

The Mermaid with the Sword: Poland's Search for Monetary Stability and Military Security through Gold*

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Poland's monetary history over the past century reveals an interdependence between monetary stability and national security. This paper argues that the two are not parallel policy problems but facets of a single predicament: sound money cannot be sustained in a state whose existence is in doubt, and no state can secure itself without the resources that monetary discipline makes available. Across regimes as different as the interwar Second Republic, German occupation, communist planning, and post-1989 democracy, financial fragility has repeatedly undermined strategic security, and strategic insecurity has destroyed monetary credibility. At the convergence of these twin crises, one asset recurs with striking regularity: gold. Its persistence in Polish public consciousness – from the name of the currency to the central bank's purchases in the 2020s – is not an atavism but a rational response to an enduring structural predicament. The Warsaw Mermaid, sword in hand, embodies this argument: the lure of monetary expansion on one side, the demand for defence on the other, and a currency perpetually caught between them.

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1. Introduction

To a remarkable – and remarkably underexplored – extent, Poland’s fate over the past century has been shaped by its monetary history. This paper argues that a single thread runs through Poland’s reversals of fortune: the interdependence of *monetary stability* (usually measured in terms of price stability) and *national security* (requiring commitments to higher defence expenditure). This paper draws on new archival material from repositories inside and outside Poland to identify a dilemma of Poland’s financial history, which we describe as “the Mermaid with the Sword”. It examines the interaction of economic and security factors and how they impact inflation, national power, and the credibility of commitments. As Poland’s modern history encompasses financial capitalism, socialism, a war economy, central planning, reform communism, the transition to a market economy, and emergence as a European “tiger economy”, it provides a range of empirical case studies that illuminate ongoing theoretical debates about institutional determinants of economic growth and development in economics and political science.

How broad should be our definition of institutional foundations? Scholars have typically treated monetary and security issues as distinct domains, examining the policy choices in separate analytical registers. Yet the story of modern Poland demonstrates that sound money cannot be sustained in a state whose very existence is in doubt, and that no state can secure itself without command over the resources that monetary discipline makes available. In the Polish case, monetary and national security problems are not parallel policy challenges but facets of a single predicament – what one might call the danger contained in the nexus between financial and military strength. This nexus can produce, in parallel in both domains, a negative chain reaction capable of stripping a country of its sovereignty (or its capacity to decide on the trade-offs between price stability and a defence ramp-up): even to the point of erasure from the map. When this occurs, the scope for independent political decision-making shrinks to whatever the opposing and arbitrary imperial powers permitted.

The dangers of this interdependence have surfaced repeatedly across political systems as different as the interwar Second Republic, the German occupation, communist central planning, and post-1989 democracy. Time and again, financial fragility in the face of crisis has undermined strategic security; and, conversely, strategic insecurity has destroyed creditworthiness and foreclosed the accumulation of necessary military strength.

The Warsaw Mermaid – symbol of the city – offers a fitting emblem of this recurring nexus between financial resilience and state sovereignty. Unlike the Homeric sirens, whose beguiling song lured sailors onto the rocks by distracting them from the work at hand, the Warsaw Mermaid brandishes a sword, an unmistakable reminder

that adequate means of self-defence are not optional. The siren figures of Greek mythology became, over time, a widely used metaphor for the seductive lure of dangerous and short-sighted (in technical terms non-time consistent) policy choices; the Polish Mermaid, and the leaders who embodied her vigilance in the domain of economic policy, have by contrast been largely forgotten. Tracing this hidden historical pattern sharpens attention to the inextricable link between monetary stability and national defence, and to the dangers that arise when weakness in either sphere compounds weakness in the other. There are vicious cycles of erosion of stability, but also some virtuous cycles of resistance, in this interaction. Poland's economic past can also offer lessons about the positive mutual reinforcement of price stability and national power – about how the destructive cycle can be broken.

Economists like to examine Central European experiences under the umbrella of “small open economies”. The CEE countries participate in international trade but are too small to influence global prices or world interest rates. In consequence, they are “price takers”, meaning they are highly dependent on global trade and sensitive to foreign economic policies. Bringing the security dimension is a source of more agency. In the Polish case, the country's experience was shaped by radically different institutional and economic visions and opportunities held out not just by the powerful neighbours – Russia or Germany – but also by other systemic actors, Britain, France, and the United States. The linkages often become embedded through capital flows on which a borrowing country becomes dependent to finance both economic development and security provision.

Two broad sets of policy choices have served as answers to the risk of mutual negative reinforcement between monetary and security weakness. The first consists of credible institutional commitments designed to forestall any destructive chain reaction before it can take hold (*North – Weingast 1989; Bordo – Kydland 1990; Neal 1990*). The second focuses on improving economic stability through a single asset that has returned with striking regularity at moments of national security worries: gold. Gold's persistence in Polish public consciousness – from the very name of the currency, *złoty*, meaning “golden”, to the central bank's large-scale purchases in the 2020s – is therefore not an atavism but a recurring, and largely rational, response to an enduring structural predicament.

This predicament of potentially utterly destructive chain reactions at the interdisciplinary nexus of financial and security policies is not uniquely Polish. Other countries have faced analogous pressures at the intersection of monetary disequilibrium and national security crisis.

Understanding the Polish response to the security/financial predicament requires traversing a full century of history and drawing on sources that were long unavailable, often suppressed, forbidden, or hidden from public view.

The theoretical synthesis required to perceive and understand the mutual reinforcement of price stability and national power is correspondingly broad. It runs from the siren calls of inflationary policy – and the leaders who yielded to or resisted them – through the institutions constructed to bind the state to its commitments, to the metal that kept reappearing whenever the two crises, of money and of survival, converged in what this paper calls the predicament of the Mermaid with the Sword.

2. The dream and the illusion of peace

The securitisation or militarisation of finance constitutes a constant threat, a danger. Philosophers who saw peace as an ultimate goal inevitably tried to pick apart the fantasies of war finance, but alas they created their own alternative dreams. Adam Smith and Immanuel Kant, along with other Enlightenment luminaries, saw perpetual peace as a desirable goal, to be obtained through peaceful commerce. They reasoned that by demonstrating the frequent folly, and the costliness, of military spending, they might convince their contemporaries to adopt a new political strategy. In his great essay of 1795, Kant made limiting credit to states a key part of his programme for securing perpetual peace. David Ricardo, the British economist, is often described in modern accounts as having established a theory of “Ricardian equivalence”, that is the principle that government borrowing in order to spend is no different in its impact than immediately taxing – because borrowing implies the need for elevated taxes in the future, which will be priced into markets immediately. In practice, Ricardo, writing with the experience of debt funding in the Napoleonic wars, like Kant warned about the dangers and temptations of government debt: *“Let us meet our difficulties as they arise, and keep our estates free from permanent encumbrances, of the weight of which we are never truly sensible till we are involved in them past remedy”* (Ricardo 1846: p. 421).

Kant reflected on what he termed “this ingenious invention of a commercial people in the present century”, the now very well-known financial revolution after Britain’s Glorious Revolution of 1688, which had brought a new coinage, the new Bank of England, and the adoption of the gold standard. The reforms carried out under William III followed the ideas of John Locke and Isaac Newton. Their implementation allowed governments to build up greater resources that they then believed could outcompete any rival. *“The ease, then, with which war may be waged, coupled with the inclination of rulers towards it – an inclination which seems to be implanted in human nature – is a great obstacle in the way of perpetual peace”* (Kant 1903: p. 112). However, Poland in the twentieth and twenty-first centuries, surrounded by frequently hostile and dangerous powers, had no choice except to see credit – with all its inherent dangers – as its path to securing national survival.

3. The siren and the sword

The Homeric story of Odysseus supplies the template for modern monetary commitment. Odysseus, the dynamic moderniser with a vision of the future, understood that he had to be bound to the mast lest he succumbs to the sirens, his sailors stopped their ears with wax. This image is routinely applied to central bankers. An “Odyssean contract” lets the technocrats steer through monetary turbulence, deaf to calls for generosity and to complaints of meanness, while the political master – Odysseus/the government/the people – agrees in advance to be bound. By committing credibly, the central bank can shift expectations and in this way alter market behaviour – a mechanism that the twenty-first century relabelled forward guidance, and that has often been illustrated by precisely this myth (Campbell et al. 2012). Peter Conti-Brown, historian of the world’s most powerful central bank, eloquently articulated the resulting expansion of the mythology: “We enjoy the ride while the technocratic central bankers guide the ship of the economy to the land of prosperity and low inflation” (Conti-Brown 2018: p. 2). But what happens when the ride gets bumpy, uncomfortable, dangerous, or even life-threatening?

Poland makes an unusually pure test case of how stability-inducing institutions emerge, and on what principles they may be designed. For long stretches of time, the nation existed only in underground opposition to foreign domination. In the two world wars, under Soviet-imposed communism, and during earlier long periods of forced subjugation by foreign powers, a new Polish state was conceived in resistance, and national institutions could survive only in a parallel world. In Alfred Jarry’s *Ubu Roi* (1896), an uncanny premonition of the totalitarianisms to come, the action is set “in Poland, that is to say nowhere”. A state that must be created from nothing makes its monetary choices in the open: amid political contestation and a clash of visions. In Poland, the siren calls were especially strong, after all, *Syrenka Warszawska*, the mermaid herself, is the emblem of the country’s capital. And unlike the placid, forlorn figure of Andersen’s fable in Copenhagen harbour, Warsaw’s Syrenka stands proud and erect, carrying a shield and a sword. In other words, the Polish mermaid is concerned with security. This single image holds an argument about institutions and the threats they face: the lure of monetary expansion on one side, the demand for defence on the other, and a currency caught between them. Polish interwar politics was dominated by the military and polarised around rival soldiers; the military reached even into the central bank, and a colonel of the Piłsudski regime, Adam Koc, would briefly serve as president of the central bank and, in 1939, organise the dramatic evacuation of Poland’s gold to France via Romania, Turkey, and the Middle East.

4. Inflation as a fever indicator

The case for tying oneself to the mast was made, over and over, as a response to the disruptions caused by inflation. Poland's history for over the last hundred years since national independence was restored in 1918 is a chronicle of monetary distortion through wholly different political and economic regimes, with the surges clustering tellingly around national security crises. The zloty was introduced into circulation in 1924 by the central bank. Inflation at first looked like a regime inherited from the empires that had partitioned Poland, with high inflation a major cause of the disintegration of the tsarist empire in 1917, and spectacular postwar inflations in Austria, Hungary, and Germany. But freeing Poland from foreign tutelage and bad theory was hard.

There was hyperinflation after the First World War and the re-establishment of the Polish state; renewed inflation after the only half-successful stabilisation of 1924, which helped produce Piłsudski's coup of 1926 (Zimmerman 2022); a deliberate turn to reflation in the later 1930s, after the misery of depression and deflation, as the foreign-policy and military threats to Polish existence escalated, and policy-makers worried how to finance higher defence expenditures; the inflation forced on Poland after the German invasion of 1939; the suppressed and then erupting inflation of a planned economy whose theorists denied that inflation was even possible under socialism; and the stubbornly high inflation of the post-1989 transition. The twenty-first-century episodes were milder – an undershooting of targets after the Great Recession, which in Poland alone among European countries was not a recession, then an unexpected surge after Covid and the Russian invasion of Ukraine – yet even these provoked political reactions of a ferocity intelligible only against the backdrop of older traumas.

What is striking is less any single episode, most of which had counterparts abroad, than their *concatenation*, which was in Europe almost uniquely Polish. The post-1918 hyperinflation swept through Central Europe, sparing only Czechoslovakia; Poland stabilised relatively late because it wished to avoid the heavy controls that earlier stabilisations had required. Nazi wartime occupation generally produced inflation, as military spending was financed by local monetary issue, but Poland was uniquely exposed as the staging ground for the assault on the Soviet Union in 1941. Inflation in the communist era ran higher than in most planned economies – while the Soviet Union enjoyed price stability from the early 1950s to the mid-1980s, Poland and Hungary did not – because a stronger tradition of political protest forced governments to accommodate demands with spending, and the price increases, imposed to absorb the resulting shortages, fed further protest. Inflation thus turned into a remarkably enduring and relatively precise diagnostic instrument: a damning numerical measure of the gap between socialism's promises and its performance. The political logic that always threatened monetary stability

had already been described in the 1920s by the liberal economist Edward Taylor, who saw political groups fight “furiously for the material interests of particular social groups”, silently pressing for more banknotes and more inflation, so that political disorder bred inflation and, in turn, inflation deepened the disorder, making the new state “difficult to settle down” (Taylor 1926: p. 287).

5. Sovereignty, credit, and the substitution of tanks for trust

Inflation was so sensitive a subject because it immediately raised the question of Poland’s relationship with the outside world. Money, in a small or medium-sized country, is usually defined by its relation to some other currency, so monetary affairs perpetually generate the fear of lost sovereignty. Even substantial and very rich West European countries felt the effects of exchange rate movements on economic activity very directly, and the calculation provided a rationale for imitating the United States in developing a large internal market transacting through a single currency. And for poorer countries, with less developed capital markets, there was always an attraction in apparently cheaper (but also inherently risky) foreign currency borrowing.

The internal divisions and institutional failures that produce inflation might in principle be patched with external resources, but borrowed money helps only if it is channelled into investment and new growth rather than mere short-term relief. In the interwar years the standard remedy was outside supervision – the League of Nations had pioneered the method in Austria and Hungary in the early 1920s – but Polish politicians judged such tutelage politically poisonous, associated with an unacceptable degree of foreign control. Finance Minister Władysław Grabski insisted instead on salvation *O własnych siłach*, “on one’s own”. He lamented that, amid crisis, “*more and more people give in to the thought that we cannot cope on our own and we need not only money from abroad, but also people who will take care of us*”, and warned, it was “*unacceptable that, under the influence of the current crisis, we should try to obtain a loan on terms that would limit our state sovereignty*” (Grabski, quoted in Jeż 2022).

Borrowing from abroad was nonetheless central to stabilising a relatively poor economy after a great shock. In the 1920s the decisive blow was the near-total loss of the old Russian market that had driven Polish industrialisation, and then came a costly trade war with Germany; in the 1990s an analogous shock came with the disappearance of the Soviet market. Both times the response required turning to the United States and its financial markets. But the deeper lesson of the interwar period is that the gravest threats to sovereignty came not from creditors but from armies. As American financial power evaporated after the stock market panic of 1929, and France was forced into austerity in the 1930s and incapable of providing

large defence loans, Poland – wedged between two unstable, aggressive revisionist powers, and abandoned by an isolationist United States – found that its sovereignty was compromised not by pressure from financial institutions and credit chains, but most directly and destructively from German and then Soviet tanks. After 1945 this pattern became inverted. Western, mostly American, financial power became omnipresent; dollars could reach beyond the carapace provided by tanks. The debt crisis that broke in 1981, amid an unprecedented protest movement and a general international debt crisis, tightened the communist regime's room for manoeuvre, pushed it toward experiments with reform, and left the country to begin its market transition under a heavy debt overhang. The two eras thus illustrate a substitution: where credit is scarce and contested, security must be bought with hard assets; where credit is abundant and trusted, money itself can do the work that tanks once did.

6. The persistence of gold

Through all these regimes and political climates, one alternative appeared to offer a glittering way out, and it is here that the interdependence of money and security becomes most concrete. Gold has intrinsic value; it depends on no state's authorisation. For that reason, gold offers security in a specifically military sense: in war, it can pay for the procurement of urgently required goods and services that cannot be obtained on credit, or on the mere word of a state. Small wonder that gold became the focus, even the obsession, of Polish policymakers, who wrote it into the very name of the currency – *złoty* means "gold". Poland introduced a virtual gold currency in the early 1920s, before it could take serious steps to retire the inflation-prone mark inherited from the war, and the gold promise lay at the core of the stabilisation that established Bank Polski in 1924. In 1926, when the finance minister and the bank's vice-president travelled to complete the second and final stabilisation in the company of a French and an American central banker, visiting the ailing Governor of the Federal Reserve Bank of New York, they called themselves the "Four Golden Złotys". The gold cover ratio became the headline measure of success, reaching 38.7 per cent at the end of 1929.

That very success bred a toxic illusion that the gold stock could rise forever. Reversing its earlier policy of holding only the legal minimum, the bank declared in its 1929 annual report that, "for psychological reasons", a central bank was strong in proportion to the gold it held. The illusion concealed a structural vulnerability, for credit flows were at the core of the international system, and Poland's prosperity – together with its gold – ultimately rested on foreign borrowing. The most acute contemporary analyst, Feliks Młynarski, who had taught himself monetary theory from the work of the great American monetarist Irving Fisher, saw it clearly: *"Instead of a fluctuation of gold we have an ebb and flow of short-term credit"*

(Młynarski 1929: p. 79). He wrote these words in 1929, just as the ebb turned into a catastrophic outflow. Gold, it emerged, was not the autonomous anchor it appeared to be; it floated on the same tide of international credit on which security also depended.

There was also a darker resonance. Gold stood at the centre of the national mythologies of the two powers that menaced Poland east and west. Russian thought had long treated gold (rather than institutional arrangement) as the ultimate guarantor of stability. Gold in Russian culture commanded a quasi-religious aura borrowed from the icons that embodied God's power. In Germany the Nibelungen saga, as reworked by Wagner, turned on the seizing and hoarding of gold as a demonstration of power. To reach for gold was thus to reach for the very symbol through which Poland's predators understood domination – a reminder that the asset which promised security was also entangled with the sources of the threat.

7. Gold's odyssey and the coming of the dollar

As Poland's credit ebbed through the 1930s its gold stock waned, but the obsession only intensified as the security threat grew. Fearing that creditor states might seize it, Bank Polski repatriated as much gold as it could from New York and Paris – whereupon gold at home suddenly looked like a fresh vulnerability. Colonel Adam Koc, the former head of the bank, drew out the underlying logic of this decision, *"The purpose of gold during war is to serve the defence of the state. It does not play the role that it played during peace, when it was the foundation of the Polish currency"* (Koc 2005: p. 267). In September 1939 he coordinated the spectacular evacuation by which the reserves travelled by bus and truck to Romania, by rail to the Black Sea coast, by an ageing oil tanker to Istanbul, by rail again to Beirut, and by French warship to Toulon. The gold was rescued, but France was not safe either; after the German invasion of May 1940 the Vichy authorities removed it to West Africa, under the control of the Banque de France and subject to German pressure (Rojek 2000).

Then a new kind of power asserted itself. When Germany demanded – with menacing notes – that the gold be returned to occupied Warsaw, where Bank Polski still nominally existed, the Polish government in exile in London obtained an injunction in a New York court holding French gold there as collateral for the Polish claim. The question of who owned Poland's gold was decided, in the end, not by armies or by the metal's own "intrinsic" value but by American courts – an early sign that financial and legal infrastructure, centred on the United States, was becoming the real arbiter. The point was confirmed after the war. The reserves rescued through an odyssey across three continents proved useful, in practice,

only as a means of buying the dollars needed for strategic imports. The dollar was unmistakably the world's new key currency, and gold had become its servant.

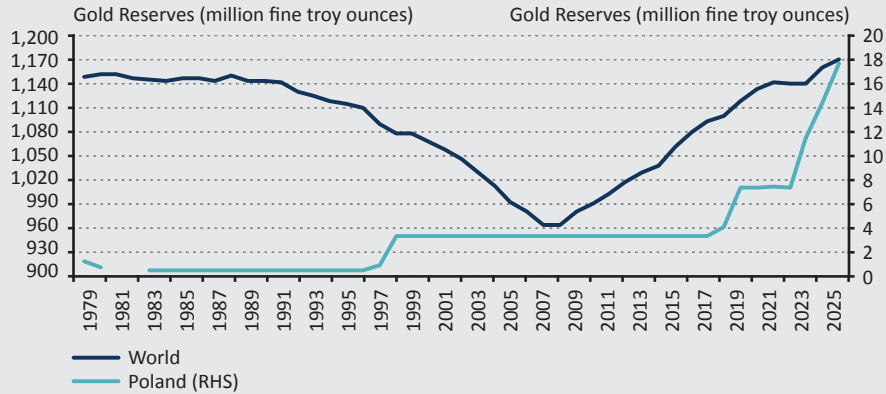
Communist Poland nonetheless clung to the gold idea, even as it forbade its citizens to hold the metal. In the currency conversion of 1950, when old notes were exchanged at 100 to 1, the złoty was placed on a gold basis at 0.222168 grams of fine gold – precisely the value the Soviet Union had just set for the rouble. The finance minister told the Sejm that the reform would strip “the capitalist element” of some of its cash, create conditions for economic saving, and equalise the złoty “to the world's strongest currency – the Soviet rouble” (*Dąbrowski 1950: pp. 1, 4*). The claim was unreal even as it was uttered: everyone in Poland already knew the strongest currency was the dollar, and the supply of dollars only grew as émigrés sent their hard-earned savings to relatives at home. The gold link survived as ideology long after it had ceased to describe anything real.

8. The return of gold

By the late twentieth century only the dollar seemed to matter. Yet as the new century unfolded, gold returned – and it returned, significantly, at moments of geopolitical tension. Central bank purchases surged after 2011 and far more dramatically after 2020 (*World Gold Council 2023*). Emerging economies – China, India, Türkiye, Russia – bought gold as a way to loosen the dollar's grip, and Europeans joined in; having announced a plan in 2013 to bring half its reserves home, the Bundesbank shipped some 300 tons from New York and 374 from Paris (*Deutsche Bundesbank 2017*). Poland followed the trend with conviction, but the Polish move cannot easily be explained in terms of a politicised emerging market preference for escaping a dependence on dollar or euro reserves, or on the SWIFT payments platform, as Poland is heavily and firmly embedded in the European Union, and is also one of the least US-phobic European countries.

The Polish move to reserve diversification thus is not a matter of a political reorientation, but rather a rethinking of what constitutes a secure asset in monetary terms. In 2018, Narodowy Bank Polski took a strategic decision to expand its gold reserves, buying 125.7 tons in 2018–2019 and more than doubling its stock to 228.7 tons. Its president, Adam Glapiński, mused that “*perhaps Shakespeare was right... that all that glitters is not gold... gilded tombs do worms enfold*”, before adding that, in managing reserves, the bank “*certainly didn't mind some glitter in our portfolio*” (*Glapiński 2021*).

Figure 1
Polish and World Gold Reserves



Note: One troy ounce is equivalent to 31.1035 grams.

Source: Authors' compilation based on World Gold Council (WGC) and IMF International Financial Statistics data

After Russia's full-scale attack on Ukraine in 2022 directly threatened Polish security, the rhetoric became explicitly strategic. Gold, Glapiński argued, made Poland "*a more credible country... a very serious partner*", and he set the goal of holding 20 per cent of reserves in the metal, "*The dream is to reach 20 per cent*" (Glapiński 2023). In February 2024, he announced a plan to realise that dream and released a video displaying the stacks of gold in the vaults of NBP (Glapiński 2024). By the end of 2025, a year in which the NBP had been the greatest central bank purchasers of the yellow metal, the reserve had reached some 550 tons, a substantial part of it once again held in New York rather than in a Europe more exposed to the Russian threat. The parallel with the late 1930s is exact in form: as the security threat mounted, Poland reached for gold and weighed where in the world it could safely keep the gold. In the Polish official thinking, once more, in the setting of an unstable international order, gold had become the country's best friend once more not in spite of the security crisis but because of it.

9. Heroes, nemeses, and the politics of stabilisation

Transformative moments require remarkable personalities, and Poland's two great rebirths – after 1918 and after 1989 – threw up charismatic, flawed, polarising leaders who gave voice to a humiliated nation yet had little grasp of the monetary questions on which their projects would stand or fall. Marshal Piłsudski, in the economist Ferdynand Zweig's words, "*may be said to have centred in himself all Polish dreams and ambitions, social as well as national*", succeeding "*in creating a genuine myth about his personality*" (Zweig 1944: p. 44). Lech Wałęsa consciously

took Piłsudski as his model, complaining of the first reformers that *“they haven’t been able to translate the great work they’ve done into everyday language. The nation can be persuaded to put up with unpopular things if it’s treated seriously”* (Financial Times 1990).

Both leaders were frank about their economic ignorance. Piłsudski admitted that he did not understand the “economic-financial game” (Zweig 1944: p. 70), and Wałęsa habitually opened discussions by disclaiming any expertise in economics. The liberal economist Edward Taylor judged the political class harshly in the 1920s, writing that the leaders *“exhibit a striking ignorance of monetary affairs, to the extent difficult to find elsewhere”*, while sharing the society’s *“extraordinary restlessness that hugely worsens every economic plight”* (Taylor 1926: p. 371). Stanisław Karpiński, the first president of Bank Polski, fumed in his diary that *“the self-praise of the various ‘saviours’”* had wrecked the tenth-anniversary celebrations of independence: *“with the champions of independence having multiplied so copiously one is left to wonder why Poland had not been liberated earlier”* (Karpiński 2021: p. 149).

The institution-builders who redesigned monetary affairs were equally larger than life, and equally polarising. In the 1920s, the far-sighted figure who saw that financial ingenuity could beat the speculators profiting from instability was Feliks Młynarski; he never cared for the colonels around Piłsudski, who in the end removed him from Bank Polski. His antithesis was the more bureaucratic Zygmunt Karpiński, the bank’s chief of foreign relations between the wars, its guide in wartime exile in London, and later the architect of its reintegration into the People’s Republic and of the transfer of the gold to the new Narodowy Bank Polski. In 1989, the heroic and polarising figure was the reforming finance minister Leszek Balcerowicz, seen by many as a reincarnation of Grabski; his nemesis was the brilliant, critical Grzegorz Kołodko, theorist of a “New Pragmatism” opposed to what he saw as market fundamentalism, who fought Balcerowicz repeatedly across the finance ministry and the central bank.

Beneath the clash of personalities lay a clash of parties unlike the western European pattern. Where western Europe built its long postwar stability on a productive tension between a centre-right that resisted redistribution and a social-democratic left that sought more of it, Polish cleavages formed much less around alternative views of market order. The interwar axis ran between Piłsudski and his rival soldier, General Władysław Sikorski; in the new millennium, the polarisation returned as an epic contest between the socially conservative Prawo i Sprawiedliwość (PiS) of the Kaczyński brothers and the economically centre-right liberalism of Donald Tusk’s Civic Platform, its bitterness rooted in the accusations of national and social betrayal that surrounded the Round Table pact of 1989. In both eras, the surest way for parties to build support was to spend more and tax less – the political logic, described above, that perpetually threatened the cause of monetary stability.

10. Institutions: independence, resistance, and its limits

In both eras, an independent central bank appeared as part of the necessary infrastructure of reform. One of the key modifications of the original 1919 schemes for Bank Polski was its private ownership structure, designed to mark a separation from government in the spirit of Montagu Norman, the influential Governor of the Bank of England, who preached central bank independence as a precondition for effective stabilisation. Central bankers often seemed to win their conflicts with governments. In November 1925, central bank president Stanisław Karpiński helped bring down the very Grabski government responsible for the bold stabilisation of 1924, in a dispute over the use of the bank's reserves; after 1989, Balcerowicz as central bank president effectively removed Finance Minister Kołodko in a quarrel over lax fiscal policy, and a decade later Marek Belka brushed against Finance Minister Jacek Rostowski. In the 1980s, NBP president Władysław Baka had already argued for independence as a way of making policy consistent over time – the time-consistency that would become central to late-century thinking on the careful delegation of a delimited mandate to an autonomous central bank (Tucker 2018).

Poland after the constitution and banking law of 1997 became a quite extreme case of independence, with no obligation to report to government or parliament – unlike the Federal Reserve, the Bank of England, or even the very independent European Central Bank – so that the bank is sometimes said to be accountable “only to God and to history”. Yet there has always been a crucial objection, never put better than by the British expert Hilton Young in a report to the Polish government in the mid-1920s: *“No law, however rigorous, and no bank, however independent, can be strong enough to stand up against a Government that must have funds to cover a deficit. The life of the State may depend on the deficit being met, and it is not a currency law that will be allowed to stand in its way”* (Young 1924: p. 9). When survival is at stake, the security imperative overrides the monetary rule – which is exactly why states facing existential threats reach for an asset that needs no rule to enforce it.

Institutions also serve as guarantors of technical competence and as channels to the outside world, and here Poland's wartime experience is dramatic. Both Bank Polski in exile in London and the German-controlled Bank Emisyjny in occupied Kraków reached across the Atlantic to the American judicial system and the US Treasury. Its interventions kept the Vichy and Nazi regimes from collaborating to appropriate the Polish official gold holdings, and Młynarski prepared memoranda for Treasury Secretary Morgenthau aimed at setting out the basis for postwar restitution claims against Germany. The resistance of a Polish central bank in an occupation regime proved an unlikely school of monetary statecraft. The postwar Narodowy Bank

Polski, created by the communist authorities in 1945, drew its leadership not chiefly from the communist underground but from the Home Army, the Armia Krajowa demonised by the regime – among them the first president, Edward Drożniak, and the head of foreign exchange, Tadeusz Mierzyński, who had held a similar post in the interwar and then the wartime bank of issue, and who in that role engineered the largest bank robbery in Polish history, seizing some 106 million złoty in August 1943 (a high estimate for monthly pay at the time was 500 złoty) without ever being traced by the German police. That such men – trained in the wartime underground state much as an earlier generation had been trained in the Polish Legions in First World War – became the builders of the postwar bank is a vivid reminder that monetary institutions and the struggle for national survival were never far apart.

The contrast between Poland's post-1918 and post-1989 eras of rebirth, like the analysis presented so far, confirms the argument about the interdependence between the monetary and national security spheres. The two eras differed in five relevant and meaningfully connected ways. First, the international environment: the interwar republic was a victim of trade protectionism and of the closing of its Russian and German markets, with Britain, France, and the United States all turning inward, whereas the transformation of 1989 unfolded amid accelerating globalisation and European integration, with the Single Market set to launch in 1992. Second, the international architecture: where interwar Poland struggled to keep the League of Nations at arm's length, fearing its sympathy for German claims, postwar reformers worked toward the IMF membership that came in 1986 and that proved central to the transition and to renegotiating the debt. Third, the search for stability took longer in the 1990s but, once achieved in the early 2000s, proved far more durable, helped by a global return to price stability. Fourth, security: the constant interwar threat was, for a time, decisively answered by NATO membership in 1999 – though the heightened risk after Russia's attacks on Ukraine in 2014 and 2022 revived the oldest of responses, raising the share of reserves held in gold. Fifth, the fragility of interwar democracy made for greater economic and financial insecurity, whereas the memory of dictatorship has since underwritten a deeper commitment to democracy.

11. Conclusion: the interdependence of money and security

The Polish century analysed here yields a general lesson that echoes well beyond one country. Monetary stability is a vital social good because it allows economic agents to make the long-horizon judgements on which rational investment depends: in an inflation, almost any investment seems worthwhile and decisions are made too early on too little information; in a deflation, refraining is always rational and, as a result, economic activity is placed on hold. But stability is not produced by monetary institutions alone. It rests on a foundation of military security, and, in turn,

it supplies the resources without which national security cannot be financed. The two stand or fall together. This is why gold – the asset that answers the monetary question and the military security question at the same time – kept returning to the centre of Polish thinking under the monarchs, under dictators, under communists, and under democrats alike. Gold mattered most precisely at the moments when the monetary and national security crises coincided.

The gold obsession of the 1930s and the 2020s was in many ways a second-best option. In the 1930s, as the military situation deteriorated, the question of where the gold could safely be located became increasingly pressing. In the 2020s, the gold price surged but the spectacular highs raised questions about whether this was an asset bubble that might burst; and Poland confronted the same problem of a secure physical location. Today the institutional security and economic and monetary framework look much stronger and capable of protecting a prosperous but potentially vulnerable medium-sized state like Poland (as well as its smaller Central European partners). There is NATO, but the President of the United States repeatedly makes threats about withdrawing the vital US support. There is the European Union, but it lacks an effective common fiscal mechanism and has no debt instruments that could rival US Treasuries. And there is the common currency, which Polish governments so far were hesitant about, as exchange rate flexibility was a major economic asset for Poland in the purely financial crisis of 2007–2008. But in a world in which financial and political crises will be much more intertwined, the question will certainly be raised of whether the Euro might be a preferable institutional mechanism to dependence on the yellow metal.

This analysis of the similarities and the differences between Poland's post-1918 and post-1989 eras of rebirth of political independence draws the main threads of this argument together. Ultimately, it is when democracy is weak, fragile, and threatened that the suspicion created by delegating authority to an independent central bank – authority needed for the maintenance of monetary stability – becomes most politically potent, and it is then, too, that a state reaches past its institutions for the metal that needs none. Poland's transformation from one of Europe's poorest performers into a continental growth champion (*Piętkowski 2018*) was possible because, for a generation, sound institutions and a credible security system allowed the country to trust its money and to do without gold. However, it has been Poland's historic experience that when either faltered, the mermaid lifted her sword, and the gold came home. The interdependence and the fragility of monetary stability and national security is the constant of which Poland's gold, in all its journeys, has always been the visible sign.

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Author contributions

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Data Availability

The data used in this study were obtained from World Gold Council (WGC) and IMF International Financial Statistics.

Ethical Approval

Not applicable. This study did not involve human participants or sensitive personal data requiring institutional ethical approval.

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