The State as an Entrepreneur: Reorientation of the Economic Policy of the Republic of Poland in Late 1930s and the Development of State Capitalism[*]

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Abstract

In the paper the Author presents the reorientation of Polish policy during the period of fiscal expansion preceding the outbreak of the WWII. He argues that such intense public spending had obviously changed the structure of ownership in the national economy (in particular in production and banking sectors), but economic effect on growth was not sustainable.

Keywords: Poland 1919–1939, Great Depression, macroeconomic policy, state capitalism, Eugeniusz Kwiatkowski

JEL Codes: N14, N44, E65, L52, P11

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1. Introduction

During the period of the Great Depression Poland followed two types of economic policy. Until the death of Marshal Józef Piłsudski in 1935 the economic policy of the Polish state was strictly conservative.[1] In 1932 Poland became a member of so called "gold-block", therefore the outflow of foreign currencies as well as the export of goods were not controlled by the state. Due to budget contraints, other tools of anti-depression policy were employed to the limited extent. The cure for the collapse of the private business was sought in liberalization of labor laws. These measures proved to be ineffective – business shrank, foreign capital outflowed very rapidly, export decreased and private consumption declined dramatically. In effect, Great Depression in Poland (a poorly industrialized peripheral country) was as severe as in the US or Germany (according to Maddison's estimation, between 1929 and 1933 Polish GDP per capita dropped by 25%) (cf. Maddison 2010; Landau and Tomaszewski 1989).

In early 1936, Eugeniusz Kwiatkowski, a newly designated deputy prime minister and a minister of treasury presented a new economic recovery plan (so-called 4-years Plan), based on the former US and German experiences. The aim of the Plan was a reorientation of economic policy, in particular applying Keynes-like measures of anti-depression policy. However this shift of the economic policy was delayed 3–4 years, comparing with the other European nations. The Plan covered the years 1936–1940, but according to the official propaganda, its aims were achieved already in 1939. The next one, was planned for 15 years, from 1939 to 1954. Upon its completion Poland would had been an industrialized and highly developed country. In both plans, centralized decision-taking and large state investments were perceived as engines of growth (Jezierski and Leszczyńska 2003). The state were designed the role of main investor, but also owner of crucial sectors of industry.

Between 1936 and the beginning of the WWII the dynamics of growth in Poland were quite impressing (average GDP per capita growth was above 11%). Nevertheless, when taking into account the whole period of 1930s, the performance of Polish economy was not outstanding (just to illustrate, average growth rate was far lower than in Nazi Germany). Thus, economic growth in the late 1930s at least to some extent, was just an effect of recovery, not a successful economic policy of Kwiatkowski.

This new economic policy, successful or not, had an important effect on economic structure of Poland. The rise of public sector was dynamic, while the market position of private sector enterprises became much more complicated. After surviving a deep depression, private entrepreneurs found themselves in totally newmarket

[1] I.e. founded on assumption that role of the state in market sector of economy should be limited to regulatory field. In Poland such an approach coexisted with relatively large state-owned sector.

circumstances: the state became a new, powerful and rich player. Therefore, the last years of the 2nd Republic of Poland could be perceived as a period of shaping a state capitalism. Moreover, the next economic plan of Kwiatkowski may be interpreted as a step further in the process of the empowerment of public industry sector.

The aim of the paper is to examine the economic effects of Kwiatkowski's 4-year Plan. In my opinion, the direct economic effects of state intervention are overestimated by Polish historians (eg. Landau and Tomaszewski 1989; Drozdowski 1963, 1979; Jezierski and Leszczynska 2003; Samecki 1998), while long term effects as well as its impact on the economic structure – underestimated. The beginning of WWII ceased the implementation of Kwiatkowski's plan. Therefore, its short-term effects on GDP (which in fact to some extent could be perceived as a typical post-depression recovery multiplied by the overinvestment of the state) are emphasized as an ultimate proof of efficiency of economic reforms, while the long-term effects of Kwiatkowski's intervention (crowding out of private businesses, changes in economic structure, forming of the state capitalism etc.) had never occurred, because state collapsed in 1939.

My arguments are presented in subsequent chapters. Firstly, I discuss the state of art in the field of economic history of COP. In the next chapter, I present the impact of Pilsudski *coup d'etat* (1926) on the reorientation of public policies. New, pro-statist public policies for a long time affected economy to a very limited extent, but after several years of economic depression new economic policy developed by Kwiatkowski was founded on the ideas of public interventionism and nationalization. This shift, which was a kind of logical consequence of pro-statist shift in other spheres of politics, is described in the third chapter. Finally, fourth and fifth chapters are devoted to discussion of consequences of new economic policy of Polish government. Firstly, I focus on fiscal effects. Then from much broader perspective, I discuss the impact of political and ideological shift on coordination processes in national economy.

2. Central Industrial District (COP) in Polish Economic History

The 4-year Plan and statist[2] policy of the late 1930s were discussed by Polish economists before the war as well as by Polish economic historians after the war. While before the war the contradiction between more leftist or government-oriented economists and more rightists and conservative (usually close to the politi-

[2] French equivalent of English notion statism is étatisme. Statism is an economic policy, which represents the mix of nationalization, state intervention and direct investments of the state in, mostly industrial sector. The result of such policy, apart from growing risk of market disequilibrium, is institutional change in national economy. Usually such policy results in the growing role of central coordination in national economy.

cal opposition) was obvious, in communist Poland COP was almost unanimously perceived as one of the major successes of interwar Poland. The pre-war critique of COP was formulated from anti-statist standpoint. Among others, prominent economists who represented Cracow economic school (Adam Heydel, Ferdynand Zweig, Adam Krzyżanowski) as well as politicians of Narodowa Demokracja (eg. Roman Rybarski, renown economist) demonstrated inefficiency of direct state intervention in national economy. Promoters of statism, on the other hand (such as Stefan Starzyński or late Eugeniusz Kwiatkowski) stated that direct intervention of the state is the only possible way to cope with the crisis (Janus 2009; Dziewulski 1981; Zagóra-Jonkszta 1991; see also Koryś 2013).

In post-war period, economic historians usually preferred Keynesian or even Marxist approach to economic analysis. It resulted not only from their personal views, but also from broader institutional circumstances: the prevailing part of research concerning the 2nd Republic of Poland was made before the collapse of communism in 1989. Among these post-war economic analyses (which focused on the late 1930s) of interwar Poland one can distinguish a number of different approaches. First one focuses on broader problem of evolution and development of Polish economy as well as major economic achievements. Fundamental for this approach are analyses made by Landau and Tomaszewski (1982, 1989), Drozdowski (1963), Roszkowski (1986) until 1989, afterward – a short book of Landau and Roszkowski (1995). All authors apart from Roszkowski (at least to some extent) praised COP for economic successes and perceived it as a great achievement (until today it is rather common perception of COP among Polish elites). The second approach covers detailed analyses of investment policy of the 2nd Republic of Poland (cf. Samecki 1998; Gołębiowski 2000). The research on the history of statism idea in interwar Poland contributed to the next one (Dziewulski 1981; Zagóra-Jonkszta 1991). Biographies of prominent economic politicians and entrepreneurs (Drozdowski 1989; Janus 2009) were the fourth group of publications, while research focused on the development of state owned industry – the fifth (e.g. Gołębiowski 1985, 1990). To some extent separate group consists of proceedings from the conferences about COP and other anniversary publications forms the last group (e.g. Konefał 2007). Finally, problem of economic policy of Polish state during Great Depression lately became an issue of separate monographs (Musiał 2013), papers (Koryś 2012) or a part of comparative analyses (Leszczyński 2013). It also should be noted that both, brief interpretations of industrial policy of Poland as well as the success of COP are discussed in virtually all textbooks on Polish economic history.

The common standpoint of prevailing part of the above mentioned analyses is that statist economic policy was the best anti-depression solution, and – simultaneously – COP became the great success of the Polish state. Authors usually underlined only positive aspects of state investments in COP. Alternatively, they-demonstrated, taking communist Poland as a proof, that state investment policy is most efficient method of modernization of backwarded country. Slightly different approach was presented by Samecki (1998). He tried to demonstrate that the investment policy in COP actually promoted private entrepreneurship, and to prove that an aim of both 4-years and 15-years plans was to develop capitalist, free-market economy. While his results are partially questionable, one of the aims of his research was to show alternative economic policy to the communist one (his book was written in 1980, during Solidarność period). Thus, COP was perceived either as an example of limits to market coordination (for Marxists and Keynesian economic historians) or as a proof of efficiency of stateeconomic policy in the capitalist world (Samecki 1998). What should be emphasized is that many interpretations of economic efficiency of COP are founded on questionable statistical analyses. Authors happened to choose a base year and price indices according to their needs. To show the recovery dynamics, best choice were the years 1934−1935 (culmination of the crisis); but to illustrate the industrialization dynamics– preferred choice was the beginning of the independent Poland.

New interpretations of COP and government policy as being too statist have appeared after 1989, but usually in large syntheses of Polish history (see Morawski 2010; Landau and Roszkowski 1995). In turn, some researchers focused on the problem of relation between so called economic nationalism and economic policy of the late 1930. Jan Kofman (1990) in his book analyzes the Polish case in details, while the analyses made by Swiss historian, Thomas David (2009, 2011) and Polish historian Henryk Szlajfer (2005) covers the whole region of CEE. Similarly, regional perspective of development is represented, among others, in the book by Andrew Janos (2000) and Derek Aldcroft (2006). Finally, Jeffrey Williamson (2011a, 2011b) lately started to explore the problem of industrialization on the periphery. He discussed the Polish case in his analyses as well.

3. From moderated liberalism to statism. *Coup d'etat* and the reorientation of Polish policy

The Polish state was restituted after WWI, in 1918, after 120 years of partitions. The specific heritage of partitions was relatively large (comparing to the Western countries) state and public sector in the economy.[3] It consisted mainly of public forests, railways, post and telegraph, public services and land. The acceptable extent of public sector was disputed since the restitution of Poland. Possible options ranged from social-democratic concepts of non-communist left (PPS), through liberal and anti-statist and anti-interventionist concepts of conservative groups to liberal-nationalist

[3] According to some estimations made in the late 1920, public sector in Poland reached in these years ca. 20% of national wealth, cf. Samecki 1998; Gołębiowski 1985.

concepts of nationalist party. Nationalist right promoted someelements of liberal economic nationalism: protectionism and preferences for the capital of Polish-origins. The state management was criticized (by rightist parties) for being ineffective, hence the discussion on statism and privatization of state ownership commenced just after 1918. Collapse of the national economy just after independence (due to local border wars, hyperinflation and, problems of un-unified economy) promoted regulatory reforms between 1923–1924 and resulted in the establishment of quite efficient government, close to the concept of nationalists.

After the success of stabilization policy, Poland – similarly to the whole Europe – entered the phase of economic expansion and boom on the stock market (1925–1929). It was the period of market oriented economy. The state was active as an investor in large infrastructural projects and as an "passive" owner, but not as a direct competitor of entrepreneurs. Economic development of Poland in interwar period compared to other countries, measured by GDP *per capita*, is presented on Figure 1.

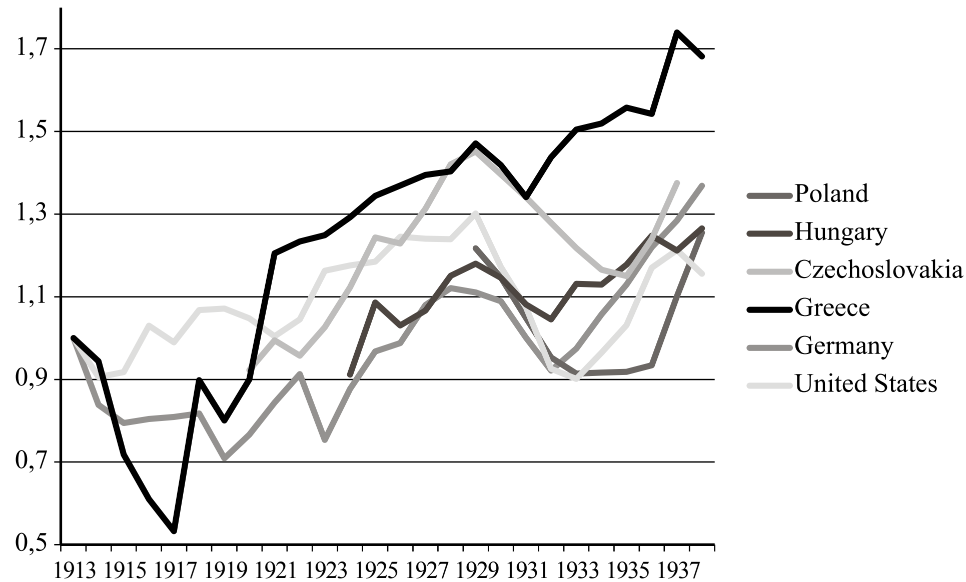

Figure 1. Dynamic of GDP per Capita Growth (base year 1913, i.e. 1913 = 1)

Source: Maddison 2010.

After the *coup d'etat* of 1926 an actual turn toward statism and interventionism, as a part of authoritarian policy, had begun.[4] One can easily enumerate crucial statist non-economic reforms: educational reform of 1929, self-government reform of 1933 and finally new constitution adopted in 1935. All of them might be

[4] As mentioned in the introduction, during the decade of 1926−1935, economic policy was to a large extent, excluded from this tendency. Most probably main cause of this exclusion was a limited economic competence of the ruling elites. Marshal Piłsudski believed in such economic constants as "strong currency", and – unlike the other spheres of politics, he preferred to avoid direct interventions.

perceived as steps in strengthening and centralizing power of the state. All reforms mentioned above (as many others) were focused on building the state as a political unity of all citizens (hence, a slow destruction of both leftist and rightist opposition was almost natural) and as an omnipotent entity which replaced the nation. Manifestation of this process was an enactment of a new constitution – contrary to the constitution of 1921 (and constitution of 1791) the notion of nation as a sovereign of Poland had evaporated there. It was replaced by the vague category of common good of all citizens, which – in final effect – proved to be useful tool for politicians of Sanacja[5] and legitimized oppression of opposition and state intervention in different fields.

Until 1936 the economic policy remained quite liberal, the radical change of-relations between state, citizen and society became much more visible in other spheres. Still, economic policy of subsequent governments of Sanacja (Prime ministers were Walery Sławek, Aleksander Prystor, Jerzy Jędrzejewicz) became more and more 'active'. The challenge of deep and persistent economic crisis, which turned into social and political crisis as well (the latter one was poorly visible, because of limited democracy in Poland and efficient tools of controlling opposing political parties) led to a short and medium term adjustments in the early 1930s. These adjustments (such as reduction in public expenditures on the one side and controlling cartel prices on the other) usually reflected liberal approach to economic policy, but some of them (partial state control of prices, regulation of labor market) might be interpreted as first signs of rejecting of liberal doctrine. What was more important, most of the regulations strengthened the state institutions in economy (in comparison to private sector).

Still, until 1936, the structure of economy, evolved gradually. Nonetheless, these gradual changes may be perceived as a consequence of the growing omnipotence of the state in other spheres. New concepts of economic policy appeared among representatives of the left wing of Sanacja in the late 1920, but for the long time, the mainstream of Sanacja politicians preferred the idea of market economy and market coordination with exception of limited intervention in selected, strategically important spheres. New statist visions became more and more popular in government, but until the death of Marshal Piłsudski (1935) no new macroeconomic concepts were adopted in the policy. Actually, Keynesian turn in Polish economic policy started in 1936, but some basic elements of Keynesian-style policy were selectively introduced earlier.

Similar changes in economic policy, common to the whole Western world, occurred in the CEE region as well. In Germany, under Nazi government, new

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[5] Polish political movement founded on comrades and associates of Józef Piłsudski (mainly from so called Pierwsza Kadrowa Brigade of Polish Legions in Austria). The name (Sanation) described the idea of moral sanation of Polish "dirty" political system.

policy founded on the stimulation of demand was crafted by Hjalmar Schacht. In Russia, total state control over economy and central planning were introduced even earlier, after communist *coup d'etat* (October Revolution, 1917). During the Great Depression both models seemingly proved their efficiency (especially in short term), therefore smaller countries attempted to imitate successes of larger, totalitarian neighbors, in internal politics and in economic policy as well. Many of them, including Poland, decided to replace democracy with authoritarian regime, and market coordination mechanism with planning and coordination by state institutions. Key players of new, anti-depression policy in Romania, Hungary or (still democratic) Czechoslovakia became government, no matter democratic or authoritarian.

4. Statism as a political practice. Anti-depression economic policy in Poland

The scale of economic collapse in Poland, a semi-industrial country with large agricultural sector of economy, during Great Depression was surprisingly large, comparable only to German and the U.S. Polish foreign trade collapsed (export had fallen by 3 times comparing to 1929, while import – by 4 times). Industrial output decreased by 30–50%, employment in production and services by 35% and GDP per capita by 25%. Simultaneously unemployment in urban areas peaked (ca. 40% of population of industrial workers were unemployed). Rural regions played the role of a buffer zone – significant amounts of people, who lost their income in towns, had relocated there. Agricultural sector became exposed to depression in many ways: shrinking national and foreign demand caused dropping food prices, an inflow of internal immigrants deteriorated living conditions of an average rural household (sharing its vanishing income between larger group of household members), prices of industrial products fell at slower pace than agricultural products (price scissors effect). In effect, many Polish farms, especially smaller ones, had been pushed out of the market and went back to the natural economy (Landau and Tomaszewski 1982). Figure 2 illustrates scale and longevity of depression in Poland compared to other countries.

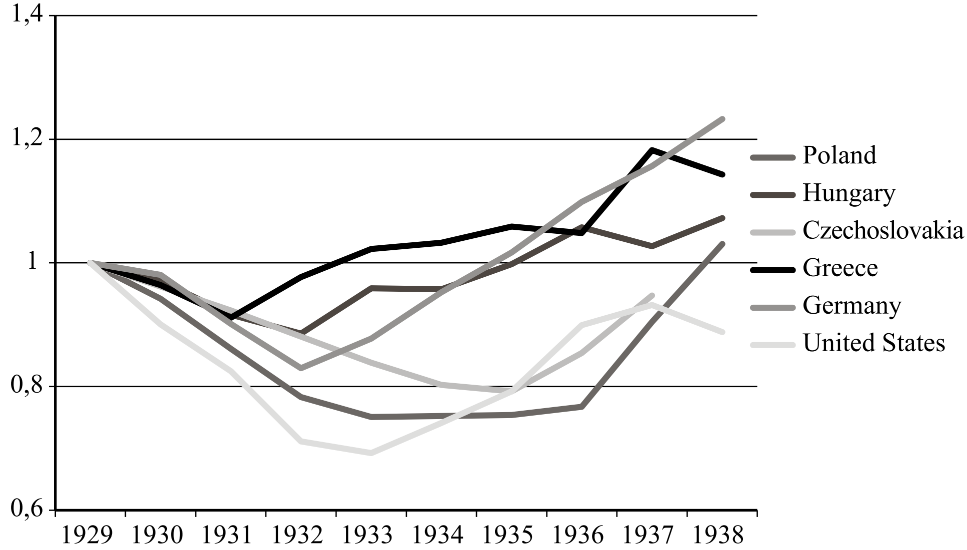

Figure 2. Dynamics of GDP per Capita Growth (base year 1929, i.e. 1929 = 1)
Source: Maddison 2010.

Still, Polish response to depression until 1936 continued to be rather conservative. It may be perceived as almost direct continuation of economic policy designed before year 1926, mainly by nationalist politicians and economists (as Roman Rybarski, Jerzy Zdziechowski or Władysław and Stanisław Grabski) with limited elements of modern anti-depression policy (mentioned above). The taxes remained low, and the state budget limited and small. During the first months of economic storm in the West, the crisis of the global economy was neglected. But even later, when economic consequences of crisis in Poland became obvious, the economic policy remained quite traditional. After 6 years of conservative anti-depression policy, its social and economic costs seemed astonishingly high. Unemployment skyrocketed, industrial output most probably was far under production possibility frontier and the large part of agricultural sector remained outside the market economy. Poverty became common in the society, while social inequality stunningly high. Until 1935, the budget income was lower than expenses, therefore the public debt rose. No one had any idea how to change the downward trajectory of economy. Economic policy of consecutive ministers of treasury (Ignacy Matuszewski, Aleksander Prystor, Władysław Zawadzki) was founded on assumption that the U.S. and global slowdown was a short-term crash rather than a long-term depression. Such policy was focused on restitution of market equilibrium and institutional adjustments (especially avoiding regulations unwanted by local and international businesses) with little intervention on the labor market (Landau and Tomaszewski 1982; Morawski 2010).

Tools and measures of anti-depression policy were limited to welfare expenditures (lowering costs for entrepreneurs, improving the budget stability), commercialization (but not privatization!) of state-owned firms, anti-trust and anti-monopoly policy (restoring the market competition) or negotiation of prices between the government and the industry (to avoid the price scissors). The labor market policy pressured employers to maintain the employment level unchanged. Public works were employed to a limited extent. What ought to be emphasized, an important tool of labor-market policy and broader economic policy became taking over the bankrupted private enterprises by the government as well as hostile takeover of some enterprises owned by foreigners (mainly Germans and Frenchmen). The aim of such takeovers was to maintain the level of production and employment (Gołębiowski 2000; Samecki 1998).

Monetary policy was as conservative as the economic one. Exchange rates of Polish zloty to dollar and to gold remained unchanged and simultaneously no barriers for convertibility were established. Poland was one of the pillars of so called the "gold block". In effect, a rapid outflow of foreign capital occurred, between 1930 and 1936 ca. 30−40% of foreign capital was transferred abroad. Contrary to the "beggar thy neighbor" politics of the U.S. or "sterling block" countries, the Polish monetary politics resulted in deflation, which deepened the slowdown of economy and made the Polish economy less and less competitive in the environment of an active exchange rate policies all over the world. Such policy was sustained by Józef Piłsudski's beliefs that Poland should have struggled for strong currency – since it would be perceived as a formal and visible demonstration of economic and political power of Poland. In addition, such monetary policy, while economically costly, changed the structure of foreign investments in Poland, with growing share of French ones, and declining – of German. (cf. Wolf 2007)

In numerous small East-European countries the economic policy and, subsequently, the internal situation was similar to the Polish one. Nonetheless, the policies of two large totalitarian neighbors – Nazi Germany and Soviet Russia were different. In Germany, Hitler introduced anti-depression policy already in 1933. The large scale fiscal stimulus as well as coordination of market proved to be an effective policy especially in short and medium term. By 1935 German recovery was finished. In turn, the autarkical and isolationist policy of the Soviet communist party resulted in a limited impact on the global depression of the Soviet economy. Actually, the dynamics of economic development in the Soviet Union, especially in industrial sector, were impressing during Great Depression when compared to the Western industrial powers.

The rise of military power of Germany and USSR in years 1935−1939 resulted in rapid worsening of strategic and geopolitical situation of Poland and, actually the whole region. The one, among possible reactions for this new geopolitical circumstances, was rapid industrialization. The shift of the Polish economic policy (limitations on convertibility, fiscal expansion, statism, conversion of foreign debts) that became possible between 1936−1937, just after Pilsudski's death and the subsequent reconfiguration inside the Sanacja, should be interpreted as such reaction. Kwiatkowski, significantly inspired by German and American experience, as well as his own book published in early 1930s "Disproportions" (*Dysproporcje*) presented the so called "4-years Plan". The plan was focused on the fiscal stimulation of a global demand and introduced new tools and mechanisms: currency exchange control and prohibition of transfers of foreign currencies abroad; obligatory purchase of foreign currencies from exporters by state banks, abandonment of the "gold block", permissions for exporters meant to limit the technological transfers and the export of goods demanded on the local market. Contrary to stimulus policy employed by other countries Kwiatkowski decided to maintain the balanced budget and keep low taxes until the outburst of the WWII.[6]

The strategic aim of Kwiatkowski's plan was rapid industrialization,[7] then successive modernization of Poland, convergence of regional disparities and "catching the West". From the very first moment of implementing the "4-years Plan", serious cleavages appeared within the Sanacja – i.e. the conflict between civil politicians and army generals, the latter insisting on militarization policy instead of civil industrialization. Military aims were financed within a framework of government investments in COP and separately supported by special foreign and internal debt (that was not stipulated within the budget). In military circles COP was perceived mainly as a military industry cluster. Internal tensions manifested in public conflicts between state officials, for example, between a colonel Adam Koc, director of the Bank of Poland, and Kwiatkowski, a vice-prime minister. In effect, the status of the Plan was not obvious even within governing Sanacja.

5. Economic effects of the fiscal expansion, 1936–1939[8]

When such awaited post-depression recovery in Poland had finally commenced, it was dynamic. New economic policy had contributed to its scale, but the recovery was stimulated mainly by the new monetary policy and direct investment expenses (with only short-term impact). Fiscal expansion was quite impressive comparing to the

[6] Actually, some state debts were hidden because they remained in extra-budgetary founds.

[7] The successful industrialization is often perceived in the region as a crucial element of economic national policy. Undoubtedly, belief that industrialization is only possible tool to catch the West became common among ruling elites in 1930s in Poland and elsewhere in CEE. On the other side, the elements of economic nationalism, which appeared in the program of Polish nationalist party in 1920s were far more liberal and anti-interventionist.

[8] For new interesting analyses of fiscal expansion in the late 1930s; see Leszczyńska 2007; Lisiecka 2007.

scale of Polish economy although geographically concentrated. However, more important than the efficiency, yet usually neglected outcome of public expenses, was its impact on the performance and the structure of capitalisteconomy in Poland.

During years 1936−1939, public expenditures of the state (in COP and elsewhere) and local governments are estimated at 2.6 billion[9] of Polish zlotys, i.e. roughly equal to one year budget of the state. Kwiatkowski's expenditures were equal to ca. 1/3 of the whole investment spending made in Poland between 1924 and 1938. Budget investment spending in years 1936−1939 (in Poland, not only into COP) reached the level of 10% to 20% of yearly national income. At the same time, the army had spent additional 2 billion zloty. Regarding the COP – where most state's (both civil and military) investments were concentrated – about 1−2 billion zloty of civil spending and 1 billion zloty of military expenses were invested there. What was an economic outcome of such a large scale fiscal expansion? According to Gołębiowski, "it is undisputable, that military effects of the 4-year plan were limited. Only few military factories started to work" (1990, 293). But on the other hand, many civil factories were established and the production capacity of Polish industry had been increased.

To examine more carefully the economic effects of the "4-years Plan", I will refer to Angus Maddison's estimations. According to him, in 1936, Polish GDP reached 49 billion of G-K dollars, and still was beneath the level of GDP in 1929. Similarly, many Polish historians, who calculated National Income claim that pre-depression levels were reached between 1934−1937 (see Landau 1976 for review; Jezierski and Leszczyńska 2003). The beginning of recovery one can locate in the last quarters of 1934 or even 1933 (still, few quarters later than in some developed economies), but it gained its momentum of impressing growth between 1936 and 1939 (here, Polish economists and historians, did not made estimations). Polish historians estimated that these dynamics of growth were lower in comparison to Maddison's statistics, nevertheless still it was enormous. Maddison estimated that Polish GDP per capita in decade 1929−1938 grew by 3%, while according to Paul Bairoch it grew even more – 6% (Maddison 2010; Aldcroft 2006). In estimation of Institute of Economic Sciences of Polish Academy of Science Polish National Income (not GDP) grew in this period by almost 10% annually, according to Polish Central Statistical Office – by more than 10% (Landau 1976). Both estimations concerned global national income, thus – taking into consideration population growth of more than 10% – per capita growth is actually negligible. Still, during recovery years 1936–1939, dynamic of growth was impressing.

This period of rapid economic growth that took place just before the outbreak of WWII is usually linked with successful investment policy of the state. However, in a long term perspective, its impact on the economic growth might had been

[9] 1 USD = 5,28 zlotys.

limited. In a short term, it was direct impact via government spending component of national accounts, but in a long term, all positive effects on growth would hadbeen possibly compensated by the crowding out the private sector, corruption and cronyism that would developed in state-owned firms etc. Taking into account Maddison's calculations (founded on Kazimierz Łaski estimations), one can see that Polish GDP reached pre-depression levels just before the war, in 1937, but still remained far below long-term growth path. Therefore, the period of rapid recovery after one decade of slowdown seems to be almost unavoidable return to this path (cf. Janossy 1971; Vonyó 2008, 2010). The direct impact of public expenditures, precisely the demand generated by them and institutional rearrangement had potentially accelerated the dynamics of the whole process.

Side effects of fiscal expansion during the "4-years Plan" that are usually ignored by the Polish historians, ought to be discussed here as well. In my opinion, in a long-term perspective (what actually must be a counter-factual perspective) one should take into account the probability they would have counterbalanced positive effects of the plan. First of these side effects, was the rise of public debt and costs of paying it (in 1934, yearly cost of servicing the debt was 286 million of zlotys, while in preliminary budget for 1940 it surpassed 410 million) – most probably growth of these costs was faster than growth of GDP. The sum of debt was kept stable until 1938, but even though the structure of debt had changed – foreign borrowing had rapidly disappeared while internal borrowing had been systematically increasing (mainly due to debt conversion to zlotys). In a long run, without easing of the monetary policy connected with the rise of incomes this model of borrowing would have been difficult to maintain in a poor society. First signs of change of monetary policy were visible since 1938 (see Figure 3).

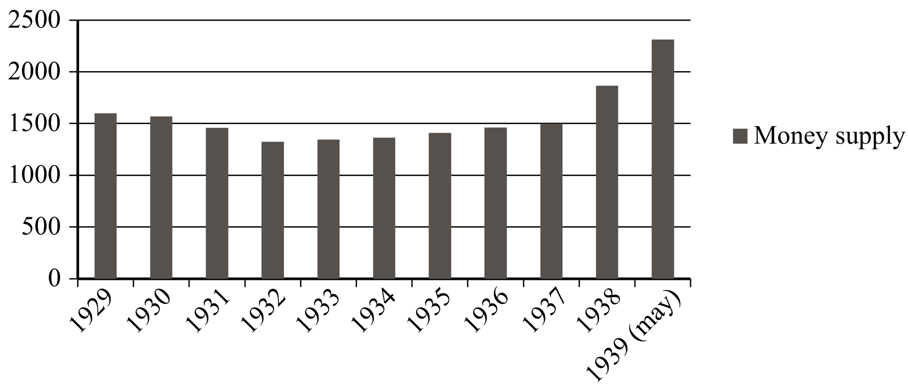

Figure 3. Money supply in Poland, 1929−1938, millions of zlotys

Source: GUS 1939: 146; Samecki 1998: 445.

The next side-effect was related to the changes within the structure of ownership in the economy. In the late 1930s ca. 30% of national property was owned by the state. The state property was also responsible for ca. 30−40% of GDP (see table 2). Taking into account the structure of economy, this means that prevailing part of added value in industry was created by the state owned firms. Under such circumstances, expansive industrial tax policy would become inefficient. Actually, profits of state's enterprises were transferred to the budget directly and higher taxes could have only triggered such profits (see Figures 4 and 5).

Table 1. Public/state ownership as a percentage of national wealth. Estimation made in interwar period

Date	State/public ownership	%	Author of estimation
1926	Public ownership	25	Janicki
1932	State ownership	15−22	Heydel
1938	Public ownership	29	Secomski

Source: Gołębiowski 1985: 278.

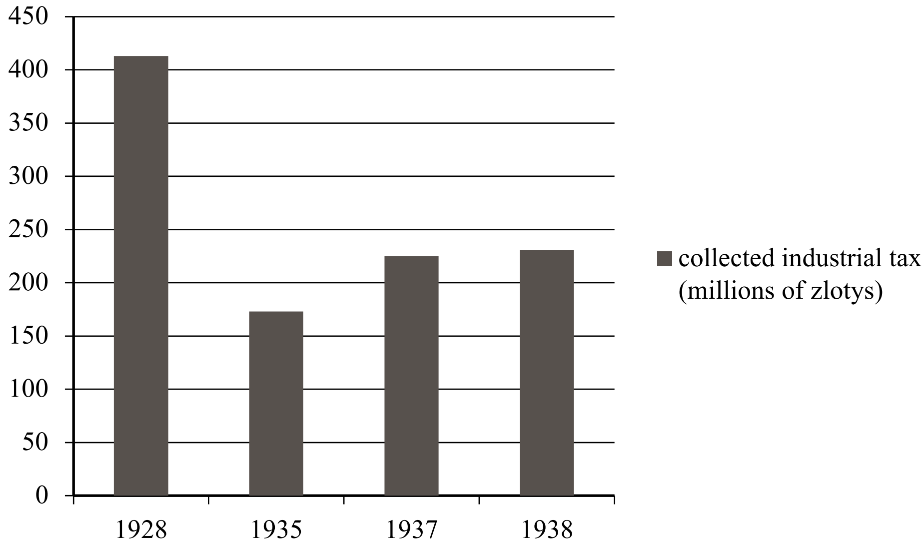

Figure 4. Industrial tax in Poland (millions of zlotys) −1928, 1935, 1937−38

Source: GUS 1939.

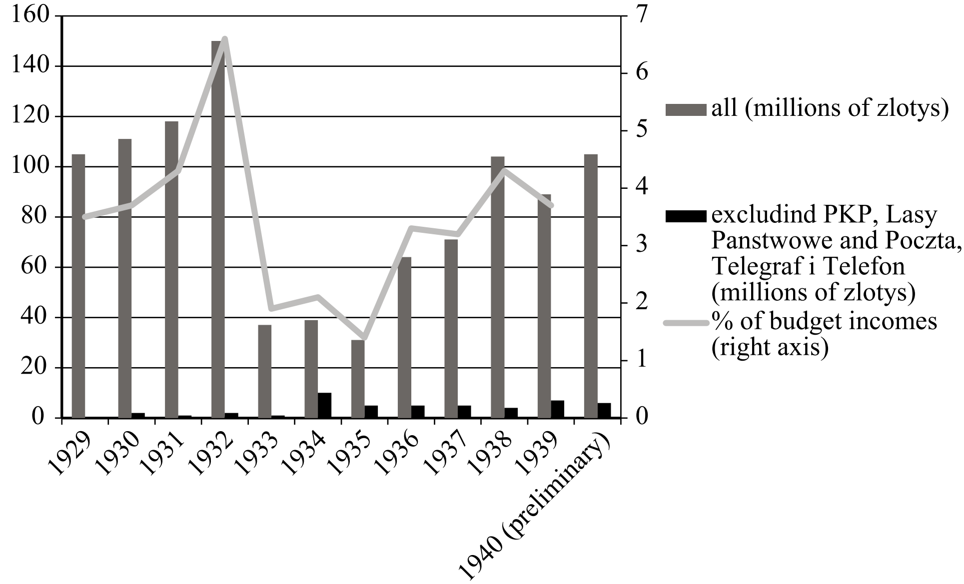

Figure 5. SOEs as a source of budget incomes

Source: GUS 1939; Gołębiowski 1985: 306–310.

Public enterprises were, to some extent commercialized, but – and this is another side effect – in practice they faced only soft budged constraint. Many of them were absolutely unprofitable. In addition, the relation between public enterprises was "special", and many decisions concerning prices and quantities were not in compliance with the market mechanism. Therefore, the next unwanted effect of the fiscal expansion, were problems of many private firms, weakened by depression and searching for an effective strategies in a new environment. Price mechanisms between state-owned enterprises (SOE, grouped together in syndicate), similar to the mechanism of transfer prices inside nowadays corporations, excluded large part of exchange from the market rules.

In addition, during 1930s, the state took the control over almost the whole banking system. State owned banks preferred (as an effect of political decisions) to finance state owned enterprises. A the same time monetary policy of the central bank resulted in deflation and shortages of money (until 1938, as shown on Figure 3). Therefore private investors were almost deprived of an access to investment loans. The only exceptions to this situation were those firms, which decided to invest in COP directly according to the Plan. The example is Henryk Cegielski SA – a manufacturing company from Poznań, that built a factory in Rzeszów (COP). In effect, since the late 1930s, symptoms of crowding-out of private sector were more and more visible (see Figures 6 and 7).

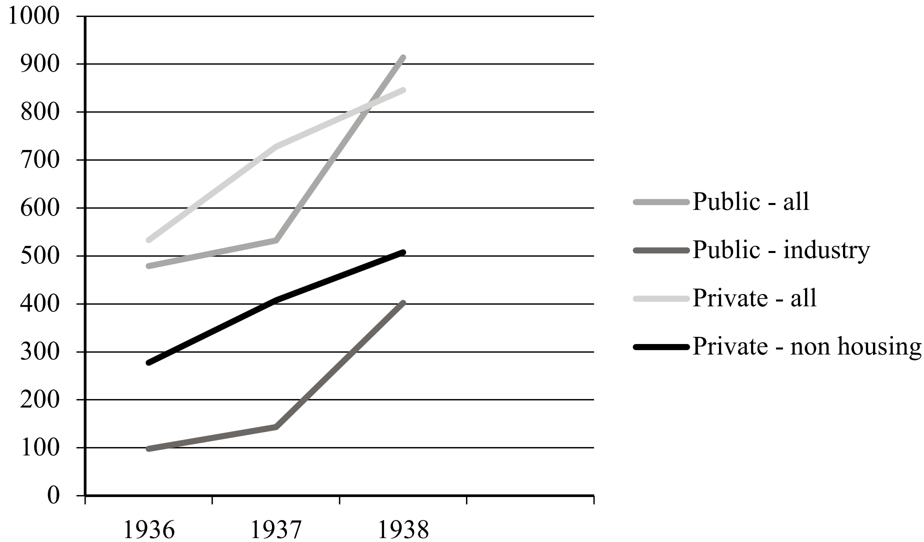

Figure 6. Private and investment expenditures 1936−1938 (millions of zlotys)

Source: Ivanka 1938; Samecki 1998. Public investments in budget years 1935/6, 1936/7, 1937/8. The level of private non-housing investments − own estimation.

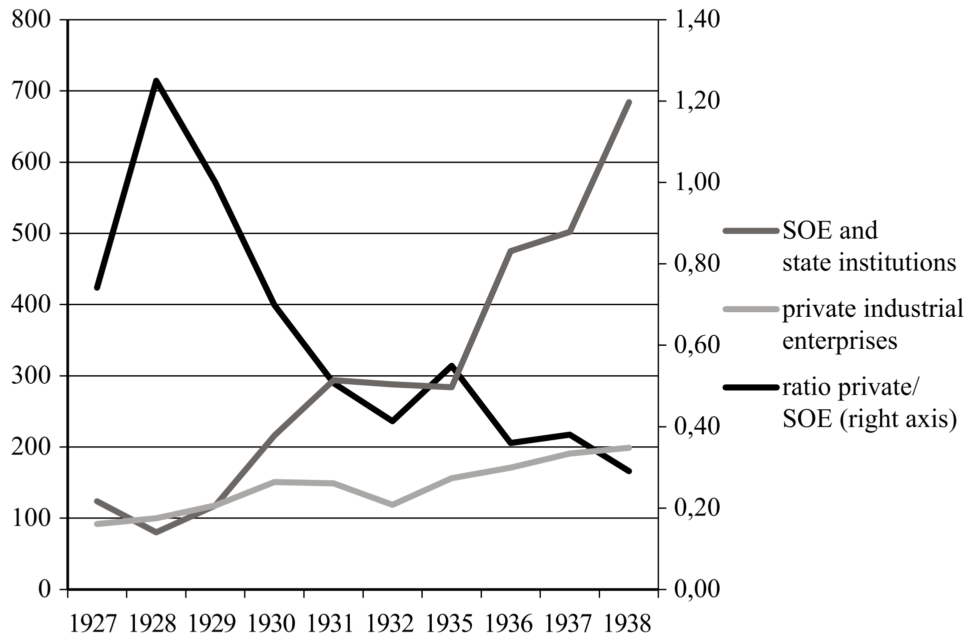

Figure 7. Short- and Long-term Loans granted by BGK (total sum, state sector, private industrial enterprises and ratio private/SOE)

Source: GUS 1939.

The economic policy of the late 1930s was based on a long term, large scale state engagement into crucial sectors of economy: banking and manufacturing with special attention paid to heavy industry. While the scale of state's engagement was far smaller less than it took place in the communist Poland, and in general, the market mechanism have still been respected, the policy of the state during the interwar period had transformed the model of capitalism.

6. Toward state capitalism. New paradigm of economic policy

Kwiatkowski's new economic policy was perceived as a success. Until the outbreak of the WWII, aims of the Plan were accomplished in ca. 80%, in about 50% of newly built factories production had started. Government propaganda presented these achievements, as a great success of the politics of industrialization. Hence, the continuation of the plan was obvious. New agenda for further industrialization and modernization was formulated already in 1938. A new 15-years Plan would have been implemented between 1940 and 1954 in five 3-year periods dedicated to different branches of national economic policy.

As Kwiatkowski himself explained in Sejm (Polish parliament): "The new plan covers 15-years period, and is divided into five periods. […] The first period will be executed in the years 1939–1942, and focus on the national defense. Military production should achieve technical and export excellence. […] During the second period (1942−1945) we will develop the communication infrastructure (roads, railways, bridges, canals). In next period, 1945–1948, almost obvious sphere of investment will be education, especially in rural regions. An additional aim should be improvement of agriculture and civilization advance of rural regions. The period of years 1948−1951 will be devoted to urbanization and development of towns and cities. Finally, within the last period, current differences between Poland A and Poland B will disappear" (Kwiatkowski 1938).

Kwiatkowski believed, that by 1950s Poland would achieve the level of economic development equal to Belgium and the Netherlands. First of all, he wanted to improve the national security, infrastructure and human capital. Insufficient infrastructure and poor quality of local labor force constituted main limits to further development of onetime Poland (and to some extent, these limits have not yet been definitely overcame), therefore this approach was justified. In particular, modernization of rural regions, which preceded his plans of urbanization, was clearly dedicated to create modern, competent labor force needed for further industrialization. Latter stages of the plan, apart from the industrialization, focused on building the modern industrial society and strengthen its social cohesion (and political integrity).

The actual aim of this long-term plan was radical socio-economic modernization or transition. However, the one and the only agent of this change was the state.

In a short term, intensification of investments was possible, but in long-term, especially in hostile international environment – rather not. In addition, a construction of the plan neglected the problem of growing costs (not only costs of investments, but also costs of maintenance of a new industry and infrastructure as well as depreciation of property). In my opinion, the model of growth designed by Kwiatkowski in his 15-years Plan had also minimized the probability of flourishing of the private sector, similarly to the situation in years 1936–1939. According to my opinion, due to the limited access to different types of resources (financial, human capital, access to new technologies etc.), the overall poverty of the society and actual costs of execution of the plan, such policy was impossible and would have failed within few years. In fact, its main effects would had been the growing role of the state in economy, further changes in the structure of ownership, and in longer term – also the political and economic instability. I do not believe, assuming the WWII never-happened, that financing the 15-years Plan with fiscal expansion was possible until 1950s. Similarly, I also do not believe in maintaining the dynamics of growth over such a long period.

7. Summary. Policy of success or policy of stagnation?

The redefinition of the economic system was disputed within the Sanacja party since the late 1920s. Yet during Great Depression and recovery period it finally materialized. The state-owned institutions became the central elements of the whole economic system. Just before the WWII the Polish state became the biggest entrepreneur, exporter, banker, employer, investor, lender and borrower. State-owned syndicates played crucial role in the industry – the situation was totally different than in 1920s, when similar role was played by foreign capital.

State banks were located in the center of the new state-owned syndicates (resembling Japanese Zaibatsu). The best example was the syndicate of Bank Gospodarstwa Krajowego (a large state-owned investment bank). However, as official statistics ruthlessly demonstrate, the efficiency of state industry organized in such way was limited and unsatisfactory (cf. level of profits of SOE on Figure 5, especially in comparison to the scale of investments), even if the efficiency was to some extent improved (comparing to the private sector) by the policy of the bank, and price mechanism described above. Taking into account the total level of investments (2.6 billion of zlotys until 1939) and projected profits of public sector (excluding forests, railways and posting company) in year 1940 (end of 4-years Plan, 9 million of zlotys per year), it seems obvious that in pure economic terms COP was not a success. Most important (and controversial) effect of COP was the change of the ownership structure of economy and the variety of capitalism. During the first decade of independence, state played a regulatory role, and additionally with some incentives had been trying to stimulate an economic development. Market coordination was strengthened by regulations and regulatory reforms (as Grabski's monetary reform). While the crucial infrastructural projects (as seaport in Gdynia, coal railway from Silesia to Gdynia) were co-financed by the state, in other spheres state tended to be small. Although large, the state's property was rather "passive" in economic sense: as it consisted mainly of infrastructure (railways), forests and land.

During the Great Depression, after numerous takeovers of bankrupting private firms, and since the beginning of fiscal expansion in 1936 − the model of capitalism had changed. As an effect of political decisions, instead of a market, the state had become a coordinator of economic processes. The size of public-owned property, activity of the state as an entrepreneur, banker and coordinator resulted in development of state capitalism. The impact of market coordination was diminishing, while the role of the state had been growing.[10]

The notion "state capitalism" describes the economic system in which the state institutions play central role in national economy (in terms of ownership of crucial sectors, enterprises and/or financial institutions), in particular in for-profit economic activities. The term 'capitalism' emphasizes the importance (at least partial) of market mechanisms in such system – therefore important difference between state socialism and state capitalism is the role of market mechanism in the economy. The growing activity of the state became more common situation in 1930s. It was an effect of collapse of international economic system and growing social disenchantment with the free market economy during Great Depression. In addition, due to the limited access to international capital and technology, poverty of society, the role of the state as an agent of modernization and industrialization became more and more common in peripheral states.

Taking into account the post-war period, it seems that such policy of state capitalism (or state ownership) is usually ineffective in terms of GDP growth. Far more successful is the policy of building technical and legal infrastructure, strengthening human capital as well as setting direction for the development. Therefore, the policy of state's coordination of market processes seems to be justified in poorly developed countries, where social inequality is high, society suffers from poverty

[10] Hall and Soskice (2001) conceptualized two different varieties of modern capitalism – liberal market economies (LME) and coordinated market economies (CME). Although, Hall and Soskice focused on developed economies, this approach may be applied to Polish interwar experience. While more sophisticated source research is needed to confirm this, one can formulate the hypothesis that during the first decade of independence Polish economic system evolved toward LME, while in 1930s, under the pressure of economic crisis, internal and geopolitical shift, important institutional change happened. This change can be perceived as double-layered: (1) an attempt of shift from LME to CME driven by deep institutional change, and (2) simultaneous evolution from market to state capitalism. In effect, possible comparative advantages of CME for developing economy were counterbalanced by negative side effects of prevailing state capitalism.

and internal tensions – based on social, economic and ethnic differences – is unavoidable. Such politics cannot be liberal: Japan, West Germany, South Korea and contemporary China provide good examples.

On the other side, one should take into account, that Polish policy of modernization in the late 1930s was focused mostly on accumulation of capital, reconstruction of national economy, improving the military power of the state and simultaneously on reducing negative effects of the market collapse during the Great Depression. In these fields at least partial successes were achieved. Some of the reforms of Sanacja should be praised from the economic point of view (although as mentioned above, in political terms, they were anti-democratic), because they-improved an institutional arrangement (new Constitution) and a quality of education. Therefore, in long term, there were some possibilities of extending the supply side of economics and production possibility frontier. On the other hand, crucial elements of the economic policy were possibly ineffective in a long-term. Over-investment and mixing of the capitalist structures with the state bureaucracy and political logic of action usually result in poor efficiency, corruption and cronyism, especially in peripheral countries, where the state is weak. The interwar Poland was a good example. The short term possible positive effects on GDP most probably would have been turned into future economic problems, since state management in Poland was ineffective.

The probability of maintaining the divergence of growth dynamics between the core of capitalist economy and peripheral Poland, was also rather low. After the WWII apart from South Asia nations, there were only few examples of such situation. Moreover, Japan or Korea were in different situation than Poland: global market was restituted and the cultural context was different (South Asian societies are more disciplined and more equal than East European). Unfortunately, due to the outbreak of the war, nowadays it is impossible to reliably assess an efficiency of Kwiatkowski's economic policy. One thing, one can do in such a situation is to examine the counterfactual history.

What would have happened in Poland, if the war did not occur? The longitude and scale of the depression of capitalist economy disappointed Kwiatkowski's generation (not only in Poland). In search for the new model of economy, politicians perceived the state coordination as a good replacement of the market. In some cases it is true, especially in capital-intensive investments, as COP. The state had capacity of accumulating capital at the expense of citizens, and usually credits were cheaper for institutions of the state. While before the war, peripheral countries were deprived of an access to external loans, the state itself had capability either to finance or to replace private investors. In 4-years Plan as well as its continuation, the Polish government decided to choose the latter option. One can understand it taking into account intellectual climate of the late 1930s. In effect, new economic policy reduced the role of private sector in economy, as I have described above.

As stated above, a consequence of global economic crisis was a limited access to foreign capital. Between 1936 and 1939 an access to foreign borrowing was very limited for Poland. Actually only France had lent some money for military equipment. In addition, there was no room for expansive tax policy in the society that was hit so severely by a decade of depression. Therefore, I suppose that the continuation of fiscal expansion, would have relied on quantitative easing of monetary policy (actually started in 1938) and financing the government spending by the central bank. Most probably, the policy of budget balance and stable exchange rate would have been finally abandoned within the next few years. The scale of potential inflationary impulse would have depended on the scale of quantitativeeasing. Most probably, the dynamics of expansion would have affected final formation of the economy with stable dominant position of the state sector. Consequently, the political logic would have been prevailing over economic rationality. Growing economic inefficiency of such model was disputed even before the outbreak of WWII model. In the last years of interwar period the risk of the next wave of depression (similar to the U.S. recession of 1937) grew with possibility of simultaneous political crisis (as an effect of the failure of economic policy of the authoritarian state).

To sum up, during 20 years of independence fundamental turn in economic policy occurred. It was connected with two different belief systems of elites, and particularly two concepts of modernization of the state (and catching the West). The decade of the 1920s was the period of regulatory reforms. Their authors believed that proper industrial arrangement is a foundation for economic success. The decade of the 1930s, especially the second half of the decade was the period of direct state intervention. The first model of policy resulted in efficient institutions and macroeconomic arrangement as prerequisites for economic success. The state was perceived mainly as a guarantor of stable economic order. The second one reflected long-term beliefs that the only agent of modernization of the periphery is the state. In addition industrialization was perceived as the best, if not only, way to catch the West. Hence, the main economic role of the government is to industrialize the country. It should be mentioned, that these two different approaches were adopted by the same people successively (Kwiatkowski is an example).

Economic policy of the late 1930s, built on growing state interventionism and statism, laid foundations of economic system, which – contrary to its ideological and political subsystems – was surprisingly similar to the state socialism. Postwar experience demonstrated that the most effective economic policy have to be built on private entrepreneurship with possible interventions of the state in strategically important spheres. The most effective role of the state is to supply proper infrastructure of different types: transport, legal, educational, without any attempts to build large state sectors in economy for the purpose of modernization and industrialization. But this has become obvious today, after the Great Depression, Oil Crisis and the collapse of communism.

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