useful could be done for Poland without an international examination of her condition by experts and international control based on Protocols, as in the case of League loans, or on agreements, as in the case of Germany, he maintained that neither was possible unless an assurance satisfactory to them could be given to the Poles in advance about the Corridor and Silesia. I said that an assurance in advance seemed ridiculous as all questions, political as well as financial, should be determined after expert examination and not before.'¹⁴⁴

Norman also reported to Schacht Dillon's remarks about Poland's requirement for territorial assurances.¹⁴⁵

On 24th June, Salter wrote to Norman to say that 'our friend' Jean Monnet of Blair and Co. (of New York), who was a former League of Nations official, was extremely interested in the Polish situation and would be ready to help. 'I need not say that he considers it essential that the League should be associated with

¹⁴³ Norman – Gilbert, 3rd June 1926, BOE OV110/23. Gilbert was the Agent-General for Reparations appointed by the Allied Reparations Commission.

¹⁴⁴ Norman – Gilbert, 12th June 1926, BOE OV110/23.

¹⁴⁵ Norman – Schacht, 12th June 1926, BOE OV110/23.

any scheme that is to be effective.¹⁴⁶ Norman wrote a manuscript draft reply on 29th June, which is in the archive; it says that:

‘Individually nobody could be better suited for conversations with the Poles before they have made or decided to make applicⁿ [application] to the League than J[ean] M[onnet]. But he is no longer free – as you say – & cannot I think behave as if he were free. Therefore I do not think that at present he can or sh^d [should] serve you for purpose of conversations with the P[ole]s – because those with whom he is associated are or may at any moment be competitors for the business.’¹⁴⁷

The letter must have been sent, because Salter replied accepting Norman’s point entirely.¹⁴⁸

Kemmerer’s second, longer, mission began in early July and lasted eleven weeks.¹⁴⁹ Młynarski wrote to Norman on 19th July reporting that the trade balance was in surplus and the budget deficit smaller than expected. The reserves had been rising and the BP intended to repay the \$10 million it had borrowed from the FRBNY, and to re-stabilise the zloty at a rate to be determined.¹⁵⁰ The BP would like to have a revolving credit from the FRBNY to support the stabilization, though they might not need to draw on it. He sought Norman’s ‘benevolent attitude.’¹⁵¹ Norman replied on 4th August welcoming

¹⁴⁶ Salter – Norman, 24th June 1926, BOE OV110/23.

¹⁴⁷ Norman, manuscript note, 29th June 1926, BOE OV110/23.

¹⁴⁸ Salter – Norman, 15th July 1926, BOE OV110/23.

¹⁴⁹ Pease (1986, p 77).

¹⁵⁰ The *Financial News* reported that the loan from the FRBNY had been repaid by 7th August, but an internal Bank of England note later recorded that the BP had not confirmed the repayment and that the FRBNY had not released the gold collateral. *Financial News*, 9th August 1926, ‘Foreign borrowings’, 18th August 1926, BOE OV110/23.

¹⁵¹ Młynarski – Norman, 19th July 1926, BOE OV110/23.

the evidence of improvement; he added that any scheme of reconstruction would have to win foreign support.¹⁵²

Młynarski visited the Bank of England on 13th September. He was seen initially not by Norman, but probably by Harry Siepmann, who had recently joined the BOE as Norman's adviser for liaison with eastern European central banks.¹⁵³ The Bank of England's record of the meeting records discussions about the re-stabilisation of the złoty, about Kemmerer (who, Młynarski said, had been recruited in order to raise Poland's profile in the USA), tariff policy and exchange rates. Młynarski said he disagreed with Kemmerer on two points. First, Kemmerer wanted the BP to be obliged by law to redeem its banknotes in gold or in drafts, but Młynarski, consistent with his views on the instability of the gold exchange standard, preferred gold only. The Bank of England, anxious about the world shortage of gold, would have sided with Kemmerer. Second, while Kemmerer wanted Poland to legalise the parity of the złoty at the *de facto* stabilised rate of zł 9 = \$1, and to have the BP assume the convertibility obligation immediately, Młynarski preferred to delay.

The record concludes:

‘I could find, in the course of the conversation, no concrete purpose in Monsieur Młynarski's visit to London, but I had the impression that his chief preoccupation was with Governor Strong.’¹⁵⁴

¹⁵² Norman – Młynarski, 4th August 1926, BOE OV110/23.

¹⁵³ Norman's diary, 1st March 1926, BOE ADM34/15. Siepmann first became acquainted with Norman when he was a foreign adviser to the National Bank of Hungary. See Lojkó (2006, pp 114 – 118 and 120 – 126). Młynarski and Siepmann began corresponding in October 1926.

¹⁵⁴ ‘Poland; note of a conversation with Monsieur Młynarski, 13th September 1926’, BOE OV110/23. There is no record in the FRBNY archive (FRASER strong_1000_7_2_europe_trip_july_20-september_14_1926) of Strong's trip to Europe that he met Młynarski while they were both in the Bank of England.

On 17th September Norman saw Monnet and wrote in his diary: 'Poland... bad people; no stable prospects...avoid.'¹⁵⁵ Later the same day, Norman saw Młynarski and noted: 'He [Młynarski] thinks Kemmerer is for propaganda only. I say that reconstⁿ & stabⁿ & develop^t [reconstruction and stabilisation and development] of Poland needs League or a Dawes plan – nothing less.'¹⁵⁶

The Polish economy strengthened in 1926 (Figure 3), partly as a result of the British coal miners' strike, which increased the demand for Polish coal.¹⁵⁷ The BP discount rate was reduced to 9½% as from 12th December and Norman wrote shortly afterwards to Karpiński inquiring about the increase of more than 50% in the BP note circulation over the past year recorded in the BP returns, which he inferred followed an inflow of foreign exchange, and about the increase in subsidiary currency issued by the state. In replying, Karpiński said that the reduction in the discount rate reflected further improvement in Poland's economic situation, including the emergence of budget surpluses, and the stability of the złoty at zł 9 = \$1. He said that a decree issued in October required the Treasury to reduce its issue of notes and coins by zł 11 million each year until the total reached zł 12 per head of population. He confirmed that the increased BP note circulation was the counterpart of increased reserves.¹⁵⁸

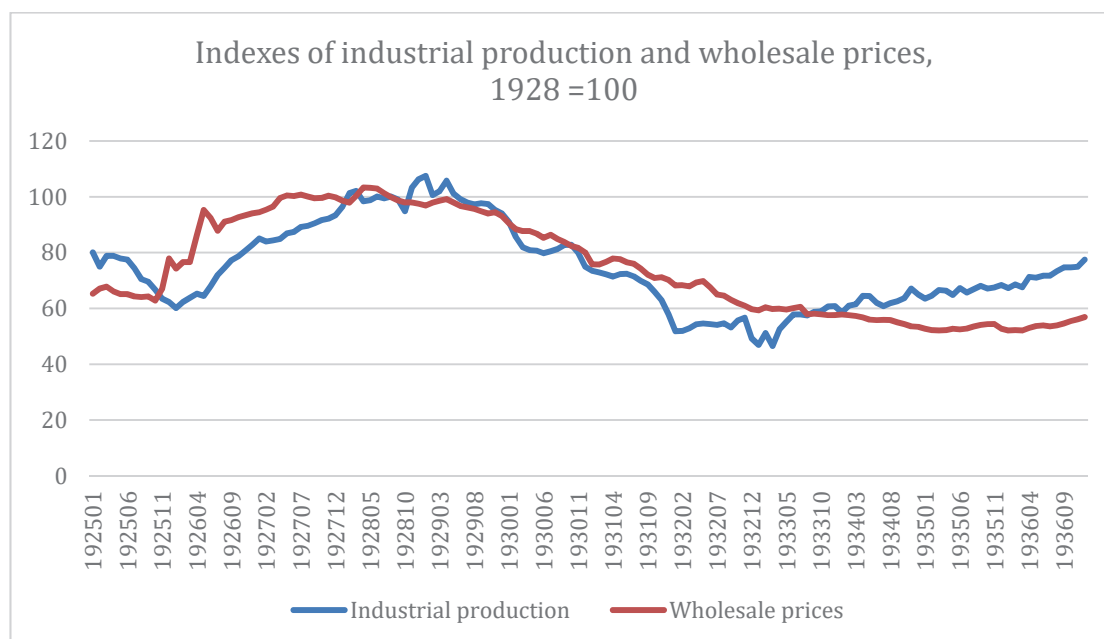
¹⁵⁵ Norman diaries, 17th September 1926, BOE ADM34/15.

¹⁵⁶ Norman diaries, 17th September 1926, BOE ADM34/15. Norman later recounted his conversation with Młynarski to Dufour-Féronce (Dufour-Féronce – Auswärtiges Amt, 29th September 1926, ADAP B II 2, pp 283 – 284).

¹⁵⁷ Siepmann, 'Poland', 10th December 1926, BOE OV110/1.

¹⁵⁸ Norman – Karpiński, 14th December 1926, Karpiński – Norman 23rd December 1926, BOE OV110/23.

Figure 3



Source: *Statistisches Handbuch der Weltwirtschaft*, 1937, cited by Albers and Uebele (2013).

On 10th December, B. A. Tompkins of Bankers Trust called on Norman on his way back from Poland to the United States. Siepmann recorded that Tompkins 'had come to the conclusion that the złoty is effectively stabilised, that the budget is permanently balanced, and that the Poles are capable by themselves of framing an administration which will secure the orderly development of their country.' He was therefore going to propose to Bankers Trust a loan of \$20 million secured on the tobacco monopoly, which yielded about \$20 million a year. Tompkins proposed to secure Strong's approval, and the participation of Banca Commerciale, Credit Suisse, Banque de Paris et des Pays-Bas, and Lippmann Rosenthal and Co.

'We agreed that the unkindest thing which one could do to the Poles at the present would be to lend them a hundred million dollars to spend as they thought fit. This was the mistake which had been made by Dillon, Read and Co., though Dillon Read had not lost a penny by making it...

On the understanding that he would not be repeated, except possibly to Mr Prosser, the Governor said that he would be very outspoken in his reply. The conclusions on which Mr Tompkins had based his programme were the exact contrary of the conclusions reached, as far as the Governor was aware, by all instructed European opinion about Poland. The business which Mr Tompkins proposed might be good business, and there was nothing to prevent him from doing it. But even if it were safe from the point of view of the private banker, it was certainly most unwise from the point of view of European reconstruction. No doubt it was possible to make a great deal of money by lending to Poland, but the result was likely to be that the consolidation of the country would be postponed for a generation. There was no reason at all to think that the alternative policy would lead either to the subjugation or the dismemberment of Poland. On the contrary, if the Poles had chosen in 1925 or 1926 to undertake reconstruction in a proper way, it would have been relatively easy to assure to them a long period of financial, economic and political consolidation. If they had susceptibilities about going to the League of Nations there were other possible courses for them to take. But it was certain that the reconstruction of Poland would involve a measure of effective control from outside, preferably through the instrumentality of a citizen of the United States. It would have to be international control of a sort which could not be sanctioned by internal Polish legislation alone.

Mr Tompkins listened to these opinions, but did not comment upon them.¹⁵⁹

¹⁵⁹ Siepmann, 'Poland', 10th December 1926, BOE OV110/1.

The Kemmerer report and the loan negotiations

The Kemmerer commission report's recommendations included re-stabilisation of the złoty at a rate of zł 9 = \$1, initially *de facto* and later *de jure*. The commission thought that this would mean some rise in prices. It also recommended gradual withdrawal of currency issued by the Treasury, which it held responsible for the failure of the earlier stabilisation. Młynarski sent Norman a copy on 17th December. In the accompanying letter he said that

'I have reasons to suppose, that as soon as the Polish Government adopts an attitude towards all Prof. Kemmerer's recommendations, credit offers will be received...before clearing up the situation created by Prof. Kemmerer's Mission the Polish Government cannot direct its attention to any other scheme.'¹⁶⁰

Norman replied on 21st December expressing understanding.¹⁶¹

Norman wrote to Morrow on 24th December, asking him to impress on other American bankers his view that 'a Loan, pure and simple, may possibly be safe but that without international control (through the League) it cannot in the long run be good for Poland or Europe.' He said:

'I have thought for years that Poland wasn't fit to stabilise or reconstruct herself: she contains no reasonable possibility of the tradition or civil service needed: she is dominated by a mixture of extreme nationalists, professional revolutionaries and imaginative dreamers, not one of whom knows how to keep his feet on the ground: she is not on good or even moderate terms with a single one of her neighbours and she is a menace to Europe.'¹⁶²

¹⁶⁰ Młynarski – Norman, 17th December 1926, BOE OV110/1.

¹⁶¹ Norman – Młynarski, 21st December 1926, BOE OV110/1.

¹⁶² Norman – Morrow, 24th December 1926, BOE G1/43.

By early 1927, Poland was making some progress towards raising a loan in New York, and had secured the support of the FRBNY on acceptable terms as regards external oversight; it also had the support of the Bank of France.¹⁶³ The FRBNY took on the role of trying to secure the support of the Bank of England and the Reichsbank. Strong sent his deputy George Harrison to Europe in March for that purpose. Staying with Schacht in Berlin in late February and early March, Norman said he wished that Poland had attached itself to the League of Nations, and not the United States.¹⁶⁴

Morrow wrote to Norman about Harrison's forthcoming visit. He said that the FRBNY, Bankers Trust, Monnet and Młynarski had worked out a tentative arrangement for control of Polish finances, in which

'some foreign directors, including a resident American, are to be added to the Bank of Poland. The Bank is to be made "independent" of the politicians. Certain revenues are to be assigned to secure a loan. Disbursing of the proceeds of the loan in accordance with the plan is to be under supervision... As you have probably surmised, Ben [Strong] and Harrison are not very enthusiastic about bringing the League in. Nor are the Poles...

...If the Poles assent to a proper measure of control, and there is some co-operation from the European markets, the disposition of our Federal Reserve Bank here will be to extend a credit to the reorganized Polish Bank at the same time the Polish Government bonds are offered to the public.'¹⁶⁵

¹⁶³ Pease (1986, ch V), Meyer (1970, pp 77-86).

¹⁶⁴ Schacht's account, 4th March 1927, ADAP B IV, pp 449 – 453.

¹⁶⁵ Morrow – Norman, 18th March 1927, BOE G1/43.

Harrison visited the three European central banks individually before holding a meeting with all three together in Calais on 4th April. It seems that the meeting in Calais was arranged at short notice in the light of the individual meetings (see extract from Norman's letter to Schacht, quoted below.)

Harrison spent 26th-29th March in London, and gave Norman a copy of the proposed stabilisation programme, which Norman passed on to Niemeyer. It included the fixing by law of the gold value of the złoty at close to its current exchange value.¹⁶⁶ On 28th March there was a special meeting of the Bank of England Committee of Treasury at which:

'He [Norman] laid before the Committee proposals for Polish stabilisation which Mr Harrison has submitted for consideration by the Bank.

The Committee agreed that, apart from the need which they were inclined to recognise for certain controls and safeguards over a considerable period, the scheme (subject perhaps to amendments) appeared to afford a basis for more stabilisation which the Central Banks might support, but that before reaching any definite decision as to support it would be wise to discuss the whole subject with the Reichsbank.'¹⁶⁷

On the same day, Norman wrote to Schacht about his discussions with Harrison, which had occupied 'many hours'. He evidently wanted to concert with Schacht before the meeting in Calais:

'There are two questions at least for us:

¹⁶⁶ 'Polish program of stabilization', 24th March 1927, BOE OV110/33.

¹⁶⁷ COE Committee of Treasury minutes, 28th March 1927, BOE G8/57.

Firstly, shall we support a scheme for stabilization in Poland on these lines [i.e. the loan that Poland was negotiating with American banks] (which to some extent may perhaps be improved or altered)?

Secondly, shall we join in a Central Bank Credit as part of this scheme and in addition to long loans from private Bankers amounting to \$70,000,000?

These are very important questions. I have told Mr. Harrison that I cannot answer them without discussing the whole matter with you and for this purpose I think we should have a meeting, for which Mr. Harrison will probably try to make arrangements when he sees you.’¹⁶⁸

It was now clear to Norman that, despite his misgivings, American banks were going to lend to Poland: on 31st March he and Siepmann saw Gairdner and he recorded in his diary:

‘I say agreement bet[ween] Am[erican] Bankers & Polish Gov^t likely: chances of League almost nil: his hands are free to deal with scheme on its merits, with Am[erican] Bankers and without League. (I do not mention Harrison or scheme he brought here.)’¹⁶⁹

Harrison concluded from his bilateral meetings that agreement was at hand, but it proved not to be. The meeting in Calais seems to have been chaotic. Norman and Schacht both renewed their demands for the League of Nations to oversee Polish finances, and when Harrison and Moreau rejected them, Schacht suggested a central bank credit to the Bank Polski without any accompanying

¹⁶⁸ Norman – Schacht, 28th March 1927, BOE G1/43.

¹⁶⁹ Norman diaries, 31st March 1927, BOE ADM34/16.

conditions. Schacht claimed that Poland had several outstanding debts which should be settled before a new loan could be considered.¹⁷⁰

Siepmann's version of the conclusion of the meeting was that

'...the Central Banks represented at the meeting would wish to accept an invitation, if it were extended to them all by the Federal Reserve Bank, to join in a stabilisation credit to the Bank Polski, provided that:

1. the stabilisation plan had been examined and approved by a responsible international Committee of Experts, who would also examine the Statutes of the Bank Polski (clause vii).
2. the plan, as approved by this Committee, had been legally accepted by the Polish Government.
3. the plan provided for decisions by the Financial Committee of the League of Nations on disputed questions relating to the exercise or prolongation of control.

It was agreed that if the scheme prepared in America were published before it was referred to the proposed Committee, it would be impossible to proceed.'¹⁷¹

¹⁷⁰ Pease (1986, p 92 – 93), Chandler (1958, p 399). Schacht sent Norman a list of German claims on Poland, asking him to pass them on to Harrison, which he did (Schacht – Norman, 6th April 1927, Norman – Harrison, 9th April 1927, BOE OV110/33). Norman sent Harrison, apparently on his own initiative, a list of Poland's external liabilities, which he had been given by Niemeyer (Niemeyer – Norman, 6th April 1927, Norman – Harrison 7th April 1927, BOE OV 110/33). In his report to Stresemann, Schacht claimed that the Polish government was untrustworthy (Schacht – Stresemann, 6th April 1927, ADAP B V pp 129 – 131).

¹⁷¹ Siepmann, 'Poland: conclusions reached in a conversation at Calais on Sunday, 3rd April, 1927, BOE G14/259.

Siepmann's account was challenged by Harrison, who, according to Siepmann,

'says that the Bank of France and the Reichsbank would also accept an invitation in other circumstances. He does not believe that it was thought necessary, or even perhaps desirable, that the Statutes of the Bank Polski should be examined by the International Committee... Arbitration, Mr. Harrison says, on disputes about the prolongation of control was to be by some International Authority, but not necessarily by the Finance Committee of the League of Nations; and if the scheme were announced before being referred to the Committee, it might be difficult, but it need not be "impossible", to proceed with it. Mr Harrison differs entirely from the conclusions about Central Bank responsibility for the scheme. What Dr Schacht objected to, he says, was the responsibility of the Reichsbank for the loan; and as for M. Moreau, he had actually suggested that he might nominate the French member for the International Committee, and he would still be prepared to do so. Mr Harrison agrees, however, that the appearance of Central Bank responsibility for the scheme was to be avoided if what is meant by that is responsibility before the public. Mr Harrison disputes the truth of the statement that in past reconstruction schemes Central Banks have deliberately accepted responsibility for the schemes, but he also says that, at any rate up to the present, the Federal Reserve has not involved itself in any responsibility for this scheme.

Mr Harrison complains that the emphasis is wrongly distributed throughout the memorandum and especially as regards the claims of the German against the Polish Government. It is untrue to say that he was unaware of any claims of this sort because Dr Schacht had spoken to him on the subject in Berlin; but he was unaware at the time how much the valid claims might amount to and everything which he has learnt since

then has tended to show that the subject has much less importance than is attributed to it in the memorandum.

I told Mr Harrison that the memorandum was not intended to be a binding report of agreement but merely a statement of the L.C.M. [lowest common multiple] of common agreement. If this L.C.M. happens to represent the point of view defended by the Governor of the Bank of England it can only be – and nothing in the memorandum was intended to imply the contrary – that other people were prepared to go further.¹⁷²

It is clear that the Bank of England wanted to place the responsibility for the loan squarely on the Federal Reserve, and that Norman was not willing to give enough ground to enable an agreement to be reached on the Fed's terms. At the same time, he was not willing to forbid London bankers from participating.

Discussions between Poland and the Bankers Trust group resumed in Paris on 10th April but soon reached deadlock on the issue of foreign control. The Federal Reserve reminded the Poles that the absence of meaningful controls would deter investors. On 14th April, Norman told Rist (Bank of France) that he would be willing to join in a central bank credit organised by the Federal Reserve, or, if he were to be asked, by another central bank. Rist said that the Bank of France would be unwilling to arrange the credit because such action would be given a political interpretation, France being Poland's ally.¹⁷³

Norman wrote to Schacht on 19th April to say that 'the importance of stabilising the Polish currency is admitted'; that he would join a central bank credit for the Bank Polski, and understood that he (Schacht) and Moreau would do likewise; that the Bank of England 'is not competent to handle or approve Polish bills of

¹⁷² Siepmann, 'Memorandum', 11th April 1927, BOE OV110/33.

¹⁷³ Siepmann, 'Poland', 14th April 1927, BOE OV110/33.

exchange'; and that he could not promise to provide a British member for any international committee set up under Harrison's scheme 'to assist in the elaboration and adjustment' of the general proposals.¹⁷⁴

Schacht's attitude was made clear in a letter of 30th April to Norman:

'...The Reichsbank is willing (unless formally asked by the German Government to the contrary) to join in a central banks credit to the Bank Polski if you and Strong are participating in such a credit and if we are asked to join in such a credit by either one of you. I am however firmly decided not to take the least responsibility as to a loan to the Polish Government under moral conditions which in my opinion are as unsatisfactory as provided in the American scheme. I am further of the opinion that a loan of the present character cannot be sold in the german market and that no responsible german bank can be found to participate in such a transaction. I am further maintaining my standpoint that no authoritative committee can be put up by either one of the two parties concerned, i.e. to say by the lenders or by the borrowers but that an international suitable committee can only be appointed by an international impartial authority.'¹⁷⁵

Niemeyer said of the proposed loan that:

'It is a kind of Manhattan cocktail of all former League schemes plus Dawes plan with most of the alcohol left out. The Bank of England and the Reichsbank don't at all like the scheme, but might be dragged in rather than break up Central Bank cooperation...

¹⁷⁴ Norman –Schacht, 19th April 1927, 'Polish program of stabilization', 24th March 1927, BOE OV110/33.

¹⁷⁵ Schacht – Norman, 30th April 1927, BOE G1/43.

The Polish idea that the Governor of the Bank derives his ideas from Schacht is wholly ridiculous. Germany is the nearest large country to Poland and it is obvious that they know in some ways more about Polish financial conditions than anyone else; but influence is much more from Norman to Schacht to be reasonable than vice versa.¹⁷⁶

The Bank of France tried to find a compromise, and in the first week of May, Moreau, Norman, Monnet and various American bankers met in Paris. Strong got cold feet, and tried to induce the Bank of France to take over the organisation of the loan.¹⁷⁷ Morrow declined a place on the proposed international committee. Norman urged Monnet to try to persuade the Bank of France to take the lead in organising the central bank credit.¹⁷⁸

Siepmann set out the story from the Bank of England's point of view in a long note, which appears to have been written with the intention of justifying the BOE's participation, but which also makes clear that the BOE's role in the post-war international monetary system was much less influential than it would have liked. It is reproduced in Appendix 1.

Norman, who is said to have played a constructive part, wrote his own account:

- a) 'It had been agreed in principle by all parties that stabilisation of Poland was most important.
- b) If invited by the Federal Reserve Bank [note: &/or Bank of France] to join in a Central Bank Rediscount Credit to the Bank Polski, he [Norman]

¹⁷⁶ Niemeyer – Palairret (F.O.), 2nd May 1927, NA T176/23.

¹⁷⁷ Pease (1986, p 96) and references therein, Meyer (1970, pp 97 – 99), and letter from Harrison to Morrow, 7th May 1927, attached to Morrow – Norman, 13th May 1927, BOE OV110/33.

¹⁷⁸ Norman – Monnet, 7th May 1927, BOE OV110/33.

would recommend the Court to accept the invitation: also M[oreau] & S[chacht].

- c) It would not be possible to handle or give approval to Polish Bills of Exchange in the Bank of England.
- d) He had not felt free to promise to press or require anyone from London to accept an invitation from the Bank Polski to join the proposed International Committee of Experts and he doubted whether the right person would be willing to join from “public spirit”, especially if there is to be no German Member of the Committee.¹⁷⁹

Norman wrote to Strong on 7th May expressing the hope that ‘a way out has been found.’¹⁸⁰ He wrote on 9th May to Schacht in more detail, hoping to persuade him to accept an invitation from the Bank of France to participate in the central bank credit:

‘Since Mr Harrison sailed on the 13th of last month, I have not heard anything from America about Poland, and it seems that our friends in the Federal Reserve Bank have been waiting for us in Europe to make a move: but, so far as I am aware, none of us has done so. In Paris, I saw Moreau, Monnet (who, as Blair & Co., is perhaps half American but no more), Gilbert of course, Dwight Morrow (the Bankers Trust Co. as well as J.P. Morgan & Co.) and several others. It is true that some of them wanted me to arrange a Credit for the Bank Polski and to take the responsibility which that would involve. This I declined to do and stood on the basis set out in my letter to you of the 19th April. Mr Morrow had been invited by the Bankers to preside over the Expert Committee (for which provision was made in the plan that Harrison gave us) and this he

¹⁷⁹ Pease (1986), pp 94 – 95; Norman, note for Bank of England Committee of Treasury, 11th May 1927, BOE C1/43.

¹⁸⁰ Norman – Strong, 7th May 1927, FRASER archive strong_1116_7_2_norman_1927.

had declined to do for the reason that he did not want to be mixed up in the affair.

As a way out of the difficulty, I suggested to Moreau that the Bank of France should take the lead and arrange a Central Bank Credit on any lines they thought fit; for it seems less and less possible, owing partly to distance and partly to ignorance of technique, that the Federal Reserve Bank should do so. Monnet and the private Bankers would welcome this arrangement, and I myself think it is the only way to escape from a difficult position. When I came away from Paris the result was uncertain, but I have since heard that Moreau is in touch with Harrison or Strong. I expect therefore that in due course the Bank of France will somehow alter Harrison's scheme (providing probably for greater and longer control than had been suggested and possibly for further-reaching supervision): that on such a new basis a Polish Loan will be issued, internationally, by private Bankers: that a Rediscount Credit to the Bank Polski will be arranged by the Bank of France: and lastly, that you and I will both be invited by the Bank of France to join and that we shall accept.

Just as you and I were willing to join (with as little responsibility as possible) in the American scheme, if invited by Harrison, so I think we must join in a similar or improved scheme if invited by Moreau. I do not differ from your attitude, but as in this case we cannot get the best arrangement possible (which I consider would be through the League of Nations), then we must support as good a scheme as we can get; and on the whole this scheme, providing as it would for stabilisation, would be good, though not perfect. So I hope you would accept an invitation if it came to you from Moreau – instead of Harrison.¹⁸¹

¹⁸¹ Norman – Schacht, 9th May 1927, BOE G1/43.

Schacht's reply was a sign of the times:

'I think it would be rather unhappy if the initiative for the credit to the Bank Polski would turn into the hands of the Banque de France, because that would give rather a political aspect to the whole matter, which to avoid we were all very anxious. Furthermore I am sorry to say that the attitude of the Poles towards the Germans in Upper Silesia has become so brutal these last weeks, that I am very uncertain, what attitude I myself can take if the matter should become acute. At least I think that I am not entitled to express myself thereabout for the moment.'¹⁸²

On the same day, 21st May, Strong informed Ciechanowski of his acceptance of the programme, though with some reservations about the narrowness of the adviser's powers.¹⁸³

The central bank credit

On 2nd June, BP adopted the programme and formally asked the FRBNY to discuss the central bank credit.¹⁸⁴ The Federal Reserve Board approved Strong's proposal for a credit, and for the Fed's participation up to a limit of \$10mn. Strong asked Moreau to enlist European central banks.¹⁸⁵ However, Strong approached Norman himself, asking him formally to consider participation after reviewing the programme.¹⁸⁶ Norman replied the same day, saying that 'without waiting to review programme...I will recommend Bank of England to accept your invitation to participate in any such credit provided similar invitation is offered to and accepted by Reichsbank as well as Bank of France.'¹⁸⁷ Norman thus tried to shift the moral responsibility for the Bank of

¹⁸² Schacht – Norman, 21st May 1927, BOE G1/43.

¹⁸³ Pease (1986, p 96).

¹⁸⁴ Meyer (1970, p 86), Pease (1986, p 97).

¹⁸⁵ Pease (1986, p 97).

¹⁸⁶ Strong – Norman, 8th June 1927, BOE G14/259.

¹⁸⁷ Norman – Strong, 8th June 1927, BOE G14/259.

England's participation onto Strong. Strong was unwilling to accept it, and the next day, in a telephone conversation, persuaded Norman to say that the Bank of England's participation was based on an examination of the programme.¹⁸⁸

In the event, the Federal Reserve needed to put up much less than \$10 million:

Table 1 **Participation in central bank one-year credit to Bank Polski, 1927 (\$mn)¹⁸⁹**

Austria	0.50
Belgium	0.50
Czechoslovakia	0.50
Denmark	0.25
Finland	0.25
France	3.00
Germany	3.00
Great Britain	3.00
Hungary	0.50
Italy	1.50
Netherlands	1.00
Sweden	0.25
Switzerland	0.50
USA	5.25
Total	20.00

Source: Meyer (1970, p 87).

After prolonged and difficult negotiations, the commercial loan agreement was signed on 13th October.¹⁹⁰ The twenty-year bond which carried a coupon of 7%, was issued at 92 and was redeemable at 103. The amount issued was \$62 million, plus £2 million in sterling. The issuing costs were a little over 6% of the

¹⁸⁸ Meyer (1970, p 86).

¹⁸⁹ The Bank of Danzig approached the Bank of England to ask whether it could participate in the credit, but was told that the Bank of England was not organising the credit. Meissner – Siepman, 21st June 1927, Siepman – Meissner, 23rd June 1927, BOE OV110/33.

¹⁹⁰ Pease (1986, pp 98 – 101).

nominal amount of the loan, or 7% of the amount that Poland actually received¹⁹¹. The BOE itself bought £100,000 of the sterling issue.¹⁹²

Poland expressed its appreciation for Strong's support by conferring on him the Grand Cross of the Order of Polonia Restituta.¹⁹³

¹⁹¹ Source: author's calculations, based on Smith (1936, p 159); Flores Zendejas and Decorzant (2016, table 4).

¹⁹² Daily account book, 1927, BOE C1/75.

¹⁹³ Ciechanowski – Strong, 11th July 1928, FRASER strong_1180_0_polish_bankers_and_government_officials_1914-1928.

6. Post-stabilisation

The stabilisation plan

The main features of the stabilisation plan were that the Polish government

‘committed itself to maintain a stable budget balance, abolish all restrictions on currency trade, respect the full autonomy of the Bank of Poland in relation to the government and increase its equity to 150 million zlotys. The plan was aimed primarily at overcoming the mistrust of foreign countries towards Poland. The implementation of the scheme was to be supervised by a representative of the lenders, who would have the status of a government advisor and be positioned in the Bank of Poland as a Council member.

The principles of the monetary system and of backing of zloty issues were modified... At least 40% of banknotes and demand liabilities needed backing in foreign currency and gold reserves, with gold reserves in coins and bars accounting for at least $\frac{3}{4}$ of the backing coverage ($\frac{2}{3}$ of gold reserves were to be kept domestically). The backing of issues could fall below 40%, but then the Bank would be obliged to pay a special seigniorage tax to the state and increase the interest rate.’¹⁹⁴

The new cover requirement for the note issue was significantly more demanding than the 30% gold + hard currency requirement of the 1924 statute, and it thus represented a move away from the Genoa resolutions and the gold exchange standard.

The foreign adviser was Charles S. Dewey, formerly Assistant Secretary to the U.S. Treasury.¹⁹⁵

¹⁹⁴ Leszczyńska (2011, p 29).

¹⁹⁵ Pease (1987).

Stabilisation and gold reserves

The Bank of England took a continuing interest in the affairs of BP, and the implementation of the stabilisation plan, even after the loan agreement had been signed. It was curious about how the new loans (the bond issue and the central bank credit) and the reform programme would be reflected in the BP's balance sheet. Above all it was concerned about the implications for the BP's operations in gold, because it was nervous about the adequacy of its own gold reserves and the stability of sterling, which had only in 1925 been restored to the gold standard. As Młynarski perceptively noted:

'The reserves of the Bank of England are not sufficiently large to permit the exchange of gold for sterling deposits belonging to banks which use the gold exchange standard. Similarly the inflow of new gold derived from the mines is not sufficient for this purpose. As a result, every large purchase of gold in London gives rise to alarm, and that not only in London, for the question of the value of gold is not a local one. The purchases of gold by the Bank of France and the Bank of Poland effected in 1927 afford an example of this alarm, although they were made in agreement with all interested banks.'¹⁹⁶

In order to meet the new statutory gold cover requirements, the BP used part of the loan proceeds to purchase £4 million (\$20 million) of gold, and transported £5 million (\$25 million) to Warsaw by the end of November, drawing part of the latter from gold earmarked for it in the BOE's vaults. The BP had planned to buy the entire £4 million in London, but Norman warned Karpiński that such a large purchase would exhaust new supplies coming on to the market, and that some would have to be bought from the BOE at the statutory price, which was higher than the normal market price. Accordingly, the BP bought only £1 million in London and the rest in New York. Norman, writing to Strong, thought

¹⁹⁶ Młynarski (1929, p 11).

that even £1 million would be too much for the market; Strong thought that the BP had done 'a fine job'.¹⁹⁷ The BP's gold holding at the BOE fell to only £0.4 million at the end of March 1928 (Table 3).

On 14th February 1928 the BP told the BOE that they had now bought enough gold to satisfy their statutory requirements. However, they wanted more, in case the note issue or their sight liabilities expanded, and authorised the BOE to buy another £200,000 of gold for them. To this was added a further £200,000 to be bought by the end of April, and £600,000 more to be acquired in the subsequent three months.¹⁹⁸ In addition, the BP used the BOE as an agent to buy gold bars in exchange for gold coins in London.¹⁹⁹ By July 1928, the BP's gold purchases amounted to about \$33 million, or roughly a third of one percent of global monetary gold reserves (Figure 6). They were larger than the BOE had foreseen, partly because the BOE had not expected the BP to accumulate such a large safety margin: this was done at the instigation of Dewey, who was perhaps less ineffectual than has been suggested (Appendix 2 provides further details).²⁰⁰ The safety margin proved very useful in the mid-1930s, helping to make it possible to maintain the note issue despite falling gold and foreign exchange reserves (Figure 1).

Siepmann wrote to the newly-installed Dewey on 2nd December 1927 to introduce himself ('With this letter a correspondence is initiated which I hope

¹⁹⁷ Karpiński – Norman, 14th October 1927; Norman – Karpiński, 18th October 1927; Karpiński – Norman, 24th October 1927; Norman – Karpiński, 28th October 1927; Karpiński – Norman, 2nd November 1927, BOE OV110/34, Norman – Strong, 4th November 1927, FRASER strong_1116_7_2_norman_1927, Strong – Norman, 16th November 1927, FRASER strong_1116_7_1_norman_1927.

¹⁹⁸ BP – BOE, 14th February 1928, Mahon – BP, 17th February 1928; Siepmann – Młynarski, 26th February 1928; Młynarski – Siepmann, 3rd March 1928, OV110/34.

¹⁹⁹ Siepmann – Młynarski, 22nd March 1928; Młynarski – Siepmann, 26th March 1928, BOE OV110/25.

²⁰⁰ Pease (1987, p 88) says, on the authority of Karpiński, that Dewey 'made no effort to exercise even the trivial supervisory powers permitted him'. However, according to Landau (1997, p 84), between 1927 and 1929, Dewey prevented the government from subordinating the BP's position in forming macro-economic policy.

you will have the time and inclination to continue in the future’), and to ask for a copy of the BP’s new statutes.²⁰¹ In a rather pointed reply, Dewey sent the statutes, in French, and promised to ‘drop you an occasional line.’ He noted that Pierre Quesnay of the Bank of France ‘has been of inestimable value in my work.’²⁰² Undaunted, Siepmann replied on 21st December, dropping the name of Governor Strong of the FRBNY.²⁰³ He received an insubstantial reply.²⁰⁴

On 18th January 1928, Siepmann discussed Poland with Quesnay in Paris. Quesnay noted that ‘a Viennese bank borrows dollars at 5½% and arranges to advance Zloty to a Pole at a rate, say ¼%, calculated not on the amount of the advance but on the turnover on the account. This generally leads to the Pole paying a cool 15 or 20% for his money.’ The BP had offered direct discounting facilities to traders, and Quesnay thought that they should also give unlimited discount facilities to private banks, as long as they put up bills of exchange in the proper form.²⁰⁵

Dewey visited the BOE on 3rd February; he had ‘only a casual meeting’ with Norman because he was hurried, but according to Norman’s diary he had long talks with Lubbock and Siepmann.²⁰⁶ I could find no record of those talks.

Siepmann visited the BP later in February, mainly to discuss BP’s account with the BOE (section 11), and became more friendly with Dewey who wrote warmly to him after his departure.²⁰⁷ On his return, Siepmann described Dewey’s ideas for improving the supply of credit in Poland, which included

²⁰¹ Siepmann – Dewey, 2nd December 1927, BOE OV110/24.

²⁰² Dewey – Siepmann, 9th December 1927, BOE OV110/24.

²⁰³ Siepmann – Dewey, 21st December 1927, BOE OV110/24.

²⁰⁴ Dewey – Siepmann, 30th December 1927, BOE OV110/24.

²⁰⁵ Siepmann, ‘Note of conversations in Paris on the 18th January, 1928’, BOE OV 110/1. There was an upper limit on the interest rate that banks could charge: it was 24% in 1924 and was reduced subsequently (Leszczyńska 2011, p 26).

²⁰⁶ Norman diary, 3rd February 1928, BOE ADM34/17.

²⁰⁷ Dewey – Siepmann, 21st February 1928, BOE OV110/1. Siepmann arranged for the alteration and dispatch to Warsaw of Dewey’s sporting guns.

inducing industrial companies to generate bills of exchange discountable at the BP.²⁰⁸ He also noted that ‘because the Statutes did not foresee that some foreign exchange would be excluded from the metal reserves, the curious situation has arisen that foreign exchange outside the metal reserves does not form part even of the “bankmässige Deckung.” Thus, ‘if there is an influx of foreign exchange, the Bank may avoid any consequent expansion of the note issue by simply excluding the foreign exchange from metallic (and consequently, under the Statutes, also from Banking) cover.’²⁰⁹

In May, the BP asked for, and got from the BOE, reassurance about a clause in the Currency and Bank Notes Bill, which was before Parliament at the time, which empowered the Bank of England, in certain circumstances, to concentrate the reserves of gold which were held in the U.K. Siepmann told Młynarski that this clause ‘could never give rise to a request by the Bank of England that a foreign Central Bank should sell gold set aside in London’; this was confirmed by an amendment to the bill which Parliament accepted. Młynarski asked Siepmann to discuss the matter with Zygmunt Karpiński, which Siepmann evidently did, because Młynarski told him that the President was ‘entirely and sincerely satisfied.’²¹⁰

The stabilisation loan in the secondary market

The sterling issue of the stabilisation loan did not perform well in the secondary market (Figure 4). Dewey wrote to Siepmann on 23rd May expressing concern that it was below the issue price, and suggesting that a visit to Poland by Sir Robert Kindersley of Lazards, which had managed the London issue, would be useful. Kindersley wrote to Siepmann, saying that he would be

²⁰⁸ Siepmann, ‘Mr Dewey’s main ideas’, 14th February 1928, BOE OV110/1.

²⁰⁹ Siepmann, ‘Poland’, 16th February 1928, BOE OV110/1.

²¹⁰ Siepmann – Młynarski, 14th May and 22nd May 1928; Młynarski telegram to Siepmann, 1st June 1928; Młynarski – Siepmann, 19th June 1928, BOE OV110/25. Zygmunt Karpiński, the Director of the Foreign Exchange Department of the BP, is not to be confused with his relative Stanisław Karpiński, the BP’s first President.

unable to make the visit. Kindersley's analysis was surprising, bearing in mind that Lazards had sponsored the issue:

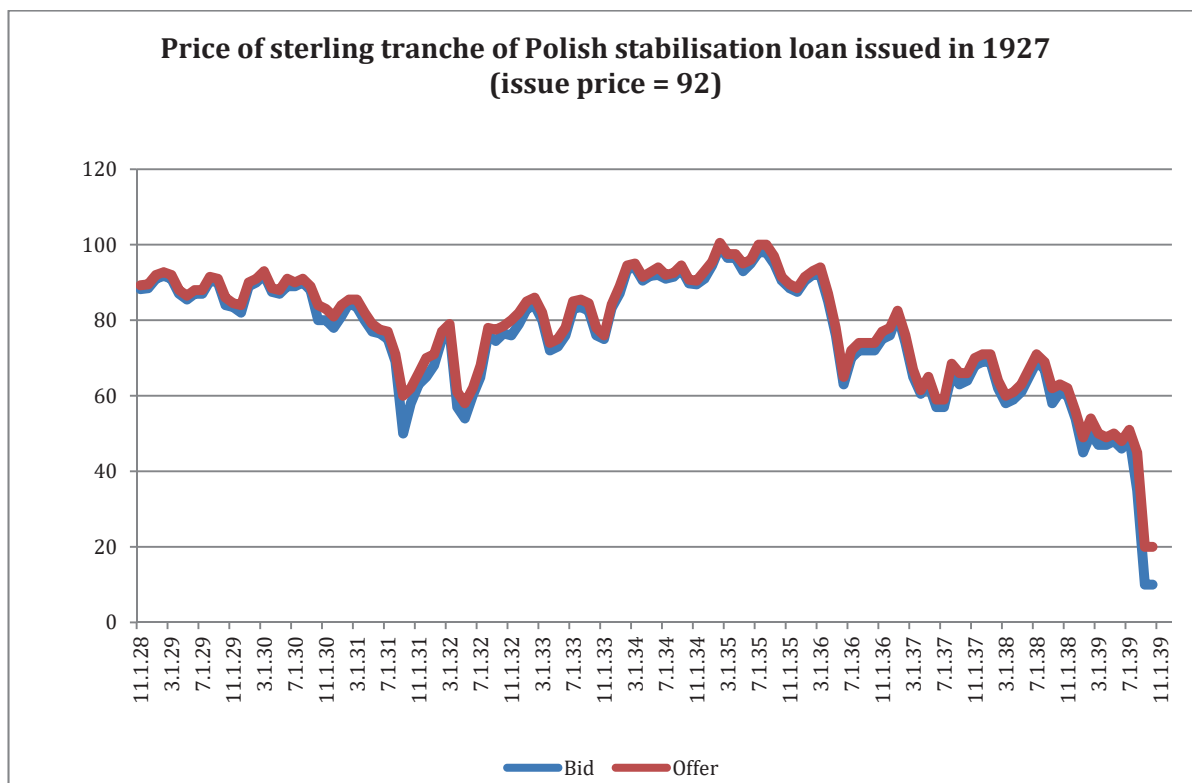
'Of course the real trouble is that English people as whole don't believe in Poland, not because of the economic conditions – all the information that comes from Poland in regard to these has been good during the last year or two – but because of the various political questions in which Poland is involved, such as the Corridor, Russia, Upper Silesia and Lithuania...

On the whole, I think that the situation in regard to the Loan here is not too bad. The price is about the same as it is in America, and America must of course, owing to the larger amount issued there, always be the "bell-wether" as regards price; but the public interest in the loan is limited owing to the causes which I have mentioned above.'

He added that 'We ourselves have always supported the Market from time to time and at the present moment we have about £200,000 of Stock on our books.'²¹¹ £200,000 was of course 10 per cent of the sterling tranche.

²¹¹ Dewey – Siepmann, 23rd May 1928; Kindersley – Siepmann, 30th May 1928, BOE OV110/1.

Figure 4



Source: TDA.

Note: the bond was payable in sterling and did not benefit from a gold guarantee, ('Polish stabilisation loan of 1927', ND, probably 1936, BOE OV110/37). See section 9 for further discussion of exchange rate issues.

Replying to Dewey, Siepmann made the same general point that Kindersley had made to him, but at greater length:

“The real truth, I believe, is that the very existence of Poland is still regarded in this country as a political experiment which has yet to prove its success. What the man in the street knows about Poland is that it is a country which has time and again been broken up by centrifugal forces. He does not realise and he will take some time to believe, the progress made by the new Poland towards real national consolidation. He has it

in mind that Poland has six or seven frontiers and he is not allowed to forget that some of them are in dispute.’²¹²

Having pointed out that the price of the loan in London was about the same as in America, neither Kindersley nor Siepmann needed to expatiate on alleged British scepticism about the future of Poland. The fact that they nevertheless did so suggests that the opinions which they attributed to ‘English people and ‘the man in the street’ were in fact their own.’²¹³

Polish borrowing after stabilisation

Despite the performance of the stabilisation loan, Poland was able to continue borrowing in international markets (Table 2); however, the BP’s reserves fell steadily (Figure 6).

Table 2 Polish issues in international capital markets, 1928–1930

Borrower	Interest rate	Amount (millions)
1928		
City of Warsaw	7%	\$10
Province of Upper Silesia	7%	\$11
City of Poznań	7%	£0.5
1930		
City of Gdynia	7%	Sw. Fcs. 4
State Engineering Works (1)		\$2
Swedish Match Trust (2)	6½%	\$32.4

Notes: (1) Guaranteed by National Economic Bank. (2) Agreement concluded on 17.11.1930 for a loan of \$32.4 million at 6½% to be issued at 93. Of the proceeds, \$4.35 million were to be devoted to retiring the remaining outstanding bonds of the Swedish Match Trust loan of 1925. In consideration of the new loan the Match Trust Concession was extended by 20 years to 1965.

Source: Hubbard, ‘The Republic of Poland’, 9th May 1931, BOE OV110/2.

The Poznań loan was arranged by the BOB. Dewey told Siepmann that he was ‘much dissatisfied with the terms offered by the bankers’: the security required

²¹² Siepmann – Dewey, 31st May 1928, BOE OV110/1.

²¹³ Pease (1987, p 93) suggests that the man in the American street had the same concerns. Grabski (1927, p 13) commented that at the Paris Peace Conference, the British had regarded Poland as an ‘experiment.’

was excessive, especially compared with that required for the much larger loan to the city of Warsaw which had recently been contracted.

‘Beside a first mortgage on a number of pieces of real estate, a first lien on revenue of certain public utilities and enterprises of the city, they slipped in a final paragraph that the service of the loan should be a first charge on all of the city revenue, and that the bankers should have “favourable consideration” on equal terms in future borrowing...

As opposed to this, the City of Warsaw has just contracted a loan of \$10,000,000 based on the full faith and credit of the City, and may in case of default cause the city’s share of certain revenues, which are collected by the government, to be deposited directly in the Bank of Poland for the account of the service of the loan. Such an agreement advances the credit of Poland and does not tie the hands of the City, and yet provides adequate security.’²¹⁴

Siepmann was evidently concerned. He saw Dudley Ward (BOB), who said that when BOB had thought that the Poznań negotiations were complete, the loan had been referred to the Finance Ministry and, following Dewey’s intervention, their American competitors had made a revised offer and made proposals which were ‘in some respects better, in other respects worse, and on the whole about as good as the proposals of the British group. The suggestion is made to me that this is the sort of thing which inevitably happens when a foreign Controller is put in to represent a group of Bankers instead of being responsible to the League.’ Gairdner (BOB) defended the terms by saying that the first charge provision had not been ‘slipped in’ but had been included in the original rough draft of the agreement, and had not been objected to by the borrowers, and that BOB had removed the word ‘first’ when the Ministry of Finance

²¹⁴ Siepmann – Dewey, 6th March 1928; Dewey – Siepmann, 9th March 1928, BOE OV110/1.

objected to it. Likewise the borrowers had not objected to the clause about future borrowing. The security was not excessive: the mortgages were over municipal assets valued at zł 35 million (about £800,000) and real estate valued at zł 4 million (about £90,000). The first lien on the revenues of the mortgaged undertakings was to be enforced only in case of default. And the comparison with Warsaw was flawed because the German legal code was in operation in Poznań, while the Napoleonic code was in force in Warsaw.²¹⁵ Siepmann simply transmitted all this to Dewey, and told Gairdner that he was fully satisfied with his explanation.²¹⁶

In April, Alfons Poklewski-Koziełł, the financial counsellor of the Polish Legation in London, approached Niemeyer, who had now left the Treasury and become a Bank of England official, about possible British participation in a project involving up to \$200 million to develop railways, in which American bankers were said to be interested. Niemeyer said that the BOE would not obstruct London banks from taking part.²¹⁷ Nothing appears to have come of the proposal for a loan.

Stanisław and Zygmunt Karpiński visited the BOE on 1st June 1928, where they saw both Norman and Harrison.²¹⁸ Dewey, too, visited the BOE on 13th July, though Norman was away. Dewey thought that Poland's main problem was lack of capital and described various ways in which it might be overcome; he also said that the volume of short-term loans to Poland was £10 million.²¹⁹

²¹⁵ Siepmann, 'Poland', 12th March 1928; Gairdner – Siepmann, 14th March 1928; Siepmann – Ward, 14th March 1928; Gairdner – Siepmann, 14th March 1928, BOE OV110/1.

²¹⁶ Siepmann – Dewey, 15th March 1928; Siepmann – Gairdner, 15th March 1928, BOE OV110/1.

²¹⁷ 'Memorandum', 11th April 1928, BOE OV110/1.

²¹⁸ Norman's diary, 1st June 1928, BOE ADM34/17.

²¹⁹ Gunston, 'Poland' (2 notes), 17th July 1928, BOE OV110/1.

Renewing the central bank credit

It is not clear who raised the possibility of renewing of the one-year central bank credit provided in 1927, or when they did it. On 24th July 1928, just after his return to New York, Harrison wrote about it to Siepmann. Harrison hoped that renewing the credit would not be necessary, 'but if so I think it would be a mistake to have the Bank of Poland approach separately each individual participant in the credit. The essential thing is that there should be some orderly procedure with a proper appreciation of individual responsibility on the part of each institution in accepting or declining to participate.'²²⁰ He asked for Siepmann's views on how a renewal request should be handled. Harrison plainly did not want the responsibility of appraising the loan on behalf of the lending group. Siepmann replied that Dewey had not mentioned any renewal when he had visited the Bank of England. On the question of procedure, Siepmann unhelpfully said 'I quite agree that it would be a mistake to have the Bank of Poland approach each individual participant separately. Yet the moment they address themselves to the originators of the project (whoever these may be) the embarrassment begins.'²²¹

Dewey raised the question of renewal with Strong in September. He asked how participating banks would react to a renewal request, which 'would be based on psychological reasons since balance of trade continues unfavourable and public being disturbed Bank Polski Council believes termination of Credit will have unsettling influences.' Strong replied that the Federal Reserve had hoped that renewal would be unnecessary; would give the matter sympathetic consideration; but would prefer an informal inquiry direct from the BP 'and their full statement of the situation which inspires the request.' He continued:

²²⁰ Harrison – Siepmann, 24th July 1928, BOE OV110/25.

²²¹ Siepmann – Harrison, 9th August 1928, BOE OV110/25.

'3. In reaching our decision we shall rely to a large extent upon

- a) the opinion of the Council of the Bank of Poland and
- b) your own views since you are on the ground. This is particularly true since request for renewal will apparently be based on psychological grounds.

4. If an extension of the Credit is agreed upon in principle we much prefer straight renewal whereby all present participants would be given an opportunity to extend the Credit. We believe that it would be most undesirable to limit the opportunity to renewal to a few Banks. If the Bank of Poland should desire to renew for a smaller total, we think present participants should be offered proportionately smaller amounts.

5. As a matter of procedure we believe that it would be a mistake for the Bank of Poland to make application for a renewal of the Credit directly to all participants. A more logical method would be to follow the same course which was pursued when the original credit was negotiated and we would request the Bank of France to approach European participants.'²²²

Norman told Strong that his message to Dewey was 'admirable', and added that 'We desire to support your wishes and only wonder if Bank Polski will be wise to create precedent of applying for renewal.'²²³ Strong replied:

'1. We too have some doubts about wisdom of creating precedent of requesting renewal but if Bank of Poland can advance good reasons for renewal we should not want to assume responsibility of denying their request particularly as we have aided them up to this point. We must await their statement of the situation before taking any further steps.

²²² Strong – Norman, 13th September 1928, BOE G1/43.

²²³ Norman – Strong, 13th September 1928, BOE G1/43.

2. In the meantime have you any alternate suggestions which the Bank of France and ourselves might consider and what are your views on a reduction of the amounts of the credit particularly as to the public impression which would be created by such action?²²⁴

Norman had no alternate suggestions and thought it 'immaterial' whether the amount of the credit was reduced.²²⁵

Strong cabled Norman on 18th September to report that he had received a renewal request from Karpiński, which cited as reasons (quoted by Strong from Karpiński's request):

(i) We trust that unfavourable balance of trade can only be improved gradually.

(ii) Influx of foreign capital which during first half of this year contributed largely to offset efflux of foreign exchange for current requirements under prevailing conditions in foreign market not sufficiently certain.

(iii) Bank undoubtedly will be able to meet increased demands for foreign exchange without the renewal of credit.

(iv) Nevertheless increased efflux of foreign exchange without bank credit might cause unfavourable impression and artificially stimulate purchases for hoarding purposes.

²²⁴ Strong – Norman, 14th September 1928, BOE G1/43.

²²⁵ Norman – Strong, 17th September 1928, BOE G1/43.

(v) Bank Council desirous of acting very conservatively would prefer not to be deprived of agreement exercising great psychological influence on country.

(vi) I shall be much obliged to you for giving matter sympathetic consideration and if you approve our views I would greatly appreciate if you will please do the necessary in order extend credit following same procedure as on the occasion of original credit.'

Strong added that Dewey supported a one-year extension. The Federal Reserve was willing to extend its participation, and had asked the Bank of France to approach the European participants.²²⁶ Norman replied that the Bank of England would accept the renewal invitation.²²⁷ The credit was never drawn on.²²⁸ Strong died on 16th October 1928.

The Bank Polski's reserves after stabilisation

By means of foreign borrowing, Poland was able to finance a substantial trade deficit in 1927 – 1929.²²⁹ The BP maintained its gold holdings at a margin above the statutory minimum for as long as it could (Figure 5). This policy was perhaps a legacy of the 1925 experience, when the precipitous fall in the BP's gold cover ratio undermined market confidence in the parity of the złoty.²³⁰ Moreover, the BP continued adding to its gold holdings even after its total external reserves of gold plus foreign exchange had begun to fall early in 1928 (Figure 6), consistent with Młynarski's views about the instability of the gold exchange standard.

²²⁶ Strong-Norman, 18th September 1928, BOE G1/43.

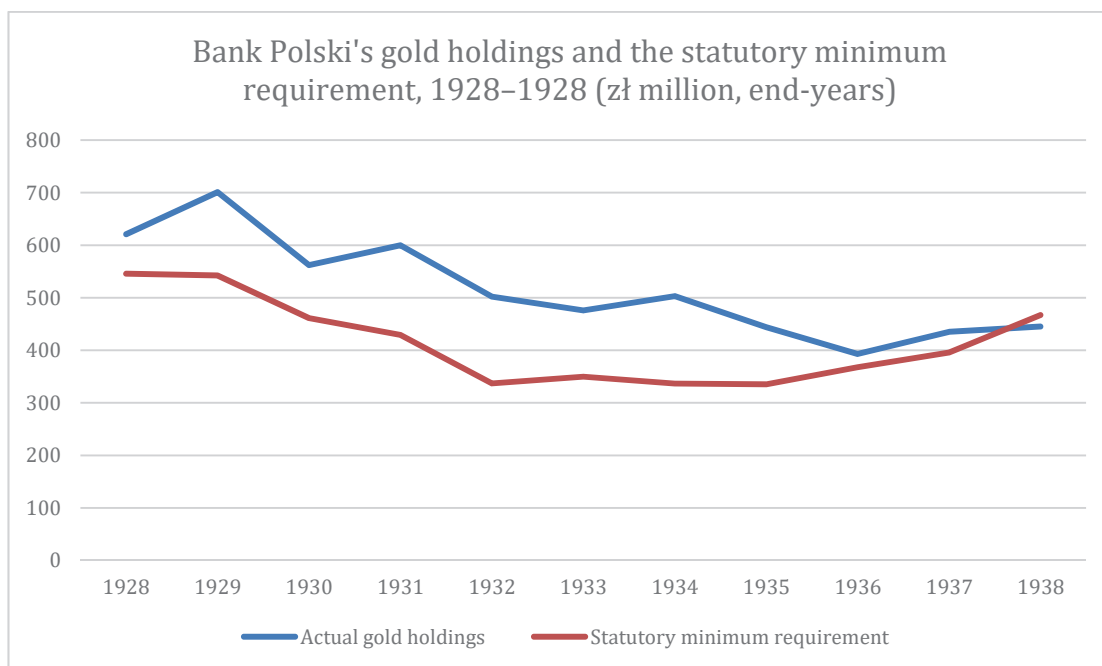
²²⁷ Norman – Strong, 21st September 1928, BOE G1/43.

²²⁸ Hubbard, 'The Republic of Poland', p 39, 9th May 1931, BOE OV110/2.

²²⁹ Smith (1936, tables I and II).

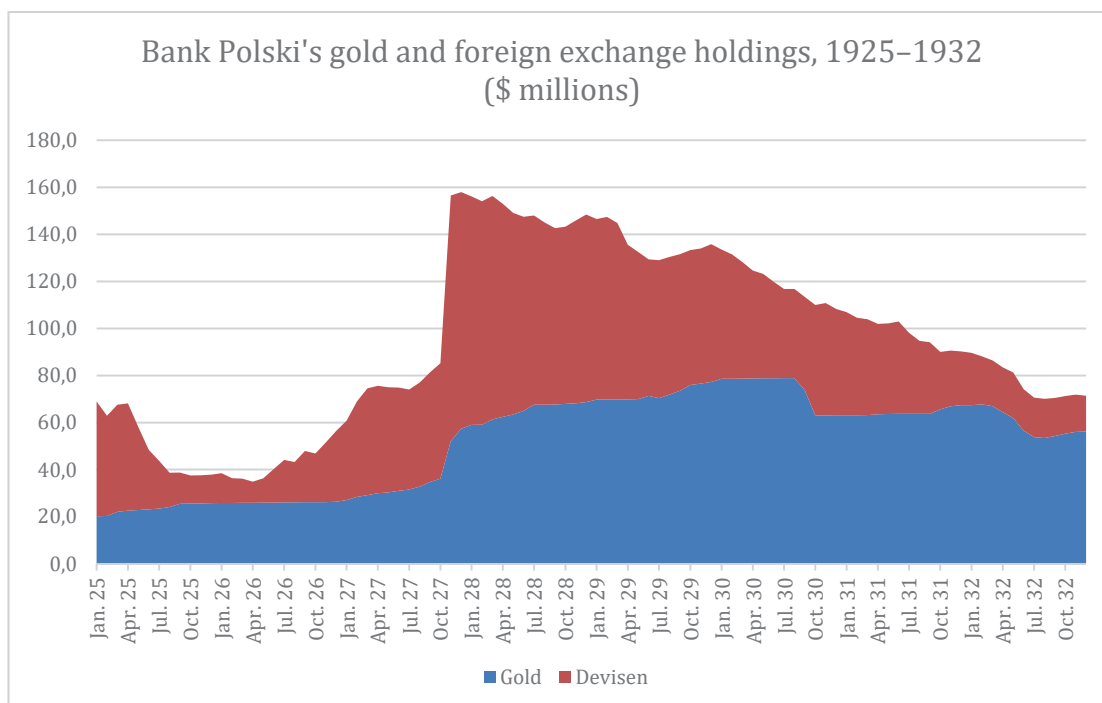
²³⁰ Leszczyńska (2011, p 29, note 62).

Figure 5



Sources: Polish Ministry of Information, London, 1941 (except 1933 and 1934). *Mały Rocznik Statystyczny* 1938 (p 195), Warszawa 1938.

Figure 6



Source: *Statistisches Handbuch der Weltwirtschaft*, 1936, cited by Albers and Uebele (2013).

More details of the BP's post-stabilisation gold policy are given in Appendix 2.

The BP's foreign exchange holdings increased by about \$48 million, or £10 million, between the end of September 1927 and the end of March 1928 (Figure 6). Only 6% of the increase was allocated to sterling, the share of which in Poland's foreign exchange reserves went down from 41% to 23% (Table 3).²³¹ Further details are provided in section 11.

Table 3 Disposition of BP's gold and foreign exchange reserves, 1927-1931 (£ million)

End of	Gold		Foreign exchange	
	Total	In BOE	Total	In BOE
September 1927	7.1	3.7	9.6	3.9
March 1928	12.6	0.4	19.5	4.5
March 1931	13.0	0.6	8.4	2.5

Sources: *Statistisches Handbuch der Weltwirtschaft*, 1936, cited by Albers and Uebele (2013); 'Bank Polski funds at Bank of England', 21st January 1937, BOE OV110/27.

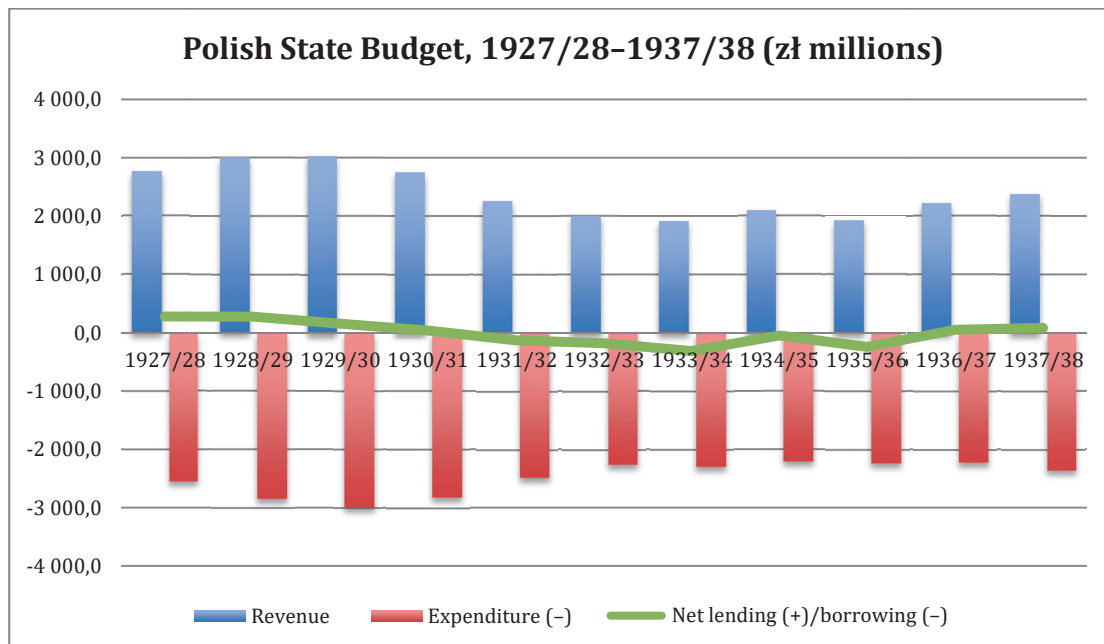
²³¹ It is unlikely that the BP held significant sterling reserves outside the BOE.

7. Deflation, 1929–1935

Introduction

Economic depression began in 1929 and, according to current estimates, Poland's *per capita* GDP went on falling until 1933, when it stabilised. There was no significant increase until 1936.²³² Industrial production reached its low point in 1933 (Figure 3). Poland clung grimly to the gold standard throughout.²³³ Year after year, government expenditure was reduced, but financing it was always problematic (Figure 7). From peak to trough, wholesale prices fell by 47% (1928–1935), the BP note circulation by 24% (end of 1928 – end of 1934) and bank deposits by 40% (end of 1930 – end of 1933). Foreign correspondent balances with Polish banks, which had been zł 553 million at the end of 1930, fell sharply in and after 1931.²³⁴

Figure 7



Source: League of Nations Statistical Yearbooks.

²³² Polański (2017).

²³³ Wolf (2007a).

²³⁴ Source of data: League of Nations Statistical Yearbooks.

Starting in January 1929, the BOE undertook regular monitoring of Poland's economy and finances. The first report was produced by L. E. Hubbard, who had been recruited in October 1928.²³⁵ Hubbard wrote summaries of BP's annual report and of the BP adviser's (i.e. Dewey's) regular reports. He visited Poland in autumn 1929 and on other occasions, and his reports were comprehensive and well-informed.²³⁶ However, the BOE was somewhat less interested in Poland than it had been in 1925 – 1928.

In March 1929 Siepmann wrote to Dewey noting that central bank discount rates were rising as funds were attracted to New York (by the demand for credit to finance holdings of securities as Wall Street boomed). He suggested that the earlier paucity of capital inflows might protect Poland against outflows.²³⁷ Clearly worried, Dewey replied at some length: he was not concerned about the public finances, and the BP's foreign exchange reserves were sufficient to meet any withdrawals from private banks. But he added that there had been 'a great let down in business' over a hard winter and an increase in protested bills. He asked Siepmann to keep him informed of developments.²³⁸ In 1930, an internal Bank of England report showed that short-term credits to Polish banks from foreign banks had increased by zł 386mn to zł 648mn, or about \$70mn, between the end of December 1925 and the end of November 1929.²³⁹ At the end of 1929, the surplus of BP's gold and foreign exchange reserves over the amount needed to provide 40% cover for the note issue was zł 691mn, barely in excess of the commercial banks' short-

²³⁵ Hubbard, 'Short surveys of 1928: Poland', 7th January 1929, BOE OV110/2. Hubbard's recruitment: see Committee of Treasury minutes, 3rd October 1928, BOE G8/58.

²³⁶ His 1929 reports are in BOE OV110/35.

²³⁷ Siepmann – Dewey, 15th March 1929, BOE OV110/25.

²³⁸ Dewey – Siepmann, 19th March 1929, BOE OV110/25.

²³⁹ 'Some banking figures' 13th February 1930, figures attributed to Joseph Zajda, in *The Banker*, March 1930, BOE OV110/25.

term external liabilities. Dewey's assessment of the adequacy of the reserves was therefore a little complacent.²⁴⁰

In April 1929, Stanisław Karpiński, whose term of office as President of the BP had expired, was succeeded by Władysław Wróblewski.²⁴¹ In September 1929, Młynarski resigned from the vice-presidency of the BP. He was not replaced until 1932.²⁴² Wróblewski visited Norman in London on 17th March 1930. The only account I have found of the meeting is the comment 'formal call' in Norman's diary.²⁴³ Wróblewski had little contact with the BOE during his term of office, which ended in February 1936.

The BP was not a founder shareholder of the Bank for International Settlements, which was set up in May 1930. However, in June, the BIS board decided to inform the BP, among several other central banks, that it would be welcome to subscribe up to 4,000 shares; by 31st March 1931, 165,000 shares had been issued, so that the BP's share of the total was about 2½%.²⁴⁴ The BP did not have a seat on the board – Norman opposed extending board membership to eastern European central banks – but it could send a representative to the annual meetings.²⁴⁵

After Dewey's term of office expired in November 1930, the vacancy on BP's board was filled by Dr Leon Barański, the State Commissioner, who became the BP's adviser, and the BOE's main interlocutor in Poland.²⁴⁶

²⁴⁰ Source of data: Concise statistical year-book of Poland, September 1939 – June 1941.

²⁴¹ Młynarski – Norman, BOE OV110/25.

²⁴² On the departures of Karpiński and Młynarski, and the appointment of Wróblewski, see Landau (1997, pp 84 – 85).

²⁴³ 17th March 1930, BOE ADM34/19.

²⁴⁴ Toniolo (2005, p 69).

²⁴⁵ Barański interview with R.S. Sayers, 10th April 1969, BOE ADM33/25.

²⁴⁶ Hubbard, 29th January 1931, BOE OV110/2.

Credit Anstalt, German exchange controls and Britain's departure from gold

The distress of Credit Anstalt in Vienna in May 1931, and the need for a rescue, was followed by banking crises and failures in Austria, Hungary and Germany. In each country, the central bank lent large amounts of cash to the banks to enable them to meet withdrawals of deposits, and in each country, the gold and foreign exchange reserves came close to exhaustion. International loans to the central banks concerned were insufficient.²⁴⁷ None of the countries felt able to devalue its currency against gold, for fear of re-igniting expectations of the hyper-inflations that they had experienced after the war.

Instead all three countries imposed controls on foreign exchange and gold transactions. The limited amounts of foreign exchange available were allocated by administrative decision rather than by price. The demand for foreign exchange came from importers of raw materials, importers of manufactured products and services, tourists, debtors to foreign creditors, and from those who wished to export capital for fear of loss. Exchange controls had to allocate priorities among these categories of demand. Of course, exports of capital received no allocation and were therefore disguised as other transactions.

Countries experiencing payments difficulties could resort to clearing agreements. There were many versions – for example, a central agency in country A could receive payments for imports from country B in domestic currency, and held them to the account of B's exporters, which could use them for purchases in A.²⁴⁸ The common feature was that payments from A to B were rationed in relation to A's receipts from B. Such agreements were thought to have originated in a meeting held in Prague in November 1931 of central and

²⁴⁷ The BP participated in the loan to the Austrian National Bank, and in a comparable loan to the National Bank of Hungary (Toniolo 2005, ch 4.2 and pp 110 – 111).

²⁴⁸ Ellis (1940, p 15), Nurkse and Brown (1944, pp 177 – 183), Roselli (2014, pp 120 – 126).

south-eastern European central banks, including the BP, which was arranged by the BIS.²⁴⁹

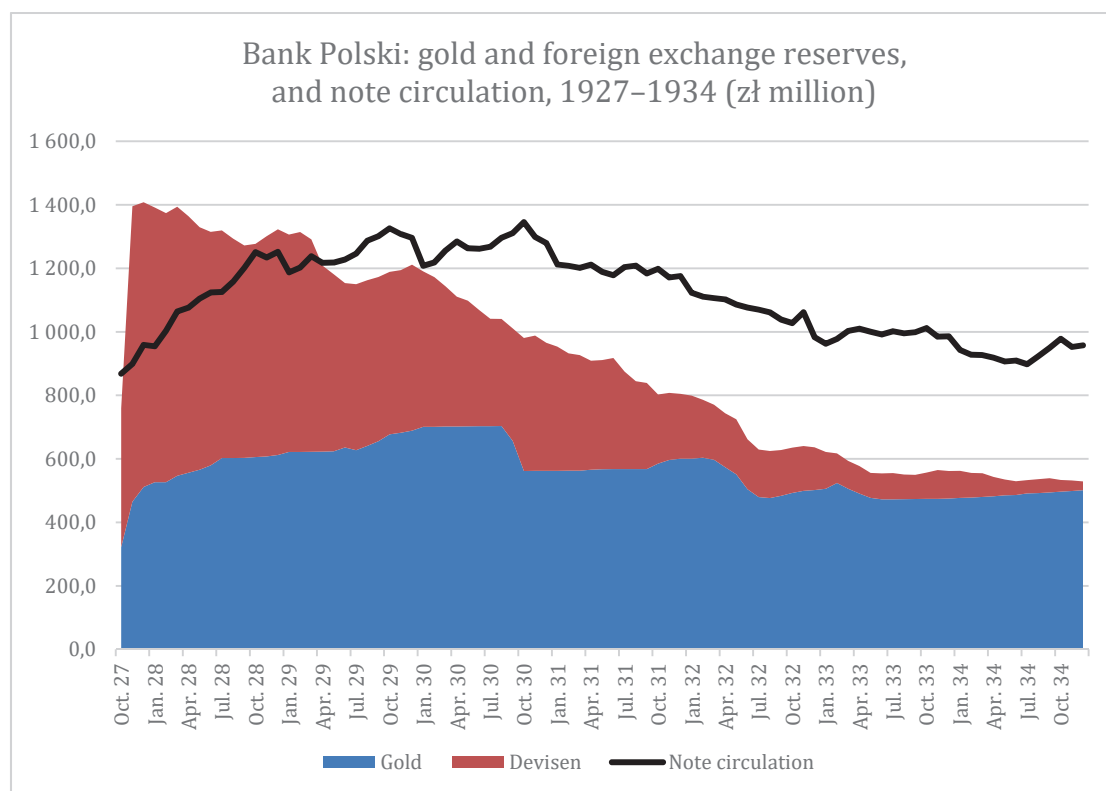
In 1924, Germany accounted for 43.2% of Poland's exports and 34.5% of its imports. By 1930, these percentages were down to 25.8% and 27.0% respectively, probably on account of the trade war that had begun in 1925. Germany was still Poland's largest trading partner, however, and the exchange controls that Germany imposed during the banking crisis in 1931 were bound to have a large effect on Poland. Until a clearing agreement between Poland and Germany was established in November 1935, trade between the two countries was conducted by barter, or 'compensation'. It is not surprising that by 1935, the percentages were down again, to 15.1% and 14.4% respectively. The controls restricted payments for imports rather than the imports themselves, and payment arrears could and did emerge.²⁵⁰

The U.K.'s abandonment of gold, its embrace of protectionism after 1932, Germany's resort to controls and the devaluation of the dollar in 1933 – 1934 meant that, from Poland's point of view, the international monetary system had changed greatly. All these developments made the depression in Poland worse.

As Poland's gold and foreign exchange reserves dwindled, the note circulation contracted in parallel according to the precepts of the gold standard, with some small alleviation in 1933 when the statutes of the BP were amended (Figure 8).

²⁴⁹ Roselli (2014, p 120).

²⁵⁰ Ellis (1940, p 15, 217), Wolf (2007b, table 8).

Figure 8

Source: *Statistisches Handbuch der Weltwirtschaft*, 1936, cited by Albers and Uebele (2013).

The distress of Credit Anstalt had some direct consequences in Poland:

‘In May 1931 the collapse of the Österreichische Credit Anstalt and of Amstelbank caused real panic. At first, depositors began withdrawing funds from the banks connected with Austrian capital. Bankruptcies of several German banks strengthened the tendency.’²⁵¹

On 22nd June 1931, Hubbard reported at second hand:

‘There was a terrific demand for dollars for Germany and Austria for a week or two, but no panic. The Bank Dyskontowy, supported by the Kredit Anstalt and which had taken over the Kredit Anstalt branches in

²⁵¹ Landau and Morawski (1995, p 365).

Lemberg and Przemysl, had a run and is said to have paid out about £1/2 million. The result may be that Bank Dyskontowy, deprived of the Kredit Anstalt's support, will become a much smaller and less important institution than hitherto.²⁵²

Deposits in commercial banks fell by zł 449 million (30%) in 1931, and foreign correspondent bank balances by zł 236 million.²⁵³ Reviewing these events later, Hubbard noted that in 1931, five private banks suspended payment and went into liquidation; they were all small, however. The first to be affected were connected with the French Devilder group and the Austrian Credit Anstalt, but the resulting loss of confidence affected 'banks wholly unconnected with external affairs.' He concluded that 'The resistance of the Polish banking system to the strain of the crisis is all the more remarkable when it is borne in mind that, alone amongst Central European countries, Poland imposed no foreign exchange restrictions and therefore suffered heavy withdrawals resulting from the anxiety of foreign banks to mobilise their liquid assets.'²⁵⁴

On 18th August, Hubbard noted that Jan Piłsudski, a brother of Marshal Józef Piłsudski, had been appointed Finance Minister at the end of May, and had announced 'that as revenue was unlikely in any circumstances to exceed zł 2,500 million expenditure would be cut down to that amount.' There were, for example, pay cuts in the army and the police. As to the Bank Polski:

'Since January the Bank Polski's returns show a drop in gold and foreign exchange of about £2¼ million. This is if anything less than the average loss over the same period of the years since the second stabilisation in 1927, but during this time two tranches of the Krueger Match Monopoly Loan, Złote 224 million or about £5 million, were received as well as a short-term credit

²⁵² Hubbard, 'Kredit Anstalt repercussions in Poland', 22nd June 1931, BOE OV110/2.

²⁵³ League of Nations, Monetary and Financial Statistics, 1934 – 35, Table 122; author's calculations.

²⁵⁴ Hubbard, 'Private banking in Poland', 9th October 1932, BOE OV110/2.

of £1.2 million arranged in London for the State Land Bank and the usual sugar credit. Taking the influx of foreign exchange into account the Bank Polski must have paid away about £4 million more foreign exchange than last year...

Recently the Bank Polski concluded an agreement with a French consortium for a short-term 6½% loan of Fcs. 150 million [zł 53 million] secured on the grain crop. There have also been several other short or medium term credits arranged or obtained abroad within the past few months, including a reported loan of £300,000 [zł 13 million] for road construction and \$40 million [zł 357 million] from Standard Steel to the biggest Polish engineering and railway stock works.

According to the Ministry of Commerce between 1st January 1930 and 1st January 1931 the amount of foreign money invested in Polish share capital rose from £28.4 to £34.4 million and the proportion from 38.2% to 44.6% of the whole. Judging by this and the apparent readiness of foreign lenders to give short-term credit to Poland no serious fears are entertained regarding the immediate financial stability of the country.²⁵⁵

A month after Hubbard completed his report, Britain suspended the gold standard. The BOE deputy governor, Harvey, wrote to Wróblewski, as he did to other central bank governors, sending a copy of the relevant legislation. In his letter, he said that 'I must leave it to your discretion whether to withdraw the money you have with us, which you are, of course, perfectly free to do', and ended 'I hope and believe the day will come when we will be able to continue our co-operation on the stable basis which the gold standard alone can provide.'²⁵⁶ It never did. Wróblewski, replying, noted that:

²⁵⁵ Hubbard, 'Poland', 18th August 1931, BOE OV110/2.

²⁵⁶ Harvey, 28th September 1931, BOE OV110/26.

'I cannot refrain from admitting that your decision of suspending gold payments, absolutely unexpected as it was, has caused us considerable inconvenience and trouble.

In connection with this change of conditions a curtailment of our relations with the Bank of England will become unavoidable. I wish, however, to express my firm belief that it will be possible for you to create, in a near future, such new conditions as will enable us to take up our most pleasant co-operation with the Bank of England as actively as hitherto.'²⁵⁷

After Britain suspended the gold standard, the BP reduced its balance in the BOE to a very low level and removed its gold from the BOE (Section 11, Table 6).

Francis Rodd (BOE) discussed Poland with the Bank of France in January 1932. He said that the Bank of France was

'extremely satisfied with the way the Bank Polski had conducted its business, which is also confirmed from other sources...

...their foreign exchange reserves were considerably strengthened by the, for them, very lucky dollar panic of last autumn, in the course of which they were able to collect a large amount of dollar notes probably considerably below parity...On the other hand agricultural wages are appallingly low and there is undoubtedly considerable distress.'²⁵⁸

Rodd also reported that Lacour-Gayet (Bank of France) had told him that

²⁵⁷ Wróblewski – Harvey, 14th October 1931, BOE OV110/26.

²⁵⁸ Rodd, 'Poland', 18th January 1932, BOE OV110/2.

‘when Zaleski came over [to Paris] before Christmas he [arranged] for a second credit, but this credit was not used. M. Wroblewski came late into the Bank on Monday afternoon to say that upon the termination of the facilities arranged for this second credit he only desired to renew facilities for three-quarters as he did not expect to use any. The first credit given is a revolving credit and is still outstanding. Portions have been repaid but redrawn.’²⁵⁹

In February, David Waley (Treasury) wrote to Charles Hambro, a director of the BOE, about whether it would be acceptable, in the light of the embargo on capital exports that was in operation at the time, for the Export Credits Guarantee Department to finance a railway electrification project in Warsaw. Waley was inclined to approve the application but Hambro’s reply was very negative.²⁶⁰ The proposal must have been rejected on that occasion, because the matter was raised again in December, when Sir Frederick Phillips (Treasury) wrote to Hambro asking for his opinion about an amended version of the project. Hambro consulted Norman, who considered Poland ‘now a poor risk’, and Hambro replied accordingly to Phillips, enclosing a copy of Hubbard’s November survey of Poland.²⁶¹ The deal was done, nevertheless.²⁶²

In May, Siepmann reported from a meeting at the BIS as follows about Poland:

‘From all the reports we heard, much the best of the bunch [the others were Bulgaria, Hungary, Sweden, Norway, Denmark, Finland and Yugoslavia]. They themselves [the Poles] think they have a year to go

²⁵⁹ Rodd, ‘Memorandum’, 19th January 1932, BOE OV110/2. August Zaleski was the Foreign Minister.

²⁶⁰ Waley – Hambro, 26th February 1932; Hambro – Waley, 3rd March 1932, BOE OV110/2. On the embargo on foreign lending, see Atkin (1970).

²⁶¹ Phillips – Hambro, 8th December 1932; manuscript note by Norman, 12th December 1932; Siepmann – Hambro, 12th December 1932; Hambro – Phillips, 12th December 1932, BOE OV110/2.

²⁶² ‘Polish contract for Britain’, 4th August 1933, TDA.

before they will be in as bad a position as their neighbours are in already. They attribute their success to the harmonious working of the Government with the Bank, to the loyal support of the private banks and to general administrative efficiency. Bank Polski claim to have had the whole credit position well in hand and they now thank their stars that foreign capital did not come pouring into Poland a few years ago, though it may have been a good thing that Blairs induced them to borrow more than they needed at that time.’²⁶³

On 16th August 1932, Henry Tiarks (J. Henry Schröder & Co.) wrote to Norman about Polish commercial debts owed to Amstelbank, which belonged in large part to the Credit Anstalt and was being liquidated.²⁶⁴ Amstelbank had commercial claims of \$13 million on Poland, which, according to Tiarks, if added to Credit Anstalt’s Polish claims, accounted for about half of Poland’s foreign indebtedness. Tiarks wanted Norman’s advice on a proposal to convert the short-term claims, which were unlikely to be paid on time, into a long-term claim with a guarantee from the Polish government. Norman was away at the time, but Hambro replied that the BOE would approve in principle any conversion of a short-term debt into a long-term debt.²⁶⁵

Barański was nominated to the Preparatory Committee of the World Economic Conference in 1933. Norman was ‘cross’ with him, as a central banker, for agreeing to take part.²⁶⁶ Nevertheless, in a letter of 12th September, Siepmann told Barański what he thought the conference should and should not discuss: he did not want it to discuss silver, or ‘a return (by a mysterious monetary means) to the 1928 price level.’ He did however want it to consider ‘the effect of the price level on monetary policy, instead of vice versa’, and ‘tariffs

²⁶³ Siepmann, ‘Some impressions gathered in Basle’, 18th May 1932, BOE OV110/2.

²⁶⁴ Schubert (1991, p 68). On Amstelbank and its collapse, see Marcus (2018, pp 315 – 317).

²⁶⁵ Tiarks – Norman, 16th August 1932; Hambro – Tiarks, 17th August 1932, BOE OV110/2.

²⁶⁶ Barański interview with R.S. Sayers, 10th April 1969, BOE ADM33/25.

comprehensively and on principle, instead of becoming involved in detailed negotiation.’ Barański replied on 1st October, agreeing that the idea of achieving a return to the 1928 price level was ‘absurd’; moreover ‘I am even inclined to believe that if all countries changed the relation of their currencies to gold in accordance with the fall in prices, an increase in commodity prices would not necessarily follow in the same proportion.’²⁶⁷

The Polish economy

In June 1932 Barański wrote gloomily to Siepmann:

‘... the reserves of gold and foreign exchange are showing considerable decrease. This decrease should be accounted for, on the one hand by the steady deterioration of the balance of trade, and on the other by a new symptom, which since the month of May is very conspicuous, namely the hoarding of gold by private persons. The Bank of Poland does not sell gold to individuals, nor does it exchange banknotes for gold, there is therefore a constant import of gold coins from abroad, involving, of course, a simultaneous outflow of foreign exchange necessary to cover this import.

The budgetary situation has improved to a certain extent in connection with drastic economies, which were made by reducing again the salaries of Government. Altogether these salaries have been reduced by 30 per cent since 1930. Judging by experience, however, such measures, however indispensable, cause in the long run a further slackening of government revenues and the budgetary equilibrium, attained as result of these measures, can never be regarded as final.

²⁶⁷ Siepmann – Barański, 12th September 1932; Barański – Siepmann, 1st October 1932, BOE OV110/26. Clavin (1992) describes the position of central bankers at the conference.

It is difficult to foresee the nearest future. I feel bound, however, to inform you that the possibility of imposing restrictions on foreign exchange transactions in Poland, should the outflow of gold continue, is being taken into consideration.²⁶⁸

By September, however, Barański was seeing signs of economic recovery in Poland: hoarding of gold had stopped, bank deposits were rising and gold was being offered to the BP. The Treasury's situation also showed signs of improvement 'which might indicate the beginning of the revival of the economic activities of the country.'²⁶⁹

Hubbard produced in November an economic survey of Poland, which drew attention to the large budget deficit and the need 'to cut down expenses since further taxation is impossible.' He mentioned that 'It is believed that the Bank Polski has received fairly large credits from the Bank of France, possibly against a negative pledge of gold.' He noted reports that Poland had been trying to negotiate certain alleviations of foreign debt service, but the reports had not been corroborated and

'so far as is known Poland is not in arrears with any debt service. On the other hand it is understood that the Polish claims of the Credit Anstalt and the Amstel Bank amount to \$30 million (about Zł. 270 million) together and there is no doubt that many of the firms and enterprises who received credits from these two banks are in no condition to repay them at present.'²⁷⁰

²⁶⁸ Barański– Siepmann, 18th June 1932, BOE OV110/26.

²⁶⁹ Barański – Siepmann, 1st October 1932, BOE OV110/26.

²⁷⁰ Hubbard, 'The economic state of Poland', 25th November 1932, BOE OV110/2.

Hubbard visited Poland late in 1932 and recorded that Poland was determined to ‘keep the zloty on gold to the last gasp’, because ‘confidence in the currency is rather a sensitive plant and it takes very little to cause a flight from the zloty.’ He said that

‘the Poles hate us for spoiling their Scandinavian coal market’ [by going off gold], but they are ‘not particularly alarmed by Ottawa [preferential trading arrangements within the British Empire] as they are convinced that they could always sell their bacon and eggs in the U.K. in competition with colonial producers which is a much more serious matter and means that Polish exports to Great Britain and countries with currencies linked or pegged to sterling are as a general rule now being sold below cost price.’

He did not think that the zloty could remain on gold for more than another six months or so, unless conditions improved:

‘It is true that the condition of the Bank Polski has been improving for three or four months, but this is due to drastic deflation. The danger lies in the budget. The Treasury reserves are insufficient to cover the estimated deficit for 1933/34 and the possibility of borrowing from the money market is strictly limited and very problematic. If the zloty is finally forced off gold there is a great probability that an attempt will be made to peg it to sterling.’²⁷¹

In a longer note, Hubbard expanded on the effects of deflation: more beggars in the streets, poorly-stocked shops, ‘except for Polish manufactures, such as textiles, which are extraordinarily cheap’, and night life had been cut down to a minimum. Interest rates had become ‘absolutely intolerable’ and there had

²⁷¹ Hubbard, ‘Poland’s gold policy’, 3rd January 1933, BOE OV110/26.

been legislation to reduce interest rates on agricultural and city mortgages to 4½% and 5% respectively. As to the złoty:

‘There are no official exchange restrictions but difficulties are put in the way of exporting capital. There is a mutual understanding between the Bank Polski and the private banks that foreign exchange shall not be sold except for genuine commercial requirements, or for the repayment of foreign liabilities... Imports have been reduced to a minimum by means of prohibitive tariffs and quotas.’²⁷²

At the end of 1932, Barański noted that Poland had not made the December payment due on debt to the United States. The reason was

‘not transfer difficulties but rather the lack of funds for such a considerable expenditure. Had the Government used for this purpose the scarce Treasury reserve which is still existent, or had tried to accumulate the necessary funds by means of credit operations in the market – the capacity of which is very small – they would have, in future, great difficulties in fulfilling their other obligations which are much more important.’²⁷³

Changing the Bank Polski’s statutes

In February 1933, in order to relieve some of the pressures of deflation, Poland changed the statutes of the BP by reducing the note issue and other sight liabilities cover requirement from 40% gold and foreign exchange to 30% gold only, and to require cover only for that part of other sight liabilities which exceeded zł 100 million (other sight liabilities as at 20th January 1933 were zł

²⁷² Hubbard, ‘Poland: general impressions’, 10th January 1933, BOE OV110/2. On exchange controls, see Leszczyńska (2013, ch 6.2).

²⁷³ Barański – Siepmann, 28th December 1932, BOE OV 110/26.

221 million, while the note issue was zł 941 million, so the change liberated zł 146 million of gold and foreign exchange).²⁷⁴ Siepmann noted that the gold and foreign exchange no longer needed for cover purposes was intended to be used to finance the external deficit, and not to make it possible to increase the note circulation; however, he pointed out, a proposed issue of Treasury bills would cause the note circulation to expand.²⁷⁵ Per Jacobsson, the economic adviser of the BIS, approved of the new statute, however:

‘By a reduction in the legal ratio a Central Bank gains elasticity for its reserve, in conformity with the advice of the Gold Delegation and the Preparatory Commission for the World Conference. In fixing this proportion in gold alone a new line may have been adopted in working the system of foreign exchange holdings while avoiding some of its pitfalls. This is seen by setting out how purchases and sales of exchange tend to influence the reserves and cover ratio under the new rules.

- i. If the Bank Polski bought foreign exchange, this would tend to increase its notes and other sight liabilities; since the gold stock would remain the same, the cover ratio would tend to fall thus creating an automatic check on inflationary tendencies on the basis of foreign exchange holdings alone. The rules bar the possibility of Central Banks acting in collusion with each other to create foreign exchange in order to improve their respective cover ratios.
- ii. On the other hand in a period of strain when the Bank Polski would sell its foreign exchange, the volume outstanding of notes and other sight liabilities would tend to be reduced (through the sales) and that would improve the cover ratio so long as the gold stocks were not

²⁷⁴ Hubbard, ‘The Bank Polski’, 6th February 1933; Barański – Siepmann, 22nd February 1933, BOE OV110/26; Leszczyńska (2013, ch 6.4).

²⁷⁵ Siepmann – Barański, 8th March 1933, BOE OV110/26.

touched. An improvement of this kind would be very helpful at a period when it was imperative that public confidence should be maintained.²⁷⁶

Norman, too, approved: he thought the new regulations were 'ingenious and practical.'²⁷⁷

The devaluation of the dollar

On 20th April 1933, in the wake of the domestic banking crisis, President Roosevelt issued a proclamation that formally suspended the gold standard in the United States. On 3rd July, he denounced the idea of global currency stabilisation at new gold parities which was being discussed at the World Economic Conference in London. The countries which remained on the gold standard, namely France, Italy, Poland, the Netherlands, Belgium and Switzerland, immediately issued a communiqué reaffirming their belief in the gold standard, and calling for more co-operation among their central banks. They followed it with a second communiqué on 8th July announcing the conclusion in Paris of central bank arrangements to facilitate exchange support.²⁷⁸ The arrangements consisted of mutual support of currencies, with earmarking of gold to compensate purchases, the regularisation of gold points, communication about exchange pressure, gold movements and prospective interest rate changes, and encouraging contacts with private banks in order to limit speculation and the movement of capital and gold.²⁷⁹ The BP converted some or all of its remaining foreign exchange reserves into French francs.²⁸⁰

²⁷⁶ Jacobsson, 'The new cover regulations in Poland', 27th April 1933, BOE OV110/26.

²⁷⁷ Norman, manuscript note, 2nd May 1933, BOE OV110/26.

²⁷⁸ Clavin (1995, p 135).

²⁷⁹ Mouré (2002, p 205).

²⁸⁰ Nurkse and Brown (1944, p 40).

Zweig (1944, pp 62 – 64) describes the effects of the devaluation of the dollar on Poland. Barański wrote to Siepmann on 26th September that:

‘The withdrawal of Dollar deposits has either ceased or taken on the form of conversion into zloty deposits. Considerable amounts of gold are still hoarded, but these are more than compensated by large offerings of Dollar banknotes hitherto hoarded. In connection with this symptom the reserve situation of the Bank of Poland has improved, as for the last three months transactions in foreign exchanges have resulted in surpluses...

As you probably know, the Government have issued an internal loan in the amount of 120 million zlotys: the proceeds will serve to cover the shortage of Treasury revenue till the end of March next...

The industrial situation has improved in many branches, like the iron and steel, the timber, the textile industries and to some extent the tanneries.’²⁸¹

Later, Barański added that the loan had been unexpectedly successful, attracting more than zł 300 million of subscriptions.²⁸²

Cameron Cobbold (who had joined the BOE in April 1933 and was to become Governor in 1949) visited Prague, Warsaw and Danzig in November 1933, largely, it appears, to assess the political situation. ‘Informed opinion seems to take the view that Hitler is genuinely desirous of peace, at any rate for a considerable number of years, and that there is a good chance that after the present period of over-excitement the Germans may settle down to industrial rather than military development.’ However, ‘I did not notice any tendency to

²⁸¹ Barański – Siepmann, 26th September 1933, BOE OV110/26.

²⁸² Barański – Siepmann, 7th October 1933, BOE OV110/26.

overrate the importance of the rapprochement between Germany and Poland and Danzig and Poland.’²⁸³ As to Poland, Cobbold thought that it was making ‘quite remarkable progress in very difficult conditions.’ However, the ‘standard of living, especially on the land, is extremely low. The peasants have enough to eat but practically no money at all and clothing presents a very difficult problem.’²⁸⁴

Barański wrote to Siepmann that the sales of dollar banknotes by the public in 1932 and 1933 had been roughly matched by purchases of gold for hoarding; in addition, foreign loans quoted at a discount abroad had been repurchased by Polish residents – e.g. \$6.4 million of the stabilisation loan had been bought in 1933, and \$2.5 million of other dollar loans. He added that an external trade surplus had emerged in the last two months of 1933.²⁸⁵ On 30th January 1934, the Gold Reserve Act of the United States re-fixed the dollar price of gold at \$35 per ounce.

An internal BOE note of January 1934 recorded that ‘last year Poland did not pay the half yearly instalments to the Reserve Fund of the Italian Tobacco Loan of 1924 and it obtained the consent of the bondholders for meeting the service of the loan in 1934 out of the Reserve Fund. This appears to be the only case so far in which Poland has not made full payment of the statutory service of external loans except, of course, on war debts.’ It concluded that ‘the outlook is distinctly more encouraging than it was 12 months ago. If the economic situation only shows a few isolated symptoms of definite improvement it has certainly not deteriorated for some considerable time and the evidence, slight

²⁸³ Cobbold, ‘Visits to Prague, Warsaw and Danzig’, 24th November 1933, BOE OV110/2.

²⁸⁴ Cobbold, ‘Visit to Warsaw’, 24th November 1933, BOE OV110/2.

²⁸⁵ Barański – Siepmann, 13th January 1934, BOE OV110/2.

though it is, of increasing activity and the prospects of an end to the tariff war with Germany are grounds for hope that the worst has been overcome.’²⁸⁶

In February 1934 Barański asked Siepmann if the Bank of England would object to Polish entities borrowing up to the equivalent of about £1 million in London to finance the purchase of crops after the harvest, so as to avoid the need for distress sales. Norman thought that ‘this is not a class of credit we should encourage’ on the grounds that ‘it implies renewals for holding up grain in Poland’: in other words, that it offended against the precepts for eligible bills of exchange, which were supposed to be based on sales rather than inventory financing.²⁸⁷

Writing to Siepmann on 24th March 1934, after the dollar price of gold had been re-fixed, Barański said that the Polish economy was strengthening and he expected the budget situation to improve in its wake. Hoarding of gold had ceased, and the repatriation of Polish bonds issued abroad had continued; he surmised that more than a third of the stabilisation loan was now held in Poland. He was however uneasy about measures recently taken by Czechoslovakia (devaluation) and Germany (excessive rediscounting by the Reichsbank).

Barański criticised central banks for hoarding gold by sterilising their purchases: he identified the United States but could equally have blamed the Bank of England, and proposed that gold coins be allowed to circulate once more – in other words, that the gold standard proper be reinstated in place of the gold exchange standard. He told Siepmann: ‘I can see your resentment towards this idea of mine, just as I saw it once, many years ago.’²⁸⁸ Siepmann

²⁸⁶ ‘Poland’, 29th January 1934, BOE OV110/26. See below for more on the end of the tariff war.

²⁸⁷ Siepmann and annotation by Norman, 1st February 1934, BOE OV110/26.

²⁸⁸ Barański – Siepmann, 24th March 1934, BOE OV110/26.

was evidently troubled, because he consulted the BOE's economic adviser, Henry Clay, who asserted that

'To put gold into circulation would merely facilitate hoarding... The devaluation of sterling and allied currencies & the termination of reparations & debt payments had gone some way towards restoring a sort of balance , when the U.S.A., the country with the most favourable balance & the biggest influx of gold, upset it again by devaluing the dollar. This action must make it more difficult to consider any return to an international standard until American prices have risen.'²⁸⁹

However, the widespread devaluations caused gold mines to increase output and holders of gold in India and China to dishoard on a large scale, so there was indeed a glut of gold in the mid-late 1930s.²⁹⁰

Siepmann replied rather severely to Barański:

'It gave me rather a jolt to find you advocating the circulation of gold coins. In recent weeks we have seen sign of a marked recrudescence of hoarding. I have never been much of a believer in the so-called gold shortage but I confess it annoys me to see so much idle gold put away to no purpose outside Central Banks.'²⁹¹

Siepmann wrote to Barański on 28th June asking about the issue of investment bonds by the Polish government: they appeared to be a kind of substitute currency. Barański replied that the issue had been limited to zł 100 million; the BP had refused to co-operate with the issue of a substitute currency; and that

²⁸⁹ Clay, manuscript note, 4th April 1934, BOE OV110/26.

²⁹⁰ See, for example, Bank for International Settlements (1939, ch III).

²⁹¹ Siepmann – Barański, 5th April 1934, BOE OV110/26.

the issue had failed: the amount outstanding after several months was less than zł 4 million.²⁹²

The advent of the Nazi government in Germany in 1933 had brought with it, in the short term, an improvement in relations between Poland and Germany and the signing of the Polish-German Declaration of Non-Aggression in January 1934.²⁹³ The trade war ended, but amid the general collapse of Poland's external trade, trade between Poland and Germany fell especially heavily, possibly because of the impact of German exchange controls.²⁹⁴ Barański expressed concern about the effects of the restrictions, which were causing Polish exports to Germany to decline, despite the lowering of tariffs and alleviation of prohibitions of imports. Moreover, arrears of railway transit dues were beginning to accumulate.²⁹⁵ He had written to Siepmann in June asking about how a British foreign exchange clearing with Germany would work. Siepmann replied that 'we have managed to avoid a trade clearing with Germany and I suppose it is no secret that both sides were pleased to escape reprisals which would have amounted to something like a trade war.' However, 'Arrangements were completed here, down to the smallest detail, and the clearing would have come into force this week if a satisfactory arrangement with Germany had not been reached.'²⁹⁶

Hubbard visited Warsaw in September 1934. He reported that since June, payments due from Germany had been subject to some weeks' delay and that Poland had outstanding commercial claims on Germany of zł 5 – 10 million, and about zł 3 million of goods prepared for export to Germany but held up pending

²⁹² Siepmann – Barański, 28th June 1934; Baranski – Siepmann, 10th July 1934, BOE OV110/26.

²⁹³ Wandycz (1988, pp 23 – 24), Cienciala (2011), 'Poland', 29th January 1934, BOE OV110/26.

²⁹⁴ Landau and Tomaszewski (1985, pp 104 – 105).

²⁹⁵ Barański – Siepmann, 10th July 1934, BOE OV110/26.

²⁹⁶ Barański – Siepmann, 27th June 1934; Siepmann – Barański, 6th July 1934, BOE OV110/26. Britain's arrangement with Germany was controversial: see Forbes (2000, pp 110 – 115).

better prospects of getting payment; that there was a flight from the Danzig gulden on account of fears that a secret German subsidy to Danzig would be terminated (see section 8); that relations between the Bank of Danzig and the BP were good; and there was a proposal to issue zł 50 million of 25 year bonds to banks in exchange for Treasury bills, though 'the budget position is all right for this year.' As to external debts, out of the outstanding \$46 million and £1.5 million of the stabilisation loan, \$15 million was in Poland. Poland had not taken a grain credit from France in 1934, and had taken a smaller sugar loan. The market prices of domestic government securities had risen in the past few months and the prospects for future borrowing were fairly bright.

The prospective budget deficit for 1934/35 was zł 223 million; after zł 175 million from the national loan, there would be zł 48 million left to find, and it was proposed to issue a zł 50 million 5½% loan to the banks and other financial institutions. The general economic situation was improving and 1935/36 would probably be better.²⁹⁷

In December, an internal BOE assessment by J.B. Loynes of the pros and cons of Poland remaining on the gold standard concluded that remaining on gold was more attractive than going off and aligning with sterling: the issues included the possible effect of public confidence in the złoty of going off gold; the existence of an export surplus (though with the help of import restrictions); the fact that Poland had already 'deflated exceptionally'; the fact that export subsidies were 'slight', with the exception of those for coal exports; the assertion that exports would not be much affected by currency depreciation; the possible loss of credits from France if Poland went off gold, possibly counterbalanced by more access to credit from Britain if it aligned with

²⁹⁷ Hubbard, 'Mr Hubbard's diary: Warsaw, September 1934', BOE OV110/26. It was estimated that half of the stabilisation loan had been repatriated by the end of 1934.

sterling; and the fact that depreciation would increase the złoty cost of foreign debt servicing and aggravate an already difficult budget situation.²⁹⁸

In April 1935, Loynes reviewed the year 1934. More of the stabilisation loan had been repatriated, and half of it was now thought to be in Poland. Polish banks had external liabilities of zł 232 million against external assets of only zł 82 million, but there was no immediate threat to the exchanges because the assets were more liquid than the liabilities. The National Loan of 1933 (zł 320 million) 'must be regarded primarily as a levy and only secondarily as an investment. It is still blocked and the Government appears to have no intention of permitting dealings.'

Trade with Germany had contracted, imports by more than exports. Poland had about zł 30 million frozen in Germany. There had been frequent instances of Polish exporters paying importers a premium to buy from Germany instead of from cheaper foreign markets in order to liquidate their own claims. Such premiums represented a Reichsmark depreciation of as much as 40% in some cases.²⁹⁹

Barański wrote to Siepmann after the Belgian devaluation of March 1935. The public had not panicked; some foreign institutions had withdrawn short-term funds, but not a large amount. He also said he was worried about the 'ever-multiplying schemes for public works', and how they were to be financed.³⁰⁰ Writing again after Marshal Piłsudski's death on 12th May, he said that the political instability in France and the devaluation of the Danzig gulden (see below) had had only minor repercussions in Poland. 'As matters stand, there is no danger of change...'³⁰¹

²⁹⁸ Loynes, 'Poland and the gold standard', 15th December 1934, BOE OV110/2.

²⁹⁹ Loynes, 'Poland', 4th April 1935, BOE OV110/3.

³⁰⁰ Barański – Siepmann, 11th April 1935, BOE OV110/27.

³⁰¹ Barański – Siepmann, 27th June 1935, BOE OV110/3.

Barański wrote again to Siepmann, just before going on his summer holiday. He discussed the hoarding of gold and remarked prophetically:

‘Are you not of the opinion that that the general habit of hoarding gold – both for private account and especially for account of central banks and Government funds – may be regarded as many other symptoms – as an outward sign of a tendency to secure self-sufficiency in case of war, similarly as the policy of creating heavy industries in agricultural countries and a sufficient agricultural production in industrial ones? Ought we to ascribe to this tendency the fact that some countries increase their gold reserves and at the same time do not pay off their foreign debts, or consider even a trifling outflow of gold as a national calamity? If such is the case and if gold is accumulated with a view to creating funds necessary for settling payments in case of war – I am afraid that the general stabilisation of currencies which would bring about a free circulation of gold from one country to another may meet with insurmountable difficulties.’³⁰²

An internal BOE memo of 14th November 1935 reported a persistent demand for gold coins in Poland on account of rumours of devaluation and fears among the Jewish population that Nazi excesses might spread to Poland. The demand had been partly satisfied by the Bank of Italy, which happened to have gold coins that it wished to exchange for bullion.³⁰³ On 7th December Barański wrote to Siepmann, noting that there had been a wave of deposit withdrawals and hoarding, which had been countered with drastic fiscal measures, including salary reductions for government officials and increases in income tax.³⁰⁴

³⁰² Barański – Siepmann, 25th July 1935, BOE OV110/27.

³⁰³ ‘Poland’, 14th November 1935, BOE OV110/3.

³⁰⁴ Barański – Siepmann, 7th December 1935, BOE OV110/27.

Foreign borrowing

In December 1935, Cobbold reported information received from Fournier (Deputy Governor of the Bank of France) about Polish attempts to borrow in Paris:

‘The Poles approached the Bank of France for new money 15 days ago. The first suggestion was that the second tranche of the Gdynia Railway loan should be raised: this was found impracticable. It was then suggested that a new (and smaller) loan should be issued in Paris under French guarantee: this was also turned down as the moment was felt to be inopportune.

Finally an advance was granted by the Bank of France for 50 million zloty (about Fr.150 million) against gold held in Warsaw (in addition to the existing facilities of Fr.500 million against gold held in Paris): the new advance is for 3 months not renewable in its present form, though it is understood that it would be renewed if the gold were sent to Paris – the advance has no connection with any loan to be raised in Paris.

Mr. Fournier is not aware that any other loan has been negotiated by the Poles in Paris, and would be surprised if anything had been done without his knowledge.’³⁰⁵

Cobbold reported in February 1936 that the Bank of France had extended for a further three months zł 25 million of the zł 50 million that they had previously

³⁰⁵ Cobbold, ‘Polish borrowing in Paris’, 9th December 1935, BOE OV110/27. The Gdynia-Silesia Railway loan ‘was arranged in (?) 1930 for a total of Fr.1,000 million, and the lenders took up Fr.400 million at once.’ They were to have taken up the rest in 1931 but did not do so, because ‘the market in Paris for foreign loans was too bad’ and ‘the market for Polish loans in particular was impossible owing to the Zyrardow scandal... and other sources of friction which arose between Poland and France.’ Gunston, ‘Poland’, 29th November 1935, BOE OV110/3.

advanced to the BP. The zł 25 million had 'become a straight banking credit with no understanding as to repayment out of future borrowings by the Polish Government in Paris. Indeed, there appears to be no prospect at present of any such borrowings.'³⁰⁶

Poland made another approach to the BOE about borrowing in London towards the end of 1935. On 24th October, Gairdner (BOB) called on Norman and asked whether Barings and Rothschilds would be willing, at the request of the Polish government, to join BOB in a group which would study and advise on Poland's finances. Norman, much less assertive than he had been a decade earlier, simply passed the request on to Barings (Edward Peacock) and Rothschild (Lionel de Rothschild). Both declined. De Rothschild said he had 'had substantial experience of Poland as a debtor through the Amstelbank, and Poland behaved far better than any other of the people involved.' Poland's financial position had improved, because she had been unable to borrow. Therefore he would like to join a group for preventing Poland from borrowing for the next few years.³⁰⁷ Despite protestations from Gairdner, both maintained their position.³⁰⁸ Gairdner, thus rebuffed, said that Colonel Adam Koc, at that time Vice Finance Minister, would like to come to London to see Norman.³⁰⁹

Norman, while agreeing to see Koc, suggested to Gairdner that he might approach another London firm as a possible adviser to Poland, namely Helbert Wagg & Co. This suggestion was not well received by Gairdner, who replied that the Polish government was not seeking any advisers other than BOB.³¹⁰

³⁰⁶ Cobbold, 'Polish borrowings in Paris', 17th February 1936, BOE OV110/27.

³⁰⁷ 'Norman, 'Poland', 31st October 1935, BOE G1/43.

³⁰⁸ Papers in BOE G1/43, November 1935.

³⁰⁹ Gairdner – Norman, 26th November 1935, BOE G1/43.

³¹⁰ BOB had previously worked harmoniously with Helbert Wagg on at least three issues. That fact, and what would now be regarded as common decency, counted for nothing with Gairdner when he wrote to Norman that Helbert Wagg, 'have few connections with Poland, and are regarded by the Polish Government with grave disfavour, being not only Jewish (which in itself, of course, would not necessarily be a bar), but undesirable Jewish.' Norman – Gairdner, 29th November 1935; Gairdner –

Norman saw Gairdner alone ‘as to his Polish connections & visit of M. Koc & Hambros proposals’ on 5th December, before his meeting with Koc later that day.³¹¹ I have not been able to find out what Hambros’ proposals were. When Norman saw Koc, in the company of Wiesław Domaniewski of the Polish Ministry of Finance, and Gairdner and Landau of BOB, he advised Koc strongly against foreign borrowing. Koc agreed that ‘he would avoid increasing Poland’s foreign commitments until the return of normal times’, and that in the meantime he would rely for banking advice on BOB, while the BOE would be available for consultation by the BP.³¹² The meeting was followed by a separate discussion described in section 8.

Later, on 18th December, Domaniewski told Gunston of the BOE in Warsaw that Koc no longer wanted tied loans such as export credits but straight financial loans, with free use of the proceeds. He ‘tried to go back on what Koc undertook to the Governor [Norman] about not borrowing further.’ Gunston repeated what Norman had said, that it was out of the question to think of raising a loan for Poland now.³¹³

Norman, 2nd December 1935, BOE G1/43; Roberts (1992, p 374); ‘Danzig’s foreign debt’, 29th June 1934, BOE G1/356; Myers (1945, p 517).

³¹¹ Norman’s diary, 5th December 1935, BOE ADM34/24.

³¹² Gunston, ‘Poland’, 5th December 1935, BOE OV110/3; Norman’s diary, 5th December 1935, BOE ADM34/24.

³¹³ Gunston, ‘Visit to Poland’, 23rd December 1935, BOE OV110/27. Of course, Koc had no reason to feel bound by what he had said to Norman.

8. Danzig, Germany, Poland and the sterling bloc proposal, 1934–1936

Danzig, June 1934 – May 1935

Dr Carl Schaefer, the President of the Bank of Danzig, arrived suddenly and unannounced at the Bank of England on 28th June 1934. He saw Cobbold that day, and Norman the next. While at the BOE, he dictated a note explaining Danzig's current economic problems. Their cause, he said, was the fact that the German government had decided that it could no longer fulfil its contractual obligations for the payment of pensions to former German state officials who lived in Danzig. A yearly payment of about 10 million Danzig gold gulden (about £650,000) was involved; the former state officials and their families numbered about 20,000 people, out of Danzig's population of 367,000. The Danzig government had either to send the pensioners back to Germany, or maintain them. Sending them back was politically unacceptable, particularly as Poles might take their places, and change the character of the Free City of Danzig. So the government was disposed to maintain the former German officials, and to fill the resulting gap in the budget by drastic reductions in other expenditure. Schaefer was seeking a loan of £600,000 to finance a transitional period, to be secured by part of the landed property of the City of Danzig, enough of which was unencumbered to support the proposed loan. The total foreign debts of Danzig were 44 million gulden, or about £1¾ million.

Schaefer went on to say that if the loan proposal was unacceptable he would like to make a purely personal alternative proposal, but that he had not been authorized to make it by the Danzig government, the German government or the Reichsbank:

‘The Danzig gulden was originally linked with sterling and the legal cover of the circulation consisted mainly of a balance held at the Bank of England. If I had to choose between sacrificing Danzig to Poland and the

devaluation of the Danzig gulden I would propose in case of need to devalue the Danzig gulden overnight and to link it again to sterling, when the present reserves for the currency of the Bank of Danzig, which amount to roundabout 40 million Danzig gold gulden, would acquire a value of 64 million new gulden.

The Bank of England would receive by this transaction at least 1 million gold pounds in gold from the Bank of Danzig, and I assume also that the Bank of Danzig would have to hold other foreign exchange balances, for example at the Bank Polski. As on the introduction of the Danzig currency in 1924 the Bank of England granted the Bank of Danzig a reserve credit in the form of a rediscount credit, it would be necessary for this agreement to be renewed. At that time, a sum of £200,000 was involved. It would be necessary today to raise this rediscount credit to £600,000, in the first place to strengthen externally the confidence of the Danzig population in the Danzig currency, as there are no foreign exchange restrictions in Danzig, and also to place the Bank of Danzig in a position to help the State of Danzig out of its own resources so far as is absolutely necessary during the above transitional period. It would be necessary for not only trade bills but also Treasury Bills of the Free State of Danzig to be rediscountable at the Bank of England in case of need up to the amount of 5 million Danzig gulden with the endorsement of the Bank of Danzig.³¹⁴

As Schaefer will have known, British policy was not in general averse to countries pegging their currencies to sterling; Denmark and Sweden had done so in January 1934 and Argentina in February.³¹⁵

³¹⁴ Cobbold, 29th June 1934, and attached translation of a note which Schaefer dictated in German on 28th June, BOE G1/356. The Danzig gulden had been linked to sterling at a rate of Gulden 25 = £1 until September 1931; thereafter it had been linked to gold.

³¹⁵ Brown (1940, pp 1168 – 1169), Eichengreen (1992, p 338), Clavin (1995, pp 136 –137).

Norman replied to Schaefer that 'he could not help feeling that a solution to the difficulties must lie in Danzig. Dr Schaefer must realise that in the eyes of this country Danzig is, for all practical purposes, the same as Germany.' The latter point was a bit rich, coming from a leading representative of one of the countries which had set up the Free City of Danzig, separate from Germany. Schaefer said that he was not surprised, and mentioned that he had come from Berlin, where he had been unable to obtain any satisfaction from the Reichsbank.³¹⁶ Schaefer said he would consult his government about whether to pursue the matter further, and on 4th July cabled Norman asking him to submit the matter to the proper authorities, adding that a smaller credit might be sufficient.³¹⁷

In what appears to have been an extraordinary breach of confidence, Norman immediately wrote to Schacht telling him of Schaefer's visit and request for a loan, though he did not mention in the letter the possibility of Danzig devaluing and pegging to sterling. 'My object in writing to you, more as a friend than as a Central Banker, is to ask whether after investigation you really think it is wise for Germany to allow this question to become not only public but acute in London and elsewhere as well as in Danzig.' Norman concluded: 'Please receive this letter and information in all secrecy: I am not at liberty thus to communicate with you and I tell no one that I am doing so.'³¹⁸ But Norman cannot possibly have imagined that no-one but Schacht would see the letter.

In any case, Norman had misjudged Schacht's willingness to help. When they met in Basel on 9th July, Schacht told Norman that

³¹⁶ Cobbold, 29th June 1934, BOE G1/356.

³¹⁷ Schaefer – Norman, 4th July 1934, BOE G1/356.

³¹⁸ Norman – Schacht, 29th June 1934, BOE G1/356.

‘In anything that may be done he will readily cooperate, short of making a transfer of Reichsmarks. ...he refuses to go on paying German pensioners abroad and is not concerned about the consequences of their coming back to Germany – though he does not believe that they would be replaced in Danzig by an equal number of Polish immigrants.

He has not the smallest objection to Danzig reverting to a sterling standard if they wish to. On the contrary, he has always thought that it was a stupid mistake of Meissner’s to go onto gold. He professes a complete indifference to the political considerations that underlie the whole question and only insists that he has no foreign exchange with which to pay the pensions.’³¹⁹

Niemeyer, on being informed of Schaefer’s request, had pointed out that under Article 7 of the Convention between Poland and the Free City of Danzig of 9th December 1920:

‘The Free City may not contract foreign loans except after previous consultation with the Polish Government, which shall communicate its reply within fifteen days. In case of any objection being made on the part of the Polish Government, the question may be submitted by the Free City for consideration to the High Commissioner, who shall decide under the conditions laid down in Article 39 of the present Treaty.

It shall be the duty of the High Commissioner to assure himself that the conditions of the loan are not inconsistent with the provisions of the present Treaty or with the Status of the Free City.’³²⁰

³¹⁹ Siepmann, manuscript note of conversation between Norman and Schacht, Hotel Schweizerhof, Basel, 9th July 1934, BOE G1/356. Meissner was Schaefer’s predecessor. By the time of this conversation, Schacht had evidently been told of the possibility of Danzig pegging to sterling.

³²⁰ Niemeyer, ‘Dantzig’, 6th July 1934, BOE G1/356.

The same point must have been made to Schaefer, because on 12th July, he cabled Norman asking him to 'hold pending matter in question.'³²¹ In a letter, he explained that following his discussion with the government of Danzig,

'it has been decided to drop any idea of a direct credit to the State, in order to avoid giving Poland any occasion to interfere.

On the other hand, it is an incontrovertible fact that a credit from Central Bank to Central Bank does not come under Article 7 of the Paris Convention of the 9th November 1920, as in this case it is not a question of a "emprunt exterieur de la Ville Libre."

In agreement with the Danzig Government I therefore now take the liberty of asking Mr. Norman to examine the question whether the Bank of England can promise the Bank of Danzig a rediscount credit of about £500,000. If this amount is too large, then a smaller credit might be discussed.'³²²

Schaefer did not mention devaluation or pegging to sterling.

Cobbold sent Schaefer a temporising reply, and wrote to Wigram (Foreign Office) on 23rd July saying that the Bank of Danzig had asked for a small rediscount credit, that the Bank of England would have no objection to giving the credit from the financial point of view, but asking for the Foreign Office's advice through the Treasury on the political aspects of the matter. Cobbold added that the BOE would not be sorry if the Foreign Office said that they would prefer the BOE to do nothing until the Anglo-Polish and Danzig-Polish

³²¹ Schaefer – Norman, 12th July 1934, BOE G1/356.

³²² Schaefer – Cobbold, 12th July 1934, BOE G1/356.

trade negotiations were out of the way.³²³ Sir Richard Hopkins (Second Secretary of the British Treasury) replied to Deputy Governor Harvey that:

‘In the view of the two Departments [Treasury and Foreign Office] the reason suggested by the Bank of Dantzig for the advance, namely to enable Dantzig to pay German pensioners who are unable to get their remittances from Germany, suggests definitely that the advance ought not to be made.’³²⁴

Harvey accordingly wrote to Schaefer telling them that while the BOE would have no financial objection to the credit, the Treasury and the Foreign Office had been discouraging. ‘Whilst I have not been given definite reasons for their attitude, I think that they may perhaps feel that sufficient justification does not exist in this instance for them to make an exception to their generally unfavourable view of foreign lending.’ Harvey suggested that Siepmann or Cobbold might visit him after the summer ‘to discuss the position with you.’³²⁵

On 11th September, Dr Rauschnig, the President of the Danzig Senate, called on Anthony Eden, the Lord Privy Seal (and later Foreign Secretary and Prime Minister) at the League of Nations in Geneva. He told Eden that he wished Danzig to leave the gold standard and join the sterling area.

‘He fears, however, that if he makes this suggestion the Polish government may suggest that Danzig should adopt Polish currency, since the Danzig-Polish Treaty of 1920 expressly provides that the two parties should enter into negotiations for the unification of the two currencies when this becomes possible. Herr Rauschnig therefore wished to ask whether (1) we have any objection to the adoption of the

³²³ Cobbold – Schaefer, 17th July 1934; Cobbold – Wigram, 23rd July 1934, BOE G1/356.

³²⁴ Hopkins – Harvey, 31st July 1934, BOE G1/356. Norman was away.

³²⁵ Harvey – Schaefer, 2nd August 1934, BOE G1/356.

sterling standard by Danzig, (2) if not, whether we would support Danzig in any attempt she might make to secure the approval of the Council [of the League of Nations].

Mr Eden today saw the High Commissioner for Danzig, who said that while from the economic point of view the arguments for the unification of the Danzig and Polish currencies were strong, the President of the Senate would be committing political suicide if, in addition to the concessions recently made to Poland, he advocated such unification. If, therefore, Danzig were to go off gold, sterling seemed to be the only alternative basis.³²⁶

The Foreign Office were inclined not to object to the proposal, but consulted the Treasury, which appears in turn to have consulted the BOE. Norman wrote the following note on 14th September, and gave it to the Treasury:

‘If I were replying... I should say:-

1. Advise that Danzig be welcomed to the Sterling Block.
2. Consider time for unification under Polish agreements has not arrived.
3. Article 2 of Geneva Agreement of 22nd September 1923, which governs Danzig commitment to Poland, provides expressly that until unification Gulden equals 1/25th of the £ sterling.
4. We know of no obstacle in any Loan Agreement or other document.
5. You will remember conversations in July on this very topic.

³²⁶ Telegram Phillips – Waley, 12th September 1934, BOE G1/356.

6. Do not understand procedure suggested by reference to League Council.³²⁷

Rauschning and Eden met again on 18th September:

‘Dr Rauschning came to see me this afternoon and asked whether His Majesty’s Government had had time to consider his proposal that Danzig should adopt the sterling standard. I replied that there were two considerations to be borne in mind. The first was financial. As to that I understood that there was no objection to Danzig joining the sterling group if Dr. Rauschning on his own responsibility wished to do so. The second consideration, however, was political, and here there might be difficulties. Dr. Rauschning’s proposal seemed to us to involve a certain risk that Poland might be moved to invoke Article 36 of the Danzig Polish Treaty of November 1920 which Danzig might find inconvenient. If Poland were to take this line, the matter would naturally come before the High Commissioner and, maybe, eventually before the Council. In such an event, we could not give any guarantee in advance of what our attitude would be. If, however, Dr. Rauschning cared to take the risk, that was clearly a matter for him to decide. I feared, however, that politically we could take no responsibility in the matter.

Dr. Rauschning explained that economically the matter was one of life or death for Danzig. It was not possible to continue effectively to do business with his customers who were on a sterling standard while Danzig was on a gold standard.

In answer to a question, he explained that he anticipated that the matter would come before the Council because when in 1931 Great Britain had

³²⁷ Norman, 14th September 1934, BOE G1/356.

left the gold standard, the future of Danzig currency had been raised by Poland before the Council.

...He replied that he fully understood the position and that he would think it over carefully, but that economically the position of Danzig was so serious that he anticipated he would decide to adopt the sterling standard.³²⁸

As had been suggested, Siepmann visited Danzig in October. He reported:

‘The advent of a Nazi Government in Danzig (supported by only 51% of the votes cast) has meant a complete change in the attitude of Danzig towards Poland. Partly this is due to the deliberate improvement of German-Polish relations, to which Danzig now imitatively conforms; but partly too it is a less voluntary adjustment to the new conditions in which Poland, on the one hand, is free to deal with Danzig without continual German objection and obstruction while Germany, on the other hand, is less able to provide the material support on which Danzig had come to rely.’

Siepmann was told of serious financial problems: Danzig’s exports were nearly all to Germany, but Germany could not pay for them in the usable currencies that Danzig needed to pay for its imports, which were nearly all from Poland.

‘No transfer of money whatever – so Dr. Schaeffer [sic] told me – is now allowed from Germany except the subsidy to the Technical High School in Danzig. Not only have commercial arrears piled up but there are payments due by Germany to the Danzig Government which cannot be transferred.’

³²⁸ Telegram from Eden, 18th September 1934, BOE G1/356.

A footnote adds:

‘This does not refer to the payments due to German pensioners in Danzig. It is clear enough now that these were merely a pretext, and Dr. Schaeffer [sic] almost excused himself for using it by saying that, after all, it was his duty to leave no stone unturned and to confirm his own expectation of a negative answer from us. Dr. Dreyse, who mentioned the subject to me in Berlin, said that, if the Danzigers appealed for help on the ground that the pensions were no longer being transferred, it could only be that they were applying to other purposes the money which was being transferred to them. It was not to be expected that they would be allowed indefinitely to maintain a disproportionately high standard of life and to go on financing public works for the relief of unemployment (which had already been reduced by half) all at the expense of dear old Auntie Bertha.’

Schaefer thought that Poland might offer Danzig a loan, which he would not want to accept, but would be unable to refuse, and asked about the prospects of a loan from the BOE. Siepmann replied that any loan remained a matter above all for the Foreign Office. He hinted very obliquely that Danzig might want to consider joining the sterling group:

‘If, however, independently of anything we might say or do, events were to take such a course that the Danzig Gulden found itself once more allied to sterling in a fixed proportion, then there would be a ‘fait nouveau’ which would enable us to entertain proposals for any normal form of Central Bank cooperation on a business footing. Not that, even then, we should be able to jump in with a credit on the morrow of devaluation: but if, having made its own choice independently, and having shown its ability and determination to maintain itself on a new basis, Danzig were in some temporary difficulty which could be

overcome by monetary assistance on proper security, we should be accessible to any suggestions they might then make.’³²⁹

Schaefer wrote again to Siepmann on 2nd November and mentioned that the economic situation had ‘deteriorated still further and had reached a critical point, so that I find myself obliged to adopt measures to restrict credit.’³³⁰

Danzig did not join the sterling bloc. It devalued unilaterally against gold on 1st May 1935, by 42.3%, so that the new parity of the gulden was the same as that of the złoty. The initial reaction of Danzigers was to sell gulden for złotys, and the Danzig authorities imposed transfer restrictions in June. Poland complained that the restrictions violated the Treaty of 1920; after six weeks of negotiation a settlement was reached.³³¹ There was a discussion later in the year in Poland about unifying the two currencies, but nothing appears to have come of it.³³²

Germany, November – December 1935

The possibility of Germany suspending the gold standard and pegging the Reichsmark against sterling had been briefly discussed in 1931.³³³ British interest was revived in November 1935, when a telegram from the British Embassy in Berlin reported some comments made by Schacht ‘to an intimate friend of his’:

‘All things considered Germany is surmounting her economic troubles but Great Britain is not acting up to her responsibilities. She has made

³²⁹ Siepmann, ‘Danzig’, 9th October 1934, BOE OV110/2.

³³⁰ Schaefer – Siepmann, 2nd November 1934, BOE G1/356.

³³¹ Sources: League of Nations statistical yearbook 1938/39, table 120; League of Nations Official Journal, February 1936: Free City of Danzig – Annual Report of the High Commissioner of the League of Nations at Danzig for the year 1935; Barański – Siepmann, 27th June 1935; ‘Danzig-Poland dispute and settlement’, 18th October 1935, BOE OV110/3.

³³² Siepmann, ‘Poland’, 27th September 1935, BOE OV110/3.

³³³ Borchardt (1991, ch 11).

no move since the World Economic Conference to improve international trade. Now her action at Geneva threatens to dislocate European business. “England should take the initiative by currency and other proposals and I (Schacht) would be glad to express my views in a speech to the City.

The mark must eventually be devalued to the level of sterling. The sooner it is done the better, but I must await a suitable opportunity in view of German public opinion.

The mark has been showing weakness since Nuremberg. For sixteen years the Nazis have been preparing plans for dealing with the Jewish question, yet they came out with the crudest proposals at Nuremberg and so far every attempt to embody these in the Civil Code has failed.

Persecution of the Jews has increased the smuggling of marks into Holland, mainly by the Rhine barges. You cannot lift every barge out of the water and examine it.

All the Ministeries [sic] are working in watertight compartments, usually against each other, as before the war. The other ministers tell me nothing about their plans.

Butter is short because devisen are scarce. Devisen are scarce because of the Army. I am not apprehensive because the Army, being the culprit, is bound to support the Government if the populace gets restive.

What Germany and Italy need is colonial expansion either by mandate or chartered company. Germany wants to buy raw material with marks instead of devisen. England should divide up her West African territory,

especially the Cameroons and Togoland, between Hitler and Mussolini. I recognise the special difficulties in the case of East Africa.

Germany does not want to expand her trade with Italy beyond its present limits. She is giving Italy reasonable terms such as coal for 50% in cash.”³³⁴

Norman was provoked to annotate the report with manuscript comments evidently *à propos* colonial expansion: ‘This is an old old story, now applicable to Italy as well as to Germany. And so far solved, as a policy, only by Japan!!’ Japan had occupied Manchuria in 1931.

A little later Norman wrote to Phillips (Treasury) about countries aligning their currencies with sterling. It was clear that he had Germany in mind:

‘Any country is free to attach its currency to sterling, either at a fixed rate or at a rate which is allowed to fluctuate within fixed points, and thus to become a member of the sterling bloc. Thus Germany, as well as Japan and China, is free of its own motion to join the sterling bloc, and in so doing would be resuming an association with London which before 1931 was intimate and extensive.

But no obligation to assist London in meeting times of strain is accepted by countries entering the sterling bloc. So that if Germany wishes to link with sterling, it would be well to discuss arrangements with them in friendly fashion.

³³⁴ Telegram from Phipps, 7th November 1935, BOE G1/499. Schacht was at the time Reich Minister of Economics as well as President of the Reichsbank. The intimate friend cannot have been Norman, who was in London at the time, and whose diary does not record any meeting with Schacht.

We should probably wish, for example, that there should be some devaluation of the reichsmark, in order that the new exchange rate could be maintained without deflationary pressure inside Germany or the continuance on their present scale of the existing direct and indirect subsidies to German exports; but we should object to a degree of devaluation which gave German exporters an advantage in competition with British producers they do not at present possess.’³³⁵

Norman thought that a new rate of 16 – 18 marks to the pound would be suitable. The gold parity rate was 20.4 and the current market rate 12.23.³³⁶ He suggested certain other safeguards, such as Germany retaining restrictions on foreign exchange trading, and limits on German use of acceptance credits and overdraft facilities in London. ‘We for our part should be unwilling to allow capital issues or to regard bills drawn under fresh credits from Germany or on German account as eligible.’ Phillips’ reply discussed the proposed exchange rate, the future use of exchange restrictions by Germany, and the prospects for limiting German borrowing in London.

More significant, however, was that Norman went to the Foreign Office on the evening of 20th November and saw Sir Samuel Hoare, the Foreign Secretary, together with (for part of the time) Sir Robert Vansittart, the permanent under-secretary of state, and Sir Lancelot Oliphant, the deputy under-secretary of state. Afterwards, he wrote in manuscript on the top of Phillips’ letter: ‘F[oreign] O[ffice] on 20th had strong political objections.’³³⁷

Norman mentioned the subject to the Chancellor of the Exchequer, Neville Chamberlain, who asked for the Treasury’s views. Hopkins informed Sir

³³⁵ Norman – Phillips, ‘Note on the sterling bloc’, 20th November 1935, BOE G1/499. China had very recently pegged its exchange rate to sterling.

³³⁶ Sources: League of Nations tables of weights and measures, 1931 – 32, table 1; TDA.

³³⁷ Norman’s diary, 20th November 1935, BOE ADM34/24. Vansittart was a powerful opponent of the policy of appeasement of Germany, and consequently lost his job in 1938.

Warren Fisher, the Head of the Home Civil Service. Fisher thought that, if Germany was to join the sterling bloc, it would be better if it did so by agreement rather than unilaterally, but said that the question turned on whether Germany would make it a condition that it should get financial facilities that would enable it to import more armaments. Fisher thought that, 'provided no condition is admitted which w^d [would] facilitate further German importation of war materials, & if (as happens to be the case) no financial or economic disadvantage to ourselves is to be anticipated from a carefully considered agreement, I sh^d [should] have thought the effect on our own political & general relations with Germany w^d [would] be helpful.' Chamberlain commented that 'What I sh^d [should] fear most is the political reaction on the French of a sudden unexpected announcement of another Anglo-German agreement. The Governor has undertaken to speak to M. Tannery.'³³⁸

Norman was accordingly not deterred. He saw the Chancellor and the Foreign Secretary (but not Vansittart) on 4th December on the subject of Germany and the sterling bloc, wrote a short note setting out the conditions that would need to be met for Germany to join the sterling bloc.³³⁹ They were the same as those listed in his earlier letter to Phillips. At the end of it, in manuscript, he wrote:

'Advise H M Treasury & Trip at the later stages. Meanwhile play long – Jan Feb.'³⁴⁰

Poland, December 1935 – February 1936

Several days after his meeting with Colonel Koc on 5th December 1935 (see section 7), Norman received a letter from Gairdner telling him that Koc had

³³⁸ Hopkins – Fisher and annotations, 1st December 1935, NA T160/633 F19190. Jean Tannery was Governor of the Bank of France.

³³⁹ Norman's diary, 4th December 1935, BOE ADM 34/24.

³⁴⁰ Norman, 'Draft – Sterling bloc', 4th December 1935, BOE G1/499. Dr. L.J.A. Trip was the President of the Bank for International Settlements.

delayed his departure from London in the hope that Norman might be able to ‘accord him an interview as representative of the Bank Polski, for whose monetary policy he is mainly responsible.’ (Koc was also a government minister). In fact, Koc had to return to Warsaw urgently, but Norman wrote in manuscript on Gairdner’s letter ‘telephoned that object of Mr Koc was to discuss secretly the plan for Poland to join Stg Bloc.’³⁴¹ Norman wrote to Koc:

‘I was indeed sorry that my engagements and your need to keep to your plans prevented us from meeting again and discussing the important question which you have in mind.

I can find consolation only in the fact that Mr. Gunston is now in Poland. He has my complete confidence, and if you should be so disposed as to convey your views to me through him, I should hope in this way to be able, in due course, to give such advice as I can on any points on which you may think fit to ask my opinion.’³⁴²

Norman evidently told the Treasury about the possibility of Poland joining the sterling bloc, because Hopkins, in a letter to Vansittart, asked to discuss it with him (see below).³⁴³

Koc, together with Domaniewski, saw Gunston in Warsaw on 16th December. ‘He may have meant to throw out a hint that Poland is thinking of joining the sterling block; but, if so, he veiled his worm in such a cloud of non-committal

³⁴¹ Gairdner – Norman and annotation by Norman, 11th December 1935; Gairdner – Skinner, 12th December 1935, BOE G1/499. Koc would have been able to attend one meeting with Norman (on 5th December) as a representative of the Polish government and another one later as a representative of the Bank Polski, because he was the State Commissioner on the Board of the BP.

³⁴² Norman – Koc, 12th December 1935, BOE G1/499.

³⁴³ Hopkins – Vansittart, 3rd January 1936, NA T160/633 F19190.

mud that I was careful not to bite at it.’³⁴⁴ Nevertheless, after Gunston had returned, Norman wrote to Gairdner:

‘I learn that he [Gunston] also had some talk with Mr. Koc on the matter Mr. Koc discussed (or wished to discuss) here in London.

I have asked Mr. Gunston to tell you now what occurred and thereafter to keep in touch with you regarding eventual developments.’³⁴⁵

Gunston saw Gairdner on 30th December but Gairdner was moved to write afterwards to Norman to say that he had ‘felt in considerable difficulty owing to my unusually intimate relations with the Polish Government’ and that he ‘did not feel able at liberty to question his [Gunston’s] point of view when I knew it to be based on incomplete information.’³⁴⁶

Norman saw Gairdner on 9th January 1936, and his manuscript notes of the meeting are as follows:

‘Gairder [sic] probably to Poland at end Jan & not before.

No change in exch rate policy before he goes.

When there he may find out their intentions - & details: e.g. date, rate &c.

Danzig may follow Poland but wont [sic] change alone.

Await Mr G’s return – when it may be a question for HMG.’³⁴⁷

Koc resigned his position at the BP in early January, but his resignation was declined and he agreed to withdraw it under certain conditions; consequently

³⁴⁴ Gunston, ‘Visit to Poland’, 23rd December 1935, BOE OV110/27.

³⁴⁵ Gunston, ‘Visit to Poland’, 23rd December 1935, BOE OV110/3; Norman – Gairdner, 23rd December 1935, BOE G1/499.

³⁴⁶ Gairdner – Norman, 30th December 1935, BOE G1/499.

³⁴⁷ Norman, manuscript note, 9th January 1936, BOE G1/499.

Wróblewski resigned as President of the BP.³⁴⁸ Koc became President in February.³⁴⁹ Appendix 3 gives more information about Wróblewski's resignation and Koc's appointment.

Germany, December 1935 – January 1936

The December meeting of the BIS, at which both Norman and Schacht would have been present, took place on 7th – 9th December. On 23rd December, Norman reported to Hopkins:

'When last at Basle the question of Germany and the Sterling Bloc was postponed in friendly fashion until January. Sir Samuel Hoare, and still more Vansittart, were anxious for this, and indeed for a longer postponement – which may or may not turn out to be possible. Since then the question of Poland and the sterling bloc has vaguely arisen.

Within the next week or two, before I next got to Basle, I shall wish to know where I stand on these two closely related and confidential questions after the political changes which have recently occurred.'³⁵⁰

He had a reply on 9th January, after Hopkins and Phillips had discussed the subject with Sir Robert Vansittart and some of his colleagues:

'Sir R. Vansittart was prepared to agree, faute de mieux, to the following:-

- a) if it should prove to be possible, the question should still be postponed.

³⁴⁸ Peppiatt, 'Poland', 15th January 1936, BOE G1/499.

³⁴⁹ Leszczyńska (2011, p 24).

³⁵⁰ Norman – Hopkins, 23rd December 1935, BOE G1/499. The political changes were the replacement of Hoare by Eden as Foreign Secretary.

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- b) If this is impossible, then any discussions must be upon the basis that the decision to go on to sterling is a unilateral decision on the part of Germany (and/or Poland) reached without any initiative from us; but subject to this:
 - c) Technical discussions may take place between the Central Banking authorities with a view to securing that the technical measures taken on the change over are as little injurious to us as possible.
 - d) While it cannot be expected that Dr. Schacht would agree to any communication being made to the French until the arrangements are complete, the Governor should use his best endeavours to secure the agreement of Dr. Schacht to an explanation being given to Mons. Tannery of the Bank of France (by both of them or at any rate by the Governor) before the announcement is actually made...

It was agreed also that there could be no question of our giving an all clear signal to Poland to go on sterling at any time while Germany was still waiting at our request.'

Hopkins' letter accompanying this report said that the Chancellor [Neville Chamberlain] had noted that 'This is quite satisfactory to me and is in my opinion the best and indeed the only possible way of dealing with the matter. If the French are told beforehand there should only be mild reactions.'³⁵¹

After the January meeting of the BIS, Norman wrote to Hopkins that

'...time lacked for any understanding on the question of Germany and the sterling bloc last referred to in your letter of the 9th January.

³⁵¹ Hopkins – Norman, 9th January 1936, BOE G1/499.

But the present idea of the Germans – which is still vague – is to make the change next month so as to synchronise with the renewal of the present Standstill Agreement, thereby providing a convenient peg. So I want you to know that I am sending a representative to Berlin to ascertain the attitude and technical intentions of the Reichsbank.

So far as I know any such change would come as a complete surprise to the French, whom it may be possible to warn – though I doubt it. But such a change on the part of the Poles would be no great surprise to the Germans, and this I attribute to the middle or double position of Danzig.³⁵²

Hopkins sent Norman's letter to Chamberlain, adding that there were 'vague rumours of the French wanting to borrow here' and suggesting that 'if they shd actually ask we shd be able to oblige them before anything happens in Germany.'³⁵³

Accordingly, Gunston was sent to Berlin where he saw Hülse, Dreyse (part of the time), and Schacht (at the end of his visit). Hülse claimed that Germany had no need to devalue or to link the mark with sterling, and Dreyse said he was opposed in principle to all devaluation. Hülse said that if Germany did devalue or link with sterling, it would accept no conditions as to, for example, the moment or extent of the devaluation, unless, that is, other countries were prepared to:

'co-operate...by granting her:

a) Financial concessions, such as –

³⁵² Norman – Hopkins, 15th January 1936, BOE G1/499.

³⁵³ Hopkins – Fergusson, 15th January 1936, NA T160/633 F19190.

-
- i. Facilitating the conversion of long-term German loans on to a lower interest basis;
 - ii. Funding short-term German debts, such as the Standstill, into long-term;
 - iii. Perhaps granting new loans or credits.

b) Economic concessions, such as –

- i. Facilitating increased German exports to the countries in question and their colonies;
- ii. Perhaps admitting Germany to a share in opening up for development unindustrialised countries such as China.

Germany would prefer that devaluation of the mark, if it comes, should come as part of a general international agreement to stabilise currencies. Failing such an international agreement, the Germans might consider a bilateral agreement with a single important country such as England, but only on the basis of “co-operation” as outlined above.’

Gunston commented that:

‘Finding the Reichsbank’s ideas so far removed from what we believe to be the practical issues, I concluded there was nothing to do except –

- a) to direct their thoughts more to what we believe to be the real considerations;
- b) to ascertain their views on some of the points of technique which they may have to settle if and when they devalue.’

Schacht, summing up, confirmed everything that Hülse had said. He said that he thought that if Germany devalued, a rate of 20 marks to the pound (a 40% devaluation) would be appropriate. He repeated in particular that the funding of long-term loans, including the Dawes and Young loans, onto a lower interest rate basis, was essential. When Gunston said that neither he nor anyone else in London could discuss that question, Schacht replied that he had just been discussing it with Rodd, now of Morgan Grenfell, whose American house, Schacht claimed, had just admitted a cut in the service of the loans.³⁵⁴

There was no further recorded discussion of the subject with the Reichsbank. It must have been obvious to Norman that the Reichsbank's terms would have been unacceptable to the British government.

Nothing about Germany's possible alignment with the sterling bloc appears in the published series of official documents about German foreign policy, which suggests that Schacht did not tell the German government about it, even though he was Minister of Economics as well as President of the Reichsbank.³⁵⁵

³⁵⁴ Gunston, 'Germany to join sterling group? Conversations in Berlin', 22nd/23rd January 1936, BOE G1/499.

³⁵⁵ *Akten zur deutschen Auswärtigen Politik (ADAP)*.

While in Berlin, Gunston also saw Schaefer, of the Bank of Danzig. Schaefer said he had heard rumours of Poland going on to a sterling standard, but said that the Poles were divided, Kwiatkowski and Wróblewski being for staying on gold and continuing to deflate.³⁵⁶ If and when Poland went onto sterling, Danzig would like to follow. In that event, the bulk of Danzig's gold (say 26 million gulden) would be transferred to London. He proposed reverting to the pre-1931 exchange rate of £1 = 25 gulden. Schaefer asked about a possible credit of £200,000 from the Bank of England, not to be used, but to create confidence.

Schaefer asked for an answer to his proposal when Norman returned to the BOE in February: he could come to London if necessary in the second half of the month.³⁵⁷

On 10th February, at the BIS monthly meeting, Gunston, at Norman's request, outlined to Schacht the proposals that Schaefer had made to him in Berlin. Schacht said he would prefer not to act as the channel for Norman to communicate his reply to Schaefer, but was 'grateful that we had informed him of what passed between ourselves and the Bank of Danzig, and trusted that we would continue to do so. He added that Dr. Schaefer always "told him everything".'³⁵⁸

Two days later, Gunston wrote to Schaefer:

'The Governor... finds it difficult now to give a definite answer to your question, which, as you will remember, was hypothetical and contingent on certain circumstances which have not materialised. If, however,

³⁵⁶ Eugeniusz Kwiatkowski was the Minister of Finance.

³⁵⁷ Gunston, 'Danzig to join sterling group? Conversation with Dr Schaefer in Berlin, 23rd January 1936, BOE G1/499.

³⁵⁸ Gunston, 'Danzig', 10th February 1936, BOE G1/499.

circumstances arise which enable you to make a request similar to that which you outlined in Berlin, you may be certain that the Governor will receive it with the friendliest consideration.’³⁵⁹

In replying on 15th February, Schaefer said ‘Although the development of the situation has apparently taken a different turn, I am nevertheless glad our conversation gave an opportunity to discuss certain problems which I shall keep in mind for the future.’³⁶⁰ By ‘different turn’, Schaefer was perhaps referring to Koc’s nomination as President of the BP on 7th February.

Koc (by now President of the BP) and Barański met Norman in London on 27th March. Koc said that the gold bloc question for Poles was dominated by two factors: fear of Germany and Russia and consequent determination to maintain military strength, and Poland’s susceptibility to monetary panics after the inflations of 1919/20 and 1925, and consequent determination to avoid a monetary collapse or inflation. He said, though, that ‘conditions in the gold bloc are growing more and more uncomfortable and its position more and more untenable. If he could see any way of divorcing Poland from the gold bloc while still remaining on the gold standard, he would do it, but he saw no such possibility under present conditions.’ But if, for example, the French franc left the gold standard then he would probably want to link the złoty with sterling. Norman said he saw no present likelihood of a devaluation of the French franc, and advised Koc to continue on the gold standard.³⁶¹

Koc resigned in May 1936, having been outvoted on the choice between devaluing the złoty and imposing exchange restrictions (see section 9).

³⁵⁹ Gunston – Schaefer, 12th February 1936, BOE G1/499.

³⁶⁰ Schaefer – Gunston, 15th February 1936 (translation), BOE G1/499.

³⁶¹ Gunston, ‘Poland to join sterling bloc?’, 27th March 1936, BOE G1/499.

9. Exchange restrictions, default and debt settlement, 1936–1937

Poland's priorities

Poland's financial policies changed radically in 1936. Exchange restrictions were introduced in April, and Poland defaulted on its external debts the following year (Appendix 4 lists the debts). The change reflected pressures, motivated by security concerns, to speed up the modernisation of the army, and for more rapid industrialisation of the economy, which began in the spring of that year.³⁶² The latter included the creation of a Central Industrial Zone remote from the frontier, and its equipment with electricity and gas as well as industrial plant. A large part of the industrial development was devoted to the production of armaments³⁶³. The security concerns intensified after the German remilitarisation of the Rhineland in March 1936, in violation of the Treaty of Versailles. Of course controls and default made it highly unlikely that Poland would be able to raise further loans, but the prospects of commercial borrowing looked dim anyway, despite faithful adherence to the gold standard. The government also decided not to devalue the złoty. Barański later described the controls as 'the real beginning of the war, in monetary policy.'³⁶⁴

The first move came in January 1936, when a law was passed enabling the government to sequester sums due to citizens of a foreign country which was not meeting its obligations to Poland. The law was aimed at Germany, where Polish citizens had frozen assets of about zł 80 million.³⁶⁵

Despite what Koc had said to Norman in December 1935 (section 7), Poland was still interested in external borrowing. An internal BOE analysis of possible

³⁶² Landau and Tomaszewski (1985, p 132); Zweig (1944, pp 77 – 82); Wolf (2007a); Barański – Gunston, 19th February 1938, BOE OV110/28; Barański – Gunston, 19th December 1938, BOE OV110/5.

³⁶³ Kennard – Gwatkin, 13th February 1939, BOE OV110/5.

³⁶⁴ Barański interview with R.S. Sayers, 10th April 1969, BOE ADM33/25.

³⁶⁵ Barański – Gunston, 25th January 1936, BOE OV110/3.

sources of funds for Poland concluded that a public issue would be impossible; 'export credits seem the best method – no [British] Treasury embargo, medium-term, and (presumably) precedence over funded debt in the event of transfer difficulties.'³⁶⁶ However, Gunston reported that Frank Nixon, who was now the head of the British Export Credit Guarantee Department, was concerned about his exposure to Poland, which would amount to £4 million when all the facilities had been fully drawn.³⁶⁷

Koc and Barański visited the BOE on 23rd March 1936. They reported losses of foreign exchange that month on account of international political problems and fears for the French franc. Koc strongly opposed exchange control but was willing to prohibit gold imports (for hoarding), because they caused the BP to lose foreign exchange. By the time the zł 50 million credit from the Bank of France fell due for repayment in February (section 7), the BP had drawn zł 26 million. The Bank of France had refused to renew more than that amount and the BP were repaying by fortnightly instalments. Koc had hoped to raise a long-term loan in Paris in December. He had proposed that the French should suspend 2½ years of transfer of the servicing payments of the 1924 loan (Fr 40 million per year, therefore an effective loan of Fr 100 million), but the French had not consented. Pending the result of negotiations he had suspended the transfers without the consent of the French.³⁶⁸ In July, Gunston reported that the suspension of debt service had been unexpectedly well received by the French, and the Bank of France had offered a twelve-month extension of their credit without asking for any repayment.³⁶⁹

Barański said that although Poland had no hope of converting the stabilisation loan, they had been considering raising a long-term loan in London to extend

³⁶⁶ Loynes, 'Poland', 26th February 1936, BOE OV110/3.

³⁶⁷ Gunston, 'Position of export credits department', 26th February 1936, BOE OV110/3.

³⁶⁸ Gunston, 'Poland', 23rd March 1936, BOE OV110/3.

³⁶⁹ Gunston, 'Poland', 7th July 1936, BOE OV110/27. Gunston had been told by Dudley Ward (BOB).

the maturity of their London debts, even if at a higher interest rates; to pay off the onerous Italian Tobacco loan, and to provide some fresh money and/or consolidate short-term debts. They realised that such a loan would be impossible at present but asked for Norman's advice on which London house they should invite to head the issuing syndicate. They were unsure about BOB's standing, and were not keen on Lazards, who had withdrawn funds from Poland in recent difficult times. Norman advised Koc and Barański that there was no possibility of issuing a loan in London now, and that even if market conditions were favourable, the British embargo would not be raised for a gold standard country. 'He strongly advised Mr. Koc to wait until market and other conditions make the issue of a loan possible before considering what issuing house he should approach.'³⁷⁰

Exchange controls

Exchange controls were imposed on 27th April:

'Mr. Karpinski telephoned at 5.30. He said that Bank Polski had had considerable requests for devisen on Saturday [25th April] and this had led the authorities to decide on the measures of control which had now been taken. The measures are designed to conserve the country's exchange resources for genuine requirements and to prevent their being used to satisfy the demands of speculators and hoarders. The results of the first day's working of the Control Committee have been successful and the Banks are cooperating satisfactorily with Bank Polski. The market is comparatively quiet and the restrictions have been accepted without undue complaint.'³⁷¹

³⁷⁰ Gunston, 'Polish plans for borrowing in London', 25th March 1936, BOE OV110/3.

³⁷¹ Cobbold, 'Poland', 27th April 1936, BOE OV110/27. See Leszczyńska (2013, ch 6.7).

Under the new law, the details of which became known in May, the following operations required a permit from the new Exchange Commission:

- a) export, import, sale of gold, and purchase for private account;
- b) export or transfer abroad of złoty or devisa;
- c) purchase abroad of foreign securities, shares, coupons, etc., and the repatriation of Polish securities, etc;
- d) export of securities, etc., and savings books;
- e) placing funds or credits, in any currency, at the disposal of foreigners.

And the following operations required a permit from the BP:

- a) transfer of money abroad by post;
- b) export of money for tourism in excess of the permitted limit.

All claims on foreign countries had to be notified to the BP. Provision was made for opening złoty accounts with varying degrees of availability.³⁷² Danzig agreed to take measures to prevent evasion of the Polish controls.³⁷³

Not surprisingly, the market price of the stabilisation loan fell heavily (Figure 4). Barański explained to Norman that there had been large losses of foreign exchange (zł 50 million in April), caused partly by ‘the growing difficulties of France and the gold bloc’ but also by riots in Lwów and Kraków. Koc and Barański had been for an immediate devaluation of 25 – 30% and attachment to sterling. They believed it essential to maintain full external debt service. However, the Finance Minister (Kwiatkowski), the President of the State (Mościcki), Rydz-Śmigły and the other military rulers of Poland believed that devaluation would cause a rise in prices, higher wage demands and social

³⁷² ‘Polish exchange control’, 5th May 1936, BOE OV110/3. See also Zweig (1944, pp 72 – 76).

³⁷³ Loynes, ‘Danzig & Poland’, 12th June 1936, BOE OV110/3.

unrest. They preferred exchange restrictions and to negotiate a reduction of external debt service. The latter party had won, and Koc, outvoted, had resigned from the Presidency of the BP, to be replaced by Władysław Byrka.³⁷⁴

On 20th May, Barański wrote that even with the new controls, legitimate demands for foreign exchange were exceeding supply, and that 'it may prove necessary to limit temporarily the sale of foreign exchange even for economically justified reasons, such as imports of goods.'³⁷⁵ The BP had lost large amounts of gold and foreign exchange up to the end of April (the closest balance sheet date to the imposition of exchange controls), with no recovery – indeed, further though more gradual falls – in the month since then (Table 4).

Table 4 Bank Polski balance sheet, selected items, 1935–1936 (zł millions)

	Notes	Current accounts	Total sight liabilities	Gold and F.E.	Metal coinage	Portfolio (inc TBs)	Advances
31/05/35	952	191	1,171	524	42	681	61
31/03/36	979	134	1,134	453	29	662	74
30/04/36	1,010	121	1,158	397	26	723	86
20/05/36	1,001	149	1,176	389	47	711	107
31/05/36	1,061	101	1,185	381	12	716	134

Source: Loynes, 9th June 1936, BOE OV110/27, author's calculations.

Note: 'F.E.' means foreign exchange; 'TBs' means Treasury bills.

British banks became concerned that collection of their claims on Poland would be obstructed by the restrictions and asked for official support. Details are given in Appendix 5.

³⁷⁴ Gunston, 'Poland to join sterling bloc?', 11th May 1936, BOE G1/499, 'Gossip from Mr Siepmann', 29th April 1936, BOE OV 110/3, Koc – Norman, 8th May 1936; Kimens – Hugh-Smith, 16th May 1936, BOE OV110/27. On Byrka, see Landau (1997, p 86).

³⁷⁵ Barański – Gunston, 20th May 1936, BOE OV110/27.

Discussions about default

On 2nd June, Waley (Treasury) told Gunston that Polish sources had been sounding out BOB and Lazards about the possibility of arranging a standstill for £3 million of short-term debts. However, Ward (BOB) had been told by Wiesław Zbijewski, the Financial Counsellor at the Polish Embassy in London, that Poland would maintain full debt servicing towards the U.K., with which it had a favourable trade balance.³⁷⁶ Waley then reported that Zbijewski wanted to know ‘whether H.M.G. would consider putting a Payments Agreement (not a Clearing) on Poland in order to enable the Poles to justify to the Americans and the French their action in meeting debt service to Great Britain while not meeting it towards America and France.’ Waley asked for advice, and Gunston consulted Norman, who said:

- a) ‘If the Poles are going to default at all they should avoid defaulting on any public obligation: in particular they should avoid defaulting on the payment of any coupon to bondholders.
- b) We should in any case avoid countenancing the action of the Poles in defaulting towards France and America.
- c) We should therefore confine ourselves to telling the Poles that if Poland ever defaults on any obligation to Great Britain we should then have to consider what steps we should take.
- d) We do not want any more Payments Agreements at present and we should not put one on now to please the Poles. The time for considering whether to put one on will only arise if and when the Poles default on any payments towards Great Britain.’³⁷⁷

³⁷⁶ Gunston, ‘Poland, 4.50pm’; ‘Poland, 5.5pm’, 2nd June 1936, BOE OV110/37.

³⁷⁷ Gunston, ‘Poland 5.30pm’, 2nd June 1936, BOE OV110/37.

Waley feared that Norman's first principle might encourage Poland to default on debts to the ECGD. He wondered whether the U.K. should urge Poland to call a meeting of their British, French and American creditors and try to secure an agreement with them, but Gunston dissuaded him. Waley finally agreed to say as little as possible to Zbijewski, but to advise Włodzimierz Baczyński, the Director of the Polish Ministry of Finance, who was expected the following week, to keep up full payments to all creditors at least until October, when the next coupons fell due.³⁷⁸

Zbijewski said, probably to Waley, that the Polish government would be unable to maintain full servicing of its external debt after September, with the exception of the October coupon on the stabilisation loan, which would be paid in full. He thought that the Polish government would prioritise its foreign debts as follows:

1. 'Short-term credits (credits in respect of exports from Poland caused no difficulty as they were self-liquidating, but credits in respect of exports from the United Kingdom to Poland caused greater difficulty).
2. The medium term credits guaranteed by the Export Credits Guarantee Department.
3. The Public Debt of the Polish Government held in foreign markets.
4. Loans of Polish municipalities and Institutions.
5. Private foreign credits.'

³⁷⁸ Gunston, 'Poland', 3rd June 1936, BOE OV110/37.

Waley said he could not express a view until Baczyński had provided the full facts, but suggested that it would be right to maintain full payments until October.³⁷⁹

Barański reported to Gunston on 17th June that the first six weeks of controls had been difficult: commercial credits to Poland had been withdrawn and there had been further outflows of zł 15.4 million from BP. ‘Therefore... unless the situation improves, transfer difficulties may ensue in the payment of foreign official liabilities, which will affect in the first place the transactions with those foreign countries, with which Poland registers a deficit in the balance of trade and of foreign payments. We are endeavouring at present, to the best of our abilities, to secure the service of our coupons on long-term loans.’ However, the service of the 8% dollar loan due on 1st July, and of the stabilisation loan due on 15th October, had been secured. Gold hoarding had stopped.³⁸⁰

Suspension of transfer

On 26th June, the Polish government published a notice in the *New York Times* as follows:

‘SUSPENSION OF TRANSFER OF SERVICE PAYMENTS IN RESPECT OF POLISH EXTERNAL LOANS: DECLARATION BY THE POLISH GOVERNMENT

1. For the time being payments under the loan agreements shall be made by means of effective deposits in zlotys to the credit of the blocked account of the fiscal agents in the Bank of Poland.
2. Transfers of service amounts are temporarily suspended.

³⁷⁹ ‘Note’, 3rd June 1936, BOE OV110/37.

³⁸⁰ Barański – Gunston, 15th June 1936, BOE OV110/3.

3. It (the Polish Government) desires that the conversations about the situation herewith created be resumed at a convenient moment.’³⁸¹

A fuller statement was sent to the Fiscal Agents of the stabilisation loan, who immediately protested. It is reproduced in Appendix 6. *The Times* reported that late on 26th June, the Polish Minister of Finance had told American creditors in New York that the suspension of transfer ‘does not – at present – affect foreign creditors of Poland other than American, and is due solely to the lack of dollar exchange.’³⁸²

The amount of the stabilisation loan had already been substantially reduced by the operation of its sinking fund: as at October 1935, \$42.3 million of the original \$62 million of the dollar tranches were outstanding, and 55% of that was said to have been repatriated; as to the sterling tranche, £1.32 million of the original £2 million was outstanding in February 1936.³⁸³

On 11th September, Gairdner reported that Poland had raised a loan of Fr 2,000 million (zł 700 million) in Paris. As later confirmed by Barański to Gunston, Fr 1,000 – 1,100 million was to be spent on munitions, of which Fr 800 million in France and the rest in Poland. Of the remainder, Fr 300 – 400 million would represent the remainder of the loan for the Gdynia – Silesia railway, and Fr 300 million would be used to repay short-term debts. The remaining Fr 300 million would meet the first three years’ interest charges.³⁸⁴

In September, Barański wrote that gold outflows had stopped and imports could be paid for. He confirmed the suspension of transfers of servicing payments on bonded external debt, and added that it would not apply to

³⁸¹ 26th June 1936, BOE OV110/37.

³⁸² ‘Polish foreign debt’, 27th June 1936, TDA.

³⁸³ Loynes, ‘Polish stabilization loan’, 10th July 1936, BOE OV110/37.

³⁸⁴ Gairdner – Gunston, 11th September 1936, BOE OV110/3, Gunston, ‘French credit to Poland’, 20th October 1936, BOE OV110/4.

creditor countries with which Poland had a trade surplus. The situation in agriculture and industry had improved. The budget was balanced, apart from the extraordinary Budget of Investments (for the Central Industrial Zone), which was being financed by short-term borrowing, since longer-term borrowing had not been possible.³⁸⁵

The French devaluation of September 1936 was a setback for the countries that remained on gold. The British Treasury, which had negotiated the Tripartite Declaration and the French devaluation with its French and American counterparts, speculated about Poland's exchange rate policy. Leith-Ross reported a discussion with Niemeyer about how much (not whether) Poland ought to devalue: he did not think that a 30% devaluation 'would shock anyone.'³⁸⁶

Barański and Młynarski visited London in October, to obtain information to help them decide whether Poland should devalue. Młynarski had been the vice-President of the BP until 1929, and, according to Byrka, the BP 'maintained friendly relations' with him. Leith-Ross was 'intransigent' in his support for devaluation and opposition to exchange controls, but Norman accepted exchange controls as a necessary evil.³⁸⁷ Norman told them that all the countries in Europe which had not devalued would be compelled to do so, sooner or later, and it would be wise for Poland to devalue now, at the same time as the rest of the gold bloc. Germany would have to devalue but for its own reasons had not yet done so; but it was not a good example for Poland to follow. He did not think that a moderate devaluation by Poland would lead to reprisals. There was no prospect of Poland receiving a central bank credit now, and the visitors stressed that they had no intention of asking for one. Norman also said

³⁸⁵ Barański – Gunston, 15th September 1936, BOE OV110/3. The 'extraordinary Budget of Investments' might have been for the Central Industrial Zone mentioned at the beginning of this section.

³⁸⁶ Leith-Ross – Waley, 22nd October 1936, BOE OV110/4.

³⁸⁷ Barański interview with R.S. Sayers, 10th April 1969, BOE ADM33/25.

that, having just borrowed Fr. 2,000 million from France, Poland could not expect any credits elsewhere. Młynarski asked about export credit, but Norman said that it was intended for manufactured products, whereas Poland wanted raw materials or cash.³⁸⁸ Separately, Barański told Gunston that Kwiatkowski, Mościcki, Rydz-Śmigły and Byrka were against devaluation: Mościcki and Rydz-Śmigły were following Kwiatkowski's advice and Byrka was simply a mouthpiece for Kwiatkowski. Everybody at the BP except Byrka, and everybody at the Finance Ministry except Kwiatkowski, was for devaluation.³⁸⁹

Młynarski told the BOE on 22nd October that the foreign exchange position was now deteriorating, as the rising purchasing power of the agricultural population affected the trade balance.³⁹⁰ He said that exchange control was working efficiently and that there was no black market. Exchange control had brought an end to hoarding of gold, which had amounted to zł 200 million in the past two years. He acknowledged that a devaluation of the złoty would be desirable but 'any form of devaluation which is not definite and final is quite out of the question for psychological reasons.'³⁹¹ Młynarski asked the Treasury about the possibility of a medium-term government credit of the kind that the U.K. had recently extended to the U.S.S.R., but no answer was recorded. Młynarski and Barański said that devaluation would not enable Poland to abandon exchange restrictions, but Leith-Ross demurred.³⁹²

On 9th December 1936 Barański wrote to Gunston to say that the Minister of Finance (Kwiatkowski) had announced in Parliament the decision to continue with the same monetary policy, i.e. not to devalue the złoty. He also said that the amount of the French loan had been increased to Fr 2,600 million on

³⁸⁸ Gunston, 'Poland', 20th October 1936, BOE G1/44.

³⁸⁹ Gunston, 'Poland', 19th October 1936, BOE G1/44.

³⁹⁰ Byrka – Norman, 15th October 1936, BOE G1/44.

³⁹¹ 'Conversation with Professor F. Młynarski on 22nd October 1936', BOE OV110/4.

³⁹² Treasury account of discussion with Barański and Młynarski, 23rd October 1936, BOE OV110/4.

account of the devaluation of the franc.³⁹³ Stefan Michalski (BP), too, told Gunston that devaluation was no longer a practical issue. He said that exchange control had worked well, though złoty banknotes were traded outside Poland in small quantities at discounts of 8 – 10%. The ordinary budget was close to balance and armaments expenditure over the next 3 – 4 years would be taken care of by the French loan.³⁹⁴

Issues in negotiating a settlement of the stabilisation loan

What follows is a summary of the issues that arose in negotiation of a settlement of the stabilisation loan after the Polish government had announced the suspension of transfer of service payments on 26th June 1936. An agreement on the sterling issue was reached in December 1937; on the dollar issue not until June 1938.

a. Representation

The British bondholders were represented both by Lazards, which had arranged the sterling issue, and by the Council of Foreign Bondholders (CFB), which had been set up in 1868 to represent the interests of British holders of foreign bonds. There was a dispute between Lazards and the CFB about which of them should represent the interests of the British investors. The BOE induced them to co-operate. They were able to consult the BOE, and through the BOE use the resources of the British government to protect their interests. The American bondholders were represented by the managers of the dollar issue, Bankers Trust and Chase National Bank, who at one stage claimed the right to represent all bondholders, and by the Foreign Bondholders' Protective Council, which was the American counterpart of the CFB. They also enlisted the

³⁹³ Barański – Gunston, 9th December 1936, BOE OV110/4.

³⁹⁴ Gunston, 'Poland', 29th January 1937, BOE OV110/27.

help of the U.S. government. The Polish government appears to have negotiated alone; there is no sign that the BP was involved.

b. British attitude to default

The BOE considered in February 1937 whether Poland needed to default. An internal note estimated Poland's annual external debt servicing payments as zł 100 million; i.e. the equivalent of about 10% of exports.³⁹⁵ Its trade surplus had been only zł 23 million in 1936, but turnover was rising and invisibles and emigrants' remittances were almost certainly improving. The BP's metallic reserve was rising steadily.

'Although there is no justification for expecting a sudden rush of prosperity to Poland, there is equally no reason to fear that her position will not continue to improve and follow in the wake of the international revival. It therefore seems shortsighted in the extreme for the Poles to persist in a policy of default which cannot but have a damaging effect on their credit out of all proportion to the saving of devisen involved.

Defaults to date in America are for about Zl 9 million (say, £350^m). Maturities due in London and New York from 1st February to 1st July, inclusive, on bonded issues, total only Zl 18.6 million against which the Bank Polski has published metallic reserves Zl 91 million in excess of the legal minimum. It would probably be a gamble well worth while for the Poles to pay up in the U.S.A. and defer further default for another six months in the hope that by that time their position will have improved still further.'³⁹⁶

³⁹⁵ Poland's exports were zł 1,026 million in 1936, according to the League of Nations Statistical Yearbook, Transport, commerce and balance of payments, 1936 – 1937, table 116.

³⁹⁶ 'Need Poland default?', 4th February 1937, BOE OV110/37. £350^m means £350,000.

This point of view became widely accepted in the Treasury as well as the BOE. Phillips wrote:

‘This is a particularly shameless default. Poland’s foreign debt is comparatively small and it is understood that more than half of the Bonds of this Stabilisation Loan have been repatriated and are held in Poland. The Polish foreign exchange position has improved in the last few weeks and on the merits of the case no default seems to be justified. The decision to default on the Sterling Bonds has been reached without any discussion with the representatives of the British Bondholders and despite the assurance given as recently as June 27th last that there would be no default. It looks as if the default on foreign loans was a deliberate policy on the part of the politicians in Poland and some of the financial experts in Poland seem to regard the default as reasonable or justifiable.’³⁹⁷

c. Bilateralism

When Baczyński met Waley on 18th June 1936, he introduced bilateralism as a guiding principle:

‘...with countries such as France and Switzerland [with which Poland had a trade deficit], Clearing Agreements would be made and Poland would meet her financial obligations in so far as foreign exchange was available on the clearing accounts. Negotiations with France have been begun [sic].

As regards the United States, he said that negotiations had been arranged for, and Poland would explain her difficulties in continuing to meet her financial obligations in full.

³⁹⁷ Phillips – Norman, 27th February 1937, BOE OV110/37.

As regards the United Kingdom and other countries (e.g., Sweden and Belgium) with which Poland has a favourable balance of trade, no clearing arrangements would be proposed and a regime of free payments was contemplated. He said that it was Poland's intention to meet all her financial obligations in the United Kingdom including State indebtedness and the debts due to the Export Credit Guarantee Department and short term commercial debts. The only exception which he mentioned was the money standing due to the creditors of a Bank which had been liquidated and had sold its premises in Poland. On this account 1½ million zloty were due to British Banks and he did not think that transfer would be made. (I said that it seemed a disastrous mistake to withhold this transfer as it would result in commercial credits to Poland being reduced and thus do much more harm than good).'³⁹⁸

d. *Pari passu*, or non-discrimination

The stabilisation loan contained a clause that all the issues should be treated *pari passu*. That meant that if the sterling issue was to be paid in full, so should be the dollar issue. Not surprisingly, the Foreign Bondholders' Protective Council – the American counterpart of the CFB – insisted on the principle, though its interpretation was not straightforward, for exchange rate reasons (see below). Non-discrimination was nevertheless was a powerful countervailing force against bilateralism.

e. The threat of a clearing

Polish government representatives repeatedly suggested that British government should threaten to impose a payments clearing on Poland if Poland did not service the sterling debt in full, so that Poland could respond to

³⁹⁸ Waley – Gwatkin (F.O.), 18th June 1936, BOE OV110/37.

American demands for non-discrimination by claiming *force majeure*. The U.K. was reluctant, probably because it did not wish to provoke the United States, having defaulted on its own war debt to the United States in 1934.³⁹⁹ The issue came to a head at the beginning of March 1937. On Saturday 27th February, Phillips wrote to Norman exploring the idea of imposing a clearing on Poland:

‘The Poles have hinted frequently that if we make this threat they will pay the service of the Sterling Bonds in full but that they will not do so unless we make this threat as they do not wish to incur the wrath of the Americans by treating the Sterling Bonds better than the Dollar Bonds of their own free will.’⁴⁰⁰

Phillips thought that any threat ought to be made the following Tuesday, 2nd March and that the decision would need to be taken on Monday 1st. Norman, having taken advice from Cobbold and Niemeyer, spoke to Phillips that day, and argued that H.M.G. should argue for as long as possible that Poland should pay all its creditors in full, in order not to upset the U.S.A. by discriminating against them and ‘opening the door to similar demand from German loan’ – probably a reference to loans that the BOE had made to the Reichsbank in comparable circumstances in 1934.⁴⁰¹ If full payment should be impossible, H.M.G. should demand a payments agreement from Poland; should that be refused,

‘it will be a question whether a Clearing Agreement should be considered or even threatened between now and Oct[ober], when first default threatened. I fear that the reaction on [sic] the Americans of a Clearing would not only be unfortunate but might well lead to our losing

³⁹⁹ Self (2006).

⁴⁰⁰ Phillips – Norman, 27th February 1937, BOE OV110/37.

⁴⁰¹ Forbes (2000, pp 111 – 113). In 1934, the United Kingdom had concluded a payments agreement with Germany which, it was hoped, would reach ‘a reasonable basis for the settlement of the outstanding commercial debts and to ensuring the continuance, under acceptable conditions, of current trade between the two countries.’ (HC Deb 01 November 1934 vol 293 c358; Forbes 2000, ch 4).

more on the swings than we gain on the roundabouts – taking into account the S. American position towards the U.S.’⁴⁰²

f. Exchange rates

It was difficult to compare the terms to be offered to holders of the dollar and sterling issues of the stabilisation loan, because they had different currency options. The dollar issue allowed bondholders the option of being paid in New York, London, Switzerland or the Netherlands, in local currencies in amounts corresponding to their old parity exchange rates against the dollar. The sterling issue offered payment in London in sterling, or in New York in dollars at the pre-1931 parity exchange rate against the dollar. When the bonds were issued, the local currencies of all of these places were on the gold standard, and the options would have been regarded as a matter of mere convenience.

That all changed when the gold standard collapsed. A Joint Resolution of the U.S. Congress issued on 5th June 1933 forbade valorisation, and dollar payments would have been made in un-revalued dollars.⁴⁰³ By autumn 1937, the currencies of all the countries in which payment could be claimed had depreciated against gold. The Dutch guilder had depreciated by the smallest percentage, so the dollar bonds, having a Netherlands option, were therefore worth more than the sterling ones. This fact made it impossible to apply the *pari passu* principle in a manner which could be readily agreed to be equitable.

⁴⁰² Norman, draft letter to Phillips, used as a speaking note, 1st March 1937, BOE OV110/37.

⁴⁰³ ‘Polish 7% stabilisation loan of 1927’, undated, BOE OV110/37; Waley – Strang, especially manuscript annotation, 4th October 1937, BOE OV110/38; Kroszner (1999), League of Nations Statistical Yearbook, 1938 – 1939, Table 120.

The settlement negotiations

Poland's initial thinking as regards the sterling issue, as described in December 1936 by the financial counsellor at the Polish Embassy in London, was that Funding Bonds should be issued instead of cash in respect of future interest payments, except that the coupon of April 1937 on the sterling issue would be paid in cash; on bilateralist principles, 'this would leave open an arrangement by which the English holders could convert their Funding Bonds into cash while the American holders could not.' Waley was worried that it would be difficult to get the interest paid in full to the British bondholders without giving the Americans grounds for complaint on non-discrimination grounds, but Cobbold thought that 'it might not be so difficult. We have only to maintain our present position of saying that Poles ought to pay all their debts – if and when they tell us they propose to default we can tell them that we intend to do our best to make them pay – at that stage we can obviously only speak for British interests.'⁴⁰⁴

After negotiation in the United States, the Polish government announced in New York on 23rd February 1937, an offer, in respect of the April 1937, October 1937 and April 1938 coupons, of 35% payment of the face value in full discharge, or, as an alternative, 3% funding bonds maturing no later than 1957.⁴⁰⁵ It was not immediately clear what this meant for sterling bondholders, but Sir Howard Kennard, the British ambassador in Warsaw, reported two days later that the Ministry of Foreign Affairs had told him that the treatment of the sterling bonds would be the same as that of the dollar bonds, with the exception that the April 1937 coupon on the sterling bonds would be paid in full.⁴⁰⁶

Domaniewski, now the Director of the Money Market Department of the Polish Ministry of Finance, who was in London on 2nd March, told Waley that Bankers

⁴⁰⁴ Waley – Cobbold, plus annotation by Cobbold, 16th December 1936, BOE OV110/37.

⁴⁰⁵ Council of Corporation of Foreign Bondholders (1938, p 74).

⁴⁰⁶ Telegram from Kennard to F.O., 25th February 1937, BOE OV110/37.

Trust and Chase National Bank had claimed the right to represent all bondholders, including holders of sterling bonds. ‘The Sub-Agents [including Lazards] had been asked to take part in the negotiations [sic], but had not been able to do so.’ He:

‘explained the June 27th [1936] announcement by saying that it covered the full payment of the coupons on Sterling bonds of October 1936 and April 1937.’ The United States government were insistent on the principle of non-discrimination and ‘especially on preferential terms not being accorded to the United Kingdom...

With great difficulty they had succeeded in getting United States acquiescence in the payment of the April 1937 coupon on the sterling bonds and on the payment in full on the Vilne loan.’⁴⁰⁷

Waley handed Domaniewski a formal government statement on 3rd March urging the Polish government to announce that the servicing of the sterling bonds would be continued in full.⁴⁰⁸

On 13th April, Zbijewski told Waley that sterling bondholders would be able to convert into a 4½% internal conversion loan. Waley commented that holders who converted would not be able to transfer their zlotys into pounds, and that the CFB would regard 4½% as insufficient and would expect at least 5%.⁴⁰⁹

Domaniewski visited London again late in April. He told Waley on 28th April that the Polish Government could not, for non-discrimination reasons, ask the United States to consent to the sterling bonds being paid in full. Poland was however

⁴⁰⁷ Waley – Strang, 3rd March 1937, BOE OV110/37. I assume that the ‘June 27th announcement’ was the same as the one reported in *The Times* on 27th June, cited above.

⁴⁰⁸ Waley – Strang, 3rd March 1937, BOE OV110/37.

⁴⁰⁹ Waley – Leith-Ross, ‘Poland’, 13th April 1937, BOE OV110/37.

interested in getting further credit through the ECGD and would be willing to explore the possibility of borrowing a further amount to enable them to repay the bonds either at the contractual price of 103 or by making an offer of payment at, say, 80. Waley said that the Treasury might object on general principles to London banks giving fresh credits for the sake of dealing with frozen debts.⁴¹⁰

Domaniewski saw Waley again the next day. This time he said that ‘popular opinion in Poland thinks it all-important that Poland should rearm and would like to default on all foreign debt in order to have more money for rearmament.’ Poland wanted to convert the stabilisation loan to a lower interest rate, e.g. 5% or 5¼%, but was not clear whether to make the proposal then or later.⁴¹¹

On 3rd May, Domaniewski gave to the CFB a long-promised explanation of the default. Answering the charge that Poland’s foreign exchange reserves were adequate, and rising, he said that at the time when foreign exchange regulations were introduced in April 1936, the gold and foreign exchange reserves had been zł 395 million, but that they had fallen further by the end of July, to zł 374 million. As at 30th April 1937, they had risen to zł 443 million, but there were zł 96 million in blocked accounts and zł 5 million due to the Free City of Danzig; in addition zł 50 million of applications for foreign exchange had been rejected. So the increase in the reserves had been achieved only ‘by delaying the rate of efflux from Poland of capital and interests due to foreign countries.’⁴¹²

Domaniewski continued to propose possible settlements of the sterling issue of the stabilisation issue to be accompanied by ECGD credits. Waley warned him against making a new credit a condition of an offer to bondholders; it would be

⁴¹⁰ Waley, ‘Note of conversation with Monsieur Domaniewski’, 28th April 1937, BOE OV110/37. The market price of the sterling tranche of the stabilisation loan was 61 at the end of April (source: TDA).

⁴¹¹ Waley – Philp, 29th April 1937, BOE OV110/37.

⁴¹² ‘Short resume of the explanations given on the 3rd May 1937 at the meeting of the Council of Foreign Bondholders by Monsieur W. Domaniewski, Director of Department of the Ministry of Finance, Warsaw’, BOE OV110/37.

better to try to get the new credit first; if that could be done, it would certainly be a condition that the loan default be settled.⁴¹³

Nixon (ECGD) had written to Waley in February saying that the prospective default on the stabilisation loan should not affect the provision of export credit to Poland; Waley however replied that 'we ought not to do any more for Poland at the present moment.'⁴¹⁴ Nixon pressed, wanting to lend a further £1 million for railway electrification. Cobbold supported Waley: 'It seems pretty steep that a Government Department should give the Poles a new credit for £1 million just at the moment when the Polish Government is announcing a default.'⁴¹⁵ Niemeyer and Norman took the same position in May in advising the Treasury on how to respond to Domaniewski's proposal, noting in addition that Poland was 'over-borrowed and embarking on the process of paying the service of past Loans out of new ones.' Norman received an assurance from the Treasury that no further guarantees would be given to Poland.⁴¹⁶

On 27th July, Domianewski and Zbijewski called on Bewley (U.K. Treasury) and said that:

- i. Poland had reached an agreement to reduce the interest rate on the Swedish match loan;
- ii. U.S. protests about discrimination in favour of Britain and France had intensified (discrimination in favour of Britain had already occurred in the full payment of the April coupon and the settlement of the Vilna loan); and

⁴¹³ Waley, 'Note of further conversation with Monsieur Domaniewski', 6th May 1937, BOE OV110/37.

⁴¹⁴ Nixon – Waley, 15th February 1937; Waley – Nixon, 19th February 1937, BOE OV110/37.

⁴¹⁵ Cobbold, 'Poland', 24th February 1937, BOE OV110/37.

⁴¹⁶ Niemeyer – Norman and manuscript notes by Norman, 13th May 1937, BOE OV110/37.

- iii. While negotiations with British companies about electricity projects in Poland were under way, they had not made enough progress for a new credit related to the projects to be connected with a settlement of the stabilisation loan.

Therefore ‘the only thing which the Polish Government was now in a position to propose was that between now and October the Stabilisation Loan should be converted on to a 4¼% basis.’⁴¹⁷ When this had been put to the CFB, the CFB had replied that (a) Poland should pay the October coupon in full and (b) that any conversion should be to a substantially higher rate of interest than 4¼%. Domaniewski added that he expected a settlement with the U.S. bondholders soon, and it was essential that it should be at a rate lower than the rate payable in złoty to bondholders in Poland.⁴¹⁸

Domaniewski saw Waley early in September. He proposed to tell the CFB that Poland could not agree to pay the October coupon in full and to ask the CFB to agree to a conversion to a 5% twenty year loan. If they agreed, the Polish government would endeavour to induce the Americans to agree to such an offer being made. Waley said he thought the CFB would regard it as essential that the October coupon be paid in full and if deadlock was reached, it would be worthwhile for both governments to explore the possibility of an amicable payments agreement. Waley did not, however, want to be put in the position of having to force a clearing on to Poland. When the CFB was approached, it refused to discuss a hypothetical offer. If the Polish government were to offer the bondholders a payment of less than 100% of the October coupon, the CFB would advise them to refuse.⁴¹⁹

⁴¹⁷ Bewley, 27th July 1937, BOE OV110/37.

⁴¹⁸ Bewley, ‘Polish stabilization loan’, 29th July 1937, BOE OV110/37.

⁴¹⁹ Waley – Butler (CFB), 3rd September 1937; CFB note, 10th September 1937, BOE 110/38; Gunston – Niemeyer, ‘Poland’, BOE OV9/130.

The FBPC insisted on the principle of non-discrimination, but the American paying agents would have been willing to be more flexible: Tompkins (Bankers Trust) told Kindersley said that the Poles had stated that they might find it necessary to make a more favourable offer to the British tranche, and that he would examine the offer on its own merits, without regard to offers made to others. Tompkins added 'My personal view is that everyone would be satisfied including Protective Council if British tranche would accept five per cent Coupon.'⁴²⁰

At the end of September, the FBPC sent a telegram to the CFB saying that it had received and rejected an offer of a 4¼% conversion; it had not received an offer of 4½%. It commented that both groups would probably accept 5½%; and asked what was the basis for the different treatment of the October coupon.⁴²¹ The option for the dollar bondholders to be paid in guilders increased the effective dollar interest rate by 1.8%.⁴²²

On 7th October, Zbijewski communicated a definite offer to the CFB:

'4½% for interest plus the same currency option as that enjoyed by American bondholders for interest only, and the extension of the life of the loan by ten years.

...If these proposals were favourably considered, his Government would be prepared to transfer to Messrs. Lazards the amount necessary for the full payment of the October 15th coupon, but at the same time they would only instruct the agents to pay 4¼%, the reason for this being

⁴²⁰ FPBC telegram, 23rd October 1937; note by Niemeyer, 25th October 1937, BOE OV9/130; Tompkins cable to Kindersley, 24th September 1937, attached to Lazards – Waley, 25th September 1937, BOE OV110/38.

⁴²¹ FBPC – CFB, 29th September 1937, BOE OV110/38.

⁴²² Waley – Strang, 4th October 1937, BOE OV110/38, author's calculation.

apparently that 4¼% was the figure that was being discussed at the moment in New York...'

Some members of the CFB and Lazards, having discussed the offer, decided that as it stood it was not acceptable because the guilder, and therefore the currency option, might lose value. They told Zbijewski that they would be prepared to consider 4½% with the currency option designed so that in any event the sterling return would not fall below 5½%. The counter-proposal was not accepted.⁴²³ The United States regarded the extension of the currency option to sterling bondholders as discriminatory against American bondholders, but the objection was eventually overcome.⁴²⁴

Poland paid coupons at the rate of 4¼% on 15th October on the dollar tranche, maintained the currency option, and promised to do the same in April 1938.⁴²⁵ As Zbijewski had indicated, the Polish government told Lazards that it had remitted the amount necessary to pay at the full contractual rate, but instructed them to pay only at the rate of 4¼%. Lazards and the CFB did not recommend bondholders to accept the payment offered.⁴²⁶

Domaniewski visited London and saw Gunston on 25th October. He wanted to discuss financing for electrifying further railways around Warsaw (£2 million), which the Polish government had discussed with BOB, the Prudential Assurance Company and ECGD; and 'works, etc., around Sandomierz' – the Central Industrial Zone (£5 million). There had been preliminary talks about

⁴²³ 'Extract from memorandum from Council of Foreign Bondholders dated 8.10.1937', BOE OV110/38.

⁴²⁴ FRUS, 1938, vol II, pp 635 – 647.

⁴²⁵ Republic of Poland, 'Notice to holders of Coupons due October 15th 1937 and April 15th 1938 of the Republic of Poland 7% Stabilisation Loan of 1927 DOLLAR TRANCHE', 15th October 1937, BOE OV110/38.

⁴²⁶ Council of Corporation of Foreign Bondholders (1938, p 76).

this project with the same lenders in London, and Domaniewski said they had received an offer from France.⁴²⁷

Negotiations over the stabilisation loan resumed in November. On the 11th, Zbijewski offered conversion into 4¼% bonds with the same currency options as the dollar tranche, and with a guaranteed minimum sterling interest rate of 5%. The amortisation period would be 30 years, and the redemption value would be 100 instead of 103. The CFB rejected the offer and asked for a straightforward 5½% bond with a 1½% sinking fund.⁴²⁸

That was not acceptable to Poland. This might have been because of objections from the United States, as Zbijewski told the CFB, or because of an Order issued by the Minister of Finance on 8th November, which set an upper limit on the rate of interest on foreign loans on which interest could be transferred abroad, or both.⁴²⁹ The CFB modified its position and said it would be prepared to recommend an offer if the conversion bonds bore a 4½% coupon, the same currency options as the dollar tranche, and a guaranteed minimum 5½% sterling interest. If these provisions were accepted, the CFB would recommend that they be applied retrospectively to the October 1937 coupon.⁴³⁰

This led to an agreement, described by A.L. Philp (Secretary of the CFB) as follows:

⁴²⁷ Gunston, 'New British export credits for Poland?', 25th October 1937, BOE OV110/38. The Sandomierz project was the Central Industrial Zone.

⁴²⁸ 'Poland: Extract from CFB Weekly Note No 66 dated 12th November 1937'; 'Memorandum of conversation with Mr. Zbijewski, 11.30 am on November 15th, 1937', BOE OV110/38.

⁴²⁹ 'Memorandum of conversation with Mr. Zbijewski, 11.30 am on November 15th, 1937'; Letter from British Ambassador in Warsaw, 26th November 1937, BOE OV110/38.

⁴³⁰ Note dated 29th November 1937, BOE OV110/38. The note has the appearance of a draft, and it is not clear that it was ever sent; but in the light of what followed, it seems likely that it, or something like it, was sent.

1. Interest rate 4½%.
2. Amortisation period prolonged by 20 years, to 1967.
3. The sterling tranche to be given equal rights with the dollar tranche and in future to benefit from the privilege of the multiple currency clause.
4. Minimum revenue from a £100 bond of £5:10s: per annum, not for 'reasons of their [the Poles'] own' to be described as 5½ per cent.
5. Lazards to act as independent fiscal agent for the English tranche.
6. The security of the loan and other conditions, including the redemption premium, to remain.⁴³¹

Once the settlement was agreed, Waley wrote to Cobbold about the assurance that the Treasury had given to Norman on 21st May to extend no more credit to Poland until the stabilisation loan was settled. Cobbold replied that the undertaking was that 'under present conditions no further guarantees will be given', and said that he would talk further to Norman and Niemeyer. Niemeyer said that 'As the Poles have now reached a settlement with the C.F.B., I think the Treasury's undertaking to the Governor has been carried out.' However, 'I do not know what the Export Credit Department's total risks on Poland now are: but to add to them would certainly be taking a pretty substantial risk.' Norman, when consulted, agreed that 'so long as the Poles are not in default, we can only warn.'⁴³²

The American debts remained unsettled until June 1938.⁴³³

⁴³¹ Philp – Niemeyer, 8th December 1937, BOE OV110/38. £5:10s: was £5.50. Sterling was decimalised only in 1971.

⁴³² Waley – Cobbold, 8th December 1937; Cobbold – Waley, 9th December 1937; Niemeyer – Cobbold, 15th December 1937; Cobbold – Norman, 'Poland', 16th December 1937, and Norman's manuscript comment; Cobbold – Waley, 20th December 1937, BOE OV110/4.

⁴³³ Gunston, 'Polish loans in America, 9th May 1938; Bewley – Waley, 10th June 1938, BOE OV110/38. The FBPC remarked magnanimously in its annual report for 1938 (pp18–19): 'The Republic of Poland made a distinct effort to serve its bonds as near to the contract rate as it was possible for it in view of its exchange position and the present conditions in Europe. The Council feels that the Polish Government has acted in a manner consistent with its well-known desire to maintain its credit and... in doing

10. Collapse and disaster, 1938–1939

Discussions about credit: January – September 1938

In May 1937, after Domaniewski had asked about the possibility of additional export credit, Kindersley had commented:

‘There is, of course, another side to the picture which is rather repugnant to us, and that is the quite evident fact that emerges from all these discussions and from the attitude adopted by the Poles, that their principal object is the borrowing of more money, and that they hardly look upon their new suggestions of postponing their sinking fund and dropping their interest by 2 per cent. as in the nature of a default; and that without a promise of new money they have no intention of making a big effort to meet their obligations whether they are in a position to do so or not.’⁴³⁴

There were good reasons for Poland to want to get its hands on immediate cash. Notwithstanding the Polish-German Declaration of Non-Aggression of 1934, the reintroduction of military conscription in Germany (March 1935) and the remilitarisation of the Rhineland (March 1936) were ominous signs of Hitler’s intentions.⁴³⁵ France no doubt had its own security concerns in mind when it lent Poland Fr. Fcs 2.6 billion, largely for armaments, in 1936.⁴³⁶ The Polish scramble for money continued after the debt settlement of 1937.

so will undoubtedly in the future reap the benefits of its wise action.’ (Quoted by Nötel 1986, p 266).

⁴³⁴ Kindersley – Waley, 7th May 1937, BOE OV110/37.

⁴³⁵ Cienciala (2011), Prażmowska (1986), and Newnham (2006) provide accounts of Polish foreign policy in the inter-war period. Prażmowska (2003) gives a clear and concise account of political developments in 1938 and 1939.

⁴³⁶ Newnham (2006, p 22) is mistaken when he says that a German credit of zł 120mn extended to Poland after Munich was the only one of its kind in the inter-war period.

Barański wrote to Gunston in February 1938, recording that there had been considerable economic development in 1937 without inflation (industrial production up 15 – 26% on 1936). The Treasury had been able to finance its extraordinary investment budget quite easily, while the ordinary budget was in surplus. He mentioned the new Central Industrial Zone, 'which would facilitate the establishment of new industrial undertakings in localities situated farther from the frontier, than was the case hitherto.'⁴³⁷

Domaniewski visited London in March. He told Leith-Ross that the exchange restrictions had worked successfully and that foreign frozen claims did not exceed zł 100 million. In addition to the published reserves of zł 471 million, BP had an additional hidden reserve of zł 46 million. The published trade figures were unreliable because exports were understated on account of exchange restrictions: in reality, trade was roughly in balance. They had reduced the heavy load of debt maturities between 1940 and 1947, and cut annual debt charges by zł 20 million. Dollar loans amounted to about \$90 million; they had offered Polish holders conversion into złoty, and about \$42 million had thus far been converted.⁴³⁸ At the end of March, Barański wrote that he was worried that the decline in world prices was not being matched by Polish prices, and that 'If there is another bad harvest this year...the question of devaluation may have to be faced.' Barański also noted that the French credit accounted for quite a subordinate share of defence expenditure, and said that he was concerned about the effects of the defence programme on living standards; 'the much advertised new central industrial area around Sandomierz is all boloney. The place is simply a nest of munition factories.'⁴³⁹

Turner (BOE) visited Poland in the spring of 1938. He noted greater prosperity, but said that the joint-stock banks had never recovered the large deposits

⁴³⁷ Barański – Gunston, 19th February 1938, BOE OV110/28.

⁴³⁸ Leith-Ross, 'Polish exchange situation', 3rd March 1938, BOE OV110/38.

⁴³⁹ Turner, 'Conversation with Dr Baranski', 31st March 1938, BOE OV110/4.

which they lost at the onset of the depression. There had been a run on the banks at the time of the Polish ultimatum to Lithuania (March 19th), which Turner said was ‘pure panic-mongering mainly on the part of Jews and the banks wisely paid out as fast as they could without any restrictions.’ There had been no selling of government bonds, however. ‘All the same, the atmosphere would have become decidedly unhealthy if Lithuania had given the wrong answer.’ Turner thought that devaluation would require ‘personal authority of the Piłsudski brand alone’, which was of course no longer available.⁴⁴⁰

In June, the British government’s Committee on Foreign Policy set up an Inter-departmental Committee on Economic Assistance to Central and South-Eastern Europe to review export credit and other assistance to the region. The Chancellor of the Exchequer (Sir John Simon) noted that there might be political advantages in extending credits which would not be justified on purely commercial grounds, but that an attempt should be made to measure the political advantages against the possible financial losses. The President of the Board of Trade (Oliver Stanley) said that the Foreign Policy Committee was anxious to have a chance to approve schemes which, even though they might involve financial loss, might help smaller countries in the region resist the further extension of Germany’s political and economic dominance in that area.⁴⁴¹

Against this background, Waley asked for the BOE’s advice on Poland, and in particular the proposed credit to finance and electrical grid in the Polish Triangle and certain industrial equipment, which had been held up while the

⁴⁴⁰ Turner, ‘Visit to Poland’, 7th June 1938, OV110/5. Lithuania had broken off relations with Poland after Poland had seized Wilno in 1920; the Polish ultimatum demanded the establishment of normal relations in the wake of the German *Anschluss* with Austria, which aroused Polish fears that Germany might seize the preponderantly German port city of Klaipėda (Memel) and put troops on Poland’s border with Lithuania. The Lithuanian government acquiesced. Cienciala (2011, pp 129 – 130).

⁴⁴¹ Committee on Foreign Policy, ‘British influence in central and south-eastern Europe’, Conclusions reached on 1st June 1938, attached to Waley – Cobbold, 27th June 1938, BOE OV110/5.

stabilisation loan default remained unsettled. The amount was no more than £5 million and it might have to be spread over 8 – 10 years. Poland had a good credit record as regards borrowings from the ECGD. Poland would be able to supply munitions to the U.K. The proceeds of these exports would be used to redeem outstanding Polish bills held by ECGD and commercial suppliers.⁴⁴² Cobbold replied that Poland remained a bad credit risk and that its general credit record was poor. He added that if the government nevertheless decided to lend to Poland for political reasons, ‘then I hope you will bear in mind what Phillips wrote to the Deputy Governor on the 24th May in connection with credits to Turkey, viz., that you would bear in mind in future cases that new credits guaranteed by the Export Credits Department should not rank in front of past loans.’⁴⁴³ Domaniewski, visiting London in July, said that Poland was now getting less credit from commercial sources but was interested in further ECGD credits.⁴⁴⁴

Münich and its aftermath

On 23rd September, at the height of the Sudeten crisis in Czechoslovakia, Zygmunt Karpiński wrote to Gunston referring to telephone conversations between the two men in which it had been established that the BOE would not be willing to buy or take as collateral for a loan gold located in Warsaw. Karpiński said that he had now been able to arrange to ship the gold to the Sveriges Riksbank, which would place a corresponding amount of gold at the BP’s disposal at the BOE. Karpiński added that despite ‘the extremely grave political conditions throughout Europe, the Polish money market has been up to now almost completely quiet. The withdrawal of deposits from our banks has not been felt at all up to the present time.’⁴⁴⁵ Karpiński wrote

⁴⁴² Waley – Cobbold, 27th June 1938, BOE OV110/5. The ‘Polish Triangle’ was probably the Central Industrial Zone.

⁴⁴³ Cobbold-Waley, 30th June 1938, BOE OV110/5.

⁴⁴⁴ Waley – Somerville-Smith, 27th July 1938, BOE 110/5.

⁴⁴⁵ Karpiński – Gunston, 23rd September 1938, BOE OV110/28.

again on 5th October to say that 'distressing political news' had brought about a rapid change in the situation. In the week following 23rd September, during which the Munich conference took place and Britain and France had acquiesced in the cession of the Sudetenland by Czechoslovakia to Germany, zł 400 million had been withdrawn from the banks, the BP had provided liquidity support, and Karpiński said that the cover ratio as at the end of September would be below the statutory requirement.⁴⁴⁶ According to the BP's statute, the Bank's rate should have been raised to 5½%, but instead the statute was amended, to facilitate an increase in the note circulation which, following the run on the banks, was not expected to be inflationary, and to avoid a tightening of credit.⁴⁴⁷

Poland's seizure of Cieszyn from Czechoslovakia in the wake of Munich damaged its diplomatic relations with Britain.⁴⁴⁸ When Gunston replied to Karpiński on 14th October, he said that in the circumstances, it would have been hard for the BOE to reproach any London bank for calling in credit facilities to Poland. He concluded that 'I trust that in any case you will agree with me in hoping that the particular circumstances which affected the relations between Warsaw and London during the recent crisis are not likely to recur in the future.'⁴⁴⁹ It is not clear from the files whether the BOE purchased any gold from the BP, or lent money against it.

On 15th November Kennard warned of impending new import restrictions to conserve foreign exchange.⁴⁵⁰ Zbijewski told Waley that the exchange position of Poland had become much more difficult owing to the withdrawal of banking and trade credits as a result of the international situation. The Polish government had accordingly decided to restrict payments in respect of luxury

⁴⁴⁶ Karpiński – Gunston, 5th October 1938, BOE OV110/5.

⁴⁴⁷ Barański – Gunston, 18th October 1938, BOE OV110/5.

⁴⁴⁸ Prażmowska (1986, p 860).

⁴⁴⁹ Gunston – Karpiński, 14th October 1938, BOE OV110/28. Possibly the BOE encouraged British banks to call in credits to Poland, but I have found no record of it.

⁴⁵⁰ Kennard - Department for Overseas Trade, 15th November 1938, BOE OV110/5.

goods.⁴⁵¹ On 24th November, Cobbold sent Waley a gloomy assessment of Poland's economic situation. Up to May or June, he said, debt servicing and the trade deficit (if any) had been largely paid for by capital and extraordinary receipts, mainly the French loan, and they had hoped for a good harvest in 1938. Since then, however, sales of armaments to Spain had dried up while loan remittances from France had slowed down or stopped. And the harvest, though good, had not brought the hoped-for relief, because of a world surplus of grain. The BP's gold and foreign exchange holdings had begun to fall after the middle of September, thus far by only £530,000 but there was reason to believe that BP had drawn on its hidden reserve (Domaniewski confirmed in December that the hidden reserve was exhausted).⁴⁵² There was the prospect of temporary relief from the recent conscription of foreign assets, but that was living on capital. But Cobbold foresaw nothing more than a temporary improvement.⁴⁵³

The change in the statute of the BP took place in February. The legal minimum gold cover was raised from 30% to 40% of sight liabilities; however, the requirement applied only to liabilities in excess of zł 800 million, the threshold having hitherto been zł 100 million. Moreover, the Council of the BP could increase the threshold to zł 1,200 million with the permission of the Minister of Finance.⁴⁵⁴

Poland's relations with Germany now began to deteriorate. When Józef Lipski, the Polish ambassador in Berlin, saw Hitler on 20th September to reassure Germany of Polish support over the Sudetenland, he hoped to get in exchange German guarantees about Danzig. However, 'Hitler refused to commit himself to the retention of the status quo in Danzig and proposed that a step forward

⁴⁵¹ Waley – Strang (F.O.), 19th November 1938, BOE OV110/5.

⁴⁵² Note of ECGD meeting with Domaniewski and Zbijewski, 9th December 1938, BOE OV110/5.

⁴⁵³ Cobbold – Waley, 24th November 1938, BOE OV110/5.

⁴⁵⁴ 'Bank of Poland: revision of statutes', 8th February 1939, BOE OV110/28.

should be made in recognizing each others' frontiers.'⁴⁵⁵ On 31st October, German Foreign Minister Ribbentrop presented a comprehensive plan for a general revision and settlement of Polish-German relations. Poland would be given a guarantee of her frontier and the Polish-German agreement of 1934 would be extended by 25 years. Germany would support Poland on the emigration of Jews from Polish territory, colonial claims, and anti-Soviet policy. In return, the Free City of Danzig would be incorporated into Germany and an extra-territorial link built across Polish territory. 'The apparent reasonableness of these demands masked an end to Polish-German collaboration based, Beck [Colonel Józef Beck, the Foreign Minister of Poland] had assumed, on an equal footing.'⁴⁵⁶

Domaniewski, in London in December, asked Waley about the prospects of an export credit of £5 million. Waley replied that they were extremely small, but nevertheless called a meeting of government departments. The BOE, when asked, said that the general position of Poland was getting worse rather than better.⁴⁵⁷ The meeting concluded that no credit should be offered until various discontents of the Board of Trade had been settled; but subject to that, consideration could be given to fresh credits not exceeding £200,000 a year, which would match anticipated repayments of existing credits.⁴⁵⁸ Soon afterwards, Domaniewski told Waley of a zł 120 million loan that Germany had extended to Poland.⁴⁵⁹ Domaniewski and Zbijewski saw ECGD on 9th December, and said that a credit from the U.K. of £2 million, including local expenditure, would meet their immediate needs; it would mainly be spent on electrification. Nixon said that if outstanding issues with the Board of Trade and the 'transfer of certain sums due to people in this country' (presumably the Accepting

⁴⁵⁵ Prażmowska (1986, p 856).

⁴⁵⁶ Prażmowska (1986, p 854).

⁴⁵⁷ Gunston, 'Export credit for Poland?', 8th December 1938, BOE OV110/5.

⁴⁵⁸ Waley – Nixon, 9th December 1938, BOE OV110/5.

⁴⁵⁹ Waley – Gwatkin (F.O.), 10th December 1938, BOE OV110/5.

Houses – see Appendix 5), then they might be able to arrange credit in respect of £1 million of exports from the U.K.⁴⁶⁰

At its monthly meeting in January 1939, the BIS board was told that the bank had requested from the BP and the National Bank of Czechoslovakia part-repayment of its ‘holdings on their markets created by investments of a temporary character.’ The BIS’s ‘holdings on the Polish market’ declined from the equivalent of 6.4 million statutory francs to the equivalent of 4.8 million statutory francs, and they would be reduced to 3.3 million in January.⁴⁶¹ 6.4 million statutory francs were the equivalent of zł 11 million. Meanwhile, Gunston reported that blocked złoty were being sold at a discount of 37%.⁴⁶²

In January 1939, Gunston wrote to Barański about the British Overseas Bank, which had been very active in Poland and was now illiquid. BOB’s main problems were not related to Poland: it had unprovided-for standstill credits to Germany and Hungary. Gunston told Barański that BOB had received a blocked deposit of £1,000,000 [which in fact was from the BOE]; a new chairman had been appointed and an examination and overhaul of its operations was being carried out. BOB initiated a policy of ‘liquification’, which excluded lending which did not create liquid assets. It also withdrew from financing Polish internal trade. The policy entailed cancelling, or not renewing, credit facilities to Polish borrowers amounting to £590,000.⁴⁶³ Poland thus suffered from contagion. The Polish Ministry of Finance complained that ‘unfavourable action’ by BOB was causing great embarrassment, and Barański said that other British

⁴⁶⁰ Note of ECGD meeting with Domaniewski and Zbijewski, 9th December 1938, BOE OV110/5.

⁴⁶¹ Extract from the agenda for the eighty-eighth meeting of the board of the Bank for International Settlements to be held in Basle on 9th January 1939 at 10.00am’, BOE OV110/28.

⁴⁶² Annotation on O’Brien, ‘Poland’, 16th January 1939, BOE OV110/38.

⁴⁶³ Gunston – Barański, 23rd January 1939, BOE OV110/5; BOE daily account book, 1938, BOE C1/86; <https://www.rbs.com/heritage/companies/british-overseas-bank-ltd.html>; balance sheet dated 26th October 1938 in BOE G14/85; Bull, 3rd March 1939, BOE C48/130.

banks were withdrawing credit.⁴⁶⁴ Kennard wondered if anything could be done to maintain the flow of credit from British banks. He said that Koc would be going to London to talk to the BOB and would also try to see Waley. He thought it would also be a good idea for Barański to visit the BOE. Kennard was politely rebuffed: the BOE said that they were always ready to see Barański but did not want to invite him lest they give the impression that they could solve his problems, and the Foreign Office said that the banks had to be allowed to make their own decisions.⁴⁶⁵ Koc, while in London, saw Norman on 8th March; Norman recorded 'courtesy + hot air seems still weak and poorly.'⁴⁶⁶ Barański told Gunston in Basle that he had no grievances against BOB, the BOE, or anyone else in London.⁴⁶⁷

Kennard reported on 13th February that the Poles wanted to give priority to the electrical grid scheme rather than railway electrification, and that they were likely to ask for the export credit offer to be increased from £1 million to £1½ million.⁴⁶⁸ Waley wrote to Cobbold on 4th March saying that he had more or less agreed that new export credit guarantees could be extended to Poland provided that the amount outstanding did not rise, and asking if there were any outstanding issues with Poland to be settled before any further credit was granted. Apart from accepting houses' claims (Appendix 5), the BOE did not know of any; Waley undertook to bear the accepting houses' claims in mind.⁴⁶⁹

Leslie O'Brien of the BOE analysed Poland's recent reserve changes. The raw figures were:

⁴⁶⁴ 'Extract from cable from Sir H. Kennard', 7th February 1939; Barański – Gunston, 11th February 1939, BOE OV110/5.

⁴⁶⁵ Kennard – Gwatkin, 13th February 1939; Playfair – Gunston, 14th February 1939; Gwatkin – Kennard, 16th February 1939, BOE OV110/5.

⁴⁶⁶ Norman diary, 8th March 1939, BOE ADM34/28.

⁴⁶⁷ Gunston, 'Poland', 15th March 1939, BOE OV110/28.

⁴⁶⁸ Kennard – Nixon, 13th February 1939, BOE OV110/5.

⁴⁶⁹ Waley – Cobbold, 4th March 1939; O'Brien, 'Outstanding financial questions in U.K.' 6th March 1939, BOE OV110/5; Waley – Cobbold, 17th March 1939, BOE OV110/38.

Table 5 BP's gold and foreign exchange reserves, 1937–1939
(zł millions)

	Gold	Foreign exchange	Total
End of 1937 (peak)	435	36	471
10 th October 1938 (nadir)	432	12	444
End of January 1939	446	18	464

Source: O'Brien, 'Exchange position', 6th March 1939, BOE OV110/5.

As O'Brien noted, the figures did not look bad, but they had been helped by:

- a) Using all the hidden reserve, which had been 46 at the end of 1937;
- b) Conscripting roughly 250 of foreign assets;
- c) Dishoarding of gold and foreign exchange in Poland;
- d) Exchange receipts from arms sales to Spain, which had now died down.⁴⁷⁰

The German occupation of Bohemia and Moravia, loan negotiations, and the approach of war

For several months, Poland tried to find an accommodation with Germany. The German occupation of the remainder of Bohemia and Moravia on 15th March, and of Memel on the 22nd, however, removed any remaining doubts about Germany's intentions. On 21st March Ribbentrop proposed to Lipski that in return for the annexation of Danzig and permission to build an extra-territorial road and rail link across Polish territory, Germany would be prepared to guarantee Polish frontiers and Polish ownership of the Poznań region. 'Lipski at least had no doubt that this was an ultimatum.'⁴⁷¹

⁴⁷⁰ O'Brien, 'Exchange position', 6th March 1939, BOE OV110/5. O'Brien was Governor of the Bank of England from 1966 – 1973.

⁴⁷¹ Prażmowska (1986, p 862).

Relations with Britain, damaged by Munich, now improved, and Britain proposed that Poland should join Britain, France and the Soviet Union in a declaration of commitment to consult in the event of aggression taking place and with the aim of opposing it.⁴⁷² The upshot was the Anglo-French guarantee of support for Poland, given on 31st March.⁴⁷³

There were once more large withdrawals from Polish banks and the note circulation expanded by zł 315.3 million. As in September 1938, prices did not rise, because, according to Barański, of a new defence loan.⁴⁷⁴

In April 1939, the British Embassy in Warsaw inquired about the cost of semi-mobilisation which Poland had declared. Thus encouraged, Poland requested a loan and credits of £60.5 – 66.5 million.⁴⁷⁵ Sir Alexander Cadogan (Permanent Under-Secretary of the Foreign Office) wrote to Phillips (Treasury) asking for urgent financial assistance to enable Poland to buy armaments. Phillips replied that the Chancellor, Sir John Simon, said that ‘with the best of goodwill he finds it impossible to give a loan to cover internal expenditure in Poland or the purchase by Poland of stocks from foreign countries.’ Special legislation would be needed and other countries, e.g. Turkey, Greece and New Zealand, would ask for similar treatment. The Treasury would not however object to export credit of up to £5 million for munitions produced in the U.K.⁴⁷⁶

Frederick Conolly of the BIS wrote to Niemeyer in a personal capacity to suggest that Poland’s financial situation was such that, if the złoty were devalued, a new credit to Poland might be sustainable.⁴⁷⁷ Invited by Cobbold to

⁴⁷² Prażmowska (1986, p 862).

⁴⁷³ HC Deb 31 March 1939 vol 345 c2415.

⁴⁷⁴ Barański – Gunston, 17th April 1939, BOE OV110/5.

⁴⁷⁵ Prażmowska (1986, p 868).

⁴⁷⁶ Cadogan – Phillips, 4th May 1939; Phillips – Cadogan, 5th May 1939, BOE OV110/5.

⁴⁷⁷ Conolly – Niemeyer, 15th June 1939, BOE OV110/5.

comment, O'Brien concluded that Poland would be well-advised to devalue, and Cobbold sent his analysis to the Treasury.⁴⁷⁸

Koc came to London to negotiate financial assistance for Poland. His requests amounted to £60 million:

'These requests fell under three heads, first, demands for goods which could be purchased in this country. Provided that the supply could be arranged, he hoped that these demands would not present great difficulty. Second, demands for financial help for articles to be purchased abroad. This involved the provision for Poland by this country of foreign exchange. Thirdly, financial help to assist Poland to balance her Budget, or to meet certain domestic obligations and responsibilities as, for example, to enable her to employ more men in her war factories. The total of the demands put forward was formidable and disturbing.'⁴⁷⁹

The Cabinet thought that the possibility should be investigated of common action with France in addressing demands for armaments and financial assistance. At the same meeting, the Cabinet agreed to ask Parliament to increase from £10 million the limit applied to the total of non-commercial (i.e. political) export credit guarantees, clearly having Poland in mind; the amount of the requested increase would be determined by ministers.⁴⁸⁰ Norman, concerned about the inadequacy of the U.K.'s own reserves, protested against political loans to Poland and Turkey.⁴⁸¹

The British and French Treasuries met on 30th June to discuss aid to Poland. Leith-Ross said that 'it was essential to have a joint scheme with France and to

⁴⁷⁸ O'Brien, 'Should the Poles devalue?', 21st June 1939; Cobbold – Waley, 22nd June 1939, BOE OV110/5.

⁴⁷⁹ Minutes of Cabinet meeting, 21st June 1939, NA CAB 23/100/1.

⁴⁸⁰ Minutes of Cabinet meeting, 21st June 1939, NA CAB 23/100/1.

⁴⁸¹ Sayers (1976, p 589).

lay down suitable conditions so as to prevent other countries expecting similar treatment.’ Jacques Rueff said that the credit of 1936 – known as the Rambouillet credit – was for Fr. 2,600 million over the four years 1936 – 1940, of which Fr. 1,350 represented cash and Fr. 1,250 export credit for goods. The cash payments were partly in zloty and partly in francs, the zloty amount being Fr. 135 million a year. Up to the end of 1938, Fr. 950 million had been granted in cash; Fr. 135 million had been paid in francs in May 1939, and a further Fr. 135 million in francs which had been due in May 1940 had been paid in May 1939. Not much was agreed at the meeting, except that Leith-Ross was invited to Paris for further discussion. After further discussion the governments agreed a *procès-verbal* under which the British government agreed to provide Poland with export credit guarantees of £8 million, including £1½ million for raw materials, and an additional cash credit of £5 million on condition that an equitable parallel effort be made by the French government. The two governments would propose to the Polish government an agreement involving cash advances of Fr 600 million (the equivalent of about £3½ million) by France and £5 million by Britain. It would be a condition that Poland devalued the zloty.⁴⁸² Later, Simon was authorised by the Cabinet to conclude a loan agreement on these lines, ‘on the understanding that the Polish Government take suitable steps to improve their financial and economic position.’ Lord Halifax (Foreign Secretary) did not think that Poland should be pressed too hard for immediate devaluation, and the language of the conclusion suggests that devaluation was not to be a condition of the loan. The loan would require Parliamentary approval and for that reason it was essential that an agreement with the Polish and French governments be reached by the end of the week (i.e. 14th July).⁴⁸³

⁴⁸² ‘Note of a meeting between Monsieur Rueff, Sir Frederick Leith-Ross, Sir Frederick Phillips and Mr Waley on 30th June 1939, about Poland’; Leith-Ross – Waley, 4th July 1939, BOE OV110/5.

⁴⁸³ Cabinet minutes, 12th July 1939, NA CAB 23/100/5.

Leith-Ross had told Koc and Józef Rucinski, the financial counsellor at the Polish Embassy in London, on 1st July that the British government thought Poland should devalue, and explained the reasons. Koc asked whether devaluation would be a condition of financial aid; Leith-Ross said he did not want to make it a condition, but that it would influence the British government's decision.⁴⁸⁴

Seven meetings took place in London in the period 10th–25th July between the British, French and Polish governments; astonishingly, they ended in failure. The main disagreement was over the use of the money: the British and French wanted to be consulted about how the funds were used, and to retain the funds under their own control until they were spent. They evidently thought that the funds were more likely to be used productively if the zloty were devalued. They did not want the funds used for purchases from third countries. Moreover, conscious of the statutory link between the BP's gold holdings and its sight liabilities, they wanted to be assured that Poland would spend its own resources on armaments, as well as loan proceeds.⁴⁸⁵ The Poles said that they needed to spend the funds quickly on armaments, and that the situation was urgent: they did not have time to change the statutes of the BP so as to release some of its gold, or undertake a major change in monetary policy, such as a devaluation, with all the attendant complications.⁴⁸⁶

The following week, on 19th July, Halifax told the Cabinet that the Poles had refused to sign an agreement, although he and Simon and spent the previous afternoon in discussions with Koc. And on 26th July Simon reported that the

⁴⁸⁴ Report of meeting, 4th July 1939, BOE OV110/5.

⁴⁸⁵ As the BOE pointed out to the Treasury, however, Poland could increase the margin of the BP's sight liabilities that did not need to be covered by gold under the statute. In that way they could dispose of an additional £8 million. 'Poland (Sir F. Leith-Ross' telephone message 5th July 1939)', 5th July 1939, BOE OV110/28.

⁴⁸⁶ Accounts of the meetings between the Polish delegation, led by Koc, the British Treasury, led by Leith-Ross, and the French Treasury, represented by Monick, are in BOE OV110/5.

Poles had terminated the negotiations: 'We were not prepared... to give Poland gold which Poland would store in vaults at Warsaw and make the basis for further expansion of her paper currency.' However, Poland had been offered £8 million of export credit guarantees, and the agreement was published on 2nd August.⁴⁸⁷

On Monday 28th August, Rucinski called on Waley to inquire about re-starting the loan negotiations.⁴⁸⁸ Waley suggested to the Foreign Office that he should tell Rucinski that the U.K. did not wish to take any initiative, but if the Poles wished to approach the U.K., it was open to them to do so. Norman commented on 1st September that he saw no reason to reopen the offer. Rucinski notified Waley and Gwatkin on 2nd September that Poland would like to reopen the loan negotiation. Waley told Rucinski that the U.K.'s position had become more difficult since July, as a result of an outflow of reserves. After a further trilateral meeting, the agreement was signed and 'the Poles are to have £5 million from us and £3½ million from the French.'⁴⁸⁹ The loan agreement was published on 7th September, six days after Poland had been invaded.⁴⁹⁰

⁴⁸⁷ Cabinet minutes, 26th July 1939, NA CAB 23/100/7. Cmnd 6093, copy in BOE C40/280.

⁴⁸⁸ Waley – Makins, 28th August 1939, BOE OV110/5.

⁴⁸⁹ Trend, report of meeting between Waley, Rucinski and Monick, 5th September 1939; Cobbold, 'Advances to allies', 8th September 1939, BOE OV110/5.

⁴⁹⁰ Cmnd 6110. BOE C44/197.

11. The Bank Polski's account with the Bank of England

President Stanisław Karpiński of the Bank Polski wrote to the Governor of the Bank of England, Montagu Norman, on 30th April 1924 announcing the foundation of the BP, and expressing the hope that the BOE would 'not refuse us, in case of need, the valuable assistance of any information we may desire.'⁴⁹¹

This was followed by a letter from R. Rybarski of the BP to Cecil Lubbock, the Deputy Governor of the BOE, inquiring about the BP opening an account with the BOE. Lubbock replied positively, and explained that the BOE would charge no fees, but would be remunerated by means of an interest-free minimum balance. He emphasised exclusiveness, in other words the principle that all BP's business in London, with the possible exception of some purely commercial business, should be transacted over its BOE account.⁴⁹² Norman personally attached great importance to exclusiveness, though it is not clear on what grounds.⁴⁹³

On 10th July, Mieczkowski and Karpiński of the BP wrote to Norman asking him about the conditions for opening an account with the BOE, disclosing that they had five correspondent banks in London, and some U.S. dollar accounts. They agreed to 'transfer the centre of our London business to your Institution.'⁴⁹⁴ That was not enough for Norman, and their request to open an account was rejected.⁴⁹⁵ Norman's reply reiterated the importance that the BOE attached to exclusivity.⁴⁹⁶ The BP (29th July) reassured Norman that it 'does not effect any special commercial or financial transactions on the British market and does not take advantage of any credits with British banks either', but offered to put all its

⁴⁹¹ Karpiński – Norman, 30th April 1924, BOE OV110/21.

⁴⁹² Rybarski – Lubbock, 13th June 1924, BOE OV110/21.

⁴⁹³ Cottrell (1997, pp 37 – 38).

⁴⁹⁴ BP – Norman, 10th July 1924, BOE OV110/21.

⁴⁹⁵ Committee of Treasury minutes, 23rd July 1924, BOE G8/55.

⁴⁹⁶ Norman – BP, 18th July 1924, BOE OV110/21.

business through the BOE.⁴⁹⁷ They eventually received a letter from Norman agreeing to open a sterling account for the BP.⁴⁹⁸ It included the paragraph:

‘You are aware that the Bank of England do not open accounts for any Foreign Institution other than a Central Bank and further that the Bank transact their foreign operations solely through the medium of the Central Bank of the particular Country concerned in the belief that, in so doing, the recommendations of the Genoa Conference are being rightly observed.’

The terms of the BP’s account at the BOE included a minimum balance of £25,000; amounts above that were employed, at interest, under the BOE’s guarantee.⁴⁹⁹ There were periodic reviews of the minimum balance over the following years.

On 24th November, Mieczkowski and Karpiński paid an introductory visit to Norman, accompanied by Poklewski-Koziełł. They said that they had told Midland Bank that they planned to liquidate their account there and concentrate their business on the Bank of England. They told Norman of their accounts with commercial banks in New York, and Norman advised them to open an account with the Federal Reserve Bank, to which he offered to write a letter of introduction.⁵⁰⁰

Meanwhile, the BP was making arrangements for the BOE to deal in the foreign exchange market, and buy gold, in London on its behalf. Foreign exchange operations are described in section 12.⁵⁰¹

⁴⁹⁷ BP – Norman, 29th July 1924, BOE OV110/21.

⁴⁹⁸ 16th September 1924, BOE OV110/21.

⁴⁹⁹ Mahon – BP, 9th October 1942, BOE OV110/21.

⁵⁰⁰ Harvey, ‘Bank Polski’, 27th November 1924, BOE OV110/21.

⁵⁰¹ Osborne – BP, 12th November 1924; BP – BOE, 17th November 1924; Mahon – Banca d’Italia, 22nd November 1924; Mahon – BP, 22nd November 1924; BOE internal note ‘Foreign exchange dealings o/a central banks’, 28th November 1924, all in BOE

On 27th January, Strong cabled to Norman that BP had asked about the conditions for opening an account at the FRBNY, and asked for his opinion. Norman's reply gave basic information about the management of BP's account with the BOE and referred Strong to Norman's message to J.P. Morgan.⁵⁰²

At about the same time, Norman, evidently unconcerned about banking confidentiality, spoke about BP's account to C.F. Whigham of Morgan Grenfell, who conveyed his views to J.P. Morgan in New York. He said:

'This account has been in operation for some eight or nine months and technically has been satisfactorily conducted. It is not very active the transactions varying from about two to ten per day and the balance having varied from about £500,000 to £1,000,000...

Notwithstanding that its [the Polish government's] constitution and methods are not entirely in accordance with his views he has felt fully justified in opening an account for the Bank of Poland as long as this is confined to granting banking facilities in the ordinary course of business. On opening the account he made it a condition that it should be the only account of the Bank in London other than facilities it might require in other quarters for ordinary commercial transactions and if you should decide to open an account for the Bank of Poland he advises that you should make a similar condition. If there is any more specific information you desire Governor will be glad to give it.'⁵⁰³

OV110/21; BP – BOE, 30th January 1925, BOE – BP, 4th February 1925, both in BOE OV110/34.

⁵⁰² Strong – Norman, 27th January 1925, reply, 28th January 1925, in BOE OV110/21.

⁵⁰³ Whigham – Morgan, 23rd January 1925, BOE OV110/21. The account had not in fact been open for as long as eight or nine months.

A couple of days later, Norman wrote a strange letter to Karpiński in which he said that, in connection with BP's interest in opening an account with the FRBNY, he had been asked for certain information about the BP. He therefore asked Karpiński 'at your leisure' to set down his opinions as regards BP's relations with other central banks, and whether accounts that central banks opened with each other should always be exclusive.⁵⁰⁴ Karpiński said in reply that he considered it desirable that central banks should co-operate closely, and cannily referred to the recommendations of the Genoa conference. However, he said, BP had experienced difficulty in opening accounts with foreign central banks, since 'some of the foremost Central Institutions of Western Europe, are principally opposed to the opening of accounts for foreign banks, leaving the field of activism entirely to private banks.' That said, he accepted the principle of exclusiveness. He also mentioned the importance to Poland of interest received on reserve balances.⁵⁰⁵ Norman being on holiday, his deputy Cecil Lubbock replied, rather sanctimoniously saying that central banks sometimes had to forgo interest receipts for what he called the public advantage.⁵⁰⁶

In August 1926, the BP asked whether they could obtain a higher interest rate on surplus funds in excess of their minimum balance.⁵⁰⁷ The BOE replied that they could buy British government Treasury bills, or commercial bills, which would give them a higher rate than money employed.⁵⁰⁸ The BP returned to the subject only in January 1928, when they asked about the procedure for buying Treasury bills, whether the BOE would guarantee commercial bills, and whether, in case of need, the BOE would repurchase bills from the BP before maturity.⁵⁰⁹ The BOE's reply mentioned that the BP's minimum balance was 'unduly low'. The BOE would buy Treasury bills for the BP either at the weekly

⁵⁰⁴ Norman – Karpiński, 29th January 1925, BOE OV110/21.

⁵⁰⁵ Karpiński – Norman, 9th February 1925, BOE OV110/21.

⁵⁰⁶ Lubbock – Karpiński, 2nd March 1925, BOE OV110/21.

⁵⁰⁷ BP – BOE, 21st August 1926, BOE C44/197.

⁵⁰⁸ Catterns – BP, 27th August 1926, BOE C44/197.

⁵⁰⁹ BP – BOE, 3rd January 1928, BOE OV110/24.

tenders or in the secondary market, and would be prepared, in principle, to guarantee commercial bills, moreover it would rediscount Treasury or commercial bills at the market rate. It proposed, and the BP readily agreed, that a representative of the BOE should visit the BP to settle these questions.⁵¹⁰

Siepmann accordingly went to Warsaw. The BP told him that their sterling balances in London were concentrated with the BOE and they intended to maintain exclusiveness. They had some dollar balances in London with other banks but Siepmann agreed that those were acceptable. The BP concentrated half of its foreign exchange reserves in the Bank of England and the Federal Reserve Bank of New York together, the other half being held with private banks. The BP did not expect their balance with the BOE to change much in future and the present figure of about £4 million could be taken as normal.

The BP had not yet held any Treasury bills, partly because of a concern that they could not be included in the Metal Reserve. If they had to be treated as 'foreign exchange not included in the metal reserve', then the BP would be limited to a holding of about £1 million, because much of this free foreign exchange was earmarked for silver purchases. However, the BP concluded, presumably during Siepmann's visit, that because the BOE was willing to rediscount Treasury bills at any time, they could be regarded as 'foreign bills' bearing the 'giro' of a foreign bank of high standing and thus be included in the Metal Reserve.

Siepmann pointed out the drawbacks of commercial bills: limited supply; demand swollen by central banks which could hold nothing else according to their statutes; rate generally lower than Treasury bills; the greater work involved, which the BP would have to pay for through its minimum balance; the slightly poorer liquidity of the market compared to Treasury bills; and the charge that the BOE might levy for a guarantee of the bills. Against this

⁵¹⁰ Mahon – BP, 27th January 1928; BP – BOE, 31st January 1928, BOE OV110/24.

background, the BP decided to divide their sterling balance between money employed and Treasury bills.

As to the minimum balance, Siepmann said that the standard for a new account was £50,000, and that BP's account created more work than any other except the Reichsbank's. It was agreed that the minimum would be set at 3% of the BP's average total funds over the previous three months, beginning, therefore, at £120,000. Gold held in London would not be part of the calculation. The multiple for transfers to money employed would remain at £25,000. The arrangement would be subject to review.⁵¹¹

The BP quickly wrote to the BOE confirming the agreement.⁵¹² And the BOE applied to open a reciprocal account with the BP.⁵¹³

The 3% formula meant that after Britain suspended the gold standard in 1931 and the BP withdrew the majority of its funds from the BOE (Table 6), the BP's minimum balance fell to £10,000 in February 1932. The BOE thought that 'in all the circumstances we can hardly protest & must take the rough with the smooth', but that it should suggest another arrangement in 3–6 months.⁵¹⁴ In May, the minimum balance fell to nil. Siepmann discussed the matter with Barański in Basle and they agreed that the BP would propose a new arrangement.⁵¹⁵ Barański then proposed a lower interest rate on the account, but Siepmann preferred to retain the minimum balance arrangement.⁵¹⁶

⁵¹¹ Siepmann, 'Bank Polski account', 11th February 1928, BOE OV110/24.

⁵¹² BP – BOE, 14th February 1928, BOE OV110/24.

⁵¹³ BP – BOE, 3rd January 1928; Mahon – BP, 27th January 1928; Siepmann – Dewey, 27th January 1928; Siepmann, 'Bank Polski account', 11th February 1928, BP – BOE, 14th February 1928; Mahon – BP (2 letters), 17th February 1928; Siepmann, 'Bank Polski: guarantee on commercial bills', 16th February 1928; BP – BOE, 22nd February 1928, BOE OV110/24.

⁵¹⁴ Note dated 29th February 1928, plus annotation, BOE OV110/26.

⁵¹⁵ Siepmann – Barański 24th May 1932, BOE C44/197.

⁵¹⁶ Barański – Siepmann, 28th May 1932; Siepmann – Barański, 27th May 1932, BOE C44/197.

Barański then proposed that the old minimum balance of £25,000 be reinstated, and so it was.⁵¹⁷ Barański added, significantly:

‘Would you bear in mind – when considering our proposal – that the slowing down of our relations with the Bank of England has not only been brought about by the present situation of the pound sterling, though this factor has of course contributed to the falling off of the volume of our business. The general policy of the Bank Polski as a result of which, as you have seen from our situations, our foreign exchange holdings have practically disappeared, has also influenced our relations.’⁵¹⁸

Siepmann wrote to Barański on 4th April 1933 to tell him that the balance on BOE's account with the BP, which had been opened in 1928, and which, having originally been zł 1 million, had been reduced to zł 500,000 in 1931, would be reduced further, perhaps to zł 250,000. Siepmann called it ‘a natural readjustment to changed conditions.’⁵¹⁹

In December 1935, the BP's balance at the BOE was £37,000 (against the minimum of £25,000) and BP had money employed of £175,000, so that the total was £212,000, or about zł 5½ million. ‘So far as we know the relations of Bank Polski with us are as exclusive as any other Central European Central Bank. In other words we do not know where its other accounts are held. We do very little exchange business for them now whereas in 1930 and 1931 they employed us a good deal. It seems a good bet that their exchange business is at B.O.B. but we cannot prove it.’⁵²⁰ Kay, the chief foreign exchange dealer

⁵¹⁷ Gunston, ‘Bank Polski: minimum balance’, plus annotation, 5th May 1932, BOE OV110/26; Siepmann – Barański, 27th May 1932, Barański – Siepmann, 2nd June 1932, BOE C44/197.

⁵¹⁸ Barański – Siepmann, 2nd June 1928, BOE C44/197.

⁵¹⁹ Siepmann – Barański, 4th April 1933, BOE OV110/26.

⁵²⁰ Bull – Gunston, 6th December 1935, BOE OV110/27. The foreign exchange business that Bull was referring to was presumably not in sterling/złoty (see section 13).

of the BOE, complained that although the BOE 'are not dealers' the BP had asked him to quote a price in Swedish kronor.⁵²¹ Cobbold agreed that the BOE should not become dealers and said he was happy for the BP to do their foreign exchange business elsewhere.⁵²² Gunston verified that the BP was in fact using BOB for some foreign exchange transactions when he visited Warsaw later in December, and made no objection.⁵²³

⁵²¹ Kay, 'Bank Polski (exclusiveness)', 27th December 1935, BOE OV110/27.

⁵²² Cobbold, 'Bank Polski: exclusiveness', 2nd January 1936, BOE OV1110/27.

⁵²³ Gunston, 'Visit to Poland', 23rd December 1935, BOE OV110/27.

Table 6 Bank Polski's balances with the Bank of England, 1926–1936
(amounts in £000s)

	D.O. Bal (1)	M.E. (2)	T. Bills (3)	C. bills (4)	Total	Gold @ par
31/03/1926	49	150			199	895
29/09/1926	37	1,925			1,962	3,084
30/03/1927	32	3,650			3,682	3,185
28/09/1927	43	3,875			3,918	3,736
28/03/1928	125	1,900	2,500		4,525	436
25/09/1928	93	700	2,000		2,793	1,761
27/03/1929	126	1,200	3,000		4,326	1,763
25/09/1929	133	600	2,500		3,233	1,763
25/03/1930	110	825	2,500		3,435	1,163
24/09/1930	89	250	930		1,269	1,163
25/03/1931	94	925	1,480		2,499	562
21/09/1931	64	250	880		1,194	562
30/03/1932	33	125			158	
28/09/1932	34	200			234	
29/03/1933	30	375			405	
21/09/1933	43	100			143	
08/11/1933	37	250			287	
11/12/1934	31	25			56	
12/11/1935	29	275			304	
End of:						
Nov-35	42	125			167	
Dec-35	37	100			137	
Jan-36	31	200			231	
Feb-36	30	75			105	
Mar-36	49	150			199	
Apr-36	35	25			60	
May-36	44	100			144	
Jun-36	39	225			264	
Jul-36	30	150			180	
Aug-36	41	150			191	
Sep-36	44	425			469	
Oct-36	45	450			495	
Nov-36	40	725			765	117
Dec-36	38	825			863	345

Source: 'Bank Polski funds at Bank of England', 21st January 1937, BOE OV110/27.

Notes: (1) Drawing Office balance, i.e. current account balance; (2) Money Employed (interest-bearing); (3) Treasury bills; (4) Commercial bills.

12. The foreign exchange market in the 1920s

Currencies which adhered to the gold standard could be exchanged in large amounts at exchange rates which were confined within limits by the costs involved in buying gold from one central bank, transporting it, net of the revenues from selling it to the other – the ‘gold points.’ There was no need for central banks to deal in the foreign exchange market: all they needed to do was be able and willing to buy and sell gold at the prescribed prices. The fact that the exchange rates were thus confined between the gold points meant that foreign exchange dealers could quote buying and selling prices to exchange one gold-standard currency for another with confidence, and it engendered liquidity in the foreign exchange market.

It is not surprising that, after the złoty left the gold standard and depreciated during the summer of 1925, the foreign exchange market in London became less liquid. The lack of liquidity must have been aggravated by the outbreak of bank failures that followed the depreciation. In an article published in 1926, Barański noted that market turnover was heavily dependent on the activity of the BP.⁵²⁴ The brokers M.W. Marshall and Co said that

‘a sale of zloty to the equivalent of say, £10,000 was the most the market could bear, as the quotation at present is nearly always “sellers”. The purchase of a similar amount would not be sufficient to put the rate up.’⁵²⁵

The BP wrote to the BOE on 11th August 1925:

⁵²⁴ Referred to by Leszczyńska (2013, p 182).

⁵²⁵ ‘Memorandum’, 19th August 1925, BOE OV110/32.

'We have noticed that recently unimportant amounts of Polish Exchange have been offered for sale in the London market. As, however, there were no buyers, those offers affected considerably the rate of the zloty.

In order to prevent that comparatively small amounts influence unduly the rate of the zloty, we would like to give you a standing order to buy up those small amounts of Transfer Warsaw, as far as they are of local origin, at a rate which we would indicate to you daily or periodically.⁵²⁶

The BOE agreed, and the BP set a daily purchase limit of zł 50,000 at a rate that it would notify daily.⁵²⁷ Thus on 11th September the Bank of England bought zł 50,000 at an exchange rate of £1 = zł 27.5925.⁵²⁸ On 18th September, the BP told the BOE that the Ministry of Finance had entered into an arrangement with the British Overseas Bank 'for the purpose of sustaining the zloty rate.'⁵²⁹

The standing order to the BOE was cancelled on 19th December, after the BP had restricted sales of foreign exchange according to the purposes to which it was to be put (section 5), and the BP said it would thenceforth provide specific instructions when it wished the BOE to deal for its account.⁵³⁰

In July 1927, after the zloty had been stabilized *de facto* at about zł 43.30 = £1, the BOE was

'instructed to purchase up to £10,000 on any one day at or above 43.60 and to sell up to the same amount transfers on Warsaw at or below 43.55. Later (October 1927), this was altered to a standing order to buy and sell up to £10,000 a day at 43.50 and 43.25. Since the second

⁵²⁶ BP – BOE, 11th August 1925, BOE OV110/32.

⁵²⁷ Catterns – BP, 21st August 1925, BP – BOE, 28th August 1925, BOE OV110/32.

⁵²⁸ BOE – BP, 11th September 1925, BOE OV110/32.

⁵²⁹ BP – BOE, 18th September 1925, BOE OV110/21.

⁵³⁰ Leszczyńska (2013, p 161), von Thadden (1994, pp 167 – 168), citing Zdziechowski, BP – BOE, 19th December 1925, BOE OV110/32;

stabilisation of the zloty in October 1927 the Bank of England has very rarely been called upon to operate.’⁵³¹

During his visit to Warsaw in February 1928, the BP told Siepmann that the arrangement was quite satisfactory. Siepmann said in his report that:

‘In Warsaw the exchange market was killed by the regulations requiring delivery of foreign exchange to the Bank Polski by exporters. It is only now beginning to revive, and it leans heavily on the Bank Polski, which practically fixes the rates daily. The Bank intervenes actively on the market and attends the Exchange Committee. It sells drafts at a pegged (i.e., unvarying) rate, fixed on the dollar. The market in dollar notes is completely free. The volume of foreign drafts sold by the Bank Polski has already decreased by 50% and the commercial banks are gradually accumulating fair stocks of their own in foreign exchange. The policy of the Bank Polski is to clear out of the market gradually: first, to stop pegging; then to widen the margin between the rates at which it will buy and sell; then to buy and sell only at theoretical gold points; and finally to absent itself from the Exchange Committee. Considerable progress in this direction may be expected within the year, but for a long time yet the Bank Polski is likely to take charge of any sudden influx such as the proceeds of loans issued abroad.’⁵³²

Shortly afterwards, Siepmann engaged in a correspondence with Młynarski to establish what the gold points between London and Warsaw were.⁵³³

In October 1929, Hubbard wrote about the BP’s foreign exchange operations during his visit to Poland:

⁵³¹ Hubbard, ‘The Republic of Poland’, p 38, 9th May 1931, BOE OV110/2.

⁵³² Siepmann, ‘Poland’, 16th February 1928, BOE OV110/24.

⁵³³ March 1928, letters in BOE OV110/25.

'The Bank Polski acquires foreign exchange through purchases at all its branches. Notes and cheques are bought without any limit, but in the case of foreign bills customers, mostly of course exporters, presenting them for discount are limited to a maximum contingent fixed in the same way as the contingent for home bills, but additional to the home bills that may be discounted. Such foreign bills in the Bank Polski's portfolio are included in the foreign exchange not serving as cover [for the note issue and sight liabilities]. Foreign bills accepted by a first class foreign bank may be included in the reserve.

The Bank Polski only sells foreign exchange in Warsaw... In actual fact the Bank Polski sells very little foreign exchange except to other banks and indeed only comes into the market to settle differences since the bulk of the dealings in exchange is between banks either direct or through the intervention of brokers. The rates are really pegged by the Bank Polski which, for instance, sells dollars at a fixed rate of 8.92 and buys at 8.91¾. The gold parity is 8.9141 and the theoretical gold points 8.87 and 8.96.'⁵³⁴

According to a later account by Hubbard, Polish intervention policy changed in about November 1929, after which 'it has allowed greater fluctuations and intervenes only when it is necessary to afford support to the Złoty.'⁵³⁵

The arrangement of July 1927 between the BP and the BOE under which the BOE was authorised to buy and sell złoty was still in operation in 1929, but by

⁵³⁴ Hubbard, 2nd October 1929, BOE OV110/35.

⁵³⁵ Hubbard, 'The Republic of Poland', p 36, 9th May 1931, BOE OV110/2.

that time, the amounts transacted in the market had become very small.⁵³⁶ An internal BOE note reported that:

‘There is no market for Zloty in London; £150 a day would be a liberal estimate, and as the question of development hinges on demand, it is difficult to see how much progress can be made.

We have a standing order to buy and sell up to £10,000 daily at 43.50 and 43.25 and although this naturally places a limit on the fluctuations of the exchange we are very rarely called upon to operate and are usually right out of the market (present quotation 43.25 – 43.50). Our rates are, furthermore, subject to Marshalls’ [the brokers’] commission of ¼% to both buyer and seller. A discussion regarding this matter with the Bank Polski requires careful handling lest they be encouraged to transfer their allegiance to some direct dealing Bank which may prove less impotent than the Bank of England in this connection.’⁵³⁷

In fact, as at 5th November 1929, the BOE had done no business since stabilisation.⁵³⁸

The liquidity of the foreign exchange market depended on the commitment to gold. The modern theory of exchange rate determination rests on the monetary policies of the countries in question. In the 1920s, the only respectable monetary policy was the gold standard, as modified at Genoa, and in the absence of the gold standard liquidity dried up. Intervention by the Bank Polski was intended to supply liquidity, rather than influence the exchange rate. Suspending the gold standard damaged market liquidity and the ability to trade.

⁵³⁶ Catterns – BP, 1st July 1929, BOE OV110/32. Foreign exchange turnover generally declined in 1928 and 1929: see Atkin (2005, pp 54 – 55).

⁵³⁷ Johns, 30th September 1929, BOE OV110/32.

⁵³⁸ Gunston, ‘Polish exchange rate’, 5th November 1929 and annotation by Johns, BOE OV110/32.

13. Concluding remarks

Britain's attitude to Poland

Britain's attitude towards Poland was ambivalent throughout the inter-war period; France was generally more supportive. Although the U.K. had been among the main architects of the Treaty of Versailles which restored Poland's sovereignty, it had very quickly become open to the possibility of revision, influenced especially by J.M. Keynes' polemic of 1919.⁵³⁹ The Locarno treaties allowed the possibility of the revision of Germany's eastern frontiers while at the same time settling her borders in the west.⁵⁴⁰ With few exceptions, British financial officials' attitudes to Poland were somewhat prejudiced, to judge from the written records, especially in the 1920s.

In the mid-1920s Norman promoted the revision of the post-war border between Poland and Germany, using his considerable influence in the financial world (section 5). The remark Norman made to Młynarski on 1st September 1925 that 'the public in this country and probably in America too were dissatisfied with the geographical and political conditions of Poland' was pretty obviously a statement both of his own views and of his condition for a loan.⁵⁴¹ And in a later letter to Schacht, Norman made it clear that he wanted to do what he could to promote border revision.⁵⁴² His statements were, however, inconsistent with British foreign policy, which was 'to encourage an accommodation between Germany and Poland, and if Poland were to suggest a territorial adjustment of her own free will... no one would object.; but it would

⁵³⁹ For a recent account of the genesis of Keynes' book [The economic consequences of the peace] and its influence on other British liberals, see Tampke (2017, pp 203 – 215).

⁵⁴⁰ Prażmowska (1987, p 3).

⁵⁴¹ Norman, 4th September 1925, BOE OV110/22.

⁵⁴² Norman – Schacht, 26th April 1926, BOE OV110/23.

be most unwise for anyone outside Poland ... to suggest it.⁵⁴³ Norman would continue to promote the cause of border revision in later years.⁵⁴⁴

In the light of this evidence, it is impossible to regard Norman as a neutral, non-political financial technician.⁵⁴⁵ Nothing is more political than territory. Norman wanted to be exempt from political pressure: his 'Epitome of Central Banking' included the precept that 'A Central Bank should be independent', but he also felt free to exert political pressure of his own.⁵⁴⁶ He was, however, ready to accept the government's help when he wanted it, e.g. in the case of the Anglo-Austrian Bank and its operations in Czechoslovakia.⁵⁴⁷

No doubt affronted by Poland's refusal to accept League of Nations oversight, Norman was condescending and overbearing in his dealings with Poland in the 1920s. Yet Norman was determined to stabilise Poland, and he was not willing to oblige Schacht by inducing bankers to impose territorial changes as a condition of lending, if only because Strong opposed it.⁵⁴⁸ And in the 1930s, he withheld support from British creditors wishing pursuing claims on Poland, partly on the grounds of Poland's 'utter poverty.'⁵⁴⁹ Perhaps he came to respect Poland for the extreme lengths to which it went to remain on the gold standard.

⁵⁴³ Orde (1990, p 304).

⁵⁴⁴ See e.g. Bennett (1962, p 241).

⁵⁴⁵ Sayers (1976, p 174) makes the same point as regards Norman's involvement in the stabilisation of Germany. Both Schacht (Section 5) and Strong (Costigliola 1979, pp 102 – 103) were highly political.

⁵⁴⁶ The 'epitome' is reproduced by Clay (1957, pp 283 – 284). Norman's concept of central banking is also described by Péteri (1992) and Cottrell (1997). Orde (1990, p 304) reports that Norman was asked by the Foreign Office in 1926 to desist from expressing his views about the possibility of Poland ceding territory to Germany in exchange for financial assistance (TNA FO371/11280, 14th August 1926). Cottrell (1997, p 61), after examining Norman's conduct in the Hungarian loan negotiations of 1924, reaches a different conclusion about Norman, namely that he 'recognized that he was first and foremost a servant of his nation state.'

⁵⁴⁷ See Orde (1991), Natmeßnig (1998, pp 205 – 230).

⁵⁴⁸ See section 5

⁵⁴⁹ See Appendix 5.

The Polish border question was not the last one on which Norman was accused of conducting his own foreign policy. In 1933-1934 he came into serious conflict over his attempts to maintain financial relationships with Germany with the Foreign Office, which was deeply suspicious of Germany's foreign policy intentions and anxious not to assist German rearmament.⁵⁵⁰

The BOE took a financial stake in banking in Austria and Czechoslovakia after the First World War through an equity interest in Anglo-Austrian Bank, which eventually developed into a share in Credit Anstalt. However, it had no comparable interest in Poland.⁵⁵¹

Poland's attitude to Britain

Poland accordingly had no reason to feel any close affection for the U.K., but recognised that London was the financial capital of Europe. In 1921, the Polish government asked the British government for financial advice, even though it had to wait until the Hilton Young mission arrived in 1923. Moreover, the original statutes of the BP were drawn up in a fashion consistent with the recommendations of the Genoa Conference of 1922, which were largely a British creation.

Poland also recognised that Norman was an influential figure in global finance, and its representatives paid him many visits, though they 'were sure that he was on the German side' and he was not popular in Poland.⁵⁵² But Poland was not willing to accept the oversight of the League of Nations as collateral for an international loan. It was able and willing to find money elsewhere, above all in New York, to the BOE's chagrin.

⁵⁵⁰ Medlicott (1969), Forbes (2000, ch 4).

⁵⁵¹ Teichova (1979), Natmeßnig (1998).

⁵⁵² Barański interview with R.S. Sayers, 10th April 1969, BOE ADM33/25.

The functioning of the Genoa system

Norman's initial post-war vision was that the Bank of England and the Federal Reserve would manage the international monetary system, perhaps as the Bank of England had done before 1914 when it had, according to Keynes, been 'the conductor of the international orchestra'.⁵⁵³ The League of Nations would organise adjustment programmes and sponsor reconstruction loans for countries that needed them. In practice, Norman was anxious to include in the management group Schacht, whom he cultivated assiduously and consulted extensively on matters going well beyond Anglo-German relations. Norman seems to have been rather gullible in the relationship. He consulted Schacht on Poland in 1927, although he knew of Schacht's malevolence towards Poland (section 5); he was apparently willing to break a confidence by passing on to Schacht what Schaefer told him in June 1934; and he naively imagined that, if he asked, Schacht would attend to the problem about pensions in Danzig that Schaefer said was causing such difficulty (section 8). More generally, Norman did not make records of many of his discussions with Schacht, or with German diplomats, whereas his interlocutors gave their government detailed accounts of their discussions, at least during the Weimar Republic. This habit cannot have endeared Norman to the British government.

International monetary affairs did not work out as Norman had hoped. As the saga of the stabilisation loan demonstrated, Norman could be overridden by Strong and challenged by Moreau. And on the domestic front, maintaining sterling on the gold standard after its return in 1925 proved to be a continuous and eventually unavailing struggle.

More generally, the Genoa system malfunctioned. Among other things, far too much money was lent to, and borrowed by, Germany, with disastrous consequences in and after 1931: in July 1931, Germany's foreign debts were

⁵⁵³ Keynes (1930, p 274).

RM 23.8 billion, the equivalent of \$87 per capita.⁵⁵⁴ Poland was persistently frustrated by the difficulties of borrowing money, partly because investors doubted its viability as a sovereign state. Did Poland as a result borrow too little? Its foreign debts in 1931 were zł 8.6 billion, the equivalent of \$30 per capita.⁵⁵⁵ Bearing in mind that, according to present-day estimates, real GDP per capita in 1930 was about twice as large in Germany as it was in Poland, and that Germany borrowed too much, it is not obvious that Poland borrowed too little.⁵⁵⁶

Poland could probably have borrowed more, and at lower financial cost, if it had sought the League of Nations' endorsement and oversight. But the League would not have guaranteed Poland's debts, and investors' doubts about Poland's viability would have remained.⁵⁵⁷ In 1922, Austria had received a guarantee of its territorial integrity when it borrowed under the aegis of the League.⁵⁵⁸ It is clear that Poland would have received no such guarantee in 1925; indeed Norman thought the League would insist on a reconciliation with Germany, which could only have been on German terms. The post-Versailles political structure of Europe was not credibly sustainable, and no country or group of countries was able and willing to make it so.⁵⁵⁹

⁵⁵⁴ Source: Ellis (1940 p 231); author's calculation.

⁵⁵⁵ Source: Hubbard, 'The Republic of Poland', 9th May 1931, BOE OV110/2; author's calculation.

⁵⁵⁶ GDP per capita estimates are from the Groningen Growth and Development Centre, <http://www.ggdcc.net/maddison/oriindex.htm>.

⁵⁵⁷ Flores Zendejas and Decorzant (2016, especially table 3).

⁵⁵⁸ Myers (1945, p 500), Warnock (2015, p 59), Marcus (2018, p 117 and Appendix C).

⁵⁵⁹ Holborn (1949), Bennett (1962, pp 310 – 312) and Rothschild (1974, ch 1, especially section 3), among many others, provide analyses of the failure.

Cast of characters

Anderson, Sir Alan	Bank of England, Deputy Governor 1925 – 1926.
Baczyński, Włodzimierz	Bank Polski: State Commissioner 1936 – 1937, Director until 1937.
Barański, Leon	Bank Polski: State Commissioner 1924 – 1931, Board member 1930 – 1933, Deputy General Manager 1931 – 1935, Chief Director 1935 – 1939.
Bartel, Kazimierz	Prime Minister of Poland, May – September 1926, June 1928 – April 1929, December 1929 – March 1930.
Beck, Józef	Foreign Minister, Poland, 1932 – 1939.
Bessborough, Lord	Chairman, Council of Foreign Bondholders.
Bruins, Gijsbert Weyer Jan	League of Nations.
Byrka, Władysław	Bank Polski, President 1936 – 1941.
Cadogan, Sir Alexander	Permanent Under-Secretary of the Foreign Office, U.K.
Ciechanowski, Jan	Polish Minister in the United States, 1925 – 1929.
Clay, Sir Henry	Bank of England, Economic Adviser, Bank of England.
Cobbold, Cameron Fromanteel	Bank of England: Adviser 1933 – 1938, Executive Director from 1938, Governor 1949 – 1961.
Conolly, Frederick	Bank for International Settlements.
Cunliffe, Rolf (Lord)	Accepting Houses Committee (U.K.).
Czechowicz, Gabriel	Minister of Finance, Poland, 1926 – 1929.
Dewey, Charles S.	Board member of Bank Polski, 1927 – 1930.
Dillon, Clarence	Dillon, Read & Co.
Domaniewski, Wiesław	Bank Polski, State Commissioner 1937 – 1939; Ministry of Finance, Director of Money Market Department 1937 – 1939.
Dufour-Féronce, Albert	Counsellor, German Embassy, London.
Dreyse, Friedrich	Reichsbank, Vice President 1926 – 1939.
Eden, Sir Anthony	Lord Privy Seal and Minister for League of Nations affairs, 1933 – 1935, Foreign Secretary, 1935 – 1938, U.K.
Fischer, Henri	Bankers Trust.
Fisher, Sir Warren	Head of the U.K. Home Civil Service and Permanent Secretary of the Treasury, 1919 – 1939.
Gairdner, Arthur Charles Dalrymple	British Overseas Bank.

Gilbert, S. Parker	Agent-general for reparations, 1924 – 1930.
Goode, Sir William	Adviser to Polish government.
Grabski, Władysław	Prime Minister of Poland 1920, 1923 – 1925, Finance Minister 1919 – 1920, 1923 – 1925.
Gregory, John	Assistant Secretary, U.K. Foreign Office, 1920 – 1925.
Gunston, Charles A.	Bank of England.
Gwatkin, Frank Ashton	Foreign Office, U.K.
Hambro, Charles Jocelyn	Bank of England, Director, 1928 – 1963.
Harrison, George	Federal Reserve Bank of New York: Deputy Governor 1920 – 1928; Governor 1928 – 1935; President 1935 – 1941.
Harvey, Sir Ernest	Bank of England, Deputy Governor 1929 – 1936.
Hilton Young, Edward, later Lord Kennet	Financial Secretary to the Treasury, U.K., 1921 – 1922; leader of mission to Poland 1923 – 1924; Grand Cordon of the Order of Polonia Restituta 1924.
Hirsch, Professor Julius	Staatssekretär, Reichswirtschaftsministerium, 1919 – 1923.
Hopkins, Sir Richard	Second Secretary, U.K. Treasury, 1932 – 1942.
Houseman, R.A.	Accepting Houses Committee.
Hubbard, L.E.	Bank of England.
Hülse, Ernst	Reichsbank.
Jacobsson, Per	Bank for International Settlements, Economic Adviser 1931 – 1956.
Karpiński, Stanisław	Bank Polski, President 1924 – 1929.
Karpiński, Zygmunt	Participant at Genoa conference, 1922; Bank Polski, Director of Foreign Exchange Department 1924 – 1939.
Kemmerer, Professor Edwin	Princeton University and Dillon Read & Co.
Kennard, Howard	British Ambassador to Poland, 1937 – 1939.
Kimens, Richard E.	Commercial counsellor, British Mission, Warsaw.
Kindersley, Sir Robert	Lazard Brothers, London.
Koc, Adam	Vice Finance Minister, Poland 1930 – 1935; Bank Polski: State Commissioner 1931 – 1936, President, February – May 1936.
Kucharski, Władysław	Finance Minister, Poland, September – December 1923.
Kwiatkowski, Eugeniusz	Finance Minister, Poland, 1935 – 1939.
Lacour-Gayet, Robert	Bank of France, Director of Economic Department 1930 – 1939.

Landau, S.	Warsaw Representative, British Overseas Bank.
Leeper, Rex	British Legation, Warsaw, 1923 – 1924; First Secretary from February 1924.
Leith-Ross, Sir Frederick	Chief Economic Adviser, H.M. Treasury, U.K., 1932 – 1945.
Lipski, Józef	Polish Ambassador to Germany 1934 – 1939.
Logan, James A.	Unofficial U.S. delegate to the Reparation Commission, 1919 – 1925; associated with Dillon Read & Co., 1925 – 1930.
Loynes, John Barraclough	Bank of England.
Lubbock, Cecil	Bank of England, Deputy Governor 1923 – 1925, 1927 – 1929.
Mahon, Cyril Patrick	Bank of England, Chief Cashier 1925 – 1929.
Max Muller, William	British Minister to Poland, 1920 – 1928.
Michalski, Stefan	Bank Polski.
Mieczkowski, Władysław	Bank Polski, Chief Director 1924 – 1934.
Młynarski, Feliks	Bank Polski, Vice-president 1924 – 1929.
Monick, Emmanuel	Financial attaché, French Embassy in London, 1934 – 1940.
Monnet, Jean	Blair and Co.
Moreau, Emile	Bank of France, Governor 1926 – 1930.
Moret, Clément	Bank of France, Governor 1930 – 1935.
Morrow, Dwight	J.P. Morgan & Co.
Mościcki, Ignacy	President of Poland, 1926 – 1939.
Narutowicz, Gabriel	Foreign Minister, Poland, June – December 1922, President of Poland, December 1922.
Niemeyer, Sir Otto	Controller of Finance, H.M. Treasury, 1922 - 1927; Adviser, Bank of England, 1927 – 1938; Executive Director from 1938; member of the Council of Foreign Bondholders, 1935 – 1966.
Nixon, Frank	League of Nations Economic and Financial Section, Director 1920 – 1923; Member of Hilton Young mission, 1923 – 1924; Controller of ECGD, 1926 – 1944; Officer of the Order of Polonia Restituta, 1924.
Norman, Montagu	Bank of England, Governor 1920 – 1944.
O'Brien, Leslie Kenneth	Bank of England 1927 – 1973, Governor 1966 – 1973.
Penson, J. H.	Member of Hilton Young mission, 1923 – 1924; Officer of the Order Polonia Restituta, 1924.

Phillips, Sir Frederick	Under-Secretary, H.M. Treasury, U.K., 1932 – 1939.
Philp, A. L.	Council of Foreign Bondholders (U.K.), Secretary.
Poklewski-Kozieli, Alfons	Financial Counsellor, Polish Embassy, London.
Prosser, Seward	Bankers Trust, President, 1914 – 1929.
Quesnay, Pierre	Bank of France, Director of Economic Department 1926 – 1930; Bank for International Settlements, General Manager 1930 – 1937.
Rauschnig, Hermann	Free City of Danzig, President of the Senate 1933 – 1934.
Rist, Charles	Bank of France, Deputy Governor 1926 – 1928.
Rodd, Francis R.	Bank of England, 1929 – 1932.
Rucinski, Józef	Financial Counsellor, Polish Embassy, London, from 1939.
Rueff, Jacques	Ministry of Finance, France.
Rybarski, Roman	Polish economist, co-author of the statute of Bank Polski.
Rydz-Śmigły, Edward	General Inspector of the Polish Armed Forces, 1935 – 1939, Marshal of Poland, 1936 – 1941.
Salter, Sir Arthur	League of Nations, Head of Economic and Financial Section 1920 – 1930.
Schacht, Hjalmar Horace Greeley	Reichsbank, President 1923 – 1930, 1933 – 1939; Reich Minister of Economics 1935 – 1937.
Schaefer, Dr. Carl	Bank of Danzig, President 1933 – 1939.
Siepmann, Harry Arthur	Bank of England, Adviser.
Simon, Sir John	Chancellor of the Exchequer, U.K., 1937 – 1940.
Skirmunt, Konstanty	Foreign Minister, Poland, 1921 – 1922, Polish Ambassador in London, 1922 – 1934.
Skrzyński, Count Aleksander	Foreign Minister, Poland, 1922 – 1923, Prime Minister, 1925 – 1926.
Steczkowski, Jan Kanty	Minister of Finance, Poland, 1920 – 1921.
Stresemann, Gustav	Chancellor of Germany, 1923, Minister of Foreign Affairs 1923 – 1929.
Strong, Benjamin	Federal Reserve Bank of New York, Governor 1914 – 1928; Grand Cross of the Order of Polonia Restituta, 1928.
Szeptycki, Stanisław	Vice-minister of Military Affairs, Poland, 1923.

Tiarks, Frank	Partner, J. Henry Schröder & Co., 1902 – 1952.
Tiarks, Henry	Partner, J. Henry Schröder & Co., 1926 – 1953, Associate Partner 1953 – 1962.
Tompkins, B.A.	Bankers Trust.
Trotter, Henry Alexander	Bank of England, Deputy Governor 1920 – 1923; Member of Hilton Young mission, 1923 – 1924.
Turner, C. St. J.	Bank of England.
Waley, S.D.	H.M. Treasury, U.K.
Walters, Lewis Huth	Accepting Houses Committee (U.K.).
Ward, Dudley	British Overseas Bank
Whigham, C.F.	Morgan Grenfell and Co.
Witos, Wincenty	Prime Minister of Poland, 1920 – 21, 1923, 1926.
Wojtkiewicz, Alexander	Director, Ministry of Finance, Poland.
Wróblewski, Władysław	Bank Polski, President 1929 – 1936
Zaleski, August	Foreign Minister, Poland, 1926 – 1932.
Zbijewski, Wiesław	Financial Counsellor, Polish Embassy, London, until 1939.
Zdziechowski, Jerzy	Member of the Sejm, 1922 – 1927; Minister of Finance, Poland, 1925 – 1926.

Appendixes

Appendix 1. The Bank of England's role in the stabilisation loan

Account by H.A. Siepmann, 8th May 1927, BOE G1/43

Note on the present position with regard to Poland

We have consistently advocated League treatment – to the Poles, the Federal Reserve Bank, the private bankers (especially Prosser and Monnet) and the League. The Poles have as consistently resisted it, though sometimes (Młynarski) without appearing absolutely to rule it out.

The prospects of getting the Poles to the League have seemed to vary, but the Dillon loan shows, in retrospect, the way the wind was setting all the time. With the possible exception of Gairdner, no one now supposes that the Poles could be induced to go to Geneva, where Germany is now on the Council.

Time was on our side so long as the Polish position was deteriorating financially. Six months after it had begun to improve, the Poles and the American bankers got together without taking us into their confidence. The scheme brought by Harrison and Monnet to Europe took us by surprise and revealed clearly, for the first time, that the only two likely alternatives were:

- a) bankers' control, with Federal Reserve Bank approval, or
- b) no control at all, with an open field to Dillon, etc.

As soon as this happened, the tacit embargo on London participation in a Polish loan was raised, without prejudice to the question of Bank of England participation in the Central Banks' portion of the scheme.

The scheme on its merits did not appeal to us: partly because it appeared to ignore political factors (trade agreement with Germany, Lithuanian war, Danzig corridor) but mainly because it did not seem to provide adequate safeguards in general (control, arbitration), and in technical matters (e.g. budget expenditure). We therefore declined to accept specific responsibility for the scheme, unless it were modified extensively, and declared our intention of avoiding, if possible, implicit responsibility.

We put up concrete suggestions for the modification of the scheme, and similar suggestions came from Parker Gilbert. But by this time the scheme had been accepted in principle by the Polish Government and the only means (the Expert Committee) suggested by its promoters for introducing modifications appeared likely to meet with great difficulties. This limited still further the practical alternatives, which now appeared to be not a scheme but this scheme or nothing.

Dr Schacht had meanwhile suggested a plan by which the Central Banks could disengage themselves by giving an immediate credit to the Bank Polski in anticipation of, instead of in connection with, a stabilisation scheme. This proposal might have suited our purposes, but it would probably not have suited the Poles (with whom the initiative lay) and it certainly did not suit the Federal Reserve Bank or the Banque de France, both of whom wished to proceed with the scheme if possible and to maintain their association with it. Dr Schacht's plan was therefore stillborn.

Two rather doubtful factors remained: the extent to which the scheme depended for its execution upon:

- a) Central Bank participation,
- b) Bank of England goodwill.

On the first point it was generally agreed that the Central Bank credits were, technically speaking, an unnecessary luxury – one of several which the scheme contained, though they were badly wanted, by the private bankers and probably by the Poles, in order to lend an air of respectability to an otherwise not very convincing prospectus. But this question became irrelevant the moment it appeared that some Central Bank support could be got for the scheme as it stood. This was forthcoming from France and America – and it was forthcoming independently of Bank of England goodwill, though not without regard to it. No one now supposes that the Bank of England could kill the scheme by frowning upon it, and it is becoming increasingly clear that this was never possible from the moment when Harrison came to Europe after six weeks' continuous work in which the Federal Reserve Bank took its full share.

But in this way a second risk was exposed, perhaps more serious than the first. If the scheme broke down, there was Dillon etc. But if we stood out and the scheme went through in spite of us, there was an open breach between us and the participating Central Banks. Incidentally, Germany would be embarrassed to know in which camp she stood, and invitations would certainly be sent to our best friends abroad - as well as to ourselves.

Moreover, the prospects of improving the scheme, which had been waning when the intention was that the Bank Polski should get together a Committee to advise on it (after its acceptance in principle by the Polish Government), had become brighter when this proposal was abandoned owing to the inability of Dwight Morrow to preside and when – at the same time – the Bank of France undertook to lead in place of the Federal Reserve Bank. The Bank of France might be able to get together a good Committee, and in any event was prepared to accept responsibility for the scheme before recommending it to Central Banks. Whatever reasons there may have been for standing out from the very first, our motives, if we stood out now could scarcely fail to be misunderstood

and vigorously misrepresented. It would look like an unsuccessful attempt at sabotage and we should appear to be too feeble even to do damage.

On the other hand, if we stood in with the rest, appearances would still be against us to some extent. It would be easy, and perhaps natural, to say that we had abdicated our authority by consenting to be associated with a stabilisation scheme worked out in America, and with a credit got up by the Bank of France. But there may be something to be said for not always leading, even if we could: and this affair has to be judged now from the point of view of expediency alone, with reference rather to the evils we can still avoid than to the good we might have hoped to attain. Standing out would be fatal to future cooperation. By coming in now with a good grace – not being dragged in – we almost establish a claim to future cooperation, in this or other cases, on different lines.

Appendix 2. Post-stabilisation gold policy

As noted in section 6 above, the BP maintained its gold holdings at a substantial margin above the statutory minimum for as long as it could after the stabilisation loan. The following extract from a report by L.E. Hubbard (BOE) gives further information about the disposition of the BP's gold reserves. Hubbard will have acquired this information during his several visits to Warsaw on behalf of the BOE.⁵⁶⁰

The result of the enactment of the stabilisation programme was to add the whole proceeds of the stabilisation loan, about Zloty 555 million, to the Sight Liabilities of the Bank Polski. Consequently, the Bank Polski, in order to meet the new requirements (a 30% gold cover), had to buy immediately about £4 million of gold and ship to Poland some £5 million of its gold held abroad. These movements were effected within two months, £1 million of the new gold being bought on the London Market and the balance in New York, while the whole of the gold held in London was shipped to Warsaw, except a small amount in British and U.S. gold coin which was left at the Bank of England.

The sight liabilities at this time (end of 1927) stood at about Zloty 1,660 million. Mr. Dewey, adviser to the Bank Polski, had, however, pressed on the Board of the Bank that they should accumulate a gold reserve big enough to cover Sight liabilities of Zloty 2,000 million. This they accordingly did, and by the 10th July 1928 they held sufficient for this purpose, viz. Zloty 600 million of gold altogether, of which Zloty 400 million were in Poland. This necessitated buying a further £2.2 million gold and bringing £1.7 million more home to Poland.

⁵⁶⁰ 'The Republic of Poland, 9th May 1931, BOE OV110/2.

By the end of 1928, although the Sight Liabilities only reached Zloty 1,819 million at the end of December, the Bank Polski had bought £400,000 more gold. During 1929 the Bank Polski's gold stocks were increased by about £1.8 million, mostly bought in U.S.A. The whole of the additional gold acquired, as well as a small part of the gold previously held abroad, was transferred to Warsaw and at the end of the year the Bank Polski held approximately £12.3 million in its own vaults and about £4.16 million abroad. In March 1930 the Bank purchased £400,000 in London, but disposed of gold held in Warsaw. There was no difference in the total gold holding until September when, owing to the decline in the foreign exchange holdings the Bank decided to sell about £3.3 million of its gold abroad. Of this £600,000 was sold in London and the balance in U.S.A. reducing the amount held abroad to about £1.78 million. There was no further change in the gold holding up to the end of March 1931.

Distribution of Gold Holdings

Some four or five years ago the Bank Polski held the greater part of its gold in London. This course was doubtless inspired by recollection of what happened in 1920, when the Soviet army reached the gates of Warsaw. The Bank Polski's present policy in the matter is indicated by the following table showing what is believed to be the distribution of the gold holdings at the date of stabilisation at the end of 1928 and at the present time:

(£ millions)

	20.12.27	10.12.28	31.12.30
Warsaw	3.2	9.8	11.2
London	3.7	1.5	0.56
New York	0.6	1.7	0.72
Paris	---	1.0	0.53
	7.5	14.0	13.01

The BOE had not realised that the proceeds of the stabilisation loan (or nearly all of them: zł 25 million was used to repay government debt to the BP) would be added to the sight liabilities of the BP. Nor did it expect that the BP would allow a large safety margin in its gold holdings. Therefore, it was surprised by the scale of the BP's planned gold purchases.⁵⁶¹

Siepmann wrote to Zygmunt Karpiński on 10th August 1928 about BP's exchanges of gold in New York for gold in London. The purchases in London had been carried out on BP's behalf by the Guaranty Trust, which had bought the gold from the Bank of England at the official selling price. This had evidently unsettled the BOE, and Siepmann professed 'surprise' that the BP had not bought gold in the open market, though he admitted that the fixing price on the day of BP's purchase had been well above the official selling price. He suggested that the BP should use the BOE as its agent for gold purchases in London, and asked for advance notice of future operations.⁵⁶² He received an emollient reply.⁵⁶³

The BP withdrew all its gold from the BOE after Britain suspended the gold standard in 1931, but brought some back in November 1936 (Table 6).

⁵⁶¹ Siepmann, 'Poland – gold requirements', 2nd November 1927, BOE OV110/34.

⁵⁶² Siepmann – Karpiński, 10th August 1928, BOE OV 110/25. He mistakenly addressed the letter to Mr S. Karpiński.

⁵⁶³ Karpiński – Siepmann, 16th August 1928, BOE OV 110/25.

Appendix 3. Adam Koc's appointment as President of the Bank Polski, February 1936

Account provided by Dudley Ward of BOB to Gunston.⁵⁶⁴

'Koc's appointment as President of the Bank Polski came about as follows.-

During Koc's last visit to London, Wroblewski took advantage of his absence to produce a set of Exchange Control Regulations which he sent up to his friend, President Moscicki, for approval. The President would have signed them; but Rydz-Smigly, who knows nothing about financial matters, fortunately realised that this was something important and telegraphed to Koc, who at once returned from London to Warsaw and sent in Wroblewski's resignation, which Koc had had signed in his pocket ever since Wroblewski was reappointed President of the Bank Polski two years ago. Moscicki, however, refused to accept Wroblewski's resignation; and he also refused to appoint either Zalewski or Matuszewski, whose names Koc put forward for Wroblewski's post.

Koc next sent in his own resignation, which Moscicki also refused to accept. After much disputation, however, the matter was finally arranged as follows –

- a) Wroblewski resigned from the Presidency of the Bank Polski.
- b) Koc took Wroblewski's place – this was apparently quite unexpected by everybody, including Koc.
- c) Koc's place as Under-Secretary of Finance has not been filled and Koc will continue to control all the matters which he previously controlled in that post – in particular foreign credits.

⁵⁶⁴ Gunston, 'Poland', 26th February 1936, BOE OV110/27.

- d) To enable Koc to do this he has arranged to have Baczynski of the Finance Ministry appointed to the post of Government Commissioner at the Bank Polski which Koc previously occupied.
- e) Koc has also arranged to bring in Nowak, previously Economic Adviser to the Prime Minister, to be Head of the Credit Department of the Bank Polski in place of the previous occupant of that post, who was a friend of Wroblewski.
- f) Baranski, who has always been a friend of Koc, remains at his post as General Manager of the Bank Polski.

The net result of all these changes is that Koc has greatly strengthened and extended his influence. He has also got a much more united and efficient team running the Bank Polski than Wroblewski had. (Wroblewski, indeed, was able to do little, because he was always opposed by Baranski.)'

Appendix 4. External debts and debt servicing costs, 1934–1936⁵⁶⁵

Figures in millions of złoty

i. Bond debt (1.10.36) – Capital

	State	State banks	Depts. and Municipalities	Total	Govt. Guarantees
In \$	641.1	73.3	59.3	773.7	18.8
In \$ (gold)	-	-	-	-	71.6
In Fr. Fcs	-	11.2	13.9	25.1	99.7
In Sw. Fcs	-	-	-	-	9.2
In £	33.4	-	22.8	56.2	201.6
In Lire	69.1	-	-	69.1	-
In Swed. Kr	-	-	-	-	5.8
In Belgas	-	-	-	-	1.8
Total	743.6	84.5	96.0	924.1	408.5

ii. Intergovernmental debts (1.10.36)

a) Affected by

Hoover moratorium

Czecho Slovakia	21.0
France	469.9
U.S.A.	1,094.2
U.K.	104.9
	1,690.0

b) Others

France	746.7*
U.K.	15.8
Italy	10.7
Holland	0.8
Switzerland	0.1
Denmark	0.3
Norway	14.5
Sweden	6.0
Others	324.6

⁵⁶⁵ Source: Gunston, 'Poland's capacity to transfer debt service', 26th April 1937, BOE OV110/37.

(Innsbruck
Protocol
etc.)

1,119.5

*Armaments credits of 1924 – Fcs 233.3 mill and 1936 Fcs 2,600 mill.

iii. Debt service

	1934	1935	1936
a) Intergovernmental debts (Vide (ii) (b))	12.0	9.2	9.0*

* It is not known to what extent these payments have been affected by the moratorium.

b) State bonds (net)	41.0	39.9	38.6
	1934/35	1935/36	1936/37
Budget Ext. Debt	69	75	?
	1934	1935	1936
c) Departments and Municipalities (net) (“Autonomous Territorialities”)	8.3	7.9	say 5.6
d) State Banks	10.3	8.3	5.2

iv. Percentages of various issues held abroad

State Loans	1934	1935	1936
6% \$ Loan, 1920	73.1%	70.8%	say 74.5%
6½% \$ (Match) Loan, 1930	100%	100%	100%
8% \$ (Dillon) Loan, 1925	87.7%	75.6%	say 78.8%
7% Stabilization Loan, 1927			
a) \$ tranche	46.4%	42.8%	say 49.2%
b) £ tranche	100%	100%	?*
7% Italian (Tobacco) Loan, 1924	100%	100%	100%
* It is understood that a small percentage of these bonds is now held at home.			
Departments and municipalities	1934	1935	
In U.S.A.	65.6	61.2	
In U.K.	12.6	12.7	
In France	10.2	8.9	
In Germany	0.9	0.9	
Total	89.3%	83.7%	
State Banks		(No information)	

v. Interest payments according to currency
(The following are net figures, except in the case of bonds of the State Banks)

	1934	1935	Due	1936
	Transferred in full			Transferred
Dollars				
State	38.2	33.3	say 33.0	say 30.8
State Banks	say 9.3	say 7.4	say 5.7	say 4.7
Municipalities and Departments	say 6.1	say 5.6	say 5.4	say 4.1
Sterling				
State	2.8	2.5	say 2.3	say 2.3
Departments and Municipalities	say 1.4	say 1.5	say 1.4	say 1.0
Inter- governmental	0.5	0.5	say 0.5	say 0.5
French francs				
Departments and Municipalities	say 0.8	say 0.8	say 0.8	say 0.5
Inter- governmental	4.8	2.1	say 1.8	say 1.8
State Banks	say 1.0	say 0.9	say 0.8	say 0.5
Lire				
State	-	4.1	say 5.3	say 5.3
Inter- governmental	0.3	-	-	-
Other currencies				
Inter- governmental	6.4	6.6	say 6.7	say 6.7
Total				
\$	53.6	46.3	44.1	39.6
£	4.7	4.5	4.2	3.8
F. Fcs.	6.6	3.8	3.4	2.8
Lire	0.3	4.1	5.3	5.3
Others	6.4	6.6	6.7	6.7
Total	71.6	65.3	63.7	58.2

Appendix 5. Claims of London banks pursued by the Bank of England and the British government, 1936–1939

In March 1936, Henry Tiarks, a partner of J. Henry Schröder & Co, who was one of the members of the creditors' committee liquidating Amstelbank, approached the BOE asking it to put pressure on Koc to achieve a settlement of Amstelbank's claims on two Polish debtors who were in serious arrears. Norman refused, on the grounds that 85% of any benefit would go to Continental creditors and 'Our position towards Polski also needs to be remembered – and their utter poverty!'⁵⁶⁶ Norman did, however, mention the subject of Amstelbank and its creditors to Koc and Barański, but without referring to the complaint. Barański later told Gunston that the reason why the creditors had not been paid was that the debtors disputed the validity of their claim in złoty. There the matter rested as far as the BOE was concerned.⁵⁶⁷

On 27th April 1936, the very day that exchange restrictions were imposed, the BOE was approached by Lewis Huth Walters and R.A. Houseman, respectively the Chairman and Secretary of the Accepting Houses Committee, about outstanding claims. They asked for guidance on the restrictions, which Cobbold was, not surprisingly, unable to provide.⁵⁶⁸ Seven London accepting houses had had an interest in the Bank Handlowy in Łódź before the war, and had lent it money to pay off old commitments. It had failed in 1931. After years of negotiations, the London creditors had reached an agreement in principle on the terms of a settlement in which, they said, they had made substantial concessions to enable the bankruptcy proceedings to be lifted. The General Savings Bank (PKO) had agreed to buy the head office building, on which the

⁵⁶⁶ Gunston, 'Amstelbank claims on Poland', 5th March 1936, BOE OV110/3.

⁵⁶⁷ Gunston, 'Amstelbank claims on Poland', 27th March 1936, BOE OV110/3.

⁵⁶⁸ Cobbold, 'Confidential – Poland', 27th April 1936, BOE OV110/3. The previous month, Huth Walters' firm, Huth and Co, had been taken over by BOB (Hawkins 2015, p 159).

London creditors held a mortgage of £65,000. Out of the total purchase price, zł 1.35 million (about £50,000) was to be placed at the disposal of the creditors, with a view to immediate conversion into sterling. However, the negotiations were not completed until 12th June – ‘deliberately delayed’, according to the AHC - and they were obliged to accept that only zł 260,000 would be paid to them forthwith and the remaining zł 1,090,000 deposited in a gold złoty account in their name at PKO ‘on the footing that it would be withdrawable only in instalments over the remainder of 1936.’ The permit to remit the initial zł 260,000 had, however, been refused and no indication given as to when the application would be reconsidered.

In addition, the creditors held other security which could be realised in Poland and certain guarantees payable in instalments, none of which were yet due. These assets were estimated to be worth £50,000.⁵⁶⁹

Separately, the AHC had also heard that ‘several other payments now due in respect of deferred arrangements with Polish concerns...have been refused. Probably the total amount of these debts is some £10,000 to £15,000 due mainly in instalments over the next few years.’ However, so far as was known, the restrictions had not affected the receipt of sterling cover in respect of current acceptances for Polish account.⁵⁷⁰

On 29th April, Huth Walters and Lord Cunliffe called on Cobbold, asking for advice on how to pursue their claim. Norman commented in writing on Cobbold’s account of the meeting that the AHC should send the best man available ‘to find out the position & prospects on behalf of the members: the sooner the better. No weapons here & no reliance on F.O. in this case.’⁵⁷¹

⁵⁶⁹ Accepting Houses Committee, ‘Polish exchange restrictions’, 25th June 1936, BOE OV110/37.

⁵⁷⁰ ‘Accepting Houses Committee: Polish exchange restrictions’, 25th June 1936, BOE OV110/37.

⁵⁷¹ Cobbold, and annotation by Norman, 29th April 1936, BOE OV110/3.

Walters and Cunliffe came again on 11th May to say that they had drawn a blank in Poland, but that the Poles were willing to reopen discussions in a month's time. The British Embassy in Warsaw (Jerram) reported that Cunliffe had 'threatened vengeance when Baczynski turned down his application and said in my presence that he would make the Polish name stink in the City of London.'⁵⁷² Walters and Cunliffe asked for advice on Polish exchange rate policy, and Cobbold said there was no reason to think that the attitude to devaluation had changed in Poland, and the recent restrictions must have been imposed as an unwanted, but unavoidable, alternative.' The Bank of England could not intervene in a dispute with the Polish government.⁵⁷³

In a schedule of payments due from Poland that the AHC sent to the BOE, they identified £43,588 as 'cash advances and funds due and overdue of which payment delayed owing to exchange restrictions', and commented that 'the total short-term claims now delayed owing to the restrictions or likely to be delayed as from maturities up to December 31st 1936, probably do not exceed £250,000.' The AHC wanted:

- 1) An assurance from the Polish authorities that in respect of acceptances given in London under credits authorised by the Polish exchange control commission, sterling cover would be forthcoming in accordance with the arrangements between the accepting houses and their clients.

- 2) Arrangements for provision of sterling to settle advances arising from uncovered acceptances or otherwise, including debts payable under deferred settlement agreements and in liquidations, as well as the proceeds of securities taken over by creditors.

⁵⁷² Jerram – Gwatkin, 29th July 1936, BOE OV110/37. Lord Cunliffe was the son of a former Governor of the BOE.

⁵⁷³ Note of meeting, 11th May 1935, BOE OV110/3.

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- 3) In the case of securities taken over by London creditors, an undertaking that conversion into sterling should be at the exchange rate of 30th June 1936.⁵⁷⁴

Basil Catterns, the Deputy Governor of the BOE, sent the AHC's note to the Treasury, soliciting government support for the accepting houses.⁵⁷⁵ Waley, replying, reported that Zbijewski had said that Baczyński had already given an assurance that sterling cover would be provided for acceptances. As to Bank Handlowy, Zbijewski had spoken to Cunliffe and was confident that an agreement could be reached. In his letter to Waley confirming what he had said, Zbijewski noted that 'Only one case is known to me where the Devisen Committee has refused to allow transfer in respect of claims of British subjects.'⁵⁷⁶ Cobbold sent a copy of the letter to Walters.⁵⁷⁷ Houseman wrote to Gunston on 9th September saying that 'pending the results of the Financial Counsellor's intervention, of which I will inform you in due course, there seems no occasion for further representations to be made to the Polish authorities.'⁵⁷⁸

Walters telephoned McGrath (BOE) on 6th August to say that Zbijewski had called on Cunliffe to make an offer which he described as 'personal and unauthorised by the Polish authorities' in the Bank Handlowy (Łódź) case. The offer was that the złoty blocked in Poland (about £45 – 50,000) should be liquidated by the issue of Ministry of Communications 6% bonds which would be repaid in annual instalments in one, two and three years' time. McGrath, when asked, said he did not know the reason for the offer, and that Cobbold,

⁵⁷⁴ Accepting Houses Committee, 'Short-term credits to Poland', 20th July 1936, BOE OV110/37.

⁵⁷⁵ Catterns – Hopkins, 20th July 1936, BOE OV110/37.

⁵⁷⁶ Zbijewski – Waley, 6th August 1936, attached to Waley – Catterns, 10th August 1936, BOE OV110/37.

⁵⁷⁷ Cobbold – Huth Walters, 12th August 1936, BOE OV110/37.

⁵⁷⁸ Houseman – Gunston, 9th September 1936, BOE OV110/37.

whom Walters had originally consulted, would certainly not be able to advise Walters whether to accept.⁵⁷⁹

Walters wrote again two months later to say that practically no progress had been made in negotiations with Zbijewski. He enclosed a note, which he asked to be given to Domaniewski (Ministry of Finance), who was expected shortly in London.⁵⁸⁰ On 16th October Cunliffe saw Zbijewski and said that ‘the creditors’ patience was becoming exhausted after all they had done to meet the situation and that they had no alternative but to invoke the Government’s assistance.’⁵⁸¹ But on the same day, Houseman notified Waley and Gunston that Zbijewski had arranged for Domaniewski to see Cunliffe, and on 20th October Waley wrote to Cobbold that the AHC were now satisfied with progress as regards Handlowy and did not desire the Treasury to intervene.⁵⁸² An agreement was reached and the AHC sent the relevant documents to the BOE in March 1937.⁵⁸³

The issue resurfaced in 1938. The 1936 agreement had provided that no negotiations regarding the transfer of the assets remaining unsettled by the agreement should take place before March 1938. They were thought to be worth £60 – 80,000. Negotiations with Zbijewski had begun in May and progressed very slowly. In October, Zbijewski offered to recommend to the Ministry of Finance an arrangement under which permits would be granted for the transfer of £10,000, in exchange for which the creditors would grant credits to Polish firms for 3 months for half of the amount transferred and for 6 months for the other half. The Ministry of Finance rejected his

⁵⁷⁹ McGrath – Cobbold, 6th August 1936, BOE OV110/37.

⁵⁸⁰ Huth Walters – Cobbold, 14th October 1936, BOE OV110/37.

⁵⁸¹ Houseman – Waley, 16th October 1936, attached to Houseman – Gunston, same date, BOE OV110/37.

⁵⁸² Waley – Cobbold, 20th October 1936, BOE OV110/37.

⁵⁸³ Houseman – Gunston, 10th March 1937, BOE OV110/37.

recommendation, and he had no other suggestion to offer the AHC. Cunliffe told him his reply was extremely unsatisfactory.⁵⁸⁴

The AHC wrote to Waley on 30th November; he consulted Cobbold who thought there was no harm in trying to press the Poles to reach an agreement.⁵⁸⁵ The subject was raised with Domaniewski, who was in London at the time and saw Cunliffe about it; he agreed that the matter could be reconsidered and that Zbijewski would convey the outcome after Christmas.⁵⁸⁶ In early 1939, Zbijewski told the accepting houses that the Polish government had agreed in principle to the transfer of about £10,000 in the current year, and that the accepting houses were thought to be satisfied that that was the best that they could hope for in the circumstances.⁵⁸⁷

However, they returned to the charge in March 1939, when further ECGD credit for Poland was being considered. Walters wrote to Cobbold complaining that no proposal had been made for the transfer of the whole of the remaining assets, which were thought to be worth the equivalent of more than £50,000, and asked for the matter to be borne in mind in forthcoming Anglo-Polish financial conversations.⁵⁸⁸ Waley agreed to bear it in mind, but said that for the moment he would not pass it on to ECGD.⁵⁸⁹ On 10th May, Walters wrote again to ask Cobbold to raise the matter with the Polish mission to London which he had read about in the press, and which was intended to raise money for munitions.⁵⁹⁰ He was able in June to report some progress in settling minor points and was 'hopeful... that the approach may lead to definite

⁵⁸⁴ Note by Houseman, attached to Waley – Cobbold, 30th November 1938, BOE OV110/38.

⁵⁸⁵ Waley – Cobbold, 30th November 1938; Cobbold – Waley, 6th December 1938, BOE OV110/38.

⁵⁸⁶ Cobbold – Waley, 12th December 1938, BOE OV110/38.

⁵⁸⁷ Gunston – Playfair, 'Bank Handlowy in Lodz', 16th February 1939, BOE OV110/38.

⁵⁸⁸ Huth Walters – Cobbold, 'Short-term credits to Poland: assets ex Bank Handlowy w Lodzi Sp. Akc. Lodz', 13th March 1939, BOE OV110/38.

⁵⁸⁹ Waley – Cobbold, 17th March 1939, BOE OV110/38.

⁵⁹⁰ Huth Walters – Cobbold, 10th May 1939, BOE OV110/38.

negotiations.’⁵⁹¹ Waley duly wrote to Domaniewski asking whether a settlement could be expected.⁵⁹²

Walters wrote separately about another problem experienced by Schröders in transferring the coupons from some Polish bonds which they had taken from a German bank as part compensation for a rebate allowed on their claim against the Polish bond debtor.⁵⁹³ He wrote on 16th June to report that Schröders had received no satisfaction in their claim, and asked for representations to be made.⁵⁹⁴ He asked for further assistance on 13th July, and Waley passed his letter on to Domaniewski. Domaniewski replied on 3rd August that he had not had time to inquire about the matter and was now leaving the Treasury; he would pass the matter on to a colleague.⁵⁹⁵ Nothing further happened before war broke out.

⁵⁹¹ Huth Walters – Cobbold, ‘Assets ex Bank Handlowy w Lodzi’, 13th June 1939.

⁵⁹² Waley – Domaniewski, 16th June 1939; Waley – Cobbold, 21st June 1939, BOE OV110/38.

⁵⁹³ Huth Walters – Cobbold, ‘Short-term credits to Poland’, 13th March 1939, BOE OV110/38.

⁵⁹⁴ Huth Walters – Cobbold, ‘Short-term credits to Poland’, 16th June 1939, BOE OV110/38.

⁵⁹⁵ Huth Walters – Cobbold, 13th July 1939; Waley – Domaniewski, 17th July 1939; Huth Walters – Cobbold, 19th July 1939; Domaniewski – Waley, OV110/38, BOE OV110/38.

Appendix 6. Statement of the Polish government to the paying agents of the stabilisation loan, June 1936

‘As delegates of the Polish Government, we have been instructed to inform the Fiscal Agents of the Polish Loans regarding the situation created in consequence of foreign exchange regulations put into effect on April 27th.

At the time the Polish Government contracted the foreign obligations, it contemplated that the service of such loans would be covered by foreign exchange derived from a favorable trade balance. To the regret of the Polish Government, in consequence of generally well-known restrictions in the foreign trade, exercised by all countries, including the creditor countries, the surplus of the trade balance of Poland has been materially lowered. At the same time the emigrants’ remittances and the capital movement to Poland have decreased resulting in a net loss.

In consequence of these charges the reserves of the Bank Polski dropped down to \$70 million, which means \$2 per capita of Polish population. This figure represents undoubtedly the minimum required for the purpose of upholding the activity of the existing economic life and of defending the par value of the currency of Poland.

It is common knowledge that other countries which introduced foreign exchange regulations have discontinued foreign payments before their reserves dropped down to such a low level. In Poland, already about half a year ago, voices could be heard favoring the introduction of foreign exchange regulations. In view of the desire to uphold the sanctity of the rights of creditors, however, the Polish Government has delayed until the last moment the making of such far-reaching decisions.

The decisions of the Polish Government, which we today communicate to you, are solely the result of the situation existing in the Bank Polski, and not of budgetary difficulties encountered by the Government. At the close of the past year the Polish Government had substantially lowered the salaries of its employees and made other stringent sacrifices, in consequence of which the budget has been balanced. Unfortunately, the position of the Bank Polski has become worse.

In these circumstances the Polish Government is compelled to declare that:

1. For the time being payments under the Loan Agreement shall be made by means of effective deposits in zlotys to the credit of the blocked account of the Fiscal Agent in the Bank of Poland.
2. Transfers of service amounts are temporarily suspended beginning with service instalment due on coupon payable April 15, 1937.
3. Out of funds accumulated in the blocked account of the Fiscal Agents, the Government will purchase bonds of this Loan on the Polish markets to the extent available and deliver them to the Fiscal Agent to satisfy the sinking fund requirement, according to Art. 4, Chapter 4 of the Stabilization Loan Agreement of 1927.
4. It desires that the conversations about the situation herewith created be resumed at a convenient moment.⁵⁹⁶

⁵⁹⁶ Attached to Bankers Trust Company and Chase National Bank – Bank of England, 30th June 1936, BOE OV110/37.

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BOE Bank of England archives

FRASER Federal Reserve online archives

FRUS Foreign Relations of the United States

NA U.K. National Archives

TDA *The Times* digital archive

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