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NBP Narodowy Bank Polski

Bankoteka

Special Issue

Exhibition

The history of central banking – Poland and the USA

185th anniversary of Polish central banking and 100th anniversary of the Fed

Dear Readers!

We are pleased to present to you a special issue of „Bankoteka" designed to accompany the exhibition "History of central banking – Poland and the USA". The exhibition has been organised to mark two anniversaries: Polish central banking celebrates its 185th anniversary, whereas in the United States of America, the Federal Reserve System (Fed) celebrates the centenary of its incorporation.

Narodowy Bank Polski has organised the exhibition to make you more familiar with central bank functions and tasks, but also to tell you the interesting story of the central bank creation. To both Poland and the United States, the central bank is a cornerstone of their statehood, achieved after a long quest for independence. Since their establishment, both institutions have been in charge of most important and difficult tasks: to safeguard stability and financial safety of the country, as well as to improve the economic wellbeing of its citizens.

The exhibition will give you the opportunity to learn even more about the role of Narodowy Bank Polski and the Federal Reserve System. The exposition was prepared by a group of experts. The texts were contributed by prominent experts: Prof. Wojciech Morawski, Warsaw School of Economics (the history of the Fed), and Dr Cecylia Leszczyńska, University of Warsaw (the history of Polish central banking). Ms Rosemary Lazenby and the staff of the Federal Reserve Bank of New York have been so kind as to provide the rich iconography, numerous exhibits and multimedia applications. Museum of Archeology and Etnography in Łódź has kindly supplied exhibits from their collections.

Take a tour of the History of central banking exhibition!

The history of central banking – Poland and the USA

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The History of Central Banking – Three Functions, Three Traditions

Professor Wojciech Morawski

The History of Central Banking – Three Functions, Three Traditions

There is a kind of bragging match going on among central banks as to which of them can claim the longest history. We may bring some order to this discussion by separating the three key functions of the central bank. Each of them gives us a slightly different perspective on the banks' historical tradition.

Central bank as the banker to the state

By this – certainly the oldest – function we mean public debt service and funding of public projects which were of significance to the state authorities. This function gave rise to the oldest public banks. Thus, in 1401, Taula dei Cambi was established in Barcelona, followed by Casa di San Georgio in Genoa in 1407, Monte dei Paschi di Siena in 1472, Banco di Palermo in 1551, Banco di Rialto in Venice in 1584, Banco di Sant'Ambrogio in Milan in 1593; the papal Banco di Santo Spirito in Rome in 1605, Amsterdamsche Wisselbank in 1609, and Girobank in Hamburg in 1619. In the mid-1600s, public banking developed primarily in small states, mostly republics. The first public (in terms of function, if not ownership form) bank operating in a large state was the Bank of England, established in 1694. The Bank of Poland (Bank Polski), founded in 1828, is another case in point.

Central bank as an institution of issue

The first bank of issue was the Swedish Sveriges Riksbank, established in 1668. Central banks and note-issuing institutions of the 18th century include: Danish Kurantbank dated 1736, Berlin-based Königliche Giro-und Lehnbank from 1766, Wiener Staadtbank established in 1706 (which began to issue notes only during the Seven Years War), and two Russian state banks from 1754: Gentry Bank and Trade Development Bank of St. Petersburg. In France, the issue of notes was first launched by Banque Générale (later Banque Royale) during the time of the John Law speculation (1716-1720). Later, however, the French took a dislike to paper money and it was not until the revolution that they embraced it again. Finally, the Bank of France was created in 1800. The oldest Polish experience of paper money printing dates back to the Kościuszko Uprising (1794); yet the first fully-fledged bank of issue was the Bank of Poland, established in 1828. Several national banks created in the first half of the 19th century subscribe to the same tradition: the Finnish (1811), the Dutch (1816), the Austrian (1816), the Norwegian (1816), the Danish (1818), the Portuguese (1821), the Greek (1841), and the Belgian (1850) central bank.

Central bank as the "lender of last resort"

The most recent function performed by central banks is that of "lender of last resort" and economic stabiliser. The Bank of England was the first to perform this role during the 1866 crisis. Before, there was a general conviction that under normal conditions, a central bank should perform regular banking activities and compete against commercial banks. It should only assume a superior role in relation to banks in distress. This line of thought was termed the stand-by doctrine. Yet, over time, the shortcomings of the arrangement became increasingly apparent. If the central bank was to determine the fate of commercial banks in distress, thus assuming the role of their judge, it should not simultaneously act as a competitor and rival. Therefore, it was advisable that it should refrain from direct management of the economy also during prosperity. Receiving deposits and extending loans to the public should be left to commercial banks, while the central bank should replicate these activities vis-à-vis the commercial banks themselves, accepting their deposits and granting loans. The two-tier banking model enabled a central bank to influence the activities of commercial banks on a regular basis – and not only in turmoil. This understanding of the central bank role gained ground only slowly and with some difficulty. In Poland, it was not accepted until after the 1988 reform: even under the Second Republic of Poland, the Bank of Poland SA had focused on issuance, whereas the lender of last resort role had been performed by Bank Gospodarstwa Krajowego (Bank for the National Economy). This was in line with the Habsburg tradition – the Austro-Hungarian National Bank dealt with money issuance, while support to commercial banks was provided by public national banks.

NBP Timeline

1794 First paper money is issued in Poland

1828 The Bank of Poland is established in the Kingdom of Poland

1886 Seizure of the Bank of Poland's assets and bodies by the Russian State Bank

1918 The Polish National Credit Bank becomes the issuing body of the Polish state

1924 Bank of Poland SA is established

1939 Evacuation of Bank of Poland SA abroad; German authorities create the Bank of Issue in Poland

1945 Establishment of Narodowy Bank Polski (National Bank of Poland); revocation of Bank of Poland SA's right of issue

1989 The reform of the Narodowy Bank Polski structure and functions is launched

1995 Zloty redenomination: 1 new zloty replaces 10,000 old zloties

2004 NBP becomes member of the European System of Central Banks

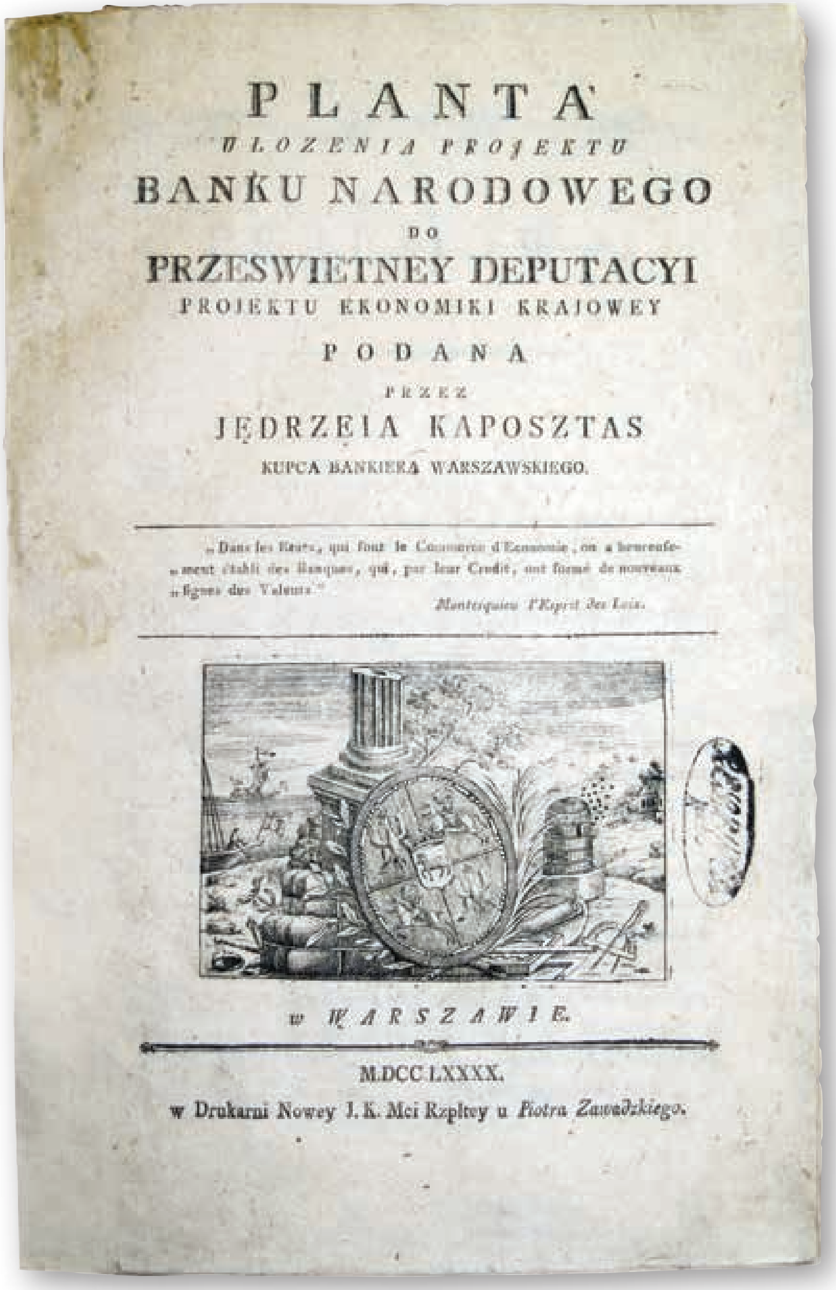
185th Anniversary of Polish Central Banking

Cecylia Leszczyńska Ph. D.

The beginnings of Polish central banking

Projects to establish an issuing bank in the First Republic of Poland

The need to establish a national bank in Poland was first discussed in the second half of the 18th century. One of the projects was presented by the Warsaw banker – Jędrzej Kapostas in his brochure *Plan of Development of the National Bank Project.* He argued that in Europe note-issuing banks had been established mainly due to insufficiency of credit, and by issuing notes they were becoming a source of credit. The planned bank would be established for 20 years. It would be authorised to print paper notes (assignats) whose compulsory exchange rate (equal to silver coins) would be imposed by the state. The circulation of the notes would be ensured by an obligation to pay half of the taxes in the notes. The issue would be secured against state-owned landed estates. The project of Kapostas was rejected by Deputies to the Great Sejm (1788–92) as they decided that issuing notes would result in imposing a "yoke" of public debt.



PLANTA
ULOZENIA PROJEKTU
BANKU NARODOWEGO
DO
PRZESWIETNEY DEPUTACYI
PROJEKTU EKONOMIKI KRAJOWEY
PODANA
PRZEZ
JĘDRZEIA KAPOSZTAS
KUPCA BANKIERA WARSZAWSKIEGO.

„Dans les Etats, qui font le Commerce d'Economie, on a heureuse-
„ment établi des Banques, qui, par leur Credit, ont formé de nouveaux
„signes des Valeurs."

Montesquieu l'Esprit des Loix.

w WARSZAWIE.

M.DCC.LXXXX.

w Drukarni Nowey J. K. Mci Rzpltey u *Piotra Zawadzkiego.*

Plan of the Development of the National Bank Project submitted to the Distinguished Delegation for the Home Economy, by Jędrzej Kaposztas, merchant, Warsaw banker. Warsaw 1790.
NBP collection.

Treasury notes from the Kościuszko Uprising period

The first Polish paper money was issued during the Kościuszko Uprising in 1794 by the Directorate for Treasury Notes. It was established by the Supreme National Council, which played the role of the Uprising's government. The treasury notes were used to cover uprising-related expenditure. The confidence of the society in the notes was consolidated by the possibility of exchanging them for silver coins, but on the other hand, their exchange rate was imposed obligatorily as equal to the coins. Refusal to accept notes was punished with a fine. When the uprising collapsed, the notes were declared invalid. Yet, as not many had been printed, their holders did not suffer considerable losses.

1 Polish zloty, 1794 issue. One-sided banknote.
NBP collection.

5 Polish zlotys, 1794 issue. One-sided banknote.
NBP collection.

Treasury notes of the Duchy of Warsaw

In the 19th century, issuing paper treasury money was a fairly common practice employed by governments to finance extraordinary expenditure, especially in times of war. That was also the strategy of the Duchy of Warsaw. In 1810, it issued cash notes in thalers. They were exchangeable into standard coins and accepted discretionarily. Initially, the public had confidence in paper thalers, yet the confidence collapsed after Napoleon's defeat in Russia. When the Russian army entered the Duchy of Warsaw, its authorities were evacuated to Krakow, taking coin reserves and printed cash notes along. The notes were not put into circulation, instead they were burned in Kraków. Redemption of the notes that entered into circulation after 1810 had still to be regulated. It was the task of the Central Liquidation Committee of the Kingdom of Poland, which repaid the debt of the Duchy of Warsaw. The notes have never been repurchased.

1 thaler, 1810 issue.
NBP collection.

Certificate issued by the Central Liquidation Committee of the Kingdom of Poland of 19 December 1829.
NBP collection.

Establishment and operations of the Bank of Poland (1828–1886)

Bank of Poland in Minister Drucki-Lubecki's concepts of the Kingdom of Poland's modernisation

The Bank of Poland was the first Polish issuing bank. It was established on 6 May 1828 by the Treasury Minister Duke Franciszek Ksawery Drucki-Lubecki. Setting up the Bank was part of Lubecki's plan to industrialise the Kingdom of Poland. The Bank provided loans to support the development of Polish mining, metallurgy and textiles, and to build new roads and railways.

The Bank of Poland was a state-owned bank. Its equity capital was provided by the government. It was based in Warsaw, in a new building designed by Antonio Corazzi, located at the corner of Bankowy Square and Elektoralna Street. Its first President was Count Ludwik Jelski.

Duke Franciszek Ksawery Drucki-Lubecki, Minister of Treasury of the Kingdom of Poland, in office 1821–1830.
NBP collection.

Count Ludwik Jelski, the first President of the Bank of Poland, in office 1828–1830.
National Library collection.

Bank of Poland notes

The currency of the Kingdom of Poland was the Polish zloty. At the initial stage of its operation, the Bank of Poland introduced into circulation zloty cash notes printed by the treasury in 1824. Banknotes with the legend "Bank of Poland" started to be issued in 1830. Their holders were entitled to exchange them for silver coins. This way the state guaranteed a stable value of paper money.

During the November Uprising and the war with Russia, in July 1831, the Bank of Poland put into circulation notes with the face value of 1 zloty with the coat of arms of Lithuania and Poland, and the Polish crown on the top – a reference to the tradition of the Polish-Lithuanian Commonwealth. Russian authorities considered the money "revolutionary." After the collapse of the Uprising, Emperor Nicholas I withdrew the notes from circulation and burned them.

5 zlotys cash note, 1824 issue.

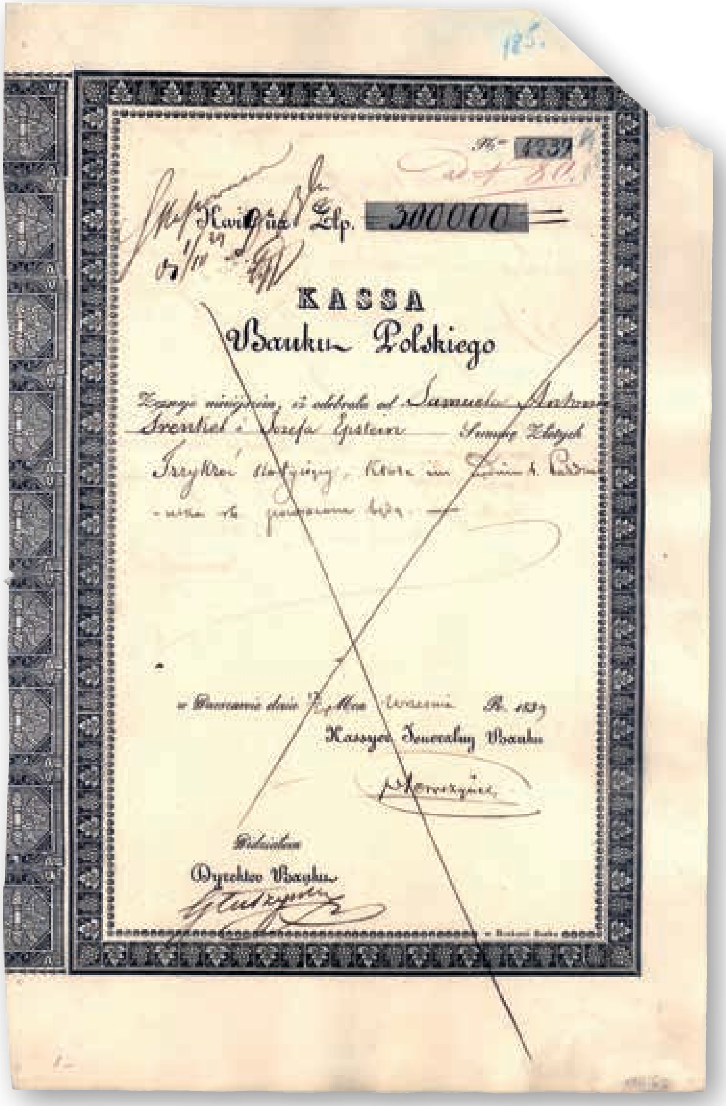
NBP collection.

1 zloty, 1831 issue.

NBP collection.

Bank of Poland and the economy of the Kingdom of Poland

The Bank of Poland was not only an issuing bank, but also the bank of the state treasury that handled the accounts of public institutions, as well as a deposit, credit and investment bank. In 1833, it took over the administration of state mining and metallurgy. It recapitalised some of the plants to enable them to continue production, some plants were leased to individuals and some sold. Its investment activity generated considerable losses, and a number of irregularities were discovered. Charges were pressed inter alia against the Bank's President Józef Lubowidzki and one of the directors – Henryk Łubieński. In 1848, they were arrested and convicted. In the 1840s and 1850s, the administration of mining and metallurgy was taken over by the Revenue and Treasury Committee (the then Treasury Ministry). When the Bank of Poland withdrew from investment activity, it focused on extending short-term loans. As there were no large private banks at that time, the Bank became the major lending institution of the Kingdom of Poland.



Cash payment receipt of the Bank of Poland in Warsaw confirming a deposit of 300,000 Polish zlotys by Samuel Antoni Fraenkel and Józef Epstein dated 17/24 September 1839 (dates according to Polish and Russian calendar). NBP collection.

Certificate of pledge on valuables worth 540 Polish zlotys of 27 July/8 August 1839 (dates according to Polish and Russian calendar). NBP collection.

Liquidation of the Bank of Poland

Following the fall of the November Uprising, the Russian rulers started to restrict the autonomy of the Kingdom of Poland. In 1841 Russians started to eliminate its monetary independence. The new legal tender was the rouble. From that time, the banknotes of the Bank of Poland had inscriptions in Polish and in Russian, and from 1859 on, only in Russian. In 1870, the Bank of Poland lost the right of issue. For the next ten to twenty years, it still performed credit and deposit operations. Finally, as of 1 January 1886, it was put to liquidation. Its assets were taken over by the Russian State Bank, which was the central bank of the Russian Empire.

Share worth 100 roubles or 666 zlotys 20 grosz, 1862 r.

NBP collection.

Share worth 666 zlotys 20 grosz or 100 roubles, 1861 r.

NBP collection.

Polish National Credit Bank

During World War I, German authorities established the Polish National Credit Bank (PNCB) for the occupied Kingdom of Poland. The Bank's task was to issue Polish marks (whose value was equal to that of German marks) and to perform cash and banking operations. After Poland was re-established, the PNCB became a temporary issuing institution until the Bank of Poland was created, and the Polish mark was the temporary tender. Polish authorities planned to launch the Bank of Poland already in 1919. The Sejm adopted an act which stipulated that Polish tender will be called "zloty" and will consist of 100 grosz (earlier, the zloty consisted of 30 grosz). Zloty-denominated banknotes were printed to be put into circulation. Yet, the Bank of Poland was established only in 1924. Until that time, issuing activity was carried out by the PNCB and the Polish mark remained the legal tender.

The PNCB has a bad reputation in the history of Polish issuing institutions. It is primarily associated with inflation, whose major reason was excessive quantities of the Polish mark issued to finance state budget expenditure. In 1923, the economy faced hyperinflation, which was reflected in the ever increasing face values of banknotes and measured by the increase in the price of the dollar: from 9 Polish marks at the end of 1918 to over 9 million Polish marks in the spring of 1924.

1 Polish mark, 1919 issue.

NBP collection.

5 Polish marks, 1919 issue.

NBP collection.

50,000 Polish marks, 1922 issue.

NBP collection.

500,000 Polish marks, 1923 issue.

NBP Collection.

1,000,000 Polish marks, 1923 issue.

NBP collection.

Bank of Poland SA (1924–1951)

Establishment of Bank of Poland SA – objectives and tasks

Bank of Poland SA (Bank Polski SA) was launched on 28 April 1924. In line with the doctrine prevailing at that time, it was a joint stock company. Its shares were distributed to companies and the share of the state treasury in its equity was initially 1 per cent. This was intended as a means of making the central bank independent of the government.

Its governing body was the Bank Board composed of representatives of shareholder groups. The Board's task was to make decisions on lending policy and interest rates; it appointed the Managing Director and management members. The Bank's President was appointed by the President of Poland for a five-year term, at the request of the Council of Ministers. The Bank was based in the building of the former Russian State Bank at 10 Bielańska Street in Warsaw. The first President of Bank of Poland SA was Stanisław Karpiński.

Stanisław Karpiński, the first President of the Bank of Poland SA, in office 1924–29. National Digital Archive.

Entry to the Bank of Poland SA main office in Warsaw, at 10 Bielańska Street, 1928. National Digital Archive.

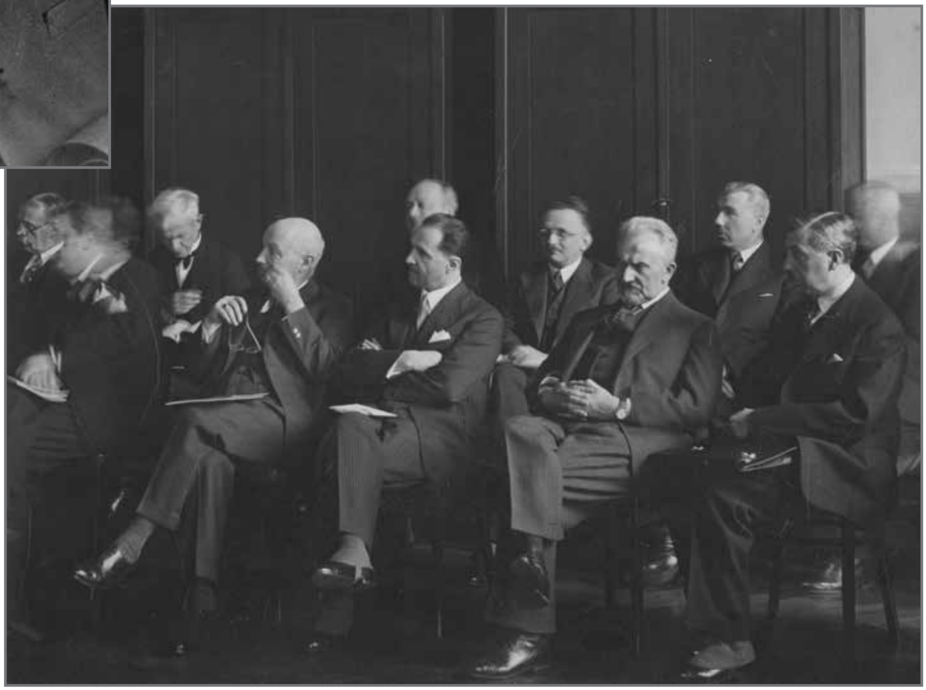
Bank of Poland SA and the economy of the Second Republic of Poland

Establishing the Bank of Poland SA was an element of a reform package aimed at introducing balance to the state budget and at achieving monetary stability. In the first half of 1924, Władysław Grabski's government managed to reform the state finance, introduce a new currency – the zloty, and establish the Bank of Poland SA. Issuance of the zloty was based on rules defined at the finance conference in Genoa in 1922 – it was to be backed by gold and foreign currency reserves. The zloty's parity in gold was defined at 0.2903 grammes of gold. The parity determined the value of the zloty and its exchange rate against foreign currencies: 1 zloty equalled 1 Swiss franc, the dollar was worth 5.18 zlotys. Bank of Poland SA obtained the right to issue zloty notes until 1944; in 1939 it was extended to 1954.

Grabski's reform was not entirely successful. In 1925 it turned out that the state budget had not been balanced permanently. To cover the deficit the government started to print utility notes. When the zloty exchange rate collapsed, Prime Minister Grabski stepped down from office. In 1927 a three-year plan to stabilise Polish finances was introduced, supported by a considerable loan from abroad. The plan's execution was supervised by Charles Dewey, a representative of lender banks. The zloty's parity was reduced to 0.1689 grammes of gold thus devaluing the currency by 42 per cent. The exchange rate of Swiss franc was 1.72 zloty and of the dollar – 8.91 zloty. The bank's equity capital was increased to 150 million zlotys.

After several years of prosperity, in 1930 the Polish economy was increasingly affected by the crisis that started in the US the year before. With deepening recession, many countries decided it must be fended off by abandoning the gold standard. The United Kingdom, the United States and less developed countries eased their monetary policies and devalued their currencies. Following in the footsteps of Germany, Central European countries introduced the control of their balance of payments. Poland chose a different path – it entered the Gold Bloc in 1933. Its member states believed it was necessary to stick to the gold standard system, refrain from devaluation, maintain monetary stability and restrict capital flows to and from other countries. Only in April 1936, when the Gold Bloc had collapsed, Poland decided to restrict external transactions by controlling the foreign currency market: the state rationed foreign currencies for imports and ordered a sale of foreign currencies from exports to the state. The zloty was not, however, devalued. Many scholars believe that the decision to introduce restrictions came too late and sticking to the gold standard system for so long was one of the reasons behind the particular persistence and severity of the Great Depression in Poland relatively to other countries.

Władysław Grabski,
Minister of Treasury and Prime Minister
of the Second Republic of Poland.
National Digital Archive.



General Meeting of Shareholders of the Bank of Poland SA, 1935.
National Digital Archive.

Bank of Poland SA's notes and treasury money

From 1924, there were two types of legal tender in circulation: Bank of Poland SA's notes as well as coins and utility notes issued by the State Treasury. The circulations of both were determined by parliamentary acts. The government was entitled to issue utility notes to finance some of its expenditure in the event of budget problems. Large issues of utility notes took place in the years 1925–1926. The notes were withdrawn from circulation in 1931 as the stabilisation plan was implemented. The Treasury also issued silver coins and small-value coins.

In 1925, several dozen thousand gold coins with face values of 10 zlotys and 20 zlotys were minted to commemorate the 900th anniversary of King Bolesław Chrobry's coronation. They were not put into circulation, but sold by Bank of Poland SA to those who provided a specified quantity of gold and covered minting charges.

5 zlotys, 1919 issue.

NBP collection.

5 zlotys, 1930 issue.

NBP collection.

20 zlotys, 1919 issue.

NBP collection.

20 zlotys, 1936 issue.

NBP collection.

100 zlotys, 1919 issue.

NBP collection.

100 zlotys, 1932 issue.

NBP collection.

Bank of Poland SA during and after World War II

The operation of Bank of Poland SA was interrupted by the outbreak of World War II. In September 1939, the Bank was evacuated. Its authorities left for Paris and when Germany declared war on France, they moved to London. The essential documentation, the note printing dies and gold were saved (the gold reserves amounted to over 70 tonnes). Having resumed its activity in London, the Bank prepared to re-establish its operations in Poland once the war ends, for example it printed new notes.

Yet in Poland, Narodowy Bank Polski (the National Bank of Poland) was established in January 1945. Communist authorities did not intend to restore Bank of Poland SA's status of the central bank. They postponed its liquidation for fear of losing rights to the gold it managed to rescue (worth then 70 million dollars) and lodged abroad, owned by Bank of Poland SA. Therefore, the Warsaw-based government decided to bring Bank of Poland SA back to Poland and restore its right to perform banking operations, excluding the right of issue. Finally, Bank of Poland SA handed over the gold to the Polish state, thus becoming obsolete. Its liquidation was announced in 1951.

Ruins of the Bank of Poland building at 10 Bielańska St. in Warsaw, 1960s.
NBP collection.

Bank von Danzig

The currency of the Free City of Danzig, established by the Treaty of Versailles of 1919, was to be determined by the Senate of the City. Initially, the German mark was used, replaced by mark banknotes issued by the Senate of the Free City of Danzig. In October 1923, the Senate introduced its own currency – the Danzig gulden, and in February 1924 it established the Bank von Danzig. It had the status of a joint stock company and the right to issue banknotes. In September 1939, when the Free City of Danzig was incorporated into the Third Reich, Bank von Danzig was transformed into a branch of Reichsbank.

5 pfennigs, 1923 Bank von Danzig issue.
NBP collection.

5 guldens, 1923 Bank von Danzig issue.
NBP collection.

Bank of Issue in Poland

In December 1939, German authorities established the Bank of Issue in Poland (Bank Emisyjny w Polsce) in the part of Poland they occupied, called the General Government. The Bank was based in Kraków, General Government's capital. Feliks Młynarski, Deputy President of Bank of Poland SA before the war, was offered the position of the Bank of Issue's President. Knowing that if he took the position, he could be charged with collaboration with the enemy after the war, Młynarski obtained a letter from the Prime Minister of the Polish government-in-exile, general Władysław Sikorski, who approved the decision. The Bank issued zlotys, commonly referred to as "krakowskie" or "młynarki" (alluding to the President's surname). The banknotes had inscriptions in Polish, but they did not feature the Polish national emblem. The Issuing Bank in Poland operated until 1945. It was liquidated when Narodowy Bank Polski was established in January 1945.

Feliks Młynarski,
President of the Bank of Issue in Poland
in the General Government.
National Digital Archive.

10 zlotys, 1940 issue.
NBP collection.

Main office of the Bank of Issue in Poland in the General Government, at 20 Basztowa St. in Kraków, now NBP branch.
National Digital Archive.

Narodowy Bank Polski: from the People's Republic of Poland to the present day

Establishment and the early years of Narodowy Bank Polski

Narodowy Bank Polski was established by a decree of the State National Council of 15 January 1945, which also stipulated the liquidation of the Issuing Bank in Poland and revocation of the right of issue of Bank of Poland SA. NBP started its operations in February 1945, while war was still in progress. It focused on exchanging occupation money and extending loans to government bodies and enterprises that set about launching production anew. NBP found it difficult to move the printing of its own banknotes to Poland. The banknotes in circulation at that time were manufactured in Moscow – they were of poor quality and did not feature signatures of NBP authorities. Notes started to be printed in Poland in the summer of 1945. Initially, NBP had no permanent seat, as Bank of Poland SA's buildings in Warsaw had been demolished. NBP authorities were based in Lublin, Kraków and Łódź. They were gradually moved to Warsaw from the end of 1945, to a building at Nowogrodzka Street. Several years later, the construction of the current headquarters at Świętokrzyska Street started. The first President of the NBP was Edward Drożniak.

Previous NBP seat at 50 Nowogrodzka St. in Warsaw, the 1950s. Contemporary photo.
NBP collection.

20 zlotys, 1947 issue. Obverse.
NBP collection.

20 zlotys, 1947 issue. Reverse.
NBP collection.

Principles of issuance. The money exchange of 1950

NBP was a state-owned bank. The size of money issue was determined by the Council of Ministers on the request of the Treasury Minister. Formally, it was secured by state assets and State Treasury revenue. Such a provision meant the introduction of money which was entirely *fiat* money; the pre-war rules tying the issue size to gold and foreign currency reserves had been abandoned. As the zloty had no gold parity, it was possible to set freely its exchange rate against foreign currencies. The absence of an official exchange rate was not an isolated case in the world at that time. Many countries, including Western ones, faced difficulties in determing this rate due to the unstable monetary situation and payment problems that resulted in the need to control capital flows. The currency situation in the Western world did not stabilise until the 1950s. Many Western European countries introduced external convertibility of their currencies in 1958.

In the years 1945–1949, NBP issue was quite high; given the short supply in the market, notwithstanding the rising prices, shops did not have enough stock to sell. The prohibition on trade in foreign currencies resulted in the emergence of the grey market where the dollar exchange rate was 2–3 times higher than the official rate. The way to eliminate the imbalance was to exchange money – it was carried out in 1950. It was prepared in secret and announced on Saturday, 28 October. The process took a week and lasted until 8 November. Prices, salaries, liabilities towards public entities and savings in banks (of up to 100,000 zlotys) were recalculated at 100 “old” zlotys for 3 “new” zlotys, while cash and some private legal liabilities at 100 “old” zlotys for 1 “new” zloty. Thus, the public lost about two-thirds of their cash resources. Poles remembered the experience for a long time. In the years to come, any rumour about a money exchange raised concerns that the 1950 scenario would materialise again.

A ban on holding foreign currencies was introduced in parallel with the exchange (private trade in currencies had been prohibited from 1936). Strict sanctions were imposed for breaching the ban. The ban on holding foreign currencies was lifted in 1956, but private trade in currencies was prohibited until the People’s Republic of Poland ceased to exist.

20 zlotys, 1948 issue.

NBP collection.

100 zlotys, 1948 issue.

NBP collection.

20 zlotys, 1982 issue.

NBP collection.

5,000 zlotys, 1982 issue.

NBP collection.

Narodowy Bank Polski and the economy of the People's Republic of Poland

NBP's position in the financial and economic system of the People's Republic of Poland was materially different from the activity of a central bank in a free market economy. That was primarily because in the socialist command and control economy the role of money was only to serve settlements. Thus, NBP was a central credit, control and settlement institution, as well as a state financial control body. Its credit and issuing activity was subordinated to general economic objectives, and its monetary and lending policy was determined by the directives of the Ministry of Finance. The President of NBP was appointed by the Council of Ministers on the request of the Minister of Finance.

The tasks of NBP were to provide credit directly to the national economy, refinance banks, organise monetary settlements, trade in foreign currencies, control the performance of balance of payments plans, draw up the balance of payments as well as the balance of claims on and liabilities to foreign countries. NBP also performed cash and settlement services for the state budget and controlled the financial activity of economic operators.

NBP main office in Warsaw, 11/21 Świętokrzyska St.
Contemporary photo by Wawrzyniec Skoczylas, NBP.

Narodowy Bank Polski after the breakthrough of 1989

The transformation of NBP into a modern central bank began in 1988 when the decision was made to exclude credit and deposit operations from NBP and transfer them to nine commercial banks to be established based on the NBP branches. However, key changes took place after 1989 in consequence of a reform package called the Balcerowicz Plan, which transformed the entire economic system. The reforms were supported by the International Monetary Fund; Poland's creditors, i.e. governments associated in the so-called Paris Club and commercial banks from the London Club, agreed to a partial reduction of the Polish foreign debt.

The new legal form of NBP and its task were defined by the Act on the NBP of 1989. It stipulated that the basic objective of NBP is to strengthen the Polish currency. In the following years, NBP began to pursue monetary policy using such tools as interest rates, reserve requirement and open market operations, which are characteristic of central banks in market economies.

The main goal of monetary policy was to fight inflation. In 1990 prices went up by almost 600% compared to 1989, with the inflation rate declining in the subsequent years, but falling below 10% only at the end of 1990s. The growing monetary stability was accompanied by the stabilization of the zloty exchange rate. In 1990 internal convertibility of the zloty into foreign currencies was introduced, currency exchange bureaus appeared in the streets of Polish cities and the profession of a black-market money changer became history.

The new zloty, which was put into circulation on 1 January 1995 at the rate of 10,000 "old" zlotys for one "new" zloty, became one of the symbols of the transformation. The exchange of the currency was badly needed. The use of banknotes with high face values – and Poles' wallets were full of notes of 1 and 2 million zlotys – became increasingly troublesome for the public and costly for economic operators. The redenomination was preceded by an extensive information campaign to prepare Poles for the operation and dispel doubts about the intentions of the authorities. Until 31 December 1996, old banknotes were in circulation along with the new ones and they could be exchanged until 2010.

Regional Branch in Warsaw, Pl. Powstańców Warszawy 4.
Fot. Contemporary photo by Wawrzyniec Skoczylas, NBP.

500,000 zlotys, 1990 issue.
NBP collection.

2,000,000 zloty note, 1993 issue.
NBP collection.

NBP in the European System of Central Banks

Another stage of the changes at NBP began along with Poland's preparation for the accession to the European Union, which started in 1994. The position of NBP in the Polish financial system was defined by the Act of 1997. The Act stipulated that the primary objective of NBP is to maintain price stability, while supporting the economic policy of the government, insofar as this does not constrain the pursuit of the basic objective. It also changed the structure of NBP management system by establishing the Monetary Policy Council. The decision-making bodies of NBP now include the Monetary Policy Council, the President and the NBP Management Board. Narodowy Bank Polski fulfils three essential functions: that of an issuing bank, of the bank of banks and of the central bank of the state.

In 2000, the exchange rate policy underwent a fundamental change posed by the introduction of a floating exchange rate of the zloty. Earlier, starting from 1995, NBP had pegged the central exchange rate of the zloty, performing its gradual (crawling) devaluation. In 1995 the external convertibility of the zloty was introduced, while in 2002 restrictions on foreign capital flows were lifted.

Upon Poland's accession to the European Union in 2004, NBP became a member of the European System of Central Banks (ESCB). Since Poland is not a member of the euro area, NBP does not participate in the ESCB's decisions on the monetary policy of the euro area.

Due to the recent global financial crisis, the role of NBP as an authority stabilizing the banking sector liquidity has been enhanced. Interest rates and the reserve requirement ratio were significantly reduced and the banks' lending activity was supported. Those activities, combined with prudential regulations of other central authorities, allowed the Polish banking system to maintain liquidity and stability during the crisis.

NBP Presidents	Period in office
Edward Drożniak	1945–1949
Witold Trąmpczyński	1950–1956
Edward Drożniak	1956–1961
Adam Żebrowski	1961–1965
Stanisław Majewski	1965–1968
Leonard Siemiątkowski	1968–1972
Witold Bień	1973–1980
Stanisław Majewski	1981–1985
Zdzisław Pakuła (acting President)	1985
Władysław Baka	1985–1988
Zdzisław Pakuła	1988–1989
Władysław Baka	1989–1991
Grzegorz Wójtowicz	1991
Andrzej Topiński (acting President)	1991–1992
Hanna Gronkiewicz-Waltz	1992–2000
Leszek Balcerowicz	2001–2007
Sławomir Skrzypek	2007–2010
Piotr Wiesiołek (acting President)	2010
Marek Belka	11 June 2010 –

Fed Timeline

1791–1811 The First Bank of the United States

1816–1836 The Second Bank of the United States

1907 Bank panic and financial crisis in the United States

23 December 1913 The Federal Reserve System (the Fed) is created

1929 Beginning of the Great Depression

1944 The Bretton Woods conference

1947 The Marshall Plan is announced

1979 State interventionism is abandoned; reversal of Fed policy

1987–2006 The Alan Greenspan era

2008 Onset of the financial crisis; efforts to overcome the slump begin

100th Anniversary of the Fed

Professor Wojciech Morawski

Americans' long way to the central bank

The origins of the dollar

British colonies in North America financed their war for independence (1775–1783) by printing paper money called the continental currency. The name of the "dollar" came from the 16th century Bohemia (now the Czech Republic) where silver thaler coins were first minted. The name subsequently spread to Spanish colonies in America in the form of the "dollar".

Banknotes issued by the British colonies in North America.

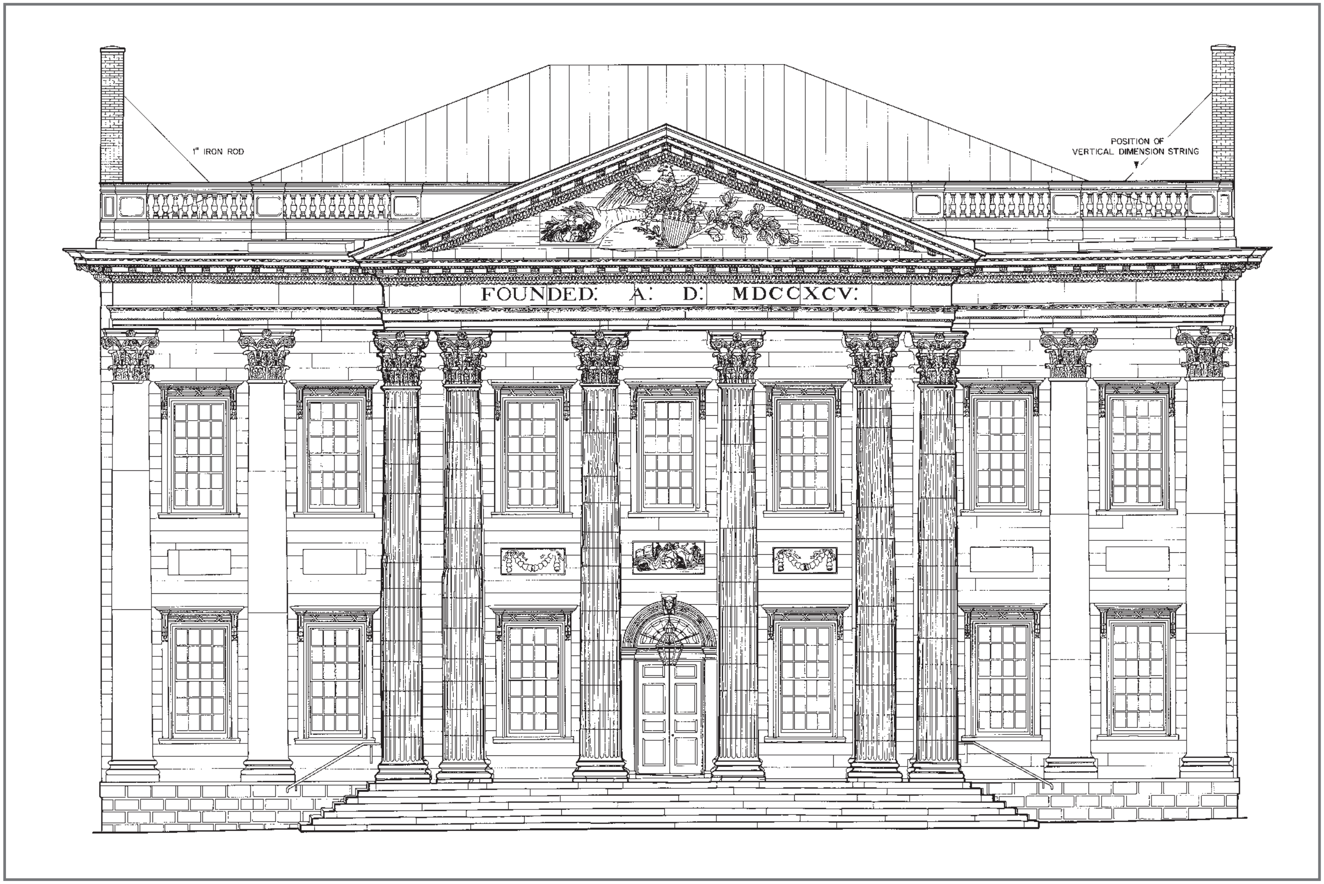
Fig. NY Fed Collection, Larry Schuffman, USA Bonds and Museum of Archaeology and Ethnography in Łódź.

Continental currency banknotes.

Fig. Museum of Archaeology and Ethnography in Łódź.

The First Bank of the United States and Alexander Hamilton's reform

Heavy issuance sparked inflation, which was curbed in 1791 by the first Secretary of the Treasury, Alexander Hamilton. As part of the stabilisation reform, paper dollars were exchanged for silver – 100 paper dollars for one silver dollar – and the First Bank of the United States was established. The bank held the right of issue for 20 years. Americans, however, were not convinced about the need to have a central bank. They feared that it would restrict access to loans for poorer people. Under such circumstances, in 1811, the Congress refused to extend the bank's operation.



Main office of the First Bank of the United States in Philadelphia.

Fig. Library of Congress.

The Second Bank of the United States and the system of State banks

Inflation re-emerged, therefore in 1816, the Second Bank of the United States was established, again for a period of 20 years. As it was coming to the end in 1836, a new hot debate ensued about the extension of the right of issue. The bank's opponents prevailed, and the United States had to live without a central bank almost for another 80 years. The right of issue was conferred on private State-chartered banks (i.e. ones operating under the state laws and not the federal ones). The notes they issued did not enjoy the status of legal tender. Therefore, their acceptance was not mandatory.

Banknote issued by the Second Bank of the United States.
Fig. Larry Schuffman, USA Bonds.

“Greenbacks”

Vast changes to the American monetary system were brought about by the American Civil War (1861–1865), during which both the warring parties suspended the convertibility of banknotes to precious metals and financed their war effort by printing money. In the north, the notes were called “greenbacks” (to which the contemporary dollar owes one of its nicknames. And it was not until 1879 that the dollar’s convertibility to gold and silver was restored. In 1900, Americans gave up silver to back currency issuance. Thus the dollar became a gold-based currency.

"Greenbacks" issued in the years 1861-1862.

Fig. National Numismatic Collection at the Smithsonian Institution.

Means of payment ("paper coins") issued during the American Civil War.

Fig. Museum of Archaeology and Ethnography in Łódź

Bankers' Panic and the 1907 crisis

What ultimately convinced the Americans about the need for a central bank was the experience of the 1907 crisis and Bankers' Panic. The crisis was overcome largely owing to the involvement of John P. Morgan, a private banker, and the Bank of England. This made Americans aware of the benefits of having an own central bank.

Banknote issued in 1907.

NY Fed Collection.

Establishment and early years of the Federal Reserve System (Fed)

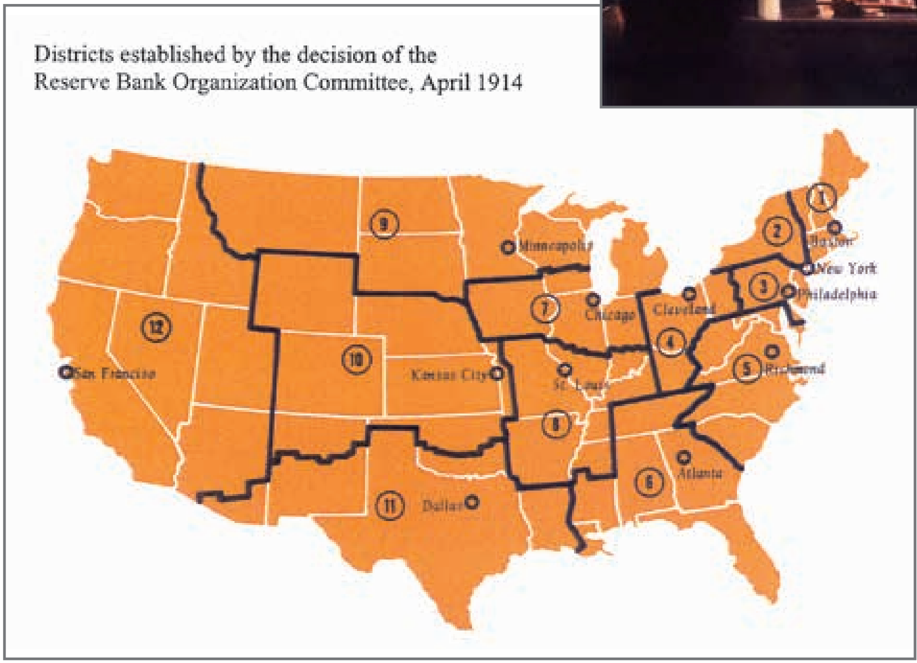
Federal Reserve Act of 1913

The plan to establish an American central bank originated in 1910 during a secret meeting on Jekyll Island. This is why the critics of the present system often call it “The Creature of Jekyll Island”. On 23 December 1913, President Woodrow Wilson signed the Federal Reserve Act, which set up the Federal Reserve System (the Fed) as the central banking system. The structure of the system was something of a concession to the opponents of central banking. Instead of a single institution, it was made up of 12 banks led by the Federal Reserve Board of the Federal Reserve System. At the time of its inception, the Fed was quite a loose structure. The individual banks under its umbrella were formally equal, and the real power was in the hands of their governors.

The territorial structure of the Fed

A special US government committee established in 1913 set the final number of banks to make up the Federal Reserve System at 12. The committee also divided the country into respective districts and selected specific cities as their main offices. Tough competition necessarily accompanied the proceedings – in having an own Federal Reserve bank the cities saw a guarantee of the government’s interest in them and of investment. The location of the main office of the largest, twelfth district, which covered the entire western part of the United States, raised the greatest controversy. Seattle, Portland, San Francisco and Los Angeles aspired to that role. Fearing the victory of Seattle, Los Angeles decided to support its Californian rival, giving the victory to San Francisco. As time passed by, all the banks were accorded additional, special rights. Thus, the Federal Reserve Bank of San Francisco oversees cash used by the Fed, and the Federal Reserve Bank of Boston manages accounting for the whole system. The key role is played by the New York Fed, responsible for the implementation of monetary policy and for contacts with other central banks. The Federal Reserve System has its headquarters in Washington, DC.

President W. Wilson signing the Federal Reserve Act, 1913.
Painting by Wilbur G. Kurtz.
Fig. NY Fed Collection.



Locations and districts of the Federal Reserve banks.
Fig. NY Fed Collection.

Early years

The Fed began to operate in November 1914, when World War I was under way in Europe. The first great challenge for the Federal Reserve System was to finance the American involvement in the war, which the United States joined in 1917. The Fed successfully organised a sale of Liberty Bonds as part of Liberty Loans. But the increase in the quantity of money during the war sparked significant inflation. To fight the surge in prices, in 1920 the Federal Reserve System raised interest rates. This triggered a short, but severe crisis of the American economy lasting until 1921. The decisions made by the Federal Reserve System provoked the first wave of criticism of the institution. Gradually, the Fed improved its methods of operation, making open market operations (purchase and sale of Treasury bonds) its key policy instrument. Open market operations helped manage interest rates and money supply. In 1923, the Federal Reserve Board took the use of such operations under its control and established an Open Market Investment Committee.

First banknotes issued by the Fed, 1914.

Fig. National Numismatic Collection at the Smithsonian Institution.

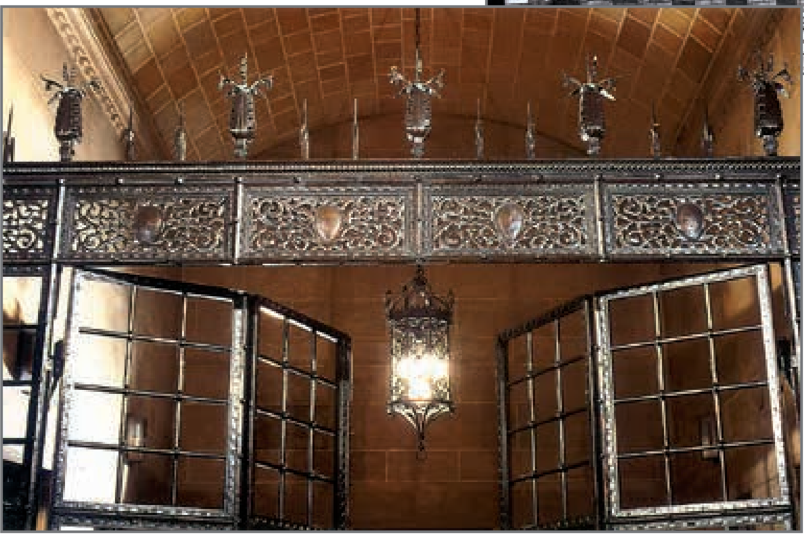
Poster promoting the Liberty Loan campaign, 1918.

Photo: Everett Collection/EastNews.

Federal Reserve Bank of New York

Federal Reserve Bank of New York is the core of the system. It is the only bank to run open market operations; it is in charge of the entire foreign policy of the Fed, and manages foreign transactions of the US government. The NY Fed opened for business on 16 November 1914. Since the deposits from 211 member banks were not received all at once, the early weeks were financed by the Chairman of the Board of Directors, Pierre Jay, himself. The first NY Fed governor was one of the originators of the Federal Reserve System, Benjamin Strong, who held the office until his death in 1928. The New York-based bank's involvement in international affairs today owes much to Strong's original vision. The NY Fed is located at Liberty Street 33, Manhattan. The massive neo-Renaissance building was erected between 1919 and 1924. It stands out with exceptional decorative ironwork by the blacksmith master, Samuel Yellin, born in Galicia, previously part of the Kingdom of Poland. At the time of completion, the seat of the NY Fed was the largest bank building in the world.

Headquarters of the Federal Reserve Bank of New York.
Photo: NY Fed Collection.

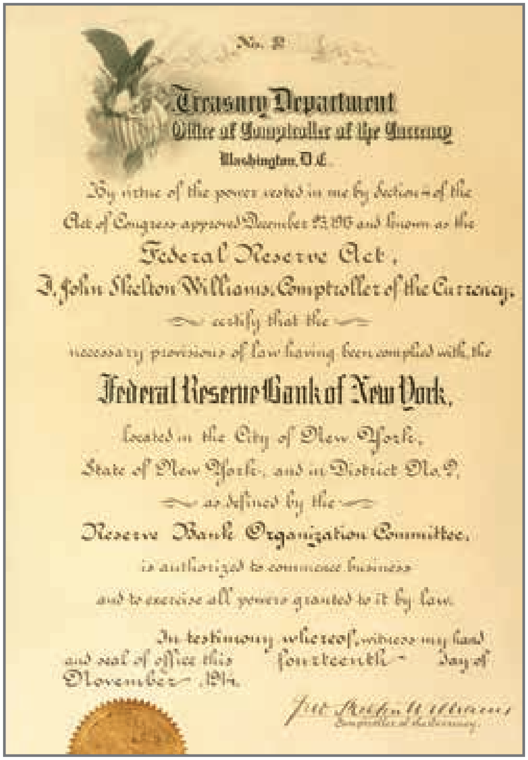


Wrought iron ornaments made by Samuel Yellin,
a Polish-born master blacksmith.
Photo: NY Fed Collection.

Benjamin Strong, the central banker

After World War I, international monetary order had to be restored. Fundamental decisions in this area were taken at a conference held in Genoa in 1922. The initial idea of a world bank was given up in favour of cooperation of governors of the key central banks. This meant that the central banks' governors bore double responsibility – for the condition of their national economies and of the global economy. Particular responsibility for attaining this goal lay with the NY Fed governor – Benjamin Strong. In 1927, the US economy was overheated – from the American point of view, it had to be cooled down through interest rate rises. This, however, would harm Europe by causing an outflow of gold from the Old World. Strong's European counterparts convinced him to cut the already low interest rate. This only overheated the US economy further and was one of the reasons for the Great Depression.

Benjamin Strong,
Governor of the Federal Reserve Bank of New York,
in office 1914 to 1928.
Photo: NY Fed Collection.



No. 2

Treasury Department
Office of Comptroller of the Currency
Washington, D.C.

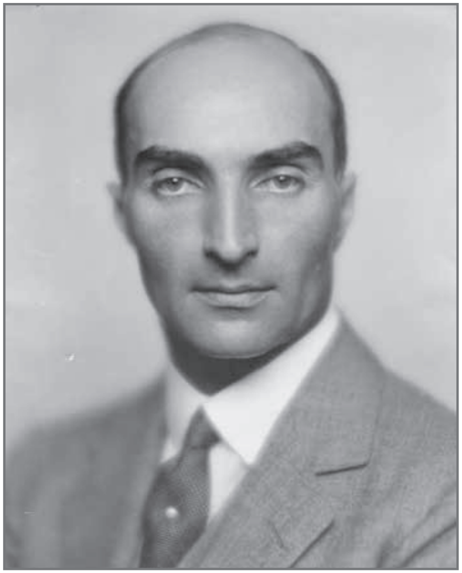
By virtue of the power vested in me by Section 4 of the
Act of Congress approved December 23, 1913 and known as the
Federal Reserve Act,
I, John Skelton Williams, Comptroller of the Currency,
certify that the
necessary provisions of law having been complied with, the
Federal Reserve Bank of New York,
located in the City of New York,
State of New York, and in District No. 2,
as defined by the
Reserve Bank Organization Committee,
is authorized to commence business
and to exercise all powers granted to it by law.

In testimony whereof, witness my hand
and seal of office this fourteenth day of
November, 1914.

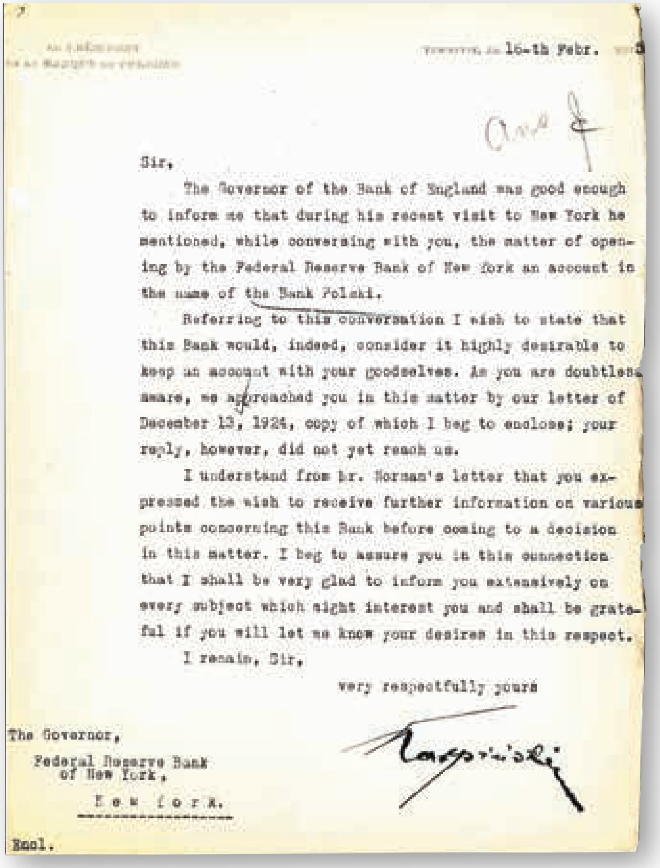
The Founding Act of the Federal Reserve Bank
of New York, 1914.
Fig. NY Fed Collection.

The Federal Reserve System and the Bank of Poland SA

Created in 1924, the Bank of Poland SA promptly established ties with the Federal Reserve Bank of New York. Soon, contacts with the Fed turned out to be very useful. Thanks to the efforts of the Polish Ambassador to the US, Jan Ciechanowski, who not only made friends with the New York Fed governor but was also able to exploit the latter's desire to free the Fed from the influence of the Bank of England, Strong became involved in Polish affairs. The effect was the stabilisation loan of 1927, which helped strengthen the zloty.



Jan Ciechanowski, Envoy Extraordinary and Minister Plenipotentiary of Poland to the United States, 1939. Photo: National Digital Archives.



16-th Febr.

Sir,

The Governor of the Bank of England was good enough to inform me that during his recent visit to New York he mentioned, while conversing with you, the matter of opening by the Federal Reserve Bank of New York an account in the name of the Bank Polski.

Referring to this conversation I wish to state that this Bank would, indeed, consider it highly desirable to keep an account with your goodselves. As you are doubtless aware, we approached you in this matter by our letter of December 13, 1924, copy of which I beg to enclose; your reply, however, did not yet reach us.

I understand from Mr. Norman's letter that you expressed the wish to receive further information on various points concerning this Bank before coming to a decision in this matter. I beg to assure you in this connection that I shall be very glad to inform you extensively on every subject which might interest you and shall be grateful if you will let me know your desires in this respect.

I remain, Sir,

very respectfully yours

The Governor,
Federal Reserve Bank
of New York,
New York.

Encl.

Letter to Benjamin Strong,
Governor of the Federal Reserve Bank of New York,
from Stanisław Karpiński, President of Bank of Poland SA, 1925.
NY Fed Collection.

The Great Depression and the new war

The Great Depression and the Roosevelt's reform

In 1929, the Great Depression broke out – the gravest economic slump in modern history. The financial markets witnessed panic, and global prices of most goods plummeted. The administration of President Herbert Hoover introduced prohibitive tariffs and tightened immigration rules. But this did not stop the crisis. In March 1933, Franklin D. Roosevelt came to power. He reined in the banking panic by closing all banks for more than a week, declaring "a bank holiday". He then proceeded to launch a more fundamental reform. The new banking law (the Glass-Steagall Act) divided Fed-supervised banks into commercial and investment ones, prohibiting them from combining these two types of activity. The Federal Deposit Insurance Corporation was established, which guaranteed bank deposits of up to USD 5,000. Roosevelt devalued (decreased the parity of) the dollar from USD 20.67 to 35 dollars per an ounce of gold, and suspended its convertibility to gold. He then began the "gold sterilisation" policy aimed to separate gold from the monetary system. The restrictive laws demanded that all banks (the Fed banks inclusive) sell gold back to the State. The whole of the gold was then deposited at Fort Knox. The Fed was also reformed. The powers of the Fed chairperson were expanded at the expense of the governors of the individual Fed banks. From 1934, the function was performed by Marriner Eccles, who had close ties with Roosevelt. The Federal Reserve Board was replaced with a seven-member Board of Governors. As part of the reform, the Federal Open Market Investment Committee was transformed into the Federal Open Market Committee.

Franklin Delano Roosevelt, President of the USA, in office 1933–1945.
Photo: National Digital Archive.

Unemployed men outside a soup kitchen, Chicago 1931.
Photo: Everett Collection/EastNews.

Federal Open Market Committee

Fed's control of open market operations was reformed between 1933 and 1935. The Federal Open Market Committee (FOMC), operating until this day, was then formed and put in charge of the US monetary policy. The Committee decisions pertaining to e.g. the purchase or sale of US Treasury bonds are implemented by the Federal Reserve Bank of New York. In 1942, the Committee consisted of twelve members – the seven Fed governors and five governors of the individual Fed banks. Due to the role of the New York Fed, its president is a permanent member of the Committee.

The Second World War

The United States joined World War II after the Japanese attack on Pearl Harbor in December 1941. As during World War I, the Fed helped finance the military effort. This time, however, the Americans wanted to avoid a situation where the Allies would emerge from the war owing them large amounts of debt. Therefore, the basic form of US support to the Allies involved the lease of military equipment under the Lend-Lease program, whereby USD 51bn worth of aid was delivered to the Allies.

The main office of the Fed in Washington. Contemporary photo.
Photo: AGE Fotostock/EastNews.

The Bretton Woods conference

After World War II, the United States became the leading economy in the world. A new era for the dollar, which had become a currency of global finance, began. The foundations of the new system were laid at a conference in Bretton Woods in July 1944.

The Bretton Woods system

The purpose of the Bretton Woods conference was to work out principles for the post-war monetary system. The system was to ensure currency stability in an environment where there was no return to convertibility of money to gold. The system was hinged on the idea of restoring the mutual convertibility of currencies under a fixed exchange rate regime. At the Bretton Woods conference, the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD), called the World Bank, were established. From the Fed's point of view, the IMF was of special importance: one of its objectives was to release the Fed authorities from the responsibility for the state of the global economy and help them to focus on the American economy. This objective was only partially attained.

In practice, individual states protected fixed exchange rates of their currencies against the dollar. The privileged position of the dollar, on the other hand, was reinforced by President Harry Truman's unilateral declaration of 1947 that the United States would exchange dollars for gold on demand from central banks and other IMF members. American gold reserves, deposited at Fort Knox at that time, backed approx. 250% of US foreign debt. Thus, the US government could afford such a gesture, predominantly dictated by reasons of prestige. The US decision, however, meant a serious modification to the Bretton Woods system: year after year following the war, the United States were able to run large federal budget deficits. For any other government, this would have resulted in a collapse of the currency followed by inflation. The US government had nothing to fear.

Bretton Woods, 1944.

Photo: AKG Images/EastNews.

A substantial part of additional issuance of the dollar did not remain in the American market but was transferred abroad in various forms. In the destination countries, the dollar was welcome and trusted, and its fixed exchange rate was protected by the Bretton Woods system. Dollars that ended up abroad were, owing to their convertibility to gold, treated by issuing banks as backup for heightened issuance of local currencies. There emerged a mechanism through which the inflationary consequences of the American budget deficit were exported. At some point, the Americans noticed the benefits and were interested in reaping them further. The global demand for the dollar – the "dollar gap" – in 1950s was very high. In order to keep the high international prestige of the dollar, Americans launched a slogan about "dollar as good as gold". It must not be forgotten, though, that not only Americans benefited from the US budget deficits. In the post-war period, the US had to foot the bill for the arms race of the Cold War. The country also made a significant contribution to the post-war recovery of Western Europe under the Marshall Plan.

The Marshall Plan

In June 1947, in response to the Soviet Union's increasingly tighter control over Eastern Europe and the threat of communism spreading to Western Europe, the US Secretary of State, general George Marshall, proposed a European Recovery Plan for a post-war reconstruction of Europe. The Soviet Union, and Eastern European countries under its pressure, refused to participate in the Plan. Politically, the plan was to counterbalance communism; economically – "to prime the pump". The Plan involved loans to European countries granted on favourable terms (and largely forgiven later). During its operation between 1948 and 1951, the United States spent a total of approx. USD 17bn on it. The Marshall Plan, along with European integration, became a pillar of the post-war prosperity of Western Europe.

General George Marshall, 1945.
Photo: World History Archive/EastNews.

In the late 1950s, the shortcomings of the Bretton Woods system began to manifest themselves. For reasons of prestige, the Americans felt obliged to keep the gold price low – at USD 35 per ounce. As a result, gold was flowing out of the US either through American interventions on the London gold market or through exchange of dollars to gold on demand from foreign central banks. The phenomenon called "dollar bleed through" was intensifying. The shrinking gold reserves at Fort Knox heralded imminent crisis.

Fort Knox

An army base in Kentucky established in 1917. Since 1936, the US Bullion Depository. Fort Knox commanded particular public attention in the 1960s, when the shrinking gold reserves at Fort Knox were spelling doom for the Bretton Woods system. Ever since, a robbery of Fort Knox has been an idea exciting the imagination of writers, screenwriters, let alone real robbers. In reality, there has never been a Fort Knox robbery attempt. However, in 1964, in the *Goldfinger* film James Bond prevents a plot to exclude gold from circulation in consequence of irradiation.

In the mid-1960s, inflation in the US accelerated. In August 1971, after futile attempts to curb inflation with administrative methods, President Richard Nixon suspended the gold standard. Gold reserves at Fort Knox at that time covered roughly 19% of US foreign debt.

Banknote issued in 1957.

Fig. National Numismatic Collection at the Smithsonian Institution.

Monetary Twist

The 1970s, the decade following the collapse of the Bretton Woods system was turbulent. After 20 years of prosperity, two successive crises called "oil shocks" broke out, both triggered by dramatic hikes in oil prices. Oil shocks led to the demise of economic interventionism, a policy supported by economists from the John Maynard Keynes macroeconomic school. The main assumption of interventionist policy was hinged on the conviction that a trade-off existed between the two evils of inflation and unemployment; the higher the unemployment rate, the lower the inflation rate, and vice versa. Thus a crisis could be overcome at the expense of some inflation. Now, a new type of crisis had arrived – and its symptoms were both high unemployment and inflation. Attempts to combat this type of crisis with old methods were like pouring oil on the flames. This is why the 1970s events led to the "monetary twist" in economic policy: inflation became the key enemy, and market mechanisms seen as a better cure than state interventionism.

Monetarism

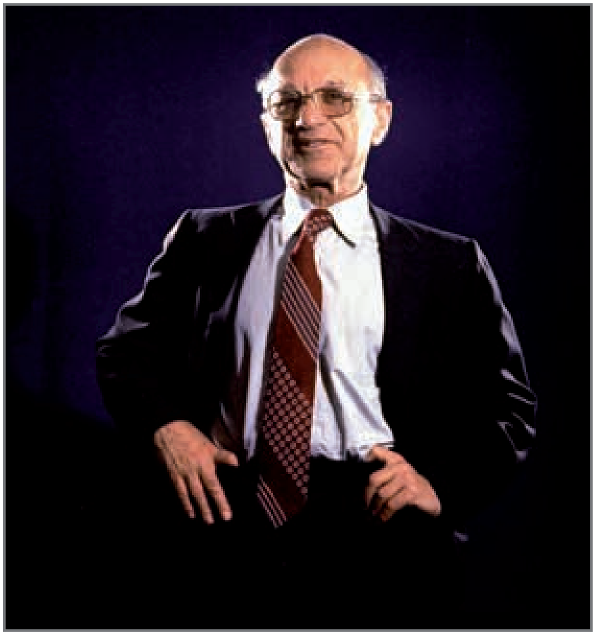
The monetarists, clustered around the University of Chicago, were headed by Milton Friedman, the 1976 Nobel Prize winner. Friedman pointed to limited effectiveness of state interventionism, a policy propagated by economists from the macroeconomic school of John Maynard Keynes. In the 1960s, he wrote (together with Anna Schwartz) a paper entitled *Monetary History of the United States 1867–1960*, where, among others, he blamed the wrong monetary policy of the government of the time for the Great Depression of the 1930s. He rejected the dogma of full employment as the goal of economic policy. He introduced the "natural unemployment rate" term as a minimum unemployment level that does not cause inflation. In the 1970s, the necessity to combat inflation was stressed even by economists who grew up in the Keynesian tradition, such as John K. Galbraith.

The 1973 oil crisis in the USA.

Photo: SPL/EastNews.

The monetary twist in the United States began already in October 1979, when the Board of Governors of the Federal Reserve System introduced more stringent monetary and lending policies. The author of the plan was Paul Volcker, Chairman of the Federal Reserve from 1979 to 1987. Yet the Jimmy Carter administration could boast no success in this area. The real U-turn in the government stance took place only after Ronald Reagan's presidential victory in 1980, and it came with a price tag: the monetarist policy was partially responsible for the 1981–82 recession. In the following years, the Reagan administration, attempting to resuscitate the economy, kept cutting taxes; additionally, spending on arms was increased, as the new phase of the Cold War required. All of this generated a huge budget deficit. The Federal Reserve System, trying to avoid a new round of inflation, kept interest rates high, which in turn resulted in an appreciation of the dollar against other currencies. This impaired the competitiveness of the American economy and led to a trade deficit as high as the budget deficit. It also plunged a large group of poorer countries into a debt crisis, which met with an opposition of US partners.

Another turn in the American foreign exchange policy occurred in 1985. The Federal Reserve System cut interest rates and the dollar began to weaken, losing 11 per cent of its value over several months. In August 1985, the new Secretary of the Treasury, James Baker, signed a new accord with his counterparts from the UK, France, Germany and Japan in the Plaza Hotel in New York (hence the Plaza Accord) on cooperation in a further, controlled depreciation of the dollar. Under the accord, in the following months, the dollar depreciated by another 24 per cent. The system established in this manner was called "controlled foreign exchange liquidity". Ultimately, in 1987, the Louvre Accord was signed, introducing an informal mechanism stabilizing foreign exchange for G7, the world's seven most influential countries.



Milton Friedman, economist, 1977.
Photo: AP Images/EastNews.

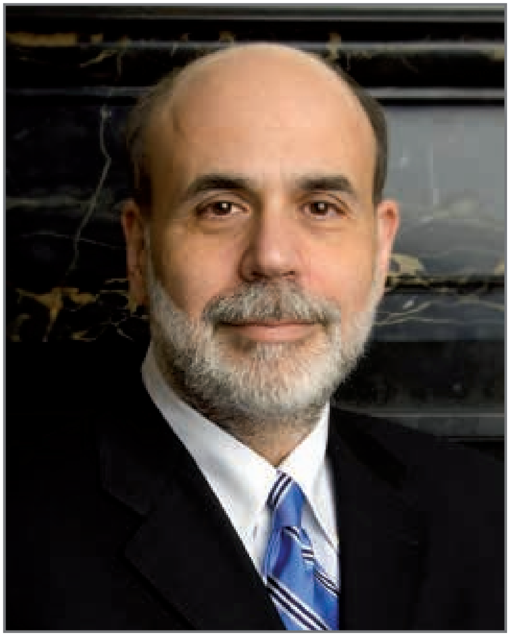
The Alan Greenspan era

The years 1987 to 2006 witnessed Alan Greenspan's exceptionally long term in office as Chairman of the Fed. Almost upon his nomination, Greenspan had to face the stock exchange crash in October 1987, which, however, did not balloon into an economic crisis. Then came the threats to the global economy connected with the end of the Cold War and reduction in military expenditure (1991), followed by crises in "periphery" areas such as Mexico (1994), Asia (1997), Russia (1998) and Brazil (1999), and finally the tragic events of the World Trade Center attacks (2001). These critical situations clearly proved that in times of crunch, the world was waiting for a decision from Alan Greenspan, Chairman of the Fed, rather than from Michel Camdessus, IMF Managing Director. The fate of the global economy depended largely on the state of its "engine", the US economy. And this, in turn, depended on Greenspan's decision. Greenspan kept getting the world out of trouble by supporting good economic climate in the US. He did so, however, at the expense of ever lower interest rates, expanding issuance of money and increasingly poorer prudential standards. In 1999, the Glass-Steagall Act was repealed, since this prudential measure dating back to the Great Depression was no longer considered necessary. The odds for the future slump were piling up.

Alan Greenspan, Chairman of the Federal Reserve Board of Governors, in office 1987–2006.
Fot. Britt Leckman, Federal Reserve Board of Governors.

Ben Bernanke's struggle with the crisis

The financial crisis of 2008 had to be faced by another Chairman of the Fed, Ben Bernanke. He was well prepared for this role. Previously, he studied the Fed actions versus banks during the Great Depression of 1929, and in 2002 he formulated the "Bernanke doctrine" warning (against the opinion then prevailing) about the danger of deflation, i.e. too small quantities of money in the economy. In September 2008, after the collapse of Lehman Brothers, Bernanke launched a campaign for a recapitalisation of major US banks. He also supported the plan of the Secretary of the Treasury, Henry Paulson, to inject funds into the US economy – and later other similar plans. Bernanke saw major threats in deflation and was determined to provide liquidity for the US economy by putting vast quantities of money into circulation. His critics nicknamed him "Helicopter Ben"; he is rumoured to have said that if there was no other way, dollars should be dropped down from a helicopter. The relative health of the US economy a few years after the crisis and the fact that the fears about hyperinflation have not materialised seem to demonstrate that the policy was justified. Bernanke's successor, Janet Yellen, who is taking over the office on 1 February 2014, has declared her intention to continue her predecessor's policy.

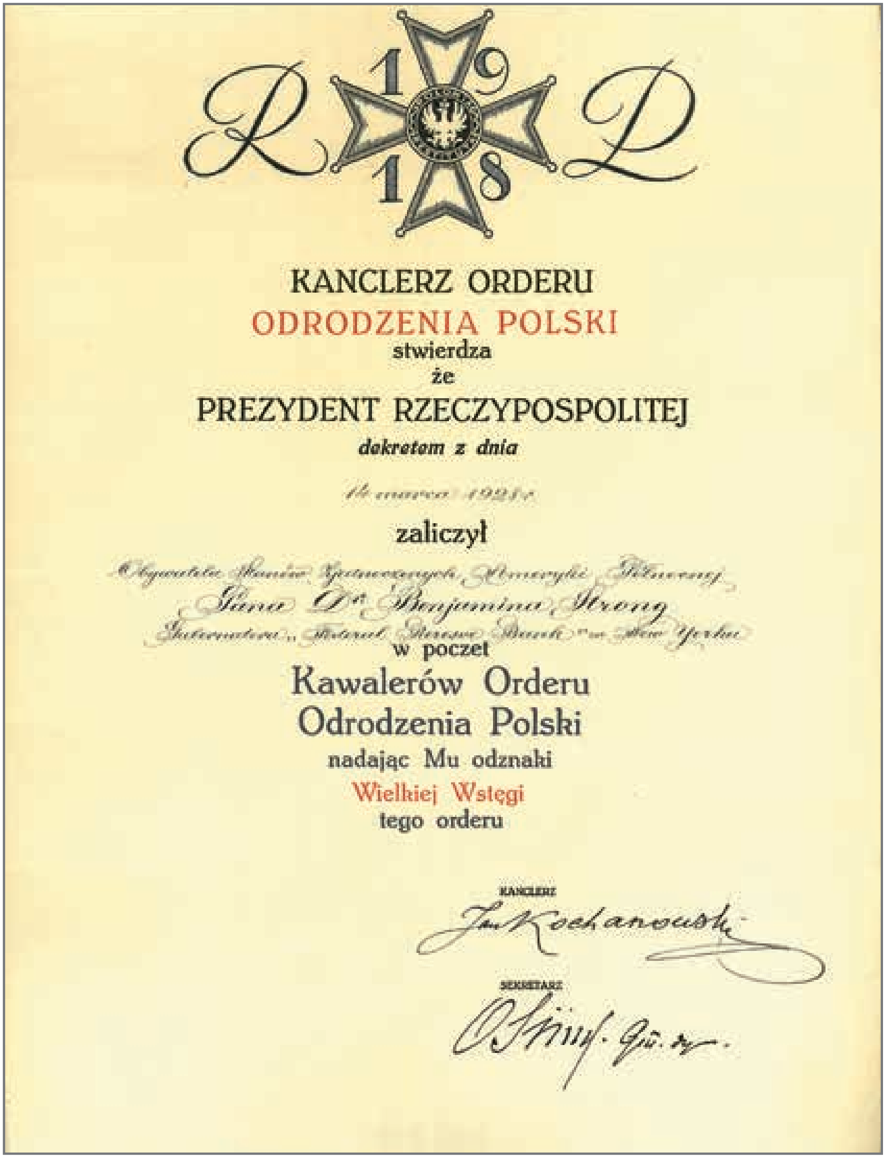


*Ben Bernanke, Chairman of the Federal Reserve Board of Governors, in office 2006–2014.
Photo: United States Federal Reserve.*

The controversies. Between the white and black legend

The idea of the establishment of a central bank in the US was a matter of controversy from the beginning. In the 20th century, although advocates of central banking had prevailed, its opponents were still around. They have occasionally come to the fore, especially during crises. The current recession is hardly an exception. The present day's criticism of the Federal Reserve System derives from two different trends. On the one hand, in similarity to the 19th century, the less affluent part of the American society manifests distrust towards central banking institutions. In their view, the central bank represents a danger of restricted access to loans and thus, an impediment to becoming wealthier. On the other hand, there is the criticism from the Austrian School of economics, whose representatives want a return to gold-based currency – and in a rather orthodox version: anything but a per cent backing of banknotes by gold is considered abuse. The implementation of the Austrian concept would deprive the less affluent of any chance to gain wealth. Thus, the two groups of Fed critics are separated by a chasm of which they may not even be aware. In an open society, criticism and challenge of the very existence of a public institution is fairly normal. This does not change the fact that, notwithstanding its errors, the Federal Reserve System and the century of its existence will go down well in the economic history of both the United States and the world.

Fed Chairpersons	Period in office
Charles S. Hamlin	1914–1916
William P. G. Harding	1916–1922
Daniel R. Crissinger	1923–1927
Roy A. Young	1927–1930
Eugene Meyer	1930–1933
Eugene R. Black	1933–1934
Marriner S. Eccles	1934–1948
Thomas B. McCabe	1948–1951
William McChesney Martin, Jr.	1951–1970
Arthur F. Burns	1970–1978
G. William Miller	1978–1979
Paul A. Volcker	1979 1987
Alan Greenspan	1987–2006
Ben Bernanke	2006–2014
Janet Yellen	1 February 2014 –



KANCLERZ ORDERU
ODRODZENIA POLSKI
stwierdza
że
PREZYDENT RZECZYPOSPOLITEJ
dekretem z dnia

zaliczył

Pana Dr. Benjamina Strong

w poczet
Kawalerów Orderu
Odrodzenia Polski
nadając Mu odznaki
Wielkiej Wstęgi
tego orderu

KANCLERZ

SEKRETARZ

The Order of Polonia Restituta conferred on Benjamin Strong, the Governor of the Federal Reserve Bank of New York, in 1928. Fig. NY Fed Collection.

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Exhibition

The history of central banking – Poland and the USA

NBP Regional Branch
Warszawa, Pl. Powstańców Warszawy 4

The exhibition is open
from 12 December 2013
to 11 April 2014

Opening hours
Monday – Friday
10 a.m – 7 p.m.

Admission free