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The creation of the Bank of Poland in the years 1828–1885

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Słowa kluczowe: Bank Polski, dług publiczny, skarb państwa, gospodarka państwa

Summary

The Bank of Poland was established for the first time as an independent public institution by the royal order from 1828. The main task of the newly established institution was to meet the public debt and the expansion of trade, money lending and national industry. The rules concerning the functioning and activities of the bank emphasized a close relationship of the Bank with the Ministry of Finance and the Ministry of Treasury and Revenue ensuring the independence and integrity of its members – which accounted for innovative legal solutions pointing to the need of protecting the institution from the influence on the part of external entities. In the sphere of the state treasury service, the Bank of Poland played an important role in the years 1828–1885, although in the last 15 years its role in the functioning of the national economy was negligible.

Streszczenie

Powstanie banku polskiego w latach 1828–1885

Bank Polski jako niezależna instytucja publiczna powołany został po raz pierwszy w drodze postanowienia królewskiego z 1828 r. Podstawowym zadaniem nowo powołanej instytucji miało być zaspokajanie długu publicznego oraz rozszerzanie handlu, kredytu

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i przemysłu narodowego. Przepisy dotyczące zasad funkcjonowania i działalności banku wskazywały na ściśle powiązanie Banku z ministerstwem finansów oraz ministerstwem skarbu i przychodów, gwarantując jednocześnie niezależność i nietykalność jego członków – co stanowiło nowatorskie rozwiązania prawne wskazujące na potrzebę ochrony tej instytucji przed wpływami ze strony zewnętrznych podmiotów. W sferze obsługi skarbu państwa, Bank Polski odegrał w latach 1828–1885 ważną rolę, chociaż w ostatnich 15 latach jego rola w funkcjonowaniu gospodarki państwa była znikoma.

I.

The royal statement to establish the Bank of Poland² and its range of activity received formal regal sanction on January 29, 1828 and it was then countersigned by the Charming Minister of the Rev. Lubecki Government Commission of Revenue and Treasury and the Secretary Minister of State count Stefan Grabowski³. The Bank of Poland was established by the order of the royal accordance with the powers of the monarch, under Article 163 of the Constitution of the Polish Kingdom⁴. Two documents constituted legal basis for the functioning of the Bank of Poland and its authorities: royal provision of 28 January, 1828 on the establishment and scope of the Bank of Poland and the order of 31 January, 1828 on the appointment of “the members of the bank”, meaning its authorities. According to art. 24, the provisions of the establishment of BP, the bank was supposed to have “five members” namely: the president, vice president and three directors who were appointed by the King at the request of the minister of revenue and treasury. They constituted the Directorate of Bank Authority⁵ which operated on the principle of collegiality.

² The royal provision on the establishment and scope of the Bank of Poland, 1828 January 29 (Dz.P.K.P. 1828, vol. XII, No 48, pp. 199–153), as „the provision of the establishment of BP”.

³ A. Peretz, *Instytucje Banknotowe. Ich historia, znaczenie i działalność*, Warszawa 1913, p. 208; H. Radziszewski, *Bank polski*, Warszawa 1919, p. 27.

⁴ Dz.P.K.P. 1815, vol. I, No 1, pp. 2–103.

⁵ For active members of the Bank collectively called „Board”, T.J. Buczkowski, *Charakterystyka statutu banku*, [In:] *Bank Polski 1828–1928 dla upamiętnienia stoletniego jubileuszu otwarcia*, Bank

It was clearly expressed in art. 25 of the provision which specified that the Management's decisions were to be made by a majority of votes in the presence of at least three persons. In case of a tie vote, the chairperson's voice was decisive – by whom the President was probably meant. However, if the chairman or director entering the collegiate body did not share the majority opinion, they could request that the execution of the matter was suspended and transferred to the final resolution by the minister of revenue and treasury.

The minister in question was thus able to influence the direction of the bank's business, not only by the possibility of presenting candidates for the Directorate of the Bank to the monarch, but also by the fact of having the competence to decide on the merits of the bank's activities, in the absence of agreement between the members of the Directorate. The link between the Bank of Poland and the Ministry of Finance was strong.

The royal provision equipped the members of the Bank – the president, vice president and three directors in immunity. According to art. 43, persons performing these functions could not be held responsible for their decisions or actions made with the command of the minister of revenue and treasury, but not going beyond the tasks and functions arising from the order.

At the same time no order could be an excuse for the actions that have the character of behavior incompatible with Community law, such as: allocating funds of cash redemption or cash deposit, pledged goods, securities or valuables contrary to their intended purpose, excessive emissions of bank notes beyond the number defined in art. 22 and art. 23 of the order, the breach of bank funds and their application for the illegal purpose or non-execution of a final judgment. In the case of such acts, members of the Bank – as they are called in the royal statement of the Bank of Poland establishment – bear personal and material responsibility.

The royal order provided for the direct supervision of the minister of revenues and treasure over the Bank of Poland by imposing on the Bank in art. 42 a decision about the responsibility to report to the minister any activities undertaken. The concentration in one hand of competences concerning the creation of the composition of the Directorate and BP supervision could pose

Polski. Biuro Ekonomiczne, Warszawa 1928, p. 56. In turn, A. Peretz in his work *Instytucje...*, p. 214, and H. Radziszewski in his work. *Bank...*, use the term „Board Management”.

some difficulties in the future. For this reason, the Bank operated with one more body of control⁶, independent of the authorities, the so-called Commission of the National Debt Redemption. Two members of the Senate as its members were appointed by the king, as well as two members of the Chamber of Deputies and one of the directors of the Bank (art. 26 of the provision of the establishment of BP). The Commission had broad powers. It was responsible for supervising banking transactions (it had insight into every detail of the operation), auditing and inventories, checking calculations, deposits, reported revenues, as well as controlling over printing and issuance of banknotes⁷. Art. 28 of the order to establish BP provided that if the Bank would not “comply with the remarks of the Commission,” it would be able to present the problem to the minister of revenue and treasury, governor of the Kingdom or the monarch himself, if he deemed it necessary. The monitoring powers of the Commission were broad. It also was the body to which each client of the Bank could make a complaint and request explanations⁸.

The decision to establish BP in the art. 29 provided for the functioning of the structures of the Bank’s six commercial counselors, elected by the Assembly of the Warsaw Merchants’ among ‘merchants, manufacturers and other individuals engaged in trade or industry’, whose composition was to change in the half (three people) every two years. The counselors’ duties were limited to advisory tasks ‘in the activities astringent to the commercial and industrial parts’ of the Bank. The counselors were to sit “every three with the advising voice and made motions which they considered to be necessary.” In a situation where the opinions of the members of the Bank, so the members of the Directorate, would differ and all trade councilors present at the meeting would be in line in opposition to the majority – they had the opportunity to inform the minister of revenue and treasure about a particular case. It resulted in the suspension of the decision execution and transfer to settle the issue of the minister (art. 30 of the provision of the establishment of BP).

The analysis of the way of creating bodies of the Bank of Poland, the procedure of taking decisions by the bank and supervising its activities leads to the

⁶ S. Stęk, *Historia gospodarcza polski, tom II, czasy porozbiorowe do 1918 roku*, Poznań 1950, p. 184.

⁷ T.J. Buczkowski, *Charakterystyka statutu ...*, p. 56.

⁸ Ibidem.

conclusion that the Polish Bank was strongly associated with the Ministry of Finance and the Ministry of Revenues and Treasury. These entities had a significant impact on the composition of the organs of the bank, but primarily on the directions of the bank activity.

At the same time – in spite of such dependence – the decision to establish BP admitted broad immunity to the members of the bank which guarantees inviolability and independence. Such legal solutions could be evaluated as very innovative at that time. It is a proof that the creators of Polish Bank were aware of the important role it would have in the Polish state economy and the risks associated with the desire to influence on the institution by external entities.

II.

The two basic activity directions of the Bank of Poland were clearly set out in art. 1 of the decision to establish BP. Under this provision, the Bank's aim was to satisfy the public debt and the expansion of trade, loan and national industry. Both of these activity areas of the Bank were supposed to be parallel to each other. It should be noted that the first task was included in the provision in a very comprehensive manner. Rev. Lubecki was probably well aware of frequent abuse of power by the state towards a bilateral institution, when it came to getting money or getting a loan. For this reason, detailed regulations were introduced to the provisions which could be changed only by the two chambers of the Parliament (art. 46 of the provision of the BP establishment)⁹. The art. 46 of the provision of the establishment of BP gave a kind of guarantee of the independence of the Bank to the authorities which stated that all funds and values (such as receipts for the repayment of state debts, deposits and other values entrusted to the Bank, including its own¹⁰) were inviolable and could not be used for any other purpose than the one which was stipulated by law, and therefore coming from their "primary" purpose. This provision meant that the use of the loan to cover the budget deficit or at an extraordinary government spending was prohibited.

⁹ Ibidem, p. 56.

¹⁰ Ibidem.

Meeting the public debt came down to the issue of regulating the finances of the Polish Kingdom, burdened with deficits resulting from old public debts, and the ability to apply for new loans¹¹. Noteworthy is the fact that the state's debts came from the times of the Duchy of Warsaw (the so-called "old debt"). The issue of mutual settlements between the Polish Kingdom, Prussia and Austria from this period were regulated by the Vienna Treaties from May 3, 1815¹² – indicating the division of internal and external debts of the Duchy of Warsaw, and the Berlin Convention of 22 May 1819¹³ and the Vienna Convention of 29 June 1821¹⁴ – which ultimately determined which of the debts were ascribed to the Kingdom of Poland. In addition, the Constitution of the Kingdom of Poland in art. 158 stipulated that the debt was "engaged". These circumstances underlaid the idea to equip BP with competence to relief debt. Operation and meeting the public debt became the primary task of the Bank. The debt redemption was scheduled to take place from treasury funds or by buying bonds (art. 8 of the decision to establish BP)¹⁵.

The powers of the Bank to support the so-called new debt were extended with time. The Bank of Poland "helped" the Treasury (the Government of the Kingdom) on several occasions in applying for and redeeming new loans. In 1829, it drew a loan of 42 million zlotys at the Fraenkel banking house. The silver gained from it was transferred to the mint, and after breaking it into the coins of the Kingdom it was placed in a vault in order to issue of banknotes. Silver gained from it was transferred to the mint, and after breaking it on the coins of the Kingdom was placed in a vault as cover for the issue banknotes¹⁶. Other loan were: in 1834, loan in the amount of 10 million zlotys in treasury bonds, in 1835, loan in the amount of 150 million zlotys (based on agreements with Fraenkel and Epstein banks), in 1838, loan in the amount of 35 million

¹¹ S.A. Kempner, *Bank Polski*, [In:] *Dzieje gospodarcze Polski porozbiorowej w zarysie*, ed. S.A. Kempner, vol. I, Warszawa 1920, p. 82.

¹² Dz.P.K.P. vol. II, pp. 294–413; L. Gluck, *Uruchomienie działalności Banku Polskiego w roku 1828*, [In:] *Bank Polski 1828–1885. Dla upamiętnienia 160 rocznicy otwarcia Banku Polskiego*, Warszawa 1988, p. 222.

¹³ Dz.P.K.P. vol. VI, pp. 371–417.

¹⁴ Dz.P.K.P. vol. VI, pp. 371–417.

¹⁵ H. Radziszewski, *Bank ...*, p. 22.

¹⁶ A. Jezierski, *Bank Polski 1828–1885*, „Bank i Kredyt” 1990, no 5–6, p. 7; S. Karpiński, *Zasady działalności banków ...*, p. 101.

zlotys, in 1841, loan in the amount of 60 million zlotys¹⁷. Specific measures were undertaken by the Bank of Poland during the November Uprising. Despite the great generosity of Poles in the country, the means to conduct struggle was limited and small.

On January 29, 1831, the Parliament passed the law under the name 'Polish means' for applying for a loan. It was supposed to be 60 million zlotys. It was secured on all income taxes and national goods. Its conduct and future redemption was entrusted to the Bank of Poland under the supervision of the Public Debt Redemption Commission. The loan was supposed to be of internal nature. The Bank issued an appeal to citizens to encourage their participation in the project on 10 June 1831. However, the income from this source was not sufficient¹⁸. Some efforts were, therefore, undertaken at the same time through the French merchant Louis Bire who settled permanently in England and arrived in Warsaw. He was asked to apply for a loan in England of 4 million pounds¹⁹. An agreement was signed with the bank house of William Morgan, however, the loan was not realized²⁰.

Not only did the BP try to realize these loans, but it also accepted the offerings made by people for the country and financed the purchase of weapons for the uprising²¹. The Bank's activities in the sphere of Polish Treasury support was complex and – analyzing the time of the November Uprising – it can be stated that the bank authorities responded to the changing in the political and financial situation very quickly and efficiently. An important privilege of the Bank of Poland was the issue privilege. The operation of issuing banknotes is treated in general. Art. 22 of the provision of the establishment of BP, issued after the calculation of all banking activities²², stated: "to facilitate all these activities the Bank has the power to release banknotes without

¹⁷ L. Gluck, *Bank Polski 1828–1885 fakty i problemy*, [In:] *Bank Polski 1828–1885. Dla upamiętnienia 160 rocznicy otwarcia Banku Polskiego*, Warszawa 1988, p. 70; S. Karpiński, *Zasady działalności banków ...*, p. 101.

¹⁸ H. Radziszewski, *Bank ...*, pp. 136–139.

¹⁹ Ibidem, pp. 143–145.

²⁰ S. Stęk, *Historia gospodarcza ...*, p. 189.

²¹ See H. Radziszewski, *Bank ...*, pp. 129–134, 145–149; T.J. Buczkowski, *Kapitał zakładowy i fundusze obce*, [In:] *Bank Polski 1828–1928 dla upamiętnienia ...*, pp. 67–69; S. Stęk, *Historia gospodarcza ...*, p. 189.

²² Banking operations will be discussed later in this work.

the slightest delay and is able to, without any turning down the applicants who requested, exchange those banknotes. It also has the power to release cash tickets (...) ". At the same time, art. 23 assumes that the overall value of bank notes and cash tickets could not on any account exceed the amount of funds owned by the Bank. It meant that the value of the bonds could not exceed the amount of the share capital of the Bank. Upon the exhaustion of the quota, issuing had to be stopped and its increase required the BP's share capital increase. At the beginning, the BP had its share capital of 30 million zlotys. During the uprising, the National Government in order to enlarge emission made a decision to increase the Bank's equity by 5 million on 29 August 1831. This operation was not reflected in the documents of the bank, as invalid since adopted by the insurgent government²³. On 7 April 1834, by the order of the king it was raised to the value to 42 million zlotys²⁴.

The banknotes were not a mandatory means of payment in the kingdom, they did not have a legal exchange²⁵, which meant that no one had the obligation to accept them. They did have exchange rate and could be used to pay all benefits to the state²⁶. The banknotes, in every moment, had to be exchangeable for ore. This exchange was fixed and took place even during the November Uprising. Initially, the exchange could be made only at the headquarters of the BP in Warsaw. With time, convertibility was introduced in the provincial and peripheral urban areas' treasury offices, salt, customs, consumption tax and postage offices²⁷. The issuing activity was related to the functioning of the Mint opened in 1815. After the outbreak of the November Uprising in December 1830, the mint was incorporated into the BP which improved issuing of the banknotes. In 1832, after the uprising collapsed, the mint was separated from the BP and began to produce bilingual coins, and in 1841 the abolition of the autonomous monetary system of the Kingdom began. In 1859, the inscriptions on the notes were only in Russian²⁸.

²³ L. Gluck, *Bank Polski 1828–1885 ...*, p. 67.

²⁴ S.A. Kempner, *Bank Polski*, [In:] *Dzieje gospodarcze Polski porozbiorowej w zarysie*, ed. S.A. Kempner, t. I, Warszawa 1920., p. 83.

²⁵ S. Stęk, *Historia gospodarcza ...*, p. 185.

²⁶ A. Jezierski, *Bank Polski...*, p. 9.

²⁷ S. Stęk, *Historia gospodarcza ...*, p. 185; T.J. Buczkowski, *Emisja banknotów*, [In:] *Bank Polski 1828–1928 dla upamiętnienia stoletniego ...*, p. 82.

²⁸ S. Stęk, *Historia gospodarcza...*, p. 133.

There was no rigid framework for the activities of the BP in trade expanding, loan and national industry – specified in the art. 1 of the provision. The decision about the BP's establishment contained only general assumptions in this regard. They were to be developed as detailed instructions issued by the governor at the request of the minister of revenue and the treasure (art. 45 of the provision of the establishment of BP). In this way the Bank could effectively adapt its activity to the loan needs of the country²⁹. The BP's activity in this area can be divided into the actions aimed at creating and promoting industry, communication development and activities aimed at commercial and agricultural lending³⁰. Such tasks required a lot of financial support. The Bank of Poland received the capital: in the form of money – 10 million zlotys (coins from the treasury stocks), 10 million in mortgage bonds from the Land Credit Society (art. 3 of the provision of the BP establishment) and in the form of a loan transfer granted to the Society³¹ by the government (art. 4 a decision about the establishment of BP). At the same time, the provision stipulated that in case of exceeding the assumed 30-million of the capital, all further capital gains will be the property of the public treasury (art. 5- the provisions of the BP's establishment).

The main activities of the Bank (art. 6 decision to establish BP) was the acceptance of deposits, sums on remittances and sums at interest from the government, institutions and individuals. These were undoubtedly the source of the capital flow to the Bank. The most important factor, however, was art. 31 of the provision, which required all public office societies to invest cash reserves and capital only in the Bank of Poland. The majority of them was transferred as a government deposit and pension funds to BP for an extended period of time and could be used a loan tool³².

A particular kind of activity of the Bank was to support the Polish national industry. The BP did not give loans only, but it took the position of the entrepreneur itself. In 1833 the Bank took over the administration of the national mining industry.

The Bank of Poland gave loans to private entrepreneurs. An example would be the allocation of resources to set up a factory in Zyrardow. In case of eco-

²⁹ T.J. Buczkowski, *Charakterystyka statutu ...*, p. 57.

³⁰ Podział ten został przyjęty za S.A. Kempner, *Bank ...*, p. 82.

³¹ T.J. Buczkowski, *Charakterystyka statutu ...*, p. 57.

³² Ibidem, p. 57.

conomic problems of such ventures, the Bank of Poland took over their administration or purchased their property. An example would be the purchase of Zyrardow, Starachowice, Ostrowiec or Steam Mill in Solec. Moreover, the Bank supported a cloth industry. You can find the opinion that the whole industry of the Polish Kingdom was under the protectorate of BP then³³.

The Bank supported the Polish agriculture. The financial instrument took the form of loans and term loans, mortgage loans, and special credits for the purchase of inventory and equipment³⁴.

The Bank of Poland and the Commission of Internal Affairs and the Police concluded on 23 July 1829 an agreement concerning a loan for the construction of six major roads in the country. The Bank itself was to take care of the construction. In this way, a Krakowski road, Wołyńsko-Śląski, Fabryczny, Uściłuski, Toruński, Białostocki and two roads from Piaseczno to Mniszew and from Jędrzejów to Wodzisław were built. In addition to battered roads, the BP took over the construction of the Augustow Canal from the government which was completed in 1844³⁵.

III.

The Russian authorities take decisive steps aimed at reducing BP in its competence. After the suppression of the November Uprising in January 1832, the BP was deprived of their authority over the mint which was transferred to the board in December 1830 by the uprising authorities. On 3 September 1841, a decree assuming the unification of weight and monetary units with the Empire was introduced. Therefore, it was ordered to release banknotes with double inscriptions: Polish and Russian, and since 1859 only Russian.

The most serious consequences for the Bank of Poland was the final taking away the issuing privilege in May 1870. From that date onwards, the BP has become only a deposit and lending institution. The Bank operated for

³³ S.A. Kempner, *Bank ...*, pp. 82, 83.

³⁴ T.J. Buczkowski, *Operacje kredytowe*, [In:] *Bank Polski 1828–1928 dla upamiętnienia stuletniego ...*, p. 119.

³⁵ H. Radziszewski, *Bank ...*, pp. 65–104; T.J. Buczkowski, *Operacje kredytowe...*, p. 111–121; S.A. Kempner, *Bank...*, pp. 82–84; L. Gluck, *Bank Polski 1828–1885 ...*, pp. 72–88.

another 15 years, although its importance for the economy was negligible. The resolution of the State Council of 3 June 1885 transformed the Bank of Poland in Warsaw into the Warsaw currency exchange office of the Russian State Bank, and the BP's subsidiaries into the branches of this Bank. The BP was ordered to give their real estate and all movable property to the Russian bank³⁶. It was the end of the Polish activity of the Bank.

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³⁶ H. Radziszewski, *Bank...*, p. 209; T.J. Buczkowski, *Próby reorganizacji*, [In:] *Bank Polski 1828–1928 dla upamiętnienia stuletniego ...*, p. 131; L. Gluck, *Bank Polski 1828–1885...*, pp. 131–136.