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# Economic Reforms in Poland

by Hubert Gabrisch, Hamburg\*

**The reaction of the Polish leadership to the strikes in August 1980 was to promise reforms, and a scheme of reforms has been presented in the meantime. What would be the most comprehensive attempt yet at transforming the present system, which is geared to the Soviet model, and at launching the country on a road of its own is to be undertaken by 1983. What are the prospects for this new reform scheme?**

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The present attempt at reforms has been triggered by an economic and political crisis, as were all previous ones, but this crisis was not its sole cause, for the need for comprehensive economic reforms has existed for a long time — since 1956 at least. Moreover, just as the economic crisis was not the only reason for the needed reforms, so was the economic crisis not — even though it seemed so at times — brought about only or overwhelmingly by the inefficient centralistic system hitherto in operation. The economic crisis has, however, played a crucial role in the debate on reforms during the last six months.

The principal cause of the economic crisis was that the economic policy was switched to the wrong track in the early seventies. It was a mistake in development strategy — the policy of pressing onward with development at an exceedingly fast pace in the seventies under the concept of the “new strategy of social development” proclaimed and forced through by the group around E. Gierek who had come to power in December 1970. The main faults of this policy were:

- excessive and, in part, largely ineffective investments;
- an agricultural policy unable to choose between consistent advancement of the private peasants or the cooperative/public sector, so that both were neglected;
- excessive rises of wages and incomes in relation to the increase of real consumer goods production (with, additionally, large income differentials due to Gierek's policy of motivation, causing dissatisfaction among the population);

- an infirm and inactive policy on consumer goods prices (the major problem of a reform of the consumer goods price structures was tackled inadequately and half-heartedly); and

- from 1976, when the dangerous repercussions of Gierek's economic policy on the economic equilibrium manifested themselves more and more clearly, a half-hearted stabilization policy.

Throughout this time, while crises arose and accumulated in the economy (supply crisis, agricultural crisis, balance of payments crisis, energy crisis), the system of planning and management was inefficient. Big investments gave meagre results, reflected by depressive increases of industrial production. Investments and incomes went up, and the inflationary pressure tightened, while the economy responded less and less to central planning and direction so that in the end it could be described as being basically unplanned.

## The Social Crisis

From the economic crisis sprang the political crisis which is a crisis of power structures and political institutions. An important factor for the origin and severity of the political crisis was the mounting social injustice in the distribution of the burdens due to the crisis. Society as a whole suffered more and more from supply deficiencies but some population groups were able to circumvent them. They included, not so much the owners of foreign currencies, as people in a position to gain material advantages by unlawful or underhand practices — mostly in conjunction with the abuse of certain power positions or official functions. The result was that people grew suspicious of state institutions, parties and trade unions.

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The large majority of Polish economists have been convinced since the latter half of 1978 that comprehensive reforms are indispensable, but it looked at first as if the political leaders and the economists did not think alike<sup>1</sup>. Since the VIIIth PUWP Congress in February 1980, if not earlier, the leadership under Gierek seemed, however, to be also intent on reforms even though their execution was to be postponed until the economic situation had stabilized somewhat, for it was known from past experience that an economic reform in the midst of an economic crisis stood little chance of success.

After the VIIIth Congress Premier Jaroszewicz who shared in the responsibility for the mistaken economic policy of the preceding years was replaced by E. Babiuch on whom fell the task of achieving the desired stability by an extremely restrictive economy programme coupled with increased export efforts. Fulfilment of the modestly targeted new five-year plan for 1981-85 was considered the requisite for successful introduction of new reform measures from 1983.

The stabilization manoeuvre in the first six months of 1980 yielded positive results in exports and industrial production but had devastating consequences for the supplies to the population. With fewer consumer goods reaching the shops, the queues outside lengthened. The mounting annoyance among the population finally burst out in strikes when the Government raised the meat prices as part of its restrictive policy.

### A New Political Legitimization

The events brought about the downfall of party chief Gierek and Premier Babiuch. What happened next was typical of the Polish way of crisis management: having stifled any broad public discussion of reforms for years past, the leaders, intent on political legitimization by the population, now promised instant economic reforms, with a suitable scheme to be presented within three months.

They presented accordingly – actually on time –

- ☐ a scheme of reform for the planning and management system<sup>2</sup> and
- ☐ a scheme of reform for the trade unions<sup>3</sup>, prepared by a commission appointed by the State Council and independent from Party and Government.

<sup>1</sup> Cf. J. Zieliński: New Polish Reform Proposals, in: Soviet Studies, Vol. XXXII, No. 1, January 1980, p. 7 ff.

<sup>2</sup> Cf. the scheme presented by the Party and Government Commission: Podstawowe założenia reformy gospodarczej (Fundamental principles of the economic reform), Warsaw 1981.

<sup>3</sup> Cf. Trybuna Ludu, December 1, 1980, p. 1.

The model for Poland's economic system – as for most other CMEA states – was imported from the Soviet Union after 1945 irrespective of historic, geographic or economic distinctions. It has various specific features but is, despite modifications over the past 30 years, still marked by a high degree of centralization in all planning and decision-making. The principal criterion for the success of an economic unit is plan fulfilment in actual quantitative terms (e. g., tonnes) or, today mostly, in gross value terms such as turnover or overall output. Net value figures – such as the profit left after deduction of costs from gross receipts – play no significant role.

The reform scheme provides for a large measure of decentralization of the planning and decision-making competences hitherto in the hands of the Planning Commission, Council of Ministers and Ministries and their transfer to the enterprises. At the same time it is intended to change from obligatory plans, i. e. from direction of the enterprises by means of orders and directives to indirect control of the economy by means of so-called parameters.

The entire central planning and management apparatus is to be reduced by half to two-thirds. The Planning Commission is to be contracted to a quarter of its present size – about 3,000 staff members. The large number of Industry Ministries – at present about 15 – which is typical of the centralistic system is to be brought down to three or four which, moreover, are to focus increasingly on staff work for the direction of the economy, similar to the Hungarian method. The intermediate level of economic administration – the Industry Associations (corresponding to the Associations of Publicly-owned Enterprises, the VVB, in the GDR) – is to be abolished altogether.

### Central Planning to Stay

The cardinal point of the reform scheme is the reordering of the rights of the enterprises. These had hitherto to carry out the plan directives from the central authorities. There are over 200 directives and limits, and most of these are to be abolished. The decentralization of the competences will, however, be pursued at different rates of intensity in the various fields. It will go farthest in areas like employment, wages and investment, and also in production planning, whereas no significant measures of reform are discernible in the field of external economic relations. Here the long-term aim is also to decentralize the decision-making process and thus to do away with import limitations and export directives and to prepare for free convertibility of the zloty into hard currencies,

but import limits and export directives will have to stay for an indefinite period.

The crucial reason for this is the present external economic position. A sweeping decentralization is out of the question because it would raise the problem of who is to clear away the debt mountain of, by now, approximately US \$ 23 bn. And immediate free convertibility – although suggested in public – is ruled out by the fact that Poland is unlikely to have in the near future enough foreign currency reserves at its disposal for the defence of the exchange rate and the protection of the internal economy against inflationary tendencies in the world market.

### **Instruments of Indirect Direction**

The most important feature of the socialist system, central planning and direction, is not put in question by the reform scheme. Envisaged is, however, a reorientation of the methods and tasks of central planning. This is to focus on identifying the strategic objectives (i. e. those most important in the long term) and fixing global annual plan targets, while linkage between the central plans and the microeconomic decisions is to be assured from now on by means of instruments of indirect direction – known as parameters – in lieu of plan directives.

Parameters are, for instance, the interest rate for borrowings, all prices, taxes, but also coefficients of an interdependence between the funds of the individual enterprises (e. g. bonus fund, investment and wage fund) and certain performance indicators such as turnover, profit, net production, export value, etc. The parameters have the effect that if the performance indicators rise by a certain rate above the plan or the previous year's result, the funds of the enterprises can also increase by a certain rate. In this way the enterprises are to be given more financial leeway if their operational efficiency improves.

The principal indicator will be the so-called net production which is to be computed by deducting the cost of input materials from the turnover. This is to remove a critical drawback of what was hitherto the main indicator – “sold production”, namely the interest of the enterprises in increasing the material-intensity of their production in order to fulfil their plans more easily. Changes of the wage fund in particular are to be linked to the new principal indicator of “net production” through a parameter.

The centralistic system left very little scope to the trade unions. In practice their tasks amounted simply to making sure that outputs increased and the workforces

were motivated to carry out the centrally determined production tasks. They had no opportunities to share in decisions on the enterprise level except on social questions and even in this regard only indirectly through the so-called workers' self-administration (WSA) conferences. According to the law these consisted of representatives of the factory party branch, management and trade union executive in the enterprise. They are now to be given wider rights to participate in decision-making. As was the case in 1956-58 the WSAs are to be elected by the workers directly.

The old unitary federation of the Polish trade unions has dissolved itself in the meantime, and the 23 industrial trade unions formerly associated to it have given themselves new programmes or statutes. There are now probably over 50 registered trade unions affiliated to three organizations. Most important of these is “Solidarność”, with approximately 7-8 million members from among about 11 million employees in the public sector (and about 10 million in the entire economy), which grew out of the strikes of summer 1980. The old industrial trade unions have set up a coordinating committee which may speak for 2-3 million trade unionists. The other, smaller trade unions have joined forces in a loose federation of autonomous trade unions.

The new trade union law is to contain the following elements differing qualitatively from the previous ones which went in part back to regulations of 1949. It

- ☐ guarantees the freedom to form new trade unions;
- ☐ guarantees the independence of the trade unions from Party, Government and old trade unions;
- ☐ guarantees co-determination rights in the enterprises and the right of the trade unions to take part in the public discussion of certain “key issues” concerning the standard of living of the population;
- ☐ regulates the way in which wage agreements are concluded between Government and Ministries on the one hand and trade unions on the other;
- ☐ guarantees the right to strike and regulates arbitration procedures.

### **Reform Basically Possible**

The road from a model with these essential features to the actual reform is not as short as the initially outlined time-table for reforms suggests. Nor is there any assurance that the reforms when carried out – in their present or a modified form – will endure. Attempts at reforms have up to now always failed in Poland. With

this fact and the experience to date in mind, reasons for several propositions about the prospects of success of the present reform scheme will be discussed in the following.

Are socialist systems capable of being reformed at all? One can often hear or read that such economic systems cannot be reformed without previous political reforms. The Hungarian reform, however, is an example which shows that socialist economic systems can be reformed in the absence of political reforms. Economic reforms may even be a precondition for political reforms by extending economic liberties and thereby providing the scope for more political liberties.

What importance attaches to political barriers to reform? Although there is some evidence to suggest that the success or failure of a reform is decided by the relative strength of its opponents and supporters, there is in the case of Poland a chance that political barriers are less crucial than perhaps in most other CMEA states. Generally speaking, political barriers will be the lower the less centralized and totalitarian is the society as a whole. The less imperative will be previous political reforms.

The PR Poland was always distinguished from the other CMEA states by certain specific and intrinsic features such as greater plurality (church), liberality (in culture and science) and a strong private sector in the economy. These allow freer scope for discussion to groups which are receptive to reform ideas and may even exert some pressure. On the other hand there are anti-reformist groupings (of dogmatists, bureaucrats, etc.) which will join up with the strong group of opportunists if in a crisis situation a reform is found inadequate as a means of establishing the legitimacy of political rule and creating economic stability. A notably conservative element have always been the middle echelons of the Party and economic administration, to some extent because they would be hit most by the social consequences of reforms (de-bureaucratization).

### Reasons for Previous Failures

A study of the most recent attempt at reforms – in 1973-75 – shows failure to be mainly due to economic inefficiency of the practical arrangements rather than to the political barriers although these came into play by providing the opponents of reform with more arguments when its negative economic consequences began to show up. The economic inefficiency had various reasons including the gappy nature of the reform scheme, lack of coordination between economic and

reform policy, inadequacy of the price system to the reform scheme, and contradictions in the latter's design.

The original intention after the troubles in December 1970 had been to engage in a comprehensive reform. However, no more than fragments of the reform scheme, which incidentally bore a great resemblance to the present one, were introduced on January 1, 1973, because it was thought by 1972-73 that an economic reform was only of secondary importance. By that time the leadership had in practice turned away from the line of the VIth PUWP Congress of 1971 and taken up the mentioned "new development strategy" which had been substituted for the promised reforms and by the end of 1972 represented the main source of the leadership's political legitimacy<sup>4</sup>. The partial reform covered in the end only an island in a centralistically planned and directed environment. The design of the whole system resembled a traffic system with left-hand driving for buses and right-hand driving for everybody else.

Another cause of failure was the destabilizing economic policy resulting from the new strategy. When it was introduced on January 1, 1973, the general economic conditions were still relatively favourable because of the restrictive economy policy in the last years of the Gomulka era. In 1970 the total indebtedness to the West was shown at no more than \$ 1.8 bn; the foreign trade even yielded a surplus of \$ 148 mn in 1970 and \$ 113 mn in 1971, so that Poland possessed a hard-currency reserve. The reforms had, however, to be implemented in 1973-75, at a time of progressive imbalances caused by external factors, poor crops in 1974 and 1975 and, more particularly, the destabilizing effects of the new strategy. Under these conditions it could hardly be expected that the sensitive parametrical control system would operate efficiently. The partial decentralization of price determination enabled the enterprises to obtain enough liquidity through price increases for the financing of investments in excess of the plan as well as for wage increases which aggravated the imbalances caused by the central planning.

### Risks of Another Failure

A repetition of the mistakes of 1973 cannot be ruled out. The reaction of the political leadership to the events in the summer of 1980 which consisted in the main of

<sup>4</sup> Cf. also W. B r u s : Ziele, Methoden und politische Determinanten der Wirtschaftspolitik Polens 1970-1976 (Aims, methods and political determinants of Poland's economic policy in 1970-1976), p. 5.

promises of reforms suggests that these commitments were intended as a short-term expedient for the purpose of internal political stabilization following the failure of the previous economic policy. This does not necessarily mean that the promises of reforms will be reversed when the political and economic situation has calmed down somewhat. The political leadership is not free to do that as there exists unquestionably an objective need for reforms. If it really is the sole function of the promises of reforms to promote political stabilization, they raise, however, the danger of another fragmentary solution because essential elements of the scheme might be rescinded in the course of a restoration of internal political stability.

But even if the presented scheme were to be carried out in its essentials, early initiation of the reforms which were probably planned in any case may be one of the causes of later repetitive failure, for whether this is the best moment for an economic reform seems doubtful in the light of the current and foreseeable general economic conditions. There is no five-year plan nor a three-year plan for the restoration of stability as foreshadowed of late. The annual plan for 1981 is not an integral part of such a three-year plan. On the contrary, the plan and budget for 1981 exist only as fragments and have not been properly balanced. The 1981 plan must indeed be described as definitely inflationary as is shown clearly by the planned income increases for the population of zloty 290 bn compared with a rise of goods supplies to the home market of zloty 34 bn<sup>5</sup>. With that the inflationary gap which has been growing for years may be expected to drastically widen again in 1981 and it must be feared that the real climax of the crisis is still to come.

### External Uncertainties

The uncertainties are just as great in the external field. The plan target for 1981 is a trade surplus of 1.5 bn foreign-currency zloty, i. e. about \$ 500 mn, but there is hardly any Polish expert who considers this target realistic. The Polish Government has notified western governments and banks of credit requirements of \$ 9 bn<sup>6</sup>. Servicing of debts is estimated to absorb \$ 7 bn this year, which means that the Polish Government expects the country's net indebtedness to increase by \$ 2 bn; the balance of trade would show a deficit of this size. The main reasons will probably be a curtailment of exports, chiefly of coal (possibly by half) and copper, and increase of imports due chiefly to larger food imports which can hardly be avoided.

Under the circumstances – stated here only in rough outline – it is doubtful whether it is at all possible to keep to the time-table for the reforms and, if so, whether positive effects can be expected from a decentralization and use of parametrical instruments of direction. Escalating inflationary tendencies would make it easy for the enterprises to inflate the nominal indicators of microeconomic activities and funds by raising their prices – without achieving any real improvement of their performance. The wage and investment decisions based on funds dilated by inflation – and in the decentralized model these would have to be taken by the enterprises themselves – could ultimately lead to further destabilization.

### The Role of the Trade Unions

Finally, the activities of the independent trade unions present a special hazard for the economic reform. The question which has to be asked is what will happen if the trade unions do not abide by the rules of the game as applying to the decentral model of the economy. Any debate on reforms would be pointless if the trade unions, spurred by the inflationary tendencies, presented appreciably larger wage demands than warranted by a parametrical indicator linking the wage fund to net production. This could have two possible consequences: with continued guaranteed full employment the inflationary pressure could heighten, and if – as apparently intended – the enterprises were allowed to reduce their workforces, there would be a danger of unemployment. Both results would spell doom to the decentral model of a centrally planned and directed economy.

Crucial for the solution of this problem is the attitude of Government and trade unions. The Government would have to pursue an anti-inflationary policy which would have to be sustained by the trade unions. On this basis alone could the new independent trade unions accede to the wage increase rates envisaged under the central plan for which the parameters are to create additional possibilities. So far, however, the Polish Government has failed to evolve a concept for fighting inflation.

To summarize, there is an objective need for reforms, and the political conditions for them are quite favourable, but this is not the best time for carrying out a decentralization and launching new instruments of economic direction. A very sceptical view should therefore be taken of the prospects for a successful reform.

<sup>5</sup> Cf. Trybuna Ludu, December 20/21, 1980, p. 2.

<sup>6</sup> Cf. Nachrichten für Außenhandel, January 8, 1981, p. 5.