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T. M. Podolski

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SOCIALIST BANKING AND  
MONETARY CONTROL:  
THE EXPERIENCE OF POLAND

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T. M. PODOLSKI

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## Preface

So far the subjects of banking, credit and monetary control in socialist (here meaning Soviet-type socialist) economies, though not completely neglected,<sup>1</sup> have not been popular among Western scholars. Certainly there have been few attempts at a comprehensive presentation of the subjects, which is surprising in view of the fact that since the mid-fifties the role of banking and of bank finance and control in socialist economies has been considerably increased by successive economic reforms, and that in the sixties there was a remarkable surge of interest in and controversy about banking and monetary policy in Western economics. It is thus hoped that this book helps to fill a gap in Soviet studies and at the same time that it will be of comparative interest to economists, in particular those specialising in monetary economics.

It is now generally recognised that there is a close relationship in capitalist economies between economic development (development of 'real infrastructure') and financial development (development of 'financial superstructure'), though the direction of causation between the two is a matter of dispute. In socialist planning the structure and activity of financial institutions, which are almost exclusively banks, are deliberately adapted to changing methods and policies of national economic management. The purpose of this book is to describe systematically this process of adaptation, using as the chief example the Polish economy, on which the author has been fortunate enough to have gathered a substantial amount of statistical data, enabling him to identify and appraise different approaches to banking, finance and monetary control. As far as Polish banking and credit are concerned, the book presents a comprehensive analysis of their development since the war.

Throughout the book attempts are made at international comparisons. Soviet experience in particular is relevant. However, attempts

<sup>1</sup> A number of works are mentioned in Part I of the book.



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are also made at comparisons with Western economies, especially in the realm of monetary control (defined in chapter 1). Thus, although the study is not claimed to be fully comparative, the author has endeavoured to pinpoint some similarities and striking differences between Western and socialist banking, credit and monetary policy.

Attention is focused mainly on the banking structure, the scope of credit finance and monetary control. However, to appreciate the role of these in a changing approach to national economic planning and development it is necessary to relate them to the overall political and economic situation at a particular time, and especially to such matters as devolution of decision taking, the autonomy of enterprises and budgetary and other sources of non-bank finance. Care has thus been taken to present matters of specific interest in their broader setting, so that a reader not acquainted with the general economics of socialist countries may get a reasonably full appreciation of the subject without having to refer elsewhere for additional information.

The structure of the book needs a brief explanation. Part I may appear somewhat odd, as its three chapters deal with diverse matters ranging from aspects of Western monetary theory to the development of the Soviet banking and monetary system. They do, however, present methodological, definitional and background matters utilised in the rest of the book. Chapter 1 should prove useful mainly as a background for some comparative (East–West) sections of the book (especially in chapter 8). Chapters 2 and 3 are helpful mainly in understanding the development of the Polish credit system.

Chapter 1 contains a miscellany of information, including the definition of monetary control as understood in this study. It also gives a brief account of the main issues in Western monetary controversy upon which comments are made, in the light of socialist monetary experience, later in the book. This should enable Sovietologists who are not economists to obtain a superficial awareness of disputed questions in Western monetary economics. Special treatment is given to the ‘real bills’ theory which, as the book attempts to show, has considerable application to Soviet-type banking and credit.

Chapter 2 is of key importance. It reviews and analyses the development of Soviet banking and principles of monetary control. These principles were, at any rate up to the late fifties, accepted by all Soviet bloc economies (including Poland after 1948) as the principles of socialist monetary management. Thus the chapter deals with the origins of socialist banking and monetary control, which must be

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understood to appreciate fully their implementation and performance in the Polish economy.

Chapter 3 describes the role of banking and credit in pre-war Poland, a neglected but interesting subject worthy of a more probing treatment, but here presented merely as a sketch, useful to the understanding of post-war developments, particularly during the 'Polish road to socialism' of 1945–9 (discussed in chapter 4).

Part II of the book deals with banking and monetary control in centralised planning. Chapter 4 gives an account of an interesting experiment with an eclectic financial system, combining elements of pre-war Polish and Soviet financial systems with some original Polish solutions. The system was quickly replaced by the Soviet 'model' in the reforms of 1948–50 described in chapter 5. Chapter 6 is devoted to an appraisal of the efficacy of Soviet-type monetary control, using the example of Poland.

Part III covers developments after 1955. This was a period of frequent changes, which invariably involved financial adjustments imposing new tasks and new banking practices upon the banks. Chapters are divided on the basis of the successive financial changes which were thought necessary to carry out the policy of economic decentralisation. In chapters 7 to 9 interest centres on changes in the principles and techniques of monetary control, though other aspects of banking, including credit finance of investment, are not neglected. The main reason for this is that up to the mid-sixties, the period covered by the two chapters, the banking system was the main supplier of short-term credit. The role of what in the West would be the capital market was performed mainly by the budget. After the reforms of 1965–6 (chapter 10) there were no substantial changes in monetary policy and attention turns mainly to the finance of investment, which was to play a key role in the transition from 'extensive' to 'intensive' economic development. Chapter 11, dealing with the latest (1969–70) reforms, is almost entirely devoted to changes in banking and the attempt to use predominantly bank, instead of budgetary, finance of capital investment.

The most important function of socialist banking and credit is to finance and control enterprises in the socialised sector (*viz.* the predominant sector) of the economy, and it is this which receives most attention. However, as there has been a growing tendency to expand the finance of private ventures (instalment trading, private housing, private agriculture), a brief review of credit finance in the

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private sector of the economy is given in Appendix A. Other appendices contain mainly statistical tables. Tables whose numbers are prefixed with a capital letter (e.g. Table A1) refer to tables found in Appendices (e.g. Appendix A) at the back of the book. A list of abbreviations used follows the preface.

The book draws heavily upon a Ph.D. thesis presented at Birmingham University in December 1970. It was completed under the supervision of Prof. R. W. Davies, the Director of the Centre for Russian and East European Studies, for whose guidance and criticisms, always constructive and inspiring, I am very grateful.

To the National Bank of Poland I owe an immense debt for supplying me with most valuable material, both unpublished and published.

My final expression of gratitude goes to my wife, who encouraged my work not least by patiently typing its numerous drafts.

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## Abbreviations

For abbreviations of titles of periodicals and other publications see Selected Bibliography. (s) signifies that an abbreviation refers to the Soviet economy, (p) to the Polish economy.

AB	Agricultural Bank (p)
BCT	Bank of Craft and Trade (p)
BLC	Bank for Long-Term Credit (s)
BMS	Bureaux of Mutual Settlements (s and p)
CC	Central Committee (s and p)
CEC	Central Executive Committee (s)
CM	Council of Ministers (s and p)
CPC	Council of People's Commissars (s)
CPO	Central Planning Office (p)
CSB	Common Savings Bank (p)
DF	Development Fund (p)
DLC	Department of Long-Term Credit (s)
ECCM	Economic Committee of the Council of Ministers (p)
IB	Investment Bank (p)
IFA	Investment fund of association (p)
IRF	Investment and repairs fund (p)
MB	Municipal Bank (p)
MIT	Ministry of Industry and Trade (p)
NBP	National Bank of Poland (p)
NEB	National Economic Bank (p)
NEP	New Economic Policy (s)
PC	Planning Commission (p)
PCNL	Polish Committee for National Liberation (p)
RCBs	Rural Co-operative Banks (p)
SAB	State Agricultural Bank (p)
SCEP	State Commission for Economic Planning (p)
SLCs	Savings and Loans Co-operatives (p)
SYP	Six Year Plan (p)
TB	Trade Bank (p)
TYP	Three Year Plan (p)
UWCB	Union of Workers' Co-operatives Bank (p)
bil	billion (1000 mil.)

The transliteration of Russian words follows the system proposed under the British Standard 2979C:1959.