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THE ECONOMIC ROOTS OF THE POLISH REVOLT

INTRODUCTION

The seemingly endless waves of strikes and stoppages by nearly every element of the Polish work force has virtually paralyzed the country. The strikes, which began in July of last year, not only led to the downfall of Polish Communist party leader Edward Gierek and his regime, but also set off potentially disturbing and profound repercussions throughout both Eastern Europe and the Soviet Union. The strikes and the resulting changes within Poland, particularly the establishment of a free trade union movement, Solidarity, constitute the most significant, albeit destabilizing, development in Central Europe within the past decade.

The immediate cause of the workers' strikes was, on the whole, accidental in nature. In the highly volatile situation that had been building up for years, any factor or incident might have produced similar results. The Polish workers and Polish society as a whole did not really revolt against a price increase in meat as much as against the way the country, and the economy in particular, was being managed by the government. The issue, however, still remains unresolved. The real dilemma facing Poland today is whether the country can be managed differently this time by the same political party and bureaucracy, which presumably has no alternative but to maintain its existing stifling and subordinate relationship with the Soviet Union.

The purpose of this paper is to demonstrate that the policies, primarily economic, of Gierek and Premier Piotr Jaroszewicz inevitably led to the strikes and to an unsettling realization of the need for extensive economic changes within the Polish nation.

THE PATTERN OF ECONOMIC DEVELOPMENT IN THE 1970s

Soon after the Gierek-Jaroszewicz faction assumed power in December 1970, it discovered that the economy was in desperate need of modernization. The results of economic stagnation during the last years of the Gomulka regime were in evidence everywhere; many of the industrialized sectors, from shipyards to textiles, were deemed obsolete and in need of massive investment. Thus, as soon as the domestic political situation began to stabilize in early 1971, various industrial branches and ministries pleaded their case for modernization and increased funding. The "new" leadership found itself under strong pressure to move quickly with innovative policies to modernize the ailing economy. Such policies were, indeed, formulated during the course of 1971 and were officially enunciated at the Sixth Congress of the Polish United Workers Party (PUWP) in December of the same year. A major and critical component of this new modernization program was based upon the importation of new technology and equipment, which was to be financed by foreign credits.

If one takes into account certain external factors at that time, notably the high degree of liquidity in the international financial markets, moderate interest rates, and the high rates of inflation in the developed market economies, the new economic policies of the Gierek regime were based, at least in part, on rational economic assumptions. The government assumed that these foreign credits would be paid off quickly by exports coming from the newly built or modernized installations. Western and occasionally Arab bankers rushed to Warsaw offering credits at attractive interest rates. Enjoying such a favorable position, the government was able to pick and choose from among the various creditors and bargain for the most attractive terms.

Such was the origin of a real investment boom which began in 1972 and lasted through 1975. The program was designed to modernize the Polish economy, improve the competitive position of Polish exports on the world market, and raise the standard of living of the populace -- which had been stagnating for some time. Many knowledgeable observers, including some Polish economists, agree, however, that this new drive toward modernization had been neither well-prepared nor well-managed.

Rather than carefully expanding the economy, the planners moved too quickly. For example, the rate of total investments jumped from 7.5 percent in 1971 to 23.6 percent in 1972 and 25.0 percent a year later. Total fixed investments rose from an average annual rate of 8.2 percent in the 1966-70 period to 18.4 percent in the years between 1971 and 1975. While such an unprecedented rate of investment accelerated economic growth in general, it also created certain inevitable distortions which surfaced rather quickly.

"Produced national income" (DNMP - domestic net material product) rose during the 1971-75 period at an average annual rate of 9.8 percent, as against 6.0 percent during the 1966-70 period. As imports were growing faster than exports (consistent with the policy assumptions at that time), Poland ran a steady and hefty surplus of imports over exports, which meant that "national income for distribution" (NNMP - national net material product or the sum of domestic final uses) rose even faster. Average annual growth rate of NNMP rose 12.0 percent during the 1971-75 period. While Polish exports were rising in that period at an impressive annual rate of 19.2 percent, imports were running at an even higher rate of 23.6 percent, with imports from Western countries at a rate of almost 40 percent. Quite understandably, the accumulation of trade deficits with the developed Western countries had to be reflected in a substantial and steady increase in Poland's hard currency debts. Such debts increased tenfold, from about $0.7 billion in 1970 to $7.4 billion in 1975.

Serious obstacles to Poland's drive toward modernization emerged with the price disturbances in the international commodity markets in 1974, and most especially with the the explosion of oil prices. Government planners realized that such a hectic rate of economic development, particularly of imports and investment expenditures, could not possibly be sustained. Evidence of structural distortions, generated by the investment boom, began to be perceived. Coincidental with this was the emergence of certain unfavorable external factors, including serious difficulties in foreign financing. Furthermore, poor harvests in 1974, in conjunction with some ill-conceived policy measures toward the private agricultural sector, caused serious supply shortages and market imbalances, especially in foodstuffs and other consumer goods.

Consequently, the government realized that it would have to retard its investment drive and pay more attention to the domestic market imbalance and to the consumer goods sector. The proper policies to deal effectively with those market imbalances did not, however, appear in time.

It is somewhat strange that the Gierek-Jaroszewicz team did not realize in time the limits to which investment efforts could be pushed, and did not draw proper conclusions from the earlier over-extension of investment drives that Poland had experienced both in the 1950s and the 1960s. The share of accumulation in national income was allowed to rise from 26.4 percent in 1970 to 35.2 percent in 1975. Within official circles it was often argued that the high share of accumulation in national income really should not hamper the growth of consumption, and that a more important factor was the structure of supply of consumer goods.

Actually, the proper structure of supply did not exist and the government did very little to correct the situation, having failed to make the proper adjustment to a slower rate of growth. When such adjustments finally emerged, they proved highly inadequate, poorly managed, and were more administrative, oftentimes arbitrary, decisions than sound economic policies.

THE FLAWED ORIGINS OF THE ECONOMIC POLICY

In order to properly understand some of the root causes of Poland's recent difficulties and problems, one must refer back to the year 1971 and analyze some of the "missing links" in the Gierek-Jaroszewicz economic strategy. One such link, which was apparent from the very beginning, was a strong resistance to any meaningful economic reform. In the latter part of 1971, the party leadership decided against economic reform in Poland; even the use of the term "reform" was, in official circles, clearly discouraged. The efforts that were decided upon were primarily concentrated in the area of improved central planning and management.

In 1972, however, influential economists, both in and out of the government, began arguing that improvements in the central planning system should be combined with a greater measure of independence or autonomy for individual enterprises and their higher administrative coordinating units (zjednoczenia). The government reluctantly yielded to such pressures and permitted certain "limited" experiments. In late 1972, such experiments were initiated in carefully selected industrial branches.

These "reform" experiments, however, were short-lived. The government feared the possible consequences and was not prepared to allow a devolution of the central decision-making or an increased role in the market mechanism. The experiments were filled with inconsistencies and administrative interferences. The "parametric" or indirect steering instruments were never allowed to function on a consistent basis or to prove their usefulness. The applicability of such instruments had always been subordinated to the established methods of central planning, which did not evolve as much as initially had been expected.

As soon as the applicability of some of the parametric instruments had produced some "distortions" in late 1974 and early 1975 (e.g., in the form of increased wage funds in export-oriented industries -- due to external inflation and hence higher export prices), administrative measures were taken immediately to "correct" the situation. These measures were not in the nature of parametric instruments, which might have or should have been used in any given situation, but purely administrative decisions, which undermined the whole experiment. It is no wonder that late in 1975 these experiments with economic "reforms" were quietly abandoned, without any official statement to that effect.

Of course, it should be recognized that it is extremely difficult to find the means and methods to reconcile the requirements of active central planning with a substantial degree of autonomy of individual enterprises, which would allow for the use of the economic mechanism as a guideline for resource allocation and other vital decisions. Even the Hungarian reform, which is the most advanced and consistent of all such attempts in Eastern Europe, has shown that external efforts (e.g., deteriorating terms of trade) can be very damaging to the workings of the economic mechanism in a centrally-planned economy.

In the case of Hungary, however, the corrective economic measures remained essentially within the framework of the parametric mechanism (NEM - the New Economic Mechanism). In Poland, such a mechanism was very quickly disavowed and eventually abandoned altogether. The huge foreign borrowings were never used to create a cushion or breathing space, as is usually the case in any serious reform effort. The experience with economic reforms in Eastern Europe provides considerable evidence of the direct correlation between the political attitude of the ruling establishment and the fate of economic reforms.

THE GREAT AGRICULTURAL FAILURE

The second significant omission in the Gierek-Jaroszewicz economic strategy was the lack of any realistic and constructive long-term policy with respect to agriculture. In Poland, where the private sector in agriculture still predominates, proper economic policies toward this sector vitally affect the performance of agriculture as a whole. This sector, which had been subjected to all kinds of discriminatory pressures toward "socialist reconstruction" or collectivization both in the 1950s and later on in the 1960s, experienced much the same under the Gierek-Jaroszewicz leadership.

Upon Gierek's assumption of power, there was a relatively short period of relief in 1971 and 1972, and many people believed that some radical changes in agricultural policy would be forthcoming. Such expectations were initially satisfied by the abolition of compulsory deliveries of the principal agricultural products from January 1, 1972 on, the upward revision of procurement prices for agricultural products, and the creation of a few facilities that were designed to stimulate agricultural production.

However, discrimination against the private sector in agriculture reappeared in 1973, becoming more extreme in late 1974 and early 1975. At that time, the Jaroszewicz government prepared a whole range of new policy decrees designed to speed up the "socialist transformation" of agriculture. The intent of such decrees was to drive from the land all private farmers, except those who would enter into long-term contractual relationships with the state for the delivery of agricultural products on terms agreed to in advance.

The government, however, retreated when the peasants reacted with a sharp decrease both in production and deliveries to market. Nonetheless, these ill-conceived policies have had a devastating psychological impact on the private sector of agriculture. The government has never been able to redress the harm done at that time.

SUBSIDIES TO GOVERNMENT FARMS

It is worth emphasizing that it was the Gierek-Jaroszewicz team that had reaffirmed the "socialist reconstruction" of agriculture as the ultimate objective of the party and pursued policies consistent with that goal. These policies created artificial and costly preferences for state and collective farms. These preferences ranged from the allocation to state and collective farms of huge investment funds to extension of credits on "soft terms" and then writing them off for the most part. The government also channeled almost all of the agricultural machinery, imported feed grains, a disproportionate share of fertilizers, and other vital deliveries to these farms. Hardly any of these benefits were available to private farmers, with the one exception being credits on normal commercial terms.

Such preferences for the "socialist sector" were even less understandable when it had become obvious to all that the state and collective farms were less efficient -- as expressed in the cost per unit of production -- than private farms. According to recent estimates by government economists, such costs were approximately 50 percent higher -- in many instances even greater -- in the "socialist" than in the private sector. It is worth noting that although the private sector now holds 68.4 percent of cultivated land, it nonetheless provides 77.6 percent of total agricultural production, 79.4 percent in crops and 75.7 percent in livestock production (1978 official data).

The situation is quite different when discussing agricultural investment. In 1978, investments in the private sector amounted to only 30.2 percent of total productive investment. In 1970, this share was still 36.4 percent. During some years, however, investments per hectare in the socialized sector ran close to ten times that of the private sector. A comparison of yields per hectare between the two sectors, as is usually done in the official government publications, ignores cost factors and thus distorts the facts.

This is not to deny the fact that economic efficiency of a great portion of private holdings, mainly smaller ones, has deteriorated in recent years. This has been due, however, to a number of rather complex factors, which have been created over a long period of time by government policy itself. The policy of continuing discrimination against the private sector of agriculture has been especially harmful in recent years, particularly when the country was plagued by unfavorable weather conditions and vastly reduced crops. As a result, the government had to rely, to a greater extent than ever before, on imports of grains and fodder, mostly from hard currency areas, such as the United States. It is commonly recognized that higher procurement prices of grains would have encouraged the peasants to increase grain production, thus contributing to the reduction of imports.

DEALING WITH THE DISEQUILIBRIUM OF THE MARKET IN MID-1970s

The domestic economic situation in the mid-1970s had become so complex that radical changes were called for in basic policies. The consumer market was increasingly out of balance due to declining supplies of foodstuffs, the growing purchasing power of the population (fueled by investment booms and rising wages), limitations on imports, and the structural rigidities of the price mechanism. Some determinants of this growing market disequilibrium had been evident much earlier and should have been dealt with at the proper time. Certainly the rigidity in the price structure for foodstuffs, as well as for many other consumer goods, is one such example.

During the first year after Gierek came to power, a "freeze" on the price of foodstuffs, dictated by political considerations, was introduced. Though the initially political considerations had become less relevant, the freeze was nevertheless extended at year's end for another twelve-month period. In considering such a policy, the government should have given more attention to economic factors than it actually did. Even after the second year, the government did nothing about prices. It had become increasingly apparent that the longer the price adjustments would be postponed, the more difficult it would be to put them into effect.

Maintaining prices for basic foodstuffs at artificially low levels -- always officially justified by "social" considerations -- had a number of negative effects. As consumption steadily rose, increasing subsidies were being absorbed by the state budget. In some instances, as in the case of bread, this artificially low price maintenance caused wasteful consumption. Second, as the government used the level of budgetary subsidies as a basic yardstick for decision-making, it was reluctant to revise upward some of the procurement prices, which would have stimulated higher production. A setback in the livestock sector in 1975, caused by a massive slaughter of pigs and calves by peasants who were frightened by government policy intentions, clearly dramatized this precarious situation.

By early 1976, the government had realized that this situation could not be maintained much longer and in June of that year decided on an incredible 69 percent increase for meat and meat products, a near 100 percent increase for sugar, and smaller increases for many other basic foodstuffs. The average price increase for all basic foodstuffs amounted to a sizable 40 percent.

This decision provoked widespread unrest throughout the country, the workers' revolt in the industrial centers of Radom and Ursus (near Warsaw) being best known. The following day, the government suffered a serious psychological setback as it was forced to retreat on its initial decision. The workers had won an important victory. Consequently, the economic situation became even more complex than before. Because of the ill-conceived and poorly managed price increase, the people virtually lost all confidence in the government's capacity to deal effectively and competently with the growing economic problems.

It thus became apparent that the market imbalance could not be restored by price adjustments alone, even if it were possible to put them into effect. What was sorely needed, besides gradual price adjustments, was a comprehensive, long-term and consistent program directed at the revival of agricultural production. Such an objective could only be attained by the creation of a proper economic climate which would insure expansion of production in the private sector. Obviously, this would necessarily involve some basic policy changes on the part of the government.

Though the government desired at this time to stimulate production in the private sector so as to improve market conditions in the short run, it was not prepared to embark upon a long-range commitment to protect the interests of the private sector. Such a commitment would necessarily contradict the basic policy objective of "socialist transformation." Once again, narrowly defined ideological considerations took precedence over economic thoughtfulness. As noted earlier, the government's retreat on various policy intentions had been purely tactical and temporary. The basic policy considerations remained unchanged.

With the gradual erosion of the economic position of the private sector, the government became convinced that time was on its side. This may very well have been so, but the cost to the country was considerable. As employment in the private sector of agriculture had become increasingly unattractive, the younger generation were "escaping" in large numbers from the land and were seeking job opportunities elsewhere. An ever increasing percentage of land is now tilled by elderly people, who are unable to effectively cultivate their land.

GOVERNMENT WAR ON PRIVATE AGRICULTURE

The government's official policy has long been to eliminate gradually the less efficient private farms and transfer them to the "socialist" sector. A special State Land Fund had been established for this purpose many years ago. Officially, the State Land Fund is authorized to sell the land not only to the state and cooperative farms, but also to private farmers who can prove that they are effectively using their own land. In practice, however, the situation is not that simple, as the "socialized" sector clearly enjoys a preference. The government has established special schemes to encourage elderly peasants to turn over their land to the state in exchange for a pension. In recent years, the overall agricultural structure has begun to change rather significantly in favor of the "socialist" sector. Last year, the government prepared a new law to further assist this transformation. The value of pension benefits would be dependent on the average value of procurement deliveries made by the farmer to the state over a period of the last five years. The new law was to come into effect July 1, 1980.

In this respect, it bears noting that there are approximately 1.4 million people in the private agricultural sector who are now past the retirement age. The government assumes that the bulk of their land will be taken over by the state within the next few years. But how this land is going to be used is difficult to predict. In the first place, it can be assumed from the way the state and collective farms are now run, that huge investment funds will necessarily be required merely to put the land under cultivation. The government seems only recently to have realized that this continued, fast-paced drive toward a "socialist transformation" of agriculture will require massive capital inputs from the state budget, which, incidentally, it can hardly afford. Such considerations as shortages in the energy sector, difficulties in financing feed grain and fodder imports, and a slow-down in the domestic production of fertilizers, all should dictate a much more cautious approach, or possibly a totally different course of action.

ADJUSTMENTS TO A SLOWER GROWTH: 1975-1980

The restoration of a balanced growth within the economy during the second half of the 1970s, even at substantially lower levels, proved to be much more difficult than the government had anticipated. While the output growth declined from year to year, reaching a negative rate of over 2 percent in 1979, aggregate claims on resources tended to expand faster than predicted, putting strains on the state of the internal and external balance. External conditions were unfavorable for the implementation of policies which were aimed at reducing trade deficits, especially with developed market economies. Even though export production was encouraged and promoted through various policy measures, growth in this sector slowed down considerably under the impact of the recession in the West. Somewhat reduced also was the growth of labor supply. Similarly, the expansion of raw materials, fuels and electric power production were decelerated and, incidentally, grew more costly. About the only possible method available to sustain growth was to increase efficiency, both through higher labor productivity and a more proficient use of raw materials and energy.

The government was forced to cope with imbalances that occurred between the various sections of the economy; such imbalances had emerged in the earlier period of fast, economic development and had resulted in capacity and supply bottlenecks, especially in the energy, transport and food sectors. Given the fact that the investment front was already vastly overextended, these bottlenecks, as well as pressing need in the existing social infrastructure, necessitated new and greater investments with long absorption periods. Adaptation to these new conditions required a restructuring of production and shifts between domestic and export uses, as well as selectivity and restrictions on imports.

These negative factors dictated substantially reduced targets for economic development in the five-year plan (1976-80). An average annual rate of economic growth, as measured by the growth of national income, was set at 7.0-7.3 percent, with the growth of industrial output set at 8.2-8.5 percent annually and agricultural production at 3.0-3.5 percent. As is evident now, all these targets were set at excessively high levels. During the 1976-79 period, national income rose at an average rate of only 3.1 percent, while industrial production grew at a rate of 5.9 percent. The performance in agricultural production was even worse, as total agricultural output declined both in 1976 and 1979.

The current five-year plan has been particularly tight in targets for resource allocation. The expansion of total investment expenditures fell from an average annual rate of 18.4 percent in the 1971-75 period to 7.4 percent in the 1976-80 plan. One of the most challenging tasks was to achieve greater efficiency in investment processes: shortening the average period for completion of investment projects; concentration of investment outlays on selected priority projects; preferential treatment towards modernizing existing facilities, rather than building new ones; and improvement in the efficiency of construction and engineering enterprises. These tasks, however, proved extremely difficult to achieve. Many investment projects, particularly those in the raw material and energy sectors, proved to be heavily capital intensive. The same can likewise be said about many projects in the heavy industry. A notable example was the steel mill near Katowice (Huta Katowice), whose cost (never officially disclosed) proved to be much greater than its planners ever had assumed.

Many of the investment projects, especially in the heavy and engineering industries, proved also to be highly import intensive. The fact that Poland's industrial development was becoming increasingly import intensive had been noticeable as early as the 1971-75 period. While elasticity of exports in relation to national income declined from 1.50 in the the 1966-70 period to 1.05 in the 1971-75, the elasticity of imports increased respectively from 1.45 to 1.73.[1]

The investment boom of the 1971-75 period already exceeded the capacity of the construction and engineering enterprises and developed shortages for skilled manpower. This situation has become even more acute in recent years as more and more skilled manpower was diverted to projects being built in foreign countries,

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1 Bronislaw Wojciechowski, Handel zagraniczny a dochod narodowy Polski (Foreign trade and national income of Poland), Warsaw, 1977, p. 44.

mostly in the GDR, Czechoslovakia, Libya, Iraq and the Soviet Union (on the Orenburg gas pipeline and other projects).

Early 1976, it became evident that all investment activity would have to be seriously curtailed. The government realized that most of the targets in the recently adopted five-year plan were simply beyond reach. However, instead of officially revising the plan, it decided to label the revision an "economic maneuver." The major feature of the "economic maneuver" was to cut drastically investment expenditures and to "freeze" many investment projects which were already under construction at the time. These decisions resulted in a tremendous waste of materials and funds. In numerous instances, imported equipment had already been brought in when the funds for the construction were frozen.

EVALUATING INVESTMENT

For these reasons, as well as many others, it is extremely difficult to evaluate the effectiveness of investment processes in Poland in the last few years. For such purposes, official literature and statistics are completely inadequate. While it is claimed that the average investment cycle period has been shortened in recent years, still about 60 percent of total investment outlays go to projects requiring three years for completion. For the modernization of existing plants, less than 30 percent of total investment outlays are being spent.[2]

Substantial changes in both the dynamics of investment expenditures and their sectoral structure have occurred in the current five-year plan. Total investment expenditures rose only by 2.2 percent in 1976, 4.3 percent in 1977, 1.6 percent in 1978, and declined by 8.2 percent in 1979. It is expected that in 1980 these expenditures will decline again by about 10 percent. A major "casualty" in recent investment cuts was the manufacturing industry. However, investments in such sectors as mining, power generation, housing, social infrastructure and agriculture have increased. Intersectoral shifts in investment expenditures certainly did not favor light and consumer goods industries. In the 1980 plan, investment expenditures for agriculture (in the state sector) were even "temporarily" reduced.[3]

Among the main elements of divergence from medium-term expectations is the fact that output growth in the fuel and energy sector has slowed down. This is particularly true of coal: as mining extends into deeper geological strata, investment costs for new mines or the extension of the existing ones increase

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2 Kazimierz Secomski, "Nowa faza polityki inwestycyjnej" (A new phase of investment policies), Nowe Drogi, No. 10, 1979.

3 Trybuna Ludu (The Official Organ of Poland's Communist Party), December 3, 1979.

sharply. Electric power generation has also proved to be a major disappointment. Electricity generating capacity was found to be lagging behind demand, especially in peak load periods and in the winter of 1978, resulting in some major and costly system breakdowns.

DOMESTIC ECONOMIC IMPLICATIONS

The distortions caused by fast economic growth policy in the early 1970s continued to rock the Polish economy throughout the second half of the decade. Early in the 1970s, the government, responding initially to political pressures from the populace, embarked upon a road of huge welfare spending: raising pension benefits and other social transfers, increasing minimum salaries, and then revising wages upward, industry by industry. Some government economists held to the fashionable theory that increased consumption should be used as a stimulator to economic growth. This soon became an official policy of the government.

However, a theory that might prove useful under other conditions, could not work successfully in circumstances where the structure of supply did not correspond to the structure of demand for consumer goods. Money incomes of population in the 1971-75 period were rising at an average annual rate of 13.3 percent and nominal wages at 9.8 percent. The cost of living index was rising then at an annual rate of 2.4 percent. Money incomes of population and nominal wages continued to increase at a rather substantial rate in the 1976-78 period, but the cost of living also moved from 3.0 percent in 1975 to 8.7 percent in 1978, with real wages declining for the first time in 1978 by almost 3 percentage points.

In recent years, the government has lost control over the wage fund and salary increases. Even in those industries which have not been able to fulfill the plan production targets on schedule, the wage fund usually easily surpassed the plan target. This has been particularly true in the construction sector. Nevertheless, as the market imbalance deteriorated in the last few years and the monetary incomes of the population rose, the government was faced with a challenging task to restore, by whatever means, some sort of balance.

FOREIGN TRADE

The foreign trade sector, which in earlier periods played a supportive role, could not be used effectively this time. Foreign trade targets (export and import) formulated by the planners for the current five-year plan have become impossible to achieve. The dynamics of exports have been well below the planned targets. This, in turn, has forced the government to cut imports more drastically than had been initially intended. The recession and economic slow-down in Western countries have also had a negative impact on Polish exports. Equally important were probable shortages of exportable goods. A wide range of industrial goods, produced even on the basis of imported technology, was still not competitive in terms of quality. The abrupt and arbitrary restrictions on imports to decrease foreign spending adversely affected acquisition of products vitally needed by export industries. Polish imports from the developed market economies declined by 7.5 percent in 1977 and by 1.6 percent in 1978. No change was recorded in 1979. If one considers the rate of inflation in import prices, the volume of imports must have declined considerably more. The export performance of these countries, on the other hand, rose steadily in nominal terms, ranging from 8.8 percent in 1977, which was the lowest rate, to 11.9 percent in 1979. However, this increase was due mostly to inflation and did not represent any real increase in volume. The terms of trade with the Western countries were negative in both 1977 and in 1979.

FOREIGN DEBT

Despite the imposition of such drastic import restrictions, Poland has continued to accumulate substantial balance of trade deficits with Western countries. They have been gradually diminishing, but not quite at the rate that had been assumed in the five-year plan. This has resulted in a steep increase in hard currency debt and in a growing burden of debt service. The hard currency debt rose from $7.4 billion in 1975 to approximately $20 billion in 1979, while the debt service ratio to hard currency exports increased in that period from about 40 percent to almost 90 percent. These developments have created a very difficult situation in the international financial markets, contributing in some measure to the deterioration of credit terms, as well as the availability of internationally syndicated credits in general. Conditions of trade with the other Communist countries have also deteriorated in the second half of the decade.

One would assume that difficulties in trade with the Western countries might lead to a more dynamic expansion of trade with the CMEA trading partners. Certainly, there have been serious efforts in this direction, but with only very modest and rather mixed results. As it turned out, the Comecon countries, even in the intra-bloc trade, could not insulate themselves from the results of inflation in the Western countries and in the international commodity markets.

It all began in 1974 and 1975 with the explosion of oil and other commodity prices. Under the impact of that price explosion, the Comecon countries were forced to change their own price mechanism in their intra-bloc trade. Prior to 1975, foreign trade prices in the intra-bloc trade were adjusted approximately every five years. Such prices were held relatively stable over this interval. During this period, average world market relationships of the preceding five-year period were thus reflected.

Beginning in 1975, these prices have been renegotiated annually on the basis of a moving five-year average of world market prices. This both cushioned and postponed the impact of the post-1973 world price structure on those countries in the region which were dependent on imports of fuels and other basic commodities.

THE ENERGY PROBLEM

While the price of crude petroleum in recent years was still substantially below world market levels, it has been constantly moving upward. Certainly Poland, with a substantial base of raw materials of her own (particularly coal), was not in the worst position among the European members of the CMEA. While in the past import prices paid for Soviet oil used to be in close correlation to export prices for Polish coal, in recent years coal prices remained far behind the prices of petroleum. According to some estimates, by 1978, fuel and energy prices in the intra-bloc trade had approximately trebled in comparison to 1974, while the prices of most manufactured goods had increased by 20 to 40 percent.[4] Poland, which on the one hand is heavily dependent on imports of oil, gas and other raw materials from the Soviet Union, and on the other hand is in turn exporting mostly industrial products -- machinery, chemicals and consumer goods -- has found herself suffering under the impact of deteriorating terms of trade.[5]

There have also appeared some structural obstacles to a faster expansion of trade with the other Comecon countries. Most of these nations, also heavily in debt _vis-a-vis_ the capitalist West, are committed to an export drive to those countries and thus have limited quantities of goods to offer one another. They are also, with the possible exception of Romania, imposing constraints on their domestic investments, thus reducing their demand for machinery and other investment goods from Poland. These factors have contributed to the creation of a more competitive and difficult intra-CMEA market.

The securing of oil supplies has emerged as one of the most challenging tasks for the Polish planners. The consumption of petroleum and petroleum products in Poland has increased from slightly over 8 million tons in 1970 to over 14 million tons in 1975 and is expected to amount to about 18.5 million tons in 1980. Imports of oil from the Soviet Union cover approximately 80 percent of Poland's demand. In 1980, for example, the Soviet Union was expected to deliver to Poland 15.9 million tons of oil.[6] The remainder has to be purchased from other sources in the hard currency area.

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4 See "World Economic Survey 1978," United Nations, p. 111.

5 _Rynki zagraniczne_, No. 6, February 8, 1980.

6 _Trybuna Ludu_, March 1-2, 1980.

One has to keep in mind, however, that this "remainder" is becoming larger and larger every year as Soviet oil deliveries are not meeting the increase in Poland's demand. It is expected that by 1985, Poland will process about 21-22 million tons of crude petroleum and that oil imports from the hard currency areas will become, in value terms, the largest item, accounting for 15-20 percent of total Polish imports from that area.[7] It is apparently assumed that Soviet oil deliveries to Poland will either remain at their current level or will increase only marginally. If one adds to this the recent trends in grain imports, running at approximately 8-9 million tons annually, with virtually no relief in sight, the situation looks very grim indeed.

This combination of unfavorable internal and external factors has forced the Polish government in the recent period to virtually abandon the quantitative targets of the current five-year plan and to seek ways and means to restore some equilibrium, consolidate the economic structure and prepare the base for growth in the coming five-year period. It is expected that a number of major joint undertakings by the CMEA countries in the area of raw materials and fuels, started in the 1970s, will bear fruits and thus contribute to the elimination of growth barriers.

Government planners also hope that Poland will benefit from the improved international production specialization resulting from the joint planning efforts of the CMEA countries and that new industrial capacities, built with the help of Western capital, will come on stream soon and greatly improve Poland's competitive position on the world market. It remains to be seen if, and to what extent, these expectations will materialize. The fact remains that for the time being, the Polish economy is at a very critical and difficult stage and it will require considerable efforts and some time to get it back into balance.

SOME IMMEDIATE CAUSES OF THE RECENT WORKERS' UNREST

Although the recent and still continuing unrest among the Polish workers was provoked once again on July 1, 1980 by a clumsy attempt at increasing meat prices, its root causes go much deeper. The dissatisfaction with the government's policies and performance was by no means limited to workers alone, but was found in all segments of Polish society, affecting even the state bureaucracy and lower echelons of the party. The whole society was simply dissatisfied and disillusioned with the existing situation. In recent years, especially since 1976, even regular party apparatchiks have become concerned and frightened at the direction in which the country was moving.

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[7] Andrzej Karpinski: "Problemy planu pircioletniego na lata 1981-1985 w swietle wytycznych na VIII Zjazd PZPR," Gospodarka planowa, No. 11, 1979, p. 571.

Virtually each segment of the population had its own, sometimes very specific, reasons for dissatisfaction and anger. The shortages of basic foodstuffs, continuing for so long, led to the creation of a two-tier market, as, for example, when the government established in 1976 the so-called commercial shops for meat and meat products (at the end of 1979 there were 450 shops), functioning parallel to the "regular" shops, but selling at much higher prices, usually double the officially set figure. However, even that system could not work, because "commercial" shops also had shortages. Recent reports indicate that this two-tier system has been further restructured.[8] Besides the "regular" and "commercial" shops there now exist "super commercial shops" with even higher prices, and special "subsidized" shops, restricted to security personnel, government and party officials, and senior military men, where the best of what is available is offered. Finally, of course, there is the black market. All this led to widespread corruption. People with an abundance of currency (and certainly there were more and more of those in recent years), could afford not only to buy meat at whatever price was asked, but to have it delivered home, by corrupting the selling personnel or making arrangements through other channels.

On the other hand, people who did not have enough currency had to stand hours in line in front of the "regular" shops to compete for whatever goods were left. A very similar situation prevailed with respect to other consumer goods. For people having dollars or other hard currency, the situation was somewhat easier, since they could get many consumer goods at special hard currency stores. In this way the position of the Polish zloty has been seriously eroded and dollars were traded on the black market at several times the official exchange rate.

The belief was widespread that the government was either incompetent to deal with this situation, or, for some unexplained reasons, maybe even reluctant to act. Very few people were ready to believe that the government could not respond sufficiently because it was under pressure from the Soviets. The Polish people are widely travelled, politically astute and mature, and knew the situation both in the East and West. Neither the society as a whole nor the workers in particular were inclined to revolt merely against an increase in meat prices, but the methods used to carry out such policies provided the necessary spark.

Among the major causes of dissatisfaction and anger, affecting all sectors of the society, were the primitive and crude methods of the whole propaganda and mass media machinery which attempted to keep the people in ignorance about the true state of the Polish economy. Since 1946, censorship in Poland has been the prerogative of the Chief Office for the Control of Press, Publishing, and Public Performances (*Glowny Urzad Kontroli Prasy,*

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8 *The Guardian*, November 10, 1980.

Pulikacji i Widowisk -- GUKPPiW). Marian Flashinski, writing of the Polish Lawyers' Association in Prawo i Zycie (October 5, 1980), specifically refers to the "fundamental damming up of honest information" by the GUKPPiW. In Poland today, many people turn off their televisions when the evening newscast begins and instead listen to the radio broadcasts of the Voice of America, Radio Free Europe and the BBC. From those stations, they learn something of the intolerable situation in Poland. Polish radio and television, under the direction of the now deposed and disgraced Maciej Szczepanski, served only the party. The daily press had become simply unreadable for most of the populace, with the possible exception of foreign news, though even this was distorted as well.

An increasing number of writers and intellectuals became dissatisfied, as they could not express their opinions freely in print or through other public channels, except in their own professional associations. This was the reason why many of them decided to print in samizdat publications, which became increasingly popular. Economists, sociologists, even engineers and other technocrats became more and more frustrated as they realized that no one was really seeking their advice. The government took the position that it knew best and the people should just listen and perform their functions as directed.

If one adds to all this the political harassment and repression against dissident intellectuals and other political or trade union activists among workers and peasants, the picture is almost complete. For anyone to say that the Polish government allowed a considerable measure of freedom would be a misstatement of fact. The government would only yield under pressure, when it virtually had no other choice because of overriding internal or external considerations. All this resulted in great social and political tension in the country.

THE CRITICAL ROLE OF WORKERS

Under such circumstances, almost anything could provoke a serious unrest. But, as Poland's post-war experience has proved, as long as the workers sat quietly, nothing terribly important would happen. Only the workers had the power to act effectively -- even to paralyze the economy, if they so decided. The government could not deal with them as easily as it does with intellectuals or a group of dissidents.

For nearly seven weeks following the July 1 meat price increases, Poland was beset with an ever-growing wave of strikes. Estimates run as high as 200 in this short period. Though, in the aggregate, these strikes created massive problems for the Gierek regime, the most serious challenge to the country's communist authorities had yet to occur. On August 14, over 15,000 workers in the Lenin Shipyard in the port of Gdansk went on strike and took over the shipyard. The fact that labor unrest had now spread to such a key Baltic port had grave implications for the Polish leader. Nearly ten years ago, a similar strike occurred in Gdansk, in which almost threescore workers were killed by the police. Rioting soon spread to other parts of the country and eventually toppled the regime of Wladyslaw Gomulka, Gierek's predecessor.

The Gdansk strikes of 1980 were especially significant for several reasons:

First, the demands of the shipyard workers (see Appendix), formulated by an integrated strike committee under the leadership of Lech Walesa, were highly political in nature. Among such demands were the legalization of the right to strike, abolition of censorship, release of political prisoners, full public disclosure and discussion of new economic policies, access for the Catholic church to the media, and an end to Communist party interference in the establishment of free trade unions.

Second, the shipyard workers were known for their militance, especially in light of the December 1970 riots.

Third, a link was established between dissident intellectuals and workers as early as 1976. At that time, the Social Self-Defence Committee (KOR) was founded in the wake of the strikes to aid victimized workers and their families. Since then KOR has become a "clearing house" for information, has issued regular bulletins, and maintained close links with various stike committees. The acknowledged spokesman for KOR is Jacek Kuron.

Work stoppages and strikes soon spread to Lodz, Koszalin, Wroclaw, Rzeszow, Olsztyn, and Silesia. After an eighteen-day crisis that literally brought the country to a standstill and caused the dismissal of Prime Minister Edward Babiuch and others within his administration, an agreement was signed between the workers and the Polish Communist Party.

As the recent developments in Gdansk have demonstrated, a link established in 1976 between dissident intellectuals and workers proved to be of vital importance for the workers' success. Ultimately, the workers' success became also a success for the dissident intellectuals, as many of them were released from prison on demand of the striking workers. This mutual solidarity has added a new dimension to the already precarious political situation existing in Poland.

WHAT NEXT?

Now, after the first phase of the crisis has ebbed, the crucial question remains how the "new" leadership of Stanislaw Kania is going to deal with the situation, particularly the economic crisis which has deteriorated even further. There are no easy answers to this question, especially since the situation is still far from clear. While the major strikes have ended, the real wave of change across the country is still going on. It is evident, however, that the internal social and political situation is quite different from that of just two months ago. The drive toward creation of independent trade unions is widespread and probably difficult to contain.

The Party has suffered a devastating political and ideological setback. But there can be no question that it will do everything possible to regain control over the social and political developments in the country. Only after regaining such control can it attempt to deal with the economy.

The real political dilemma in Poland has been for quite some years that people could not see any sensible and feasible alternative to the Gierek regime. Although most were disappointed or frustrated with the Gierek leadership, any alternative to Gierek looked even worse. The Party's highest bodies, the Politburo and the Secretariat were full of mediocre people -- just regular party apparatchiks, some of whom probably could not even understand the complex nature of economic problems facing the country. This was also one of the reasons why the Jaroszewicz rule was tolerated for so long.

CHANGES IN NAMES ONLY

Has anything changed in this respect after the Gierek downfall? Certainly not very much at least in terms of personalities. With the exception of a few individuals in the Politburo, such as Kazimierz Barcikowski and Tadeusz Grabski, most of the party leadership are conservative or even dogmatic communists, with little eagerness for experiments.

However, the mood in the country is different now and the government is going to be under strong pressure to act more effectively and expeditiously. Otherwise, it will invite more waves of unrest and possibly intervention by the Soviet Union. Another positive factor is that a few professionals, like Henryk Kisiel and Aleksander Kopec, have been elevated to high government positions -- Deputy Prime Ministers. Though they are not likely to have any political power, the Politburo is likely to vest more decision-making power with the government.

Further positive changes may occur in the party leadership. It has already been suggested that the Central Committee consider the convening of an Extraordinary Party Congress to discuss the new situation in which the party has found itself. If such a congress is convened -- it is currently scheduled for April -- it is expected that the more dogmatic, conservative elements within the party will lose their power and more liberal elements may emerge stronger and better represented in the top Party bodies. Under such circumstances, the chances for economic reform would be enhanced.

Some "reforms" have already been proposed, particularly in the agriculture sector. Prime Minister Josef Pinkowski, prior to his being replaced by Defense Minister Wojciech Jaruzelski in February of this year, enunciated some of the new elements in the agricultural policy. They included increased procurement prices for hogs, a stricter cost accounting in agricultural production -- apparently in relation to the "socialized" sector -- increased production and deliveries to agriculture of fertilizers, agricultural machinery and transportation, as well as some new facilities for the acquisition of land by private farmers, especially the young.

However, no one in the "new" leadership has questioned so far any of the basic tenets of the party's agricultural policy. Kania, speaking at the plenary meeting of the Central Committee of the Party which elevated him to the position of First Secretary, promised to take steps to ensure the profitability of agricultural production and to promote all types of farms, but added, "In increasing the effectiveness of farming, we should promote socialist transformations in our agriculture."[9] Everyone knows that such "socialist transformations" can be promoted only by a system of special preferences for the state and collective sector of agriculture.

Of course, any further course of action by the "new" party leadership will depend very much on how it reads Soviet intentions and how it will react to Soviet pressures. Most people in Poland assume, rightly or wrongly, that the Soviet Union will not risk a major confrontation over Poland at this time, at least not as long as the Polish United Workers' Party (PUWP) remains in power and in control of events. Given the excessive political, economic and military costs of an invasion, both in the short and long run, it would seem that the Soviet Union has really no more preferable option at this time but to tolerate within bounds a greater measure of diversity in Poland.

AID TO POLAND: EAST AND WEST

Certainly, it would seem logical to expect that the Soviet Union should be interested in helping consolidate the Kania leadership. One should keep in mind, however, that Soviet economic assistance has always been exaggerated in the past and exploited for purely political purposes, and, on occasion, was simply false. For example, in 1979, there was absolutely no Soviet economic assistance to Poland. The credits that had been offered through the Soviet bank in London (Moscow Narody) were never used by Poland, as their terms were worse than Poland could get on the Eurodollar market. In early December 1980, the Soviets agreed to a $1.1 billion hard currency loan. In addition, Poland is to

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9 Trybuna Ludu, September 8, 1980.

receive approximately $200 million worth of goods, including wheat, high quality cotton, cellulose, sunflower oil, and rice. It is also possible that Poland may be able to purchase some Soviet grain under a bilateral trade agreement.

However, economic assistance, in the form of hard currency credits, which Poland badly needs, will have to come from the West. It is difficult to predict how large these credits might be. Poland has been the largest customer for Commodity Credit Corporation credits in the United States, using those credits in recent years at $500 million annually. Former President Carter previously announced a new line of those credits for the coming fiscal year in the amount of $670 million, which will allow Poland to purchase about 4 million tons of grain and other agricultural products. Quite recently, Poland received a syndicated loan from West German banks of $674 million and a Eurocurrency loan of $325 million, organized by a consortium of American and British banks. It is expected that Poland is going to receive further substantial loans from the West European sources.

The most difficult immediate economic problem for Poland will be to service its huge foreign debt (estimated at $24 billion) and, at the same time, improve the domestic market situation to meet increased money incomes that have been granted to the workers. It seem virtually impossible to do it without some sort of rescheduling of her debt repayments. The trouble with Poland's foreign debt is probably not so much its absolute size, though it is very high, as is its short-term structure. This is the real problem. The Gierek regime was determined to honor all of Poland's credit commitments on time, but it could not provide consumer goods to the domestic markets at the same time. This will be a real dilemma for the new regime as well.

COMMISSION PROPOSALS AND ECONOMIC REFORM

On September 5, 1980, Prime Minister Pinkowski, in his first speech to the <u>Sejm</u> (Parliament), announced that a Commission for Economic Reform would be established to chart Poland's economic future. Of course, the setting up of a commission by itself may not mean very much. Similar commissions had existed in the past and nothing of consequence materialized. However, the current situation is somewhat different now, especially since all the past economic policies have been exposed as failures.

Originally, the Commission consisted of some thirty-two specialists, most of whom held senior posts in the party and in the government. Responding to criticisms by the Polish Economic Society, the Warsaw Central School of Planning and Statistics and other institutions that such a one-sided group could hardly be expected to adopt innovative ideas, the Politburo expanded the Commission to include numerous non-party economists and others. Almost 500 representatives of "various scientific fields, civic leaders and economic officials, party and party-unaffiliated, workers and representatives of the socio-occupational communities, public organizations and trade unions" participated in the Commission. Their work was completed in early January 1981 and will serve as one of the basic materials for the Extraordinary Ninth Party Congress scheduled for early April of this year.

Prefacing their demands and suggestions for economic reforms during the next several years, the Commission gave a sober and biting appraisal of the current situation in Poland. Among the basic features of the present crisis are "a difficult market situation, a poor balance-of-payments situation, an excessive number of capital projects in progress, drastic shortages in the area of material-technical supply, structural disproportions and great waste of productive factors, retrograde movement in agricultural and industrial production, a low level of labor productivity, escalation of wage demands, and many unresolved elementary social problems." Acknowledging the deformations which have occurred in the functioning of the sociopolitical system and the economy, the Commmission suggested (in fact, demanded) not only substantial improvements in efficiency of management, but major structural changes in the nature of economic planning.

In proposing their reform measures, the Commission embraced principles previously adopted in Hungary and Yugoslavia. Central to their recommendations is the freeing of Polish enterprises from the intricate system of central direction of the past thirty-six years and allowing them to function on the principles of economic profits and free market forces (similar to the Hungarian model, the New Economic Mechanism). The Commission also proposed the development of self-management in the enterprises over a period of time. According to the Commission proposal the workers will directly and indirectly "through a workers' council" (Yugoslav model) manage the enterprise. If such a reform, based as it is on an "intermarriage" between the Hungarian and Yugoslav models, were to materialize it would constitute the most embracing economic reform ever attempted in Communist-dominated Eastern Europe.

The recent ministerial changes, announced on February 12, 1981, certainly give the appearance that the government desires to act quickly on these reform measures. Major changes were announced involving the ministers of agriculture, education, health, chemical industry and forestry -- areas in which there have been conflicts between government and workers. More significant, however, were the new appointments to the government. Andrzej Jednyak, Minister of Heavy and Agricultural Machinery, was appointed a deputy Prime Minister, as was Mieczyslaw Rakowski, editor of the weekly magazine, Polityka. Rakowski's appointment is especially significant because for some time he has strongly criticized the centralistic exercise of power by both party and state leaders and has supported an accelerated program of structural changes in the guidance and management of the economy. It was further announced that Mieczyslaw Jagielski, First Deputy Prime Minister, will head a special committee coordinating attempts to stabilize the economy and implement future economic plans.

Jagielski is currently in charge of foreign trade and the maritime economy. He is also Poland's permanent representative to Comecon, as well as Chairman of the Polish-Soviet Intergovernmental Commission for Economic, Scientific and Technical Cooperation. Given his involvement in negotiating the Gdansk agreements in 1980, he is one of the few ministers who enjoys the confidence of Solidarity.

CONCLUSION

Despite all the difficulties currently facing Poland, her economic problems are still manageable and potentially solveable, provided the government is willing and able to modernize in the most effective way all the internal resources and talents of the people. To accomplish this task, the government will have to eliminate a variety of institutional barriers now existing and improve the economic mechanism and management of the economy. This will, of course, require some very bold, imaginative, consistent and long-term policy measures, which cannot be subjected to change whether it be for tactical considerations, temporary difficulties or external pressures. Obviously, such a program further necessitates a total commitment within the leadership of the Party and government to these reforms. Such an effort also requires convincing the people -- workers, farmers, bureaucrats, party officials and the like -- that their energies will be put to the best use of the country and of the whole society. Such an effort represents a radical transformation of Polish society, but it requires time -- certainly more than the three-month "strike-free" period suggested by General Wojciech Jaruzelski, the new Prime Minister. Given the present economic-political crisis, especially the ever-present danger of Soviet/Warsaw Pact intervention, time is a luxury that Poland cannot afford.

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APPENDIX

A LIST OF DEMANDS MADE BY THE STRIKING WORKERS IN GDANSK

1. Acceptance of free trade unions independent of the Communist Party and of enterprises, in accordance with convention No. 87 of the International Labor Organization concerning the right to form free trade unions, which was ratified by the government of Poland.

2. A guarantee of the right to strike and of the security of strikers and those aiding them.

3. Compliance with the constitutional guarantee of freedom of speech, the press and publication, including freedom for independent publishers, and the availability of the mass media to representatives of all faiths.

4. a. A return of former rights to:
   - People dismissed from work after the 1970 and 1976 strikes.
   - Students expelled from school because of their views.

   b. The release of all political prisoners, among them Edmund Zadrozynski, Jan Kozlowski and Marek Koslowski.

   c. A halt in repression of the individual because of personal conviction.

5. Availability to the mass media of information about the formation of the Interfactory Strike Committee and publication of its demands.

6. The undertaking of actions aimed at bringing the country out of its crisis situation by the following means:
   a. Making public complete information about the social-economic situation.
   b. Enabling all sectors and social classes to take part in discussion of the reform program.

7. Compensation of all workers taking part in the strike for the period of the strike, with vacation pay from the Central Council of Trade Unions.

8. An increase in the base pay of each worker by 2,000 zlotys ($66 at the official rate) a month as compensation for the recent rise in prices.

9. Guaranteed automatic increases in pay on the basis of increased in prices and the decline in real income.

10. A full supply of food products for the domestic market, with exports limited to surpluses.

11. The abolition of "commercial" prices and of other sales for hard currency in special shops.

12. The selection of management personnel on the basis of qualifications, not party membership. Privileges of the secret police, regular police and party apparatus are to be eliminated by equalizing family subsidies, abolishing special stores, etc.

13. The introduction of food coupons for meat and meat products (during the period in which control of the market is regained).

14. Reduction in the age for retirement for women to 50 and for men to 55, or after 30 years employment in Poland for women and 35 years for men, regardless of age.

15. Conformity of old-age pensions and annuities with what has actually been paid in.

16. Improvements in the working conditions of the health service to insure full medical care for workers.

17. Assurances of a reasonable number of places in day care centers and kindergartens for the children of working mothers.

18. Paid maternity leave for three years.

19. A decrease in the working period for apartments.

20. An increase in the commuter's allowance to 100 zlotys from 40, with a supplemental benefit on separation.

21. A day of rest on Saturday. Workers in the brigade system (team operations) or round-the-clock jobs are to be compensated for the loss of free Saturdays with increased leave or other paid time off.