

THE POLISH CRISIS: ECONOMIC FACTORS AND CONSTRAINTS

Domenico Mario Nuti

Introduction

In 1980-81 Poland has been shaken by an unprecedented economic and political crisis. Economic performance, which had already deteriorated in the second half of the 1970s, worsened dramatically. By the end of 1981 Polish national income will have fallen by a quarter in three years, causing a drastic parallel fall in standards of living; persistent external imbalance has led to a mounting foreign debt of the order of \$27 billion, which Poland is unable to repay as it falls due; rescheduling of interest and principal repayments is being negotiated with international bankers and Western governments, while Poland has been unable to meet its obligations towards Comecon partners, who have also provided massive aid and finance (\$4.2 billion since August 1980 from the Soviet Union alone); there is no prospect of a trade balance being restored before 1986. Open inflation, at 8.5 per cent in 1980 and 15 per cent in the first half of 1981, underestimates internal imbalance in view of endemic and widening shortages of goods, including foodstuffs and basic necessities; one third of current incomes are not matched by goods in the shops and worthless cash piles up in the hands of the population; a wide range of goods are rationed, but rations are not covered and queues lengthen, while patience runs out. About a third of industrial capacity is unutilised because of shortages of energy, materials and intermediate goods; a labour surplus is developing on a vast scale, leading to redundancies, early retirements and emigration, while labour is scarce in some crucial sectors. Central planning and administration is on the verge of collapse. The political crisis is equally acute: social conflict has escalated and is taking the form of strikes, demonstrations, hunger marches; a new 10-million strong Union is in search of identity and acts both like a militant Western-type union and an opposition party; in spite of extensive leadership and government changes, progress towards 'socialist renewal' and democratisation within the Polish United Workers' Party, there is a political stalemate leading to total inaction. Unless the economy starts to recover and social peace is restored soon, the dismal alternatives of either domestic repression or external intervention become increasingly likely.

This essay reviews the basic aspects of the economic crisis, attempts a preliminary analysis of the exogenous and endogenous factors that have

caused the crisis, and an assessment of the outlook for economic recovery and the reform of the system. The first part of the essay deals with the second half of the 1970s up to August 1980: the decline in economic performance, its main causes, its political implications, the trigger of the August events. The second part considers developments in the subsequent twelve months, within the Party and the new union, the economic collapse and the economic constraints conditioning recovery and reform. The third part contains some theoretical reflections on the Polish crisis.

Part I: Before August 1980

Deterioration in economic performance

In the second half of the 1970s Poland experienced a serious deterioration in economic performance, in spite of the massive accumulation of capital and the large scale import of Western technology and machinery undertaken under Gierek's leadership, especially in the first half of the decade. In particular:

(i) The growth rate of income produced (defined following the standard East European conventions) declined steadily from an average 9 per cent per annum in 1970-75 to 6.8 per cent in 1976, 5 per cent in 1977 and 3 per cent in 1978; early income statistics for 1979 indicated a negative growth rate of -1.9 per cent (IKZ, 1980) but have now been revised downwards to -2.3 per cent (Raport, 1981; negative growth was unprecedented in post-war Poland, indeed throughout Eastern Europe with the exception of Czechoslovakia in 1963). This compares with an average planned growth of 7.3 per cent per annum in the five-year plan 1976-80, subsequently scaled down in the yearly plans. By mid-1980 the modest growth of 1.6 per cent planned for 1980 was unlikely to be fulfilled. The decline in national income distributed (i.e. devoted to domestic consumption and accumulation) is even sharper, as can be easily seen from Table 1: while up to 1976 income distributed grew faster than income produced, in subsequent years—primarily due to the burden of repayment of debt incurred in earlier years—income distributed grew more slowly than income produced.

(ii) Part of the decline in performance is due to a fall in agricultural output and adverse natural conditions (particularly in 1975, 1976, and 1980) but an equally significant steady decline can be observed in industrial production, from an average of over 10 per cent in 1971-75 to 8.3 in 1976, 6.3 in 1977, 3.6 in 1978, a modest 1.9 increase in 1979, which picked up in the first half of 1980 but ended with -1.2 per cent by the end of the year.

(iii) These declining growth rates and actual falls in levels of income and industrial production are particularly disappointing in view of the sharp increase in the share of accumulation in national income from an average 25 per cent under Gomulka to peaks of over 35 per cent in 1974 and 1975, and the steady growth of fixed capital per man in subsequent years in

Table 1. Fundamental indicators of economic development, 1971-80

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
	<i>percentage increase with respect to previous years at constant prices</i>									
National income produced	8.1	10.6	10.8	10.4	9.0	6.8	5.0	3.0	-2.3	-5.4
National income distributed	9.8	12.7	14.3	12.1	10.9	7.0	2.7	0.7	-3.4	-5.9
Industrial production sold	8.8	10.2	11.0	11.3	11.0	8.3	6.3	3.6	1.9	-1.2
Gross agricultural output	3.6	8.4	7.3	1.6	-2.1	-1.1	1.4	4.1	-1.5	-10.7
Exports	6.2	15.5	11.6	12.3	8.3	4.4	8.0	5.7	6.8	4.2
Imports	14.0	21.8	22.8	14.9	4.4	9.6	-0.1	1.5	-0.9	-1.7
<i>Economic effectiveness</i>										
Productivity of fixed capital ¹	1.8	3.8	3.0	1.0	-1.1	-2.6	-4.3	-5.6	-9.6	-11
Labour productivity ²	6.9	8.6	9.0	8.2	8.3	7.7	5.0	3.3	-1.5	-4
Fixed capital per man	4.9	4.6	5.9	7.1	9.4	10.6	9.7	9.5	8.9	8
Difference between labour productivity growth and growth of capital per man	+2.0	+4.0	+3.1	+1.1	-1.1	-2.9	-4.7	-6.2	-10.4	-12
Structure of % income shares										
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
— consumption	72.5	70.4	67.0	64.4	64.8	65.9	68.5	69.2	73.8	79.8
— accumulation	27.5	29.6	33.0	35.6	35.2	34.1	31.5	30.8	26.2	20.2

1 income produced per unit of fixed capital

2 in the **sphere** of material production

Source: *Report* (1981), p. 120.

spite of the downward trend in the share of accumulation in the second half of the 1970s. The growth of labour productivity has declined since 1976 and actually became negative in 1979-80; the productivity of fixed capital started to grow more slowly from 1973 and steadily fell from 1975 onwards (see Table 1).

(iv) Continued trade deficits, especially with Western countries (from a cumulative \$303 million in 1961-70 to an average \$2.6 billion per year in 1975-78 with the industrialised West) led to mounting hard currency indebtedness. In 1971 net external debt amounted to \$1.2 billion, matched by central bank reserves estimated at \$1 billion. By 1979 external debt (excluding short term loans) had risen to \$20.5 billion, overtaking Soviet indebtedness and taking first place among Comecon countries (see Table 2). A more than five-fold increase in imports from the West was matched by a less than four-fold increase in exports, leading to consistently negative balances from 1972 onwards; the burden of debt service (amortisation and interest) grew by 20 times over the decade, absorbing an increasing share of export earnings, from 12.4 per cent in 1971 to 75 per cent in 1979 and 81.8 per cent in 1980. These figures understate the total burden of debt and debt-service by the increasing use of short-term debt, which by 1980 had reached the order of \$2 billion, and brought the debt service ratio close to unity (i.e. absorbing total export earnings; according to IMF practice a 40 per cent debt service ratio is regarded as the maximum manageable limit). By 1980, external debt had reached \$23 billion, plus \$2 billion short term debt, plus an undisclosed amount owed to the Soviet Union and East European countries, estimated (EIU, 1981, n.2) at another \$2 billion. This external indebtedness had internal repercussions in the form of growing 'internal exports' (i.e. the sale of imported and exportable goods to the public against foreign currency, including goods in scarce supply in ordinary shops) and a growing government borrowing of foreign currency from Polish citizens, with generous interest payments and provisions for the export of foreign currency to finance foreign travel; by allowing citizens to borrow Polish zlotys against the security of foreign currency, at a rate of almost four times the official rate and with forfeiture in case of default, the Polish government effectively put a high floor to the black market rate for hard currency and, de facto, engaged in black market transactions with Polish citizens.

(v) Open inflation, an unfamiliar phenomenon since the mid-1950s, appeared; the official cost of living index rose at the following rates (see *Rocznik*, 1980; the index refers to purchases of consumption goods by the population from the socialised sector):

1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	
-1.2	0.0	2.6	6.8	3.0	4.7	4.9	8.7	6.7	8.5	(MRS, 1981)

Table 2. External debt and foreign trade proportions

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
<i>t</i>	2	3	4	5	6	7	8	9	10	11
Long and medium term debt with advanced capitalist countries, at the end of the year, \$ bn.	1.2	1.5	2.8	4.8	7.6	11.2	14.3	16.9	20.5	23.0
Increase in debt from year to year, \$ bn.	x	0.3	1.3	2.0	2.8	3.6	3.1	2.6	3.8	2.5
Export receipts, from advanced capitalist countries, \$ bn.	2.3	2.6	3.4	5.1	5.7	6.1	6.8	7.4	8.4	9.9
Debt service (amortisation and interest \$ bn.)	0.4	0.4	0.5	1.0	1.5	2.1	3.1	4.5	6.3	8.1
Percentage ratio between debt service and exports of goods and services	12.4	15.4	14.7	19.6	26.3	34.4	45.6	60.8	75.0	81.8
Import outlays for goods and services from advanced capitalist countries \$ bn.	2.0	2.7	4.8	7.2	8.7	8.9	8.6	8.9	10.3	10.3
Trade balance, \$ bn.	+0.3	-0.1	-1.4	-2.1	-3.0	-2.8	-1.8	-1.5	-1.9	-0.4

Source: *Rapport* (1981), p. 124.

The price fall in 1971 reflects the reversal by Gierek of the December 1970 food price rises, which triggered the Baltic events and Gomulka's downfall. Similar price rises, reintroduced by Gierek in 1976, were also reversed under the pressure of social protest. Rising inflation rates are due to price rises decreed in less sensitive areas, greater enterprise autonomy in price-fixing since 1974 combined with wage-push and imported inflation, and general pressure on demand. The relative stability of food prices, in spite of rising costs, involved large and rising subsidies from the state budget: from zł. 19 billion in 1971 to zł. 166 billion in 1980.

(vi) Shortages of consumer goods—a familiar feature of central planning, tolerable at times of growing standards of living—became persistent and endemic. Shortages per se indicate simply the presence of excess demand (i.e. a price level lower than in equilibrium) and not necessarily repressed inflation, which is an *increase* in the degree of excess demand (Portes, 1978). From the data contained in Table 3 monetary balances of the population appear to have increased by a factor of 4.5 over the decade (corresponding to a yearly growth rate of 16.2 per cent) while sales of goods and services have increased only by a factor of 3 (corresponding to 11.6 per cent a year); cash balances have increased by a factor of 5 (or 17.3 per cent a year). In the absence of any evidence of an increased propensity to save of the population, indeed in the presence of clear signs of a progressive flight from domestic currency (like the rising black market rate for foreign exchange, speculative purchases of durables, or simply non-perishable goods, etc.), we can infer a progressively *widening* gap between actual and desired monetary balances in the hands of the population; given the stable prices of goods in short supply, this indicates repressed inflation. Polish economists distinguish, quite rightly, between *inflationary gap* (*luka inflacyjna*) defined as the difference between yearly intended consumption expenditure and the value of yearly sales, and *inflationary overhang* (*nawis inflacyjna*) defined as the excess liquid assets in the hands of the population, i.e. the cumulated inflationary gaps over the years (*Raport*, 1981, p.8; Sadowski, 1981). Thus as long as the inflationary gap is greater than zero, even if it is falling, the inflationary overhang rises over time. The actual quantification of either inflationary gap or overhang impinges on conjunctures about intended consumption or savings; estimates by the Polish State Planning Commission based on family budgets are said to be higher (at zł. 350 billion in mid-1980) than those by the Ministry of Finance based on the analysis of monetary aggregates (unpublished; apparently by about one third), but there can be no doubt that repressed inflation increased in Poland over the 1970s: shortages extended from food to many other consumption goods of daily use, against a background of unsatisfied demand for durables from housing to furniture or motorcars. In March 1979 the Ministry of Internal Trade listed 280 products for which demand was difficult to satisfy and the list

Table 3. Fundamental magnitudes illustrating the formation of market equilibrium (current prices, zł. bn.)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	Second half year 1980	First quarter 1981
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Sales of goods to the population	395	429	482	544	625	713	813	920	1000	1102	1207	630	309
Sales of services	70	75	82	92	104	119	134	150	162	175	192	98	48
Total goods and services	465	504	564	636	729	832	947	1070	1162	1277	1399	728	357
Dynamics (previous year = 100)	x	108.4	111.9	112.8	114.6	114.1	113.8	113.0	108.6	110.0	109.5	108.0	111.2
Total net incomes	489	543	626	717	824	933	1040	1169	1271	1397	1535	797	447
Dynamics (previous year = 100)	x	111.0	115.3	114.5	114.9	113.2	111.5	112.4	108.7	109.9	109.8	109.6	119.4
Monetary balances of the population													
– Total (zł. bn.)	171	198	239	300	370	435	486	538	600	675	766	766	843
of which—savings	117	137	170	213	264	307	339	376	415	464	500	500	542
–cash	54	61	69	87	106	128	147	162	185	211	266	266	301

Source: Kaport (1981), p. 127.

grew longer in the following year. Apart from popular irritation, shortages have other adverse consequences such as: the ineffectiveness of monetary incentives; the indiscriminate purchase and hoarding of anything handy that consumers might be able to acquire, leading to waste and the inefficient distribution of goods, and causing shortages even of goods available in quantities normally sufficient to satisfy population needs; the rapid growth of black or 'grey' markets in which deficit goods are obtained at a higher price, or through 'connections', position or corruption, most people busily 'fixing' and exchanging each other's purchases. In these conditions the private sector thrived in the old areas of market gardening, handicraft, building and restaurants and in new areas such as motorcar repairs. A 'second' or 'parallel' economy developed, broadly tolerated by the authorities because it actually fulfilled a social need and reduced pressure on the 'official' economy. The population resented not only the shortages but the resulting unequal distribution of access to goods and services.

(vii) Inevitably, consumption scarcities spilled over into the supply of materials and semifinished products to enterprises, especially through foreign trade: imports or lower exports of shortage consumption goods competing for foreign exchange with imports of necessary materials and intermediate products. Shortages of production goods, however, were mostly generated by the rapid growth of machinery imports which competed with the importation of current inputs, and the rising dependence on Western intermediate products which followed from Gierek's policy of technology transfer from the West. Shortages of production goods led to a recentralisation of planning processes, combined with an intensification of informal bargaining processes (*przetargowanie*, literally 'auctioning', though by pull and reciprocal favours, not by prices) between enterprises and between central and lower planning authorities; the resulting allocation of shortage goods was not necessarily the most efficient, indeed it led to glaring inefficiencies. Like consumers, firms hoarded excessive amounts of materials in scarce supply (in 1979 for instance, inventories of materials rose by 7 per cent, i.e. almost four times faster than industrial production). Inventories were badly distributed: (in the spring of 1980 the Planning Commission started a survey in 25 sectors in order to establish where in the economy inventories were being hoarded unnecessarily); at the same time, in many sectors inventory levels were not sufficient to sustain continued production levels, shortages being most apparent for paper, rolled steel, copper, plastic materials, cardboard, coal and imported inputs. In the allocation of scarce materials the priority system was extended.

(viii) Recentralisation and central distribution of scarce products, however, did not mean that the 'Centre' had a firm control over resource allocation and macroeconomic processes. The irreconcilable claims of

different economic agents and the overambitious conflicting targets set for the economy led to the practical disintegration of central control. There was a proliferation of 'priorities' (exports, essential consumption goods, completion of unfinished investment projects, modernisation, motorisation, housing, armaments) which is a contradiction in terms, priority by definition being attributable to one objective only, and even in that case being difficult to implement in an economy characterised by complex intersectoral links, where the progress of the priority sector could be hindered by the neglect of sectors delivering essential inputs to it. In spite of recentralisation supplies to both enterprises and consumers became increasingly disrupted; the whole economic system, by the end of the 1970s, was subject to tensions and shortages which seriously compromised its efficiency (see Nuti, 1981).

(ix) The shortages, tensions and inefficiencies which visibly afflicted the Polish economy generated mounting pressure for economic reform towards a greater reliance on markets and enterprise autonomy along Hungarian lines. At the same time it created an environment in which economic reform could not be introduced or was bound to fail because the activation of markets does not allow enterprises and consumers to assert their choices and make the economy more efficient—if ever they can—in a situation of persistent disequilibrium. An attempt at economic reform based on the concentration of decisional power at the level of 'large corporations' (Nuti, 1977) was made in 1973-75 but was effectively suspended in the mid-1970s precisely because of growing imbalances which necessitated the reestablishment of central control over investment and wages (Nuti, 1981). Workers' participation in enterprise management, introduced in 1956 and already curtailed by 1958, in the late 1970s became a dead letter following the gradual suspension of elections to Workers' Councils decreed, on dubious legal grounds, by the Central Trade Union Council (CRZZ) in 1975 (see Nuti, 1981) thereby eliminating a formal channel of communication for the expression of workers' views and needs outside Party and Union lines. By early 1980 a new reform project was taking shape, involving not only large enterprises but all 'supply links' (local, sectoral, international), shifting the time horizon of operational planning from the yearly to the five-year plan (by itself an indication of loosening central control), introducing greater initiative for social bodies and agencies and not just enterprises, relying on value indicators and linking wages to productivity growth. The new system was scheduled for introduction in the early 1980s, when tensions and shortages were expected to be overcome, but this expectation was badly disappointed by the mounting economic crisis that progressively disrupted the Polish economy and society, bringing the economic machine to a grinding halt in August 1980.

Exogenous and endogenous causes

In the wake of the criticism and condemnation of Gierek's leadership that stemmed from the events of August 1980 the impact of exogenous factors on the Polish crisis has been somewhat underestimated. These factors are both natural and international.

Natural factors were particularly adverse in the second half of the 1970s and in 1980, with a much above average incidence of frost, snow, floods and other natural disasters, which affected food supply, transport, building, and caused further repercussions on the rest of the economy. Some Polish leaders referred to recent years as the seven biblical years of poor harvest. Nevertheless, natural factors can only have had a subsidiary role in a crisis of such proportions. Besides, the impact of natural factors was greatly amplified by policy mistakes, such as the systematic neglect of investment in agriculture and transport, which made these sectors more vulnerable than need be to weather conditions. The poor performance of Polish agriculture, illustrated in Table 4 is also due to: (i) the deliberate fall in land cultivated by the private sector, from 75.1 per cent in 1970 to 68.4 per cent in 1980, following systematic purchases by the State Land Fund (PFZ) and reallocations—especially in the mid- and late 1970s—to less efficient state farms, cooperatives and 'agricultural circles' (total arable land also fell by 12 per cent over the decade, following the increasing needs of industrialisation); (ii) the 28 per cent fall in employment in private agriculture, from 4.4 to 3.2 million, especially young men, matched by a modest increase in employment in the socialised sector from 0.8 to 1.1 million, leading to labour scarcity in agriculture; (iii) the non-utilisation of agricultural machinery (17 per cent of tractors and 20 per cent of trailers in 1980) because of lack of spare parts (though the number of tractors rose by a factor of 2.5 to 619,000 over the decade); (iv) the inappropriate price policy that held back supply and made the private sector switch from animal to vegetable output and forced the socialised sector to switch to animal production to which it was less suited—a switch which made agriculture more dependent on imported grain and animal feed (see Table 5). In transport, the development of railways did not keep pace with the requirements of industrialisation; electrification was slow and public transport in general became increasingly inadequate. (Raport, 1981, section II.A.2 on agriculture and section II.A.5 on transport; Simatupang, 1981).

International factors played a major role in the Polish economic crisis. In theory energy self-sufficiency (indeed surplus, as Poland until 1979 has been a net energy exporter, though net exports have fallen from 24 per cent of domestic use in 1960 to 9 per cent in 1978) and foreign trade planning should have been able to protect Poland from the impact of the international crisis; in practice the specific trade and growth policies followed by Poland, as well as accompanying organisational changes, have

Table 4. Vegetable output, use of fertilizers and pesticides

	1970	1975	1976	1977	1978	1979	1980
Vegetable output in zl. bn. (at 1976-77 prices)	315.7	346.3	363.4	337.4	355.6	342.3	290.4
Mineral fertilizers (kg. per ha.)	123.6	181.9	193.3	189.0	190.3	188.9	192.9
Productivity of vegetable production per ha. in grain units	25.5	29.4	31.2	29.0	30.8	28.6	24.2
Use of pesticides (kg. per ha.)	0.39	0.58	0.53	0.68	0.51	0.50	0.49

Source: Report, (1981), p. 123.

Table 5. Import of grain and animal feed

	1970	1975	1976	1977	1978	1979	1980
Import of grain (000 tons)	2504	3967	6092	5741	7320	7250	7718
of which: from capitalist countries	1348	2829	5701	4650	6740	6575	7278
Import of animal feed (000 tons)	439	1087	1128	1161	1231	1444	1445
Value of total grain and animal feed import in mn. 'currency zoltys' (c.i.f.)	824	2526	3596	3227	3680	4295	5456

Source: Report, (1981), p. 123.

laid Poland open to the full blast of the energy crisis, world recession and inflation, and rising interest rates in financial markets.

After Gomulka's basically autarkic policy, Gierek's growth strategy envisaged opening the Polish economy to foreign trade and capital. Borrowing on a large scale from Western countries would enable Poland to modernise its industrial structure, by means of technology transfer, the acquisition of licences and the purchase of advanced machinery, without having to restrain the growth of consumption as Gomulka had done; indeed consumption would also grow out of borrowed funds. The debt thus incurred would be repayed out of higher exports, Polish competitiveness being improved by productivity increases—due both to modernised up-to-date plant and consumption-induced labour incentives. There was talk of 'import-led' and 'consumption-led' growth, and bombastic formulas such as 'Second Poland' (after the First golden-age Poland of Kazimierz the Great), 'intensive and selective development', 'Poles can do anything', now referred to as 'the propaganda of success'. In principle, this kind of policy could have worked, but it was ill-timed, badly executed and overdone.

The timing could not have been worse. The oil crisis started precisely as Gierek's policy went into full swing and, moreover, Poland was engaged in a major industrial reform designed among other things to decentralise enterprise decisions and open the economy to the influence of international prices. The impact of international factors was manifold:

(i) The traditional insulation mechanism from international trade, typical of the centrally planned economy, had been dismantled when it was most needed; international inflation, conveyed to industrial enterprises by means of a new way of measuring enterprise performance at international 'transaction prices' was often imported and built into price formulas, spilling over into wage payments (see Nuti, 1977).

(ii) Prospects for the exports of Polish manufactured goods deteriorated in view of the world trade recession, aggravating external imbalance and leading Poland to step up conventional exports such as coal and foodstuffs.

(iii) The mechanism of petrodollar recycling made it possible for Polish leaders to adopt the easier way out, of raising their indebtedness, instead of adopting unpalatable deflationary measures (Portes, 1980).

(iv) Monetarist policies adopted in advanced capitalist countries to deal with inflation led to a three-fold increase in interest rates; Polish debt being mostly short and medium-term, the increase was immediately reflected in the mounting burden of debt servicing.

(v) Recession in the advanced capitalist countries encouraged Western companies to seek trade with Eastern Europe and to offer attractive terms, but as a result Poland probably was induced to raise imports over what was strictly required by Gierek's import-led growth strategy (an instance is the import of British-made ships, hardly a sector characterised by 'high'

technology).

(vi) Although Polish terms of trade had only registered minor fluctuations around a stationary trend since 1974, due to coal exports, Poland was greatly affected by the disruption caused by the curtailment of oil supplies from Soviet, Iranian and Iraqi sources; also, the oil price rise drastically decreased the competitiveness of the Polish (oil-based) chemical industry.

(vii) The world recession affected adversely the viability of precisely those sectors in which Polish investment had concentrated, such as metallurgy and machine-building.

In view of these factors, Gierek's strategy ran into an extraordinary bout of bad luck. This, however, does not absolve Gierek's team of their responsibility. First, they made a serious error of judgment in grossly underestimating the sheer scale of the world economic upheaval following the energy crisis and, therefore, were caught unprepared (in 1975 former Premier Jaroszewicz declared that the oil crisis was only a minor passing ripple in the development of the world economy and trade). Second, they persisted in their original policy well into the second half of the 1970s in spite of the drastically changed circumstances which totally undermined its plausibility.

The exogenous (natural and international) factors listed above combined and interacted with endogenous ones. The single major domestic cause of the Polish crisis is the *scale* on which Gierek's overambitious growth policy was pursued, namely the unchecked *overaccumulation* undertaken in Poland throughout the 1970s. Already under Gomulka capital accumulation was kept at a high régime, rising gently but steadily from 23.1 per cent of national income distributed in 1960 to 25.4 in 1965 and 26.1 per cent in 1970. Under Gierek accumulation was accelerated (see Table 1), reaching a peak of 35.6 of national income in 1974, maintained in that neighbourhood in 1975 (35.2 per cent) and 1976 (34.1 per cent), then declining but still over 30 per cent in 1977 and 1978 (31.5 and 30.8 per cent respectively). Accumulation was then drastically cut to 26.2 per cent of national income in 1979, and further to 20.2 per cent in 1980; but the investment cuts in the late 1970s had not been planned beforehand; they were imposed by bottlenecks in construction and installation, and by the reduced import capacity of the Polish economy. As a result, the so-called 'investment front' broadened, i.e. the large number of projects started in the first half of the 1970s were starved of resources for completion, lengthening gestation periods and 'freezing' resources in a form that provided neither means of consumption for the population nor exportable products, frustrating Gierek's policy of modernisation and growth. By 1975 37 per cent of investments completed in the socialised sector had a gestation period above the norm; in 1980, 61 per cent of investments completed had taken longer than planned (84 per cent

in building). The average gestation period in 1980 for completed projects was 35 months, corresponding to a rise by a third with respect to 1975; in industry gestation periods rose by 21 per cent to 47 months from 1976 to 1980. The value of investment resources 'frozen' in unfinished projects amounted to z.l. 821 billion (at 1977 prices) by 1980 (see Table 6), equivalent to 1.6 times the value of total investment in the same year; frozen resources included z.l. 60 billion of machinery and equipment, mostly imported from the West, purchased but not yet installed; almost z.l. 1300 billion were already committed to the completion of those projects, rising to 1500 billion if complementary investments (not yet begun but essential to the operation of investment already started) are also considered. The completion of those projects would require from 4 to 5 years, while the comparable period in other socialist countries is 1-2 years.

Capital accumulation in Poland over the 1970s can be said to have been *excessive* in more than one sense:

(i) with respect to the absorption capacity of the economy, particularly in the building industry, in the construction of plants and the installation of machinery (Kotowicz-Jawor, 1979); as can be seen by the abnormal lengthening of gestation periods that made the projects undertaken much less attractive and wasted—by 'freezing' them—investment resources;

(ii) with respect to the economy's ability to finance the foreign exchange requirements of that accumulation, both for the purchase of machinery and licences and for the provision of recurrent intermediate products and materials necessary for the normal operation of the investment undertaken;

(iii) with respect to the unwillingness of the population to accept the inflationary trends built into the acceleration of investment, as witnessed by popular protest in 1970, 1976 and 1980, which obtained the reversal of price increases and toppled both Gomulka and Gierek;

(iv) with respect to the interests of *maintainable* consumption, as the increase in income generated by additional investment was mostly committed to the maintenance of the investment drive (Kalecki, 1969);

(v) with respect to the national plan: it appears that in 1971-75 the sum of investment planned by investing agencies (*rezorty*, i.e. primarily Ministries) exceeded by 15.2 per cent the guidelines of the central plan; in 1976 by 25.8 per cent; investment plans in turn tended to be overfulfilled systematically, with enterprises stepping up their requirements for investment resources once they had succeeded in 'hiking themselves onto the plan'—a tendency which was stronger the lower the level at which investment decisions were taken (Kotowicz-Jawor, 1979);

(vi) with respect to the central administration's ability to cope with the tensions and shortages generated by the investment drive, as witnessed by the gradual collapse of central planning and the total disorganisation of the Polish economy in 1980-81.

The second endogenous cause of the Polish economic crisis is the

Table 6. Resources frozen and committed in unfinished projects

	Investment outlays 1971-80, at 1.1.1977 prices		Cumulated outlays on investment projects started but unfinished at 31.12.1980 (frozen resources)		Outlays necessary for the completion of investment projects already started (resources committed)	
	zł. bn.	per cent	zł. bn.	per cent	zł. bn.	per cent
Total socialised economy	4,834.1	100.0	821.2	100.0	1292.7	100.0
Industry	2,176.0	45.0	428.0	52.1	667.4	51.6
of which						
Fuel and energy	502.5	10.4	109.7	13.4	223.9	17.3
Metallurgy	312.3	6.5	65.4	8.0	119.1	9.2
Electro-machine industry	525.4	10.9	92.3	11.2	150.9	11.7
Chemicals	240.5	5.0	69.0	8.4	54.8	4.2
Mining	130.7	2.7	21.2	2.6	35.3	2.7
Wood and paper	96.7	2.0	32.3	3.9	13.4	1.0
Light industry	122.4	2.5	9.7	1.2	19.2	1.5
Food processing	215.0	4.5	24.9	3.0	46.6	3.6
Building	261.5	5.4	24.8	3.0	25.8	2.0
Agriculture	580.8	12.0	52.3	6.4	56.9	4.4
Forestry	22.1	0.5	1.5	0.1	1.9	0.1
Transport and communications	519.0	10.7	50.0	6.1	91.8	7.3
Trade	121.7	2.5	12.7	1.5	20.7	1.6
Local authorities	230.1	4.8	64.1	7.8	93.4	7.2
Housing and local non-material services	586.9	12.1	116.2	14.2	208.5	16.1
Science and technology	31.7	0.7	4.5	0.5	10.4	0.8
Health and education	86.9	1.8	13.6	1.7	25.9	2.0
Culture and arts	14.3	0.3	3.8	0.5	4.4	0.3
Environment and social assistance	66.9	1.4	18.2	2.2	43.9	3.4
Physical education, tourism and rest	66.2	1.4	14.1	1.7	15.8	1.2

inappropriate and inefficient structure of capital accumulation. Thus if we compare the decades 1961-70 and 1971-80 we find that the share of investment devoted to agriculture fell from 16.5 to 15.7 per cent; investment in social consumption (hospitals, schools, etc.) fell from 28.3 to 23 per cent; while the share of industrial investment rose from 37.8 to 41 per cent. Especially in the years 1976-80 investment was concentrated in the production of investment goods; the structure of unfinished projects is strongly biased in favour of fuels and energy (34 per cent of commitments in industry), electro-machine industry (22 per cent) and metallurgy (18 per cent), with a parallel low incidence of projects oriented towards either exports or the internal consumption market, or technically advanced products (see Table 6). Only 20-25 per cent of industrial investment was devoted to modernisation of existing plant (compared with 60-70 per cent in the GDR and in Czechoslovakia), thus neglecting attractive investment opportunities and leading to the dereliction of existing capital. Often the scale of new projects was too large; their location aggravated regional disparities (16 per cent of investment outlays going to the Katowice province, and 8 per cent to Warsaw over the decade) and led to excessive transport-intensity of output. The massive acquisition of foreign licences turned out to be misguided: of 428 licences (mostly in heavy industries) 20 per cent were never used; and 55 per cent only were realised in the planned period; 10 per cent are now said to be unjustified in view of equivalent domestic alternatives; half of the utilised licences turned out to be very import-intensive. (*Raport*, 1981, pp. 88-97).

Among the many instances of mistaken investment projects, the following projects are now being particularly strongly criticised in Poland:

(i) The Katowice steelworks, started in 1974 outside the five-year plan provisions, uneconomically based on the import of Soviet ores, with a cost overrun of 50 per cent, and 8.8 billion zlotys worth of non-used machinery by 1980; the second stage of the project has been cancelled; (ii) the Massey-Ferguson-Perkins Ursus tractor and diesel engine plant, also started in 1974, expected to start production in 1980 and turn out 75,000 tractors and 15,000 engines a year; in spite of a 100 per cent cost overrun production in 1980 was 2,000 tractors, each tractor requiring \$4,000 of imported parts; (iii) the Berliet buses plant at Jelczansk, one of Gierek's pet projects following a licencing and cooperation agreement with France: output in 1980 was expected to be 5,000 but failed to reach 1,000; each bus turned out to have an import content of \$6,000, so that Poland had to turn to imports from its earlier partner, Hungarian Ikarus; besides, Berliet buses were unsuitable for the Polish climate and road conditions; (iv) the PVC plant at Wloclawek, a coproduction with the UK company Petrocarbon Development, financed by Lloyds Bank on a buy-back provision; started in 1975, the plant is unfinished (a similar plant in Hungary took four years to construct) and delays have caused chain

reactions, such as the non-utilisation of the ethylene produced at Plock by a new plant built by the Japanese which came on stream in time. Similar instances abound. (See *East-West*, 1981; *Raport*, 1981).

The third endogenous cause of the Polish crisis is incompetence, and negligence, the corruption of individual decision-makers who, in recent months, have been dismissed in large numbers. Thus in May 1980 directors and vice-directors of 84 enterprises in the building industry were dismissed 'for gross neglect of their responsibilities'; 61 directors of state and collective enterprises were also dismissed; many more managers and officials have been dismissed since August 1980. A special Commission headed by Tadeusz Grabski investigated 26,000 charges of misconduct and upheld them in 12,000 cases; it was reported in early July 1981 that 3,500 people had been involved in the illicit construction of private houses and villas; in a Report to the Central Committee Grabski recommended prosecution of Edward Gierek and his Prime Minister Piotr Jaroszewicz.

Political implications

Economic decline and glaring waste gradually eroded the legitimacy of the Gierek team and the Party itself. It bred disillusionment, cynicism and open dissent. Specific Polish historical and cultural traditions provided a particularly favourable background for organised dissent: a memory of resistance and uprisings against unpopular governments, since the partitions of Poland at the end of the 18th century; class struggles in the inter-war period (in 1923; in the 1930s during the Popular Front movement; a peasant political strike in 1937); resistance during World War II (see Brus, 1980). The Catholic Church provided an alternative set of values and a reference point; it is hard for a Western European observer to look at the Church as a credible depository of tolerance and pluralism, but this is how it has been seen in Poland since the last War; the role of the Church probably has been overemphasised—the Polish Church had much to lose and on balance has been a force for conservation and stability—but it has certainly provided a support system, encouragement and inspiration for critics of the regime, especially since Pope John Paul II and his 1979 visit. The Party had been purged of many Stalinists in 1956, when many reforms had taken place (workers' self-management organs, etc.), though these were later withdrawn. A relatively large private sector reduced the power of the state as labour employer; popular upheaval had both brought Gomulka to power in 1956 and brought him down in 1970 (Bromke, 1981).

In the first half of the 1970s Gierek enjoyed popularity due to the circumstances of his coming to power and the steady improvement in living standards. The first signs of open dissent started in the mid-1970s, following Gierek's move to amend the Polish constitution and consecrate the leading role of the Party. On 5 December 1975 the so-called 'Manifesto of the 59' addressed to Parliament by Professor Edward Lipinski and other

intellectuals contained political complaints and demands for civil liberties; it was followed by similar protests, allegedly signed, in all, by 40,000 people (Szafar, 1979). Protesters used to sign their names and addresses; the constitutional amendments were passed, but in a much toned down form. In June 1976 a sound but clumsy attempt at price increases, without consultation, led to workers riots in Ursus and Radom, and a general strike. Within 24 hours the price increases had been reversed. Subsequent repression led the signatories of the 'Manifesto of the 59' to set up, on 23 September 1976, a Committee for the Defence of Workers (KOR), linking representatives of intellectuals and workers. In spite of attacks, KOR maintained an organised opposition, with continuous petitions, protests, demands for judicial enquiries and compensation, hunger strikes; in July 1977 an amnesty freed the remaining participants of the June riots still in jail and KOR militants (Szafar, 1979). A KOR Information Bulletin appeared, in mimeographed form. In October 1977 KOR reemerged as a wider Committee for Social Self-Defence (KOR-KSS). Other movements were launched: the Movement for the Defence of Human and Civil Rights (ROPCiO), Student Solidarity Committees; and other minor groupings. In October 1977 fourteen current or past members of the PZPR, headed by former First Secretary Edward Ochab, addressed an open letter to the Central Committee, criticising party policy and calling for political and economic reform; formally this was simply part of pre-congress discussion on the VII Congress theses; some Eurocommunist influence was discernible on a tiny section of the Party. A secret Polish League for Independence (PNN) operated through emigration links. Other groupings were formed, from the so called Democratic Movement to the extreme right-wing group of Leszek Moczulski. A 'Flying University' held alternative lectures in the social sciences. Committees were set up for the Defence of (Catholic) Believers, for the Defence of Peasants, as well as rudimentary and tentative 'Free Unions'. Samizdat publications mushroomed, in spite of paper shortages: the KOR-KSS *Biuletyn Informacyjny*, *Bratniak*, *Gazeta Polska*, *Głos*, *Gospodarz*, *Komunikat KSS-KOR*, *Merkuriusz Krakowski i Światowy*, *Opinia*, *Robotnik*, *Rzeczpospolita*; according to the student paper *Bratniak* (n.1, January-February 1979) there were 25 samizdat publications (including a number of single issues) with a circulation of 40,000 a year; *Robotnik* (Worker), a cyclostiled sheet, was said to have reached a circulation of 25,000 in mid-1980. Semi-official publishing houses were set up, such as NOWA and Zapys, publishing books as well as periodicals; leaflets were countless. This extraordinary intense activity was tolerated by the régime—apart from repeated harassment, confiscations, prequisitions, short arrests—for several reasons: no law was being broken; these activities provided a safety valve; the phenomenon could have been contained, but not wiped out; while the need for Western imports and credits, and the presence of Poles in high places in the West (from

Table 7. Basic indicators of *production* and allocation of *meat* and *fats*

	1979	1980	1980
	000 tons		(1979 = 100)
1. Butchered cattle	3,264.5	3,148.1	96.4
2. Export of live animals, meat, meat products and fats	278.3	248.7	93.6
2.1 of which to capitalist countries	258.9	244.8	94.6
3. Imports of meat , meat products and fats	9.1	60.3	662.6
4. Consumption of meat, meat products and fats of which	2,866.2	2,912.8	101.6
4.1 Meat, processed meat and offals	2,574.4	2,633.6	102.3
of which: – from state supplies*	2,171.5	2,220.7	102.3
– from private sources	402.9	412.9	102.5
4.2 Fats	291.8	288.2	98.8
5. Consumption of meat, poultry and offals per head (in kg)	73.0	74.0	101.4
of which—from state supplies*	61.6	62.4	101.3
—from private sources	11.4	11.6	101.7

*State retail trade, restaurants, nurseries, hospitals, etc.

Source: Kaport, (1981), p. 128.

Wojtyla to Muskie and Brzezinski) encouraged official tolerance.

The trigger

The combination of economic crisis and political ferment turned into a deep political crisis in the summer of 1980. For the fourth time (after October 1956, December 1970, June 1976) the crisis was triggered off by an increase in food prices, in particular, meat. It should be noted that price increases were not only a sound economic measure, in view of the widening inflationary gap discussed above, but indeed overdue. Also, the scarcity of meat has been somewhat overstated: meat consumption in Poland increased rapidly from 43 kg per head per year in 1960 to 74 kg in 1980 (see Table 7; corresponding British figures of 74 kg in 1960 and 78 kg in 1974¹⁵ are understated and not comparable, because Polish data include fat, bones and offal, but the Polish trend is impressive). The main problems with meat supply have consistently been the excessively low price, inefficient distribution over time and across regions, poor refrigeration facilities, low quality, high consumption by peasants. The price increase was decreed on 1 July 1980, in a more subtle form than on previous occasions: since 1977 a dual price system for meat had been established, whereby 'commercial' state shops sold meat without queues and in sufficient quantities at prices considerably higher than the heavily subsidised normal state shops where meat was in short supply. 'Commercial' sales reached 8 per cent of total sales in 1978 and 18 per cent in 1979; on 1 July the sale of better quality meat was transferred to 'commercial' shops, thereby raising the average price of purchases by the public. The price of sugar, which had been rationed since May, and other foodstuffs, was raised. A wave of strikes followed, leading to compensatory wage increases and further strikes. The new elements of the August strikes, with respect to earlier workers' protests, were the occupation of factories, the link with intellectuals in an advisory role, and the articulation of a long list of specific demands. On 31 August 1980 after long negotiations a settlement was reached at Gdansk, with major economic and political concessions: wage increases, the legalisation of strikes, a new self-managed independent Union, and greater civil and political rights. Gierek was deposed in the same way as Gomulka, and Polish economic and political life took a sharp turn.

Part II: After August 1980

The new Union

Since August the new 'Solidarity' union has been officially recognised and registered, after a legal battle; it has enrolled about 10 million members, including one million (i.e. one third of) Party members; it was joined in May 1981 by a 2.5 million strong 'Rural Solidarity' representing private peasants (demands by Polish policemen to form their own Solidarity

branch, however, were promptly quashed by the government with the dismissal of union militants). It has stepped up its demands, through legal proceedings and negotiations, backed by work-to-rule, strike threats, strikes, hunger strikes, demonstrations, marches and a barrage of new publications. A new good quality weekly was launched; in early May Solidarity was granted access to television and radio time for running its own programmes on socio-economic issues and announcing its resolutions and declarations. Its organisational structure is unusual, in that it is regionally based instead of being organised by trade and by sector; this makes it independent from its central committees, which is a source both of strength and centrifugal forces (see Pelczynski, 1981). Since May an information and consultation 'Siec' (Network) has been established between the union branches of 17 large plants, which in early July took the initiative of producing draft legislation on workers' self-management, renaming state enterprises as 'social enterprises' and demanding workers' rights not to participate in management but to manage themselves, to appoint enterprise directors and limit their power to a purely executive role, and obtain a share in enterprise income (Siec, 1981). By the end of July, over 1,000 self-management organs of various description were spontaneously set up. (In July employees of the Polish Airlines LOT proposed the appointment of their nominee as the new director, striking over the issue, until a compromise solution on top management was found). *De facto*, this gave the Union the power of veto both at the enterprise level over management decisions and at the national level over major policy issues (such as wages, prices, economic reform, etc.).

The new Union's identity is not yet defined. Since last August Solidarity has been playing, in different proportions, three conflicting roles:

(i) that of a political opposition party, without a realistic prospect of taking over from the existing government but effective in putting forward and obtaining political concessions, such as some of those won in the Gdansk agreement of 31 August 1980: press freedom and access to media; restoration of rights of political victims, end of police privileges, end of political nominations to managerial appointments, etc.;

(ii) that of a militant Western-type Union, putting forward impossible economic demands, such as full pay to strikers, lower retirement age for women to 50 and for men to 55; 3-year maternity leave; or the combination of stabilisation of market supply and massive wage increases (28 per cent in the twelve months since August 1980), pension increases and wage indexation; or demands which though perhaps overdue are not compatible today with economic recovery, such as increases in social consumption, better housing, free Saturday and a shorter working week—all concessions also won with the Gdansk settlement;

(iii) that of a genuine socialist-type union, and potential partner in government, as witnessed by demands for an end to foreign currency and

'commercial' sales, the endorsement of rationing, the bid to influence government accumulation policy, or to control food distribution.

There have been undoubtedly syndicalistic tendencies within the new union, as witnessed by the miners' claim that they should decide the allocation of coal and trade it off for food in transactions with the agricultural sector (Staniszki, 1981), or by Siec's flirtations with group ownership (see Siec, 1981, and below, the section on workers' self-management).

The contradiction between these roles, already present in the demands successfully negotiated in the Gdansk agreement (Protokoly, 1981), has continued to date, with alterations in its dominant role: for instance, economic militancy at the end of March 1981 was followed in early May by calls for higher food prices, and by self-imposed curbs in Solidarity's radical publications towards the end of June, followed by a revival of economic militancy and opposition to price rises and ration cuts at the end of July. These alternative roles also correspond to deep divisions within the Union, where—amongst other divisions—Lech Walesa's 'centrist' wing has to deal with a more 'radical' wing. Their advisors are equally divided.

On balance, the new Union seems to have taken the road of economic militancy, close to the operation of a Western type union. This is clearly the best course for the survival and strengthening of the new fragile Union structure, as a short term posture in the face of a government reluctant to make concessions. Moderation, or even consistency, are not necessarily virtues in politics; in a diametrically opposite situation, the Italian Communist Party confronting the Catholic monopoly of power has lost, since 1976, both face and people's support by acting in a responsible and accommodating fashion at a time of national difficulties; the lesson is not lost on Solidarity's leaders, who see the risk of 'institutionalisation', or absorption into the establishment, if they choose the role of a potential partner in government. However, there are two important systemic differences which condition the activity of unions in a capitalist and a socialist system:

(i) wage and price demands incompatible with the maintenance of accumulation, or even demands for real wages higher than labour product, in a capitalist system are a bid for the transfer of capitalists' wealth to the workers; in a socialist system this would imply either sales of shares to the public or disposal abroad of national assets. Therefore, militant demands involve the transfer of ownership from the state to individuals or groups, which—if asserted with conviction and persistence, instead of being a temporary posture—is a direct challenge to the socialist system, in that the realisation of these demands would imply private or group ownership of part of the means of production; thus, whatever the intentions of the new Union, it would be disingenuous to deny that economic militancy is not

effectively an 'anti-socialist' move;

(ii) the strength of the new Union is, ultimately, the full employment policy to which the socialist government is committed, unlike its counterpart in the capitalist system; full employment (and strikers on full pay) are incompatible, in the long run, with strong economic militancy, and either full employment or militancy will have to give way.

The Party: 'Socialist Renewal'

A major effect of Solidarity's emergence and growth has been the adoption of a policy of socialist 'renewal' (*odnowa*) by the Polish United Workers' Party, i.e. effective moves towards extensive democratisation of Party life. It is not a case of 'infiltration', but of competition in the provision of the democratic processes needed by the population.

In preparation for the extraordinary IX Party Congress (which normally would not have been due for another four years), Consultative Commissions (KK-POP) were set up locally, uniting party organisations and establishing 'horizontal links' by-passing central organs. Under pressure from below, within the Party, proposals for the accountability of full-time officials and elected representatives, for multiple choice in party elections and the secret ballot emerged and were gradually established, giving substance to the move towards renewal (See Kolankiewicz, 1981). This policy was officially endorsed by Gierek's successor, First Secretary Kania, in spite of open Soviet disapproval (see Brezhnev's letter of 5 June 1981) and strong opposition by Party hardliners (as witnessed by the formation of groupings such as the Katowice Forum and the Grunwald Group, and the attempt to oust Kania at the emergency Plenum of the Central Committee on 9-10 June)

At the IX Extraordinary Congress of 14-19 July most of the prominent leaders were elected as delegates, following Kania's call on party activists to return the present leadership intact so that it could be judged by the Congress, and the successful allocation of 'safe seat' to less popular leaders, but the new democratic processes resulted in unprecedented personnel change. Over 90 per cent of the 2,000 delegates were taking part in a party congress for the first time, (only 20 per cent of the delegates were blue collar workers; 20 per cent were estimated to be Solidarity members, only 5 per cent were women). Only 23 per cent of former Central Committee members were reelected as delegates. The Congress condemned past policies and leaders, settled accounts, stripped Gierek and others of their honours and endorsed prosecutions of corrupt officials; delegates voiced sharp complaints and put forward bold proposals. The new enlarged 200-strong Central Committee, elected after frank and close questioning of candidates, contained only eighteen former members, excluding even many former Politbureau members and many provincial secretaries. Out of the fifteen members of the new Politbureau only four

were reelected, including Kania and Premier Jaruzelski. The Party has ridden the storm, and comes out of the experience considerably strengthened and with greater authority.

Economic collapse

Since August **1980** the Polish economy has deteriorated much further, turning crisis into collapse. Industrial output, which had been growing by **5.1** per cent in the first half-year, fell substantially in the second half-year, recording an overall decline of **1.2** over the year; gross agricultural output also had a very bad year, with a **10.7** per cent fall with respect to the already poor **1979** level; national income produced fell by **5.4** per cent (against earlier estimates of a fall of **4** per cent, and a target increase of **1.6** per cent in the yearly plan). Table **8** gives a month by month account of economic decline from July **1980** to April **1981**, with a significant drop in August, due to the strikes, a small recovery in September followed by a steady decline, especially in coal, foodstuffs, and exports to Western countries, while labour productivity declined and the average industrial wage rose sharply: respective rates of change between April **1980** and April **1981** are **-12.4** for productivity and **27.4** for average industrial wage, widening the inflationary gap. Coal output, crucial for electricity generation, industrial fuel and export earnings, dropped only **3.9** per cent over the year, but both exports and stocks were down by more than a quarter over the year (Table **9**).

Half-year statistics released at the end of July indicate a further sharp fall in economic indicators. Money wages rose by **26** per cent outstripping the official cost of living which increased by **15** per cent. Food prices rose by **14.3** per cent and consumer durables by **8** per cent. The resulting increase in real purchasing power, however, was not matched by actual consumption, as consumer goods supply dropped by **10** per cent over the same period. Meat supplies declined by **17** per cent. The inflationary gap led to a **17** per cent increase in savings, almost all of which is regarded as 'forced' savings in view of the population's already excessive holdings of cash balances not matched by consumer goods in the market. A generalised 'flight from money' has led to a search for durable goods and other inflation hedges, not only jewels but any form of non-perishable and storable goods. The black market rate for hard currency has soared, and has now reached **250** zlotys per dollar, compared to the official rate of **33** zlotys and to a black market rate of **120** twelve months ago. Shortages however have spilled over into the special foreign currency shops 'Pewex' ('Enterprises for internal exports') where hard currency can be spent freely for a limited range of scarce commodities (including food, alcohol, cigarettes, cosmetics, etc.). Industrial production has fallen by **12.5** per cent in the first half year; coal output has fallen **22** per cent to **88** mn tons, and copper output by **11** per cent; oil refineries output dropped **19** per cent

Table 8. Basic indicators of economic development, July 1980–April 1981

	1980							1981			
	First half 1980 ¹	VII	VIII	XI	X	XI	XII	I	II	III	IV
	correspondent month in the previous year = 100										
Production sold in socialised industry	105.1	100.3	88.2	95.2	92.8	91.5	91.6	90.3	90.3	90.4	87.5
of which:											
coal	102.6	105.1	102.6	79.7	84.7	79.8	86.4	77.8	78.5	81.2	82.0
sulphur	109.9	108.0	109.7	100.8	113.5	109.9	89.7	106.2	88.9	86.3	94.1
copper	115.0	103.8	100.8	111.6	96.1	86.8	89.5	99.8	90.6	87.8	91.8
fertilizers	97.5	90.4	102.5	106.0	87.2	83.6	74.4	106.6	102.7	114.2	93.7
cement	111.5	86.0	82.2	92.1	80.7	92.4	52.6	52.9	72.0	81.4	92.4
Meat procurement	97.9	91.0	84.2	88.8	95.8	92.9	104.5	93.2	88.6	75.8	85.0
Milk procurement	108.7	98.9	95.8	96.1	93.6	88.4	82.0	81.6	77.0	81.3	81.7
Exports	115.0	114.9	88.5	96.9	88.6	90.0	87.6	77.6	79.5	78.7	93.3
of which to socialist countries	102.2	104.4	89.6	92.4	85.6	85.4	84.4	76.6	87.1	82.3	100.3
to advanced capitalist countries	133.6	127.6	87.1	102.4	92.9	95.5	91.8	78.8	71.8	74.7	85.6
Imports	117.7	115.8	99.2	100.6	106.1	96.0	91.2	99.6	101.4	97.9	93.6
of which from socialist countries	111.2	106.2	120.8	120.2	119.1	105.8	103.6	103.8	127.9	116.5	104.6
from advanced capitalist countries	125.1	130.1	79.9	81.9	92.9	85.6	81.1	87.0	79.8	83.2	81.7
Labour productivity in industry	105.2	100.2	88.6	95.9	93.5	92.0	92.2	90.8	90.7	90.7	87.6
Average industrial wage	112.6	110.1	108.9	116.4	120.4	117.6	124.4	117.9	120.0	127.7	127.4
Population incomes allocated to the purchase of goods and services	112.5	108.7	100.7	109.8	107.7	106.8	109.3	110.1	113.3	110.6	115.1
Market supply of goods at current prices	111.4	104.9	95.8	103.4	101.9	100.8	96.9	101.2	101.9	99.1	103.2

1 To some extent the index for the first half of 1980 is affected by the low basis for the first half of 1979, when the economy suffered production losses due to an exceptionally hard winter.

Source: Report, (1981), p. 121.

Table 9. Coal output, export and deliveries (in million tons)

	1979	1980	1980 1979 = 100
Resources			
1. Total from domestic sources	202.6	194.7	96.1
from which			
— coal	201.0	193.1	96.1
— production of briquettes	1.6	1.6	97.6
2. Other sources (stocks, coke imports etc.)	1.0	3.4	340.0
Total resources	203.6	198.1	97.3
Uses			
1. Total domestic supply	160.9	167.1	103.9
of which			
for industrial users	127.0	130.5	102.8
of which			
— for electricity generation	44.0	47.2	107.3
— production of coke	25.4	25.3	99.6
— other industries	57.6	58.0	100.7
2. Ministry of Communications	3.8	3.7	97.4
3. Other users	0.9	1.0	111.1
4. Supply to the population	29.2	31.9	109.2
of which			
— CZSR 'Peasant Self-help'	22.8	24.9	109.2
5. Export	41.4	31.0	74.9
of which			
— to socialist countries	14.7	10.9	73.7
— to advanced capitalist countries	26.7	20.1	75.6
Total uses	203.6	198.1	97.3
6. Total stocks at the end of the year	9.6	7.1	74.0

Source: Raport (1981), p. 122.

leading to severe petrol shortages. Despite the sharp fall in industrial output, employment fell by only **0.3** per cent, while electricity consumption was only **1.6** per cent lower. Animal feed supplies dropped by **14** per cent, resulting in a **7** per cent decline in the cattle and a **13** per cent drop in the pig population, involving bleak prospects for future meat supplies. Exports to the West fell by **21.5** per cent and imports by **21.8** per cent, giving rise to a foreign exchange deficit of **\$150** million (EIU, 1981, n.3).

Short-term prospects are bleak beyond belief. A government Report on the state of the economy (Raport, 1981), presented to Parliament and to the Party Congress in mid-July, envisages a dramatic and unprecedented fall of national income produced by **15** per cent (though later estimates indicate a fall of **17** per cent); industry, officially estimated to operate at 25 per cent below capacity, is expected to reach 1/3 unutilised capacity by the end of the year. Expected bumper harvests might be partly wasted because of shortages of harvesting machinery and processing plant. Meat rations, which in mid-July had been reconfirmed until September, by the end of the month had been cut by **20** per cent from the former average level of **6** pounds per head per month. The cut intensified social unrest, leading to further strikes, hunger marches and demonstrations, and demands for the reinstatement of earlier ration levels (EIU, 1981, n.3). Official statements in July, from the Chairman of the Price Commission to the First Secretary, have already intimated that massive price increases for consumption goods are unavoidable, with foodstuffs going up by over **100** per cent and some goods like bread and milk going up by **2-300** per cent (with partial wage compensation especially for the lower paid), and that the later prices are raised the higher the rise will have to be. The government however is unable to introduce the overdue price rises without prior negotiations and consent on the part of the Solidarity Union. Since last March Poland has suspended the repayment of its **\$27** billion as it fell due, paying only interest, and avoided default only because of Western bankers' reluctance to call in their loans and acknowledge their losses. Following the signing of a **\$2.6** billion debt rescheduling for **1981** between Poland and its **15** Western Government creditors at the end of April (involving a four year grace period) negotiations are pending on the rescheduling of **\$3.1** billion debt with Western bankers, maturing this year; talks for the rescheduling of debt falling due in **1982** and **1983** will start soon. Meanwhile, Poland has been almost totally starved of short-term credit, while **\$2.5-3** billion fresh credits are needed to maintain the **1980** level of industrial output. Soviet aid and finance to Poland in eleven months since August **1980** is estimated by Minister Jagielski at **\$4.2** billion; further aid and finance has been provided by other East European countries, while Poland has not honoured its commitments to Comecon and has negotiated a reduction in its deliveries for **1982-85**.

In mid-July a document entitled 'Government Programme for over-

coming the crisis and stabilising the national economy (Program, 1981) produced by the State Planning Commission, was presented to Parliament and discussed at the IX Congress. The programme envisages seven major areas for government action: raising agricultural output, rationalising the use of raw materials and intermediate goods, increasing domestic production of materials and fuels, maintaining essential imports, stimulating the use of by-products and local resources, activating small scale production and improving and rationalising transport. There are no macroeconomic targets, however, and the programme is short on policy measures, apart from price increases, budgetary cuts, suspension of investment projects, renegotiation of debt and trade commitments, redeployment of labour, and economic reform. The realisation of this vague programme is left to the yearly plans of 1981-85. The programme envisages consultations with the unions to seek a consensus on labour, wages and prices. Without Union endorsement, the programme does not have any chance of implementation. Efficiency measures and economic reform, in fact, would involve—together with the investment cuts and difficulties with imported supplies—massive redundancies of the order of 1.2 million, which would have to be negotiated (schemes for early retirement, redundancies on part-pay and labour redeployment from heavy industry to mining and agriculture have already been announced; emigration is also on the increase).

The sheer scale of economic collapse can only in a small part be imputed to labour militancy and the August settlement. The combination of wage increases and lower supplies is responsible for the widening inflationary gap, queues and rationing, and disruption in the consumption market; the miners' free Saturday has cost precious export earnings, with multiplier effects on the rest of the economy. But the main causes of the 1981 collapse are the combination of Poland's extraordinary import-dependence on the West—from distilled water for car batteries to steel cans for food processing—and the loss of short-term credit facilities (of the order of \$2 billion) on which Poland had been relying for essential imports, following the suspension last March of debt repayment and pending negotiations for debt rescheduling. Other contributory factors have been the continued disintegration of central planning and administration, the paralysis of decision-making at all levels; the political stalemate that blocks even obvious emergency measures.

The road to recovery

If Poland were a capitalist country in a similar crisis, painful but fairly automatic processes and policy responses would be set in motion. There would be hyperinflation, currency devaluation, drastic public expenditure cuts and deflationary taxation measures, tight money, high interest rates, disinvestment, bankruptcies and plant closures, and a couple of million

unemployed. Some external creditors would get very little, or nothing at all, following the financial collapse of their debtors; some of the remaining debt would be offset by the sale to foreigners of financial assets (shares, bonds), land, buildings and plant. Fresh external finance would be available to the more credible borrowers. Unemployment would keep the unions in check, restraining real wages and ensure labour discipline. The drop in real wages trends and industrial streamlining eventually would promote exports and encourage new investment, attracting foreign capital; in ten years or so the economy would be getting out of the crisis.

Polish systemic features may avoid some of the more unpleasant aspects of this scenario, but they add constraints which make recovery much harder: there are no liquid assets to market abroad; the government being the ultimate borrower, lenders have difficulties in discriminating between the viable and **non-viable** sections of the Polish economy; there is no bankruptcy, in the conventional sense, for a sovereign government, thus no relief through the cancellation of debt; an even modest commitment to social welfare and job security adds to total claims on existing resources; moreover, recovery mechanisms based on self-correcting changes in interest or foreign exchange rates are not automatic. All this calls for an even heavier reliance on the policy measures demanded by economic recovery: austerity, in line with the recent economic decline and to make room for the repayment of debt; large price rises and possibly continued inflation, to normalise consumption markets and eliminate time-consuming queues (realistic rations, in the shorter run); harder and longer labour, to compensate for scarce materials and productivity falls; economic reorganisation, to avoid inefficiency in the use of resources.

There is no sign that the first three necessary policy measures (austerity, inflation, greater intensity and length of labour) are acceptable to the Polish people. Austerity and inflation are deeply resisted. The more radical wing of the Solidarity Union demands 100 per cent indexation of the present wage level, as a precondition for accepting price rises. In view of the inflationary gap for compensatory wage rises to be matched by goods in the shops the consumption level would have to increase by **20-25** per cent, which is out of the question. Even then, the present excess of purchasing power in the hands of the population (which would be reduced but not eliminated by the envisaged price rises) would have to be either taxed away or consolidated in long term government bonds, for equilibrium to be restored in consumption markets. A convenient way of restoring equilibrium in consumption markets would be a currency reform like that executed in Poland and in other East European countries in the **1950s**, converting money wages, prices, savings and cash at differential and unfavourable rates into new units, reducing both the real value of liquid wealth (at a progressive rate) and real wages; it seems unrealistic, however, to expect the present government to obtain consensus on this highly

unpopular measure. Without the taxation or consolidation of excess cash, even the substantial price rises currently under negotiation will not eliminate queues and shortages for perhaps another five years. The reduction of rations is a necessary step for rationalising distribution, but has led to fierce resistance.

The majority of the population do not seem to understand the connection between the country's economic situation and their own individual consumption. Their past experience of 1956, 1970, 1976 and 1980 leads them to believe that in similar circumstances protest can succeed in keeping prices down, reversing price rises and even raising their consumption (as happened in the early 1970s). They believe that their standard of living can be raised by government decree and impute imbalance and shortages to deliberate choice by a government that could decide otherwise. They are right in blaming past government policies but will have to come to terms with current economic constraints, which leave no choice to their government. Others are less naive, but keep up economic pressure as a political weapon, to keep the government on the straight and narrow path to 'renewal', to consolidate achievements, or simply to oppose the present system. Generalised discontent affects labour discipline, in the general sense of unwillingness to work harder and longer, as witnessed by strikes, overtime bans, claims for shorter working time and better working conditions. In these circumstances the entire burden of getting out of the crisis is made to rest solely on the economic reorganisation of the planning system and the functioning of enterprises, i.e. on 'economic reform', which alone is quite inadequate to this task.

Economic reform and workers' *self-management*

Since August 1980 seven competing projects for economic reform have been produced in Poland: by the Polish Economic Association (PTE, 1980), by a Government-Party Commission for Economic Reform set up in September 1980 (KPZdsRG, 1981a, 1981b), Warsaw University (Moskwa, 1981), the Warsaw Higher School of Planning and Statistics (Balcerowicz, 1980), the Wrocław Economic Academy (AEW, 1981), the Central Technical Organisation (NOT, 1981) and—implicit in fragmentary form and draft legislation—Solidarity circles (Jozefiak, 1981; Siec, 1981; for a preliminary comparative analysis, see Kramer 1981). All projects envisage, to various degrees, the strengthening of social control over the economy; 'marketisation' (urynkowanie), i.e. greater decentralisation of economic decisions to enterprises, backed by a revamped banking system, bidding for resources and selling their products instead of executing central directions; and forms of workers' self-management.

The most authoritative set of proposals is that of the Party-Government Commission; assisted by a 500-strong body of experts and political representatives, it produced in July the second draft of a reform project,

accompanied by draft legislation on state enterprises and on workers' self-management (KPZdsRG, 1981b). The project is still a consultative document, but gradual implementation is expected to be swift: in the third quarter of 1981, further discussions and finalisation of details, and preliminary laws and decrees; by the end of the year, enterprise reorganisation and establishment of workers' self-management organs; a reform of supply prices by 1-1-1982, preceded by the reform (increase) of retail prices, with part-compensation; from 1982, gradual dismantling of central controls and transition to the new system in three years, under the supervision of a new Plenipotentiary Minister for Economic Reform, (KPZdsRG, 1981b, pp. 52-60).

In the official project the socialisation of the planning process rests on changes in enterprise regime (self-financing, self-management, independence) and on the clearer definition and reduction of Party influence on economic life. The Party is said to fulfil (i) the strategic function of acquainting itself with the most important social interests and elaborating them in the form of long term party programmes, 'persuading society of their strategic validity'—a function exercised by the Party Congress and Central Committee; (ii) an 'inspirational' function, 'at all levels of decision-making thanks to the activity of party members'; (iii) a controlling function, checking on the implementation of strategic tasks and fighting technocratic and bureaucratic deviations as well as sectoral and regional particularism (*ibid.*, p. 11). The Party should not interfere with current operational management, with technical choices, and with the appointment of managers and officials, (*ibid.*, pp. 11-12).

The central plan is no longer to contain direct commands, except in centralised investment (budget-financed social infrastructure and large-scale projects in key sectors), defence and the fulfilment of international agreements. 'The economy will operate on the principle of central planning with the utilisation of the market mechanism' (p. 21). Branch Ministries in industry are to be merged into no more than two or three, possibly one as in the Hungarian system (a first step in this direction was taken in early July, with the merging of eleven industrial Ministries into five). Enterprises are to be independent and self-financing and able to use own and borrowed resources at their discretion; their investment is no longer planned from the centre, only forecast in the national plan. Enterprises decide on pay policy, the scale and assortment of output, supply links and sales policy, investment, modernisation, research; they can freely associate, merge, set up new enterprises and—a most important innovation—diversify their activity into any sector of the economy. Enterprises are expected to 'satisfy social needs at minimum cost' by aiming at 'profit maximisation' (p. 32).

There is some naivete in these provisions (and even more in some of the other projects): vetting of enterprises' plans by banks for the provision

of credit will simply transfer to the banking system the functions formerly undertaken by central planning organs; probably the same people will continue to exercise these functions, after being redeployed from planning to banks. The almost Friedmanite confidence on the virtues of markets, prices and profit will amaze Western economists from Keynesians leftwards, advocates of direct controls and intervention; the standard methods of wartime economy might seem better suited to the emergency state of the Polish economy. However, the official project contains specific provisions for the maintenance of central allocation for shortage goods during the transition period, as well as the extensive use of indirect instruments of fiscal and monetary policy for steering enterprises in the general direction of the national plan, while the role of Parliament in the formulation and execution of plans is considerably increased. Moreover, the direct controls and central allocation of wartime economics can be effective when they are introduced in a normally functioning market economy to mobilise resources for a specific task, but their effectiveness is questionable in a crisis economy which is totally disorganised precisely because of the disintegration of central administration and control. There is a great deal of scope for the overhauling of markets and prices in Poland, and for reforming a system whereby steel is produced which is worth less than the energy used up in its production, bread is sold at a price which is a third of the cheapest animal feed and widely used as such, and the lack of one dollar for essential imports leads to a loss of output at least ten times greater. There is no reason why a price reform should be delayed until the realisation of enterprise reform and the restoration of equilibrium. A greater reliance on enterprise independence and markets is perhaps a justifiable act of faith, a shock therapy, where everything else has failed. So far only a 'mini-reform' has taken place (*Uchwala* nr.118/80; Nuti, 1981), followed in early July by the liberalisation of small scale production and state farms. Further 'marketisation' will require close and careful monitoring, but is unavoidable.

Economic reform has a double link with workers' self-management, because enterprise independence creates the scope for workers' decisional power, and workers' control is the political price that the government is asked to pay for agreement on the price reform necessary to that independence. The official project firmly reasserts state ownership, one-man management and central appointments, limiting workers' self-management to a conventional role; Solidarity's *Siec* (Network) goes much further (see above, the section on the new Union). Negotiations are open on this crucial issue, while the 1956-58 legislation on workers' councils, now a dead letter, remains formally in force and spontaneous self-management committees are formed.

Current Prospects

The only solution to the political and economic crisis is for the government and unions to reach a Social Pact, similar to the Gdansk agreement of August 1980 but—unlike it—feasible within the very tight constraints of Polish debt and decline. This renegotiated settlement would have to contain provision for austerity, price rises and a long truce in industrial relations, paving the way for stabilisation and reform; in exchange, the new Union could obtain a tangible form of workers' self-management, and the consolidation of those political and civil rights already achieved. Western governments and banks could assist by providing economic aid and fresh loans, on condition that such compromise and new settlement is reached, instead of concentrating obtusely on demands for economic reform *per se* and for stabilisation plans. Without union endorsement of unpopular measures no stabilisation plan is worth the paper on which it is written. The Social Pact might be more credible if a new government of national unity were formed, with Union experts in ministerial posts—though this might not be supported by either the Union's radical wing nor the Soviet Union.

The alternative is an authoritarian solution. Soviet armed intervention cannot be ruled out; Soviet acquiescence is bound to have limits; although previously expected thresholds of Soviet tolerance have been overstepped, this does not mean that there are no limits, or that there could not be a delayed reaction. However, the prospect of Soviet intervention has been overstated: the costs would be very high, due to Polish debt, Soviet and East European own needs for Western finance and dependence on Western technology and grain, existing commitments in Afghanistan, the reluctance of East-European allies, adverse repercussions in the West and Third World; benefits are scant, in view of likely Polish resistance and the sheer scale of the Polish crisis. Besides, the Soviet strategic position is not under serious threat, Poland is still communist and a member of the Warsaw Pact and there are still powerful economic levers in Soviet hands in view of Polish dependence on Soviet supplies, including almost 100 per cent of Polish imports of oil. An authoritarian solution will take the form of internal repression, a clampdown on organised political opposition, a state of emergency, the banning of strikes, army manning of public utilities and essential services, the distribution of food within factories to induce a return to work; the presence of four serving army generals in the Polish government, including Premier Jaruzelski, makes this even more credible. But in the first year since August 1980 not a single shot has been fired in anger in Poland, and internal repression cannot be expected to materialise lightly. The latest developments (August 1981) indicate a newly found restraint on the part of Union leaders and willingness to negotiate on both sides; there are still reasonable grounds for sober optimism.

Part III. Conclusions

The Polish crisis is systemic, i.e. deeply rooted in the economic and political processes of Polish society as a socialist system. Imbalances built into the centrally planned economy (such as its excessive propensity to accumulate, which frustrated attempts at economic reform), and the centralisation of political power associated with it, have combined with adverse exogenous factors (natural and international) to produce a crisis of exceptional depth and duration.

Polish official writings view the crisis as a consequence of 'deformations' of the socialist system due to departures from the established principles of socialist planning and management. 'Summing up the assessment of the causes of the present crisis in our country it is necessary to stress that they do not derive from the systemic principles of the socialist economy but, on the contrary, from the violation of those principles, the failure to observe objective regularities, the underestimation of economic laws as well as the lack of use of the possibilities created by the socialist system, and in particular by the socialist planned economy' (Raport, 1981, pp. 38-39; see also Pajestka, 1981).

The example of other 'socialist countries operating in conditions similar to ours, such as Czechoslovakia, the GDR and Hungary, which succeeded in utilising better the possibilities of the socialist system, avoided crisis and succeeded in achieving more favourable indicators of economic growth and a more harmonic and balanced development of the economy' is given. The Raport concludes 'the fundamental guarantee for reestablishing the development of our economy, interrupted by the present crisis, is a return to the principles of the socialist economy' (p. 39). Brezhnev's letter of 5 June, addressed to the Central Committee of the PZPR on behalf of the Soviet CP Central Committee, also refers to unspecified 'serious errors resulting from the contravention of the rules of socialist construction' in Poland (Brezhnev, 1981). The Raport refers more specifically to the taking of crucial strategic decisions by single individuals in spite of an appearance of collective legality, the incompetence of decision-makers, the forcing of economic decisions by *faits-accomplis*, illegalities and the inadequacy of the management system's response to the high level of education, social consciousness and rising aspirations to participation reached by the Polish working class and the entire society (Raport, 1981, pp. 33-35).

But these 'departures' are linked to well established principles of Soviet-type socialism extant in Poland throughout the period in question. The leadership's protection from effective criticism and checks stems from democratic centralism as actually practised in the Soviet Union and East European countries and the prohibition on factionalism prevailing since 1921 in the Soviet party and adopted by other communist parties throughout the world; the incompetence of decision-makers stems from the

Soviet-type *nomenklatura*; the failure to encompass the social consciousness and aspirations of the population stems from the generalised demotion of unions and Parliament and the lack of workers' self-management which are also typical of the Soviet-type system.

To say that the Polish crisis derives from departures from the socialist system *as theorised and practised in the Soviet Union* cannot be right, indeed the only departures from *that* system observable in Poland are the recent moves towards 'socialist renewal': accountability of party officials and delegates, wide-ranging discussions, multiple choice and secret ballot elections. If the Polish crisis derives from departures from *an ideal socialist system* then the rest of the socialist commonwealth is as vulnerable to the same kind of crisis, under similar exogenous circumstances; by the same token, as often argued in conservative circles, the deep troubles of the capitalist system can be attributed to 'departures' from the perfectly competitive, friction-free ideal model, such as monopolies and unions—the crucial question is: can we have the system without the 'departures'? Recent developments within the Polish party cannot be seen as revisionism, for they move towards a socialist ideal—unless they are seen merely as an indication of the state's weakness in the face of a revolutionary challenge.

The Polish upheavals in the first twelve months since August 1980 have been widely regarded as a 'revolution' (or 'counter-revolution', according to standpoint), from *The Times* to *Pravda*, from Leszek Kolakowski to Leonid Brezhnev. A revolution involves a sudden, drastic change in the institutions and policies of government and in personnel: if change is not sudden and drastic it is evolution; if only personnel changes it is either a coup or normal succession; if only government institutions change it is a straightforward constitutional change.

Since August 1980 there have been sudden and drastic personnel changes: the First Secretary, two Premiers (three since early 1980), 90 per cent of Party Congress delegates, 90 per cent of Central Committee members, three quarters of the Politbureau, hundreds of regional officers, government officials and enterprise managers. There have also been sudden changes in institutions of government (or conditioning government power): a 10-million strong Solidarity Union, Rural Solidarity, over one thousand self-management organs, new groupings and associations, as well as the moves towards 'socialist renewal' reviewed above.

But while the changes within the Party are unprecedented, they have altered only procedures and policies, without changing ideology, systemic commitments, or the pattern of international alliances. The new institutions outside the Party are *parallel* to, not *substitutes* for the Party (or even the older Unions), as witnessed by dual membership of both Party and Solidarity by a million people; they have succeeded in changing some Party and government policies, but have not asserted themselves as a

substitute for the Party. The eventual identity assumed by the new Union does not determine whether this is a revolution: if Solidarity turns into a Western-type Union, this will simply restrict the range of government policy options; similar restrictions would derive from Solidarity acting as a de-facto political party, or joining a government coalition in a minority; if Solidarity turns into what the official union should have been, a partner in government from outside, expressing effectively working class feelings and aspirations, it brings the Polish system closer to the socialist ideal; if it simply continues to move between these roles the pressure for party 'renewal' will continue; but the militancy of the new institutions cannot be stepped up without economic ruin and the breakdown of law and order, leading to an authoritarian solution before the new institutions have a chance of substantiating their access to power.

The year of intensive change in after-August 1980 Poland has brought about a *cultural* revolution; a change in attitudes towards authority, an expression of pent-up aspirations, a change in generational balance of power, demands for participation in decision-making at all levels and the assertion of individual liberties. If these developments are consolidated, Poland will have produced an improved brand of socialism and reduced the chance of a similar crisis repeating itself. Other socialist countries, however, are unlikely to be seriously affected by either the Polish economic crisis or its political developments.

Polish political trends are deeply rooted in the specific national features discussed above and strictly dependent on the scale and depth of the economic crisis experienced by Poland. There are no automatic transmission mechanisms of political change apart from minor measures such as generalised attempts at revamping the old unions. On the contrary, automatic reactions are more likely to take the form of pre-emptive measures, such as the firm Czech clampdown on dissent, and the widespread curbs on travel contacts with Poland. Processes of Party renewal and union reform cannot be ruled out, but would have to be home-based and home-made.

There are some transmission mechanisms for economic crisis within the socialist commonwealth: the burden for Eastern Europe and especially the Soviet Union for aid and credits extended to Poland; the disruption caused by the Polish failure to honour commitments to Comecon, especially for coal deliveries; the lower contribution that Poland can now be expected to make to the development of natural resources within Comecon and to defence. But given the relative size of Poland and its socialist partners, the Polish crisis—though a drag on resources—cannot be transmitted on anything like the Polish scale.

However, the same *kind* of symptoms experienced by Poland have been present in the Soviet and East European economies since the mid-1970s and there is a systemic predisposition to economic crisis:

(i) economic growth has slowed down throughout the area, especially in the Soviet Union, Czechoslovakia and Hungary; Bulgaria is the only exception. Actual decline has been recorded in important sectors in some years (see for instance Marer, 1980); growth targets in current plans acknowledge this trend;

(ii) agricultural output throughout Eastern Europe which, in the decade to 1973 rose by 5 per cent a year, slowed down to 3 per cent in the following five years, fell in 1979 and recovered only slightly in 1980;

(iii) external indebtedness for the seven European members of Comecon rose from \$8.4 billion in 1971 to 64.7 billion in 1979 (Portes, 1981); the per-capita burden of foreign debt in 1979 was greater for Hungary (at \$702 per head) than for Poland (at \$568 per head; see Maciejewski, 1981); according to IMF trade projections, the current account deficit of the East European balance of payments in 1981 is expected to be almost double the 1979 level and \$1.6 billion greater than the 1980 level at \$6.2 billion (The Times, 20 July 1981);

(iv) with the exception of Poland and the Soviet Union, terms of trade for East European countries have deteriorated over the 1970s and the trend is continuing (Marer, 1980);

(v) in the late 1970s open inflation has crept up throughout the area, outside the Soviet Union; shortages of basic consumption goods persist and their effect is becoming cumulative, successive inflationary 'gaps' raising the inflationary 'overhang';

(vi) there are recent signs of unemployment of capital (for instance in Czechoslovakia) due to structural problems and shortages of imported inputs;

(vii) inefficiency in the use of productive factors is increasingly reported and leads to pressure for economic reform; the burden of inefficiency has been made greater by the energy crisis, since consumption of energy per unit of output in Eastern Europe is twice the West European level (the share of total energy from domestic sources is falling throughout the area, even for surplus countries such as Poland—until recently—and the Soviet Union).

It is widely accepted that this deterioration in economic performance to a large extent is due to the exhaustion of 'extensive' sources of economic growth, i.e. to the increasingly biting constraints of labour and natural resources supply, and to the unsuitability of the centralised Soviet-type model of resource allocation to the 'intensive' stage of growth now reached by these economies; hence the widespread attempt at economic reform throughout the area to raise economic efficiency. But, just as in Poland, the shortages and excess demand caused by overambitious policies of accumulation and growth have led to either postponement or failure of economic reform. The only apparent exception has been Hungary in the last decade, but there are now signs of reversion to the traditional model

(Radicc, 1981). The alteration of phases of economic and/or political decentralisation, and phases of reversals, seems a general feature of socialist development (for an attempt to construct a model of such an economic/political cycle, see Nuti, 1979).

Socialist countries outside Poland are subject to the same systemic mechanism of economic and political fluctuations, capable of generating a crisis. Czechoslovakia (where the high level of industrial development clashes most with the system of economic management) and Rumania (where a rigid party structure and personality cult are close to earlier Polish conditions) would probably rate the shortest odds. But disequilibrium in consumption markets and industrial disorganisation are still at trivial levels compared with Poland; the exogenous factors—especially international ones—that have so greatly contributed to the Polish crisis have already been absorbed by other socialist countries and are unlikely to recur in the short and medium run, compounding domestic troubles; a considerable switch of resources to agriculture and consumption industries is in progress in the current plans. On 12 August 1981 a joint statement by the Central Committee and the Council of Ministers announced a fresh Soviet commitment to 'providing more and better consumer goods'; Hungary has already shortened the working week. A lesson will have been learned from the Polish crisis about the importance of responding to popular consciousness and demands. In the 1980s the other socialist countries are more likely to suffer temporary economic stagnation than the dramatic decline and disruption recorded in Poland.

ACKNOWLEDGEMENTS

The preparation of this essay has benefited greatly from three visits to Poland in May-June and November 1980 and July 1981, respectively as a guest of Lodz University, the Polish Economic Association and the University of Warsaw, which have given me the opportunity to collect research materials and talk to colleagues, government and union officials. I have also discussed various parts of this essay at seminars in the Universities of Birmingham, South Wales, Leeds, Hull, Oxford, Warwick, Glasgow and the LSE.

REFERENCES

- AEW (Akademia Ekonomiczna we Wrocławiu), 1981, 'Propozycje zmian w systemie funkcjonowania gospodarki', *Zycie Gospodarcze*, n.2, 11 January.
- Balcerowicz, L. et al., 1980, *Alternatywy rozwoju, reforma gospodarcza—glowne kierunki i sposoby realizacji*, PTE, Warsaw.
- Brezhnev, L., 1981. Letter of 5 June from the Central Committee of the Soviet Communist Party to the Central Committee of the PZPR, *Financial Times*, 11 June.
- Brombe, A., 1981, 'Poland's upheaval—an interim report', *The World Today*, June 1980.

- Brus, W., 'Lessons of the Polish Summer', *Marxism Today*, November 1980.
- East-West, 1981, Poland, the current crisis and *outlook*, Brussels.
- EUI (Economist Intelligence Unit), 1981, Quarterly *Economic Review* of Poland, East Germany, nos. 2 and 3, London.
- IKCHZ (Instytut Koniunktur i Cen Handlu Zagranicznego) 1980, Main indicators of Polish foreign trade development, Warsaw.
- Jozefiak, C., 1981, 'Votum separatum', *Polytika* n.8, 21 February.
- Kalecki, M., 1969, *Introduction* to the theory of growth of the socialist economy, Blackwell, London.
- Kolankiewicz, G., 1981, 'The politics of "socialist renewal" ', unpublished paper presented to the annual conference of the British National Association for Soviet and East European Studies, Cambridge 21-23 March.
- KPZdsRG (Komisja Partyjno-Rzadowa do spraw Reformy Gospodarczej), 1981(a), *Podstawowy zalozenia reformy gospodarczej-Projekt*, KiW, Warsaw.
- KPZdsRG (Komisja Partyjno-Rzadowa do spraw Reformy Gospodarczej), 1981(b) *Kierunki reformy gospodarczej-Projekt; Projekty ustaw-o przedsiębiorstwach państwowych,-o samorządzie pmedsiębiorstwa państwowego*, Nakładem Trybuny Ludu, July.
- Kotowicz-Jawor J., 1979, 'Presja inwestycyjna w rozwoju gospodarczym', *Gospodarka Planowa*, no. 3.
- Kramer, L., 1981, 'Proba analizy porownawczej', *Zycie Gospodarcze*, no. 12, 22 March.
- Marer, P., 1980, 'Economic performance and prospects in Eastern Europe; analytical summary and interpretation of findings', (mimeo).
- Maciejewski, W., 1981, 'Europejskie kraje RWPG w pierwszej polowie lat osiemdziesiatych', *Wektory*, n.1 (forthcoming).
- Maly Rocznik Statystyczny, 1981, GUS, Warsaw.
- Moskwa, A. et al, 1981, *Alternatywy rozwoju-Kierunki reform polityczno-gospodarczych w Polsce*, PTE, Warsaw.
- Nuti, D.M., 1977, 'Large corporations and the reform of Polish industry', *Jahrbuch der Wirtschaft Osteuropas*, Vol. 7, Munich.
- Nuti, D.M., 1979, 'The contradictions of socialist economies—a Marxian interpretation', *The Socialist Register 1979*, Merlin Press, London.
- Nuti, D.M., 1981, 'Industrial enterprises in Polish industry, 1973-80: economic policies and reforms', and 'Postscript on Poland', in I. Jeffries (ed.), *The industrial enterprise in Eastern Europe*, Praeger.
- Pajestka, J., 1981, *Polski kryzys lat 1980-1981*, KiW, Warsaw.
- Pelczynski, Z.A., 1981, 'Stalemate and after in Poland', *New Society*, 5 February.
- Portes, R., 1977, 'The control of inflation—lessons from East European experience', *Economica*, n.2.
- Portes, R., 1981, *The Polish crisis: Western economic policy options*, RIIA, London.
- Program (Rzadowy program *przewyciezania kryzysu* oraz *stabilizowania* gospodarki kraju), 1981, Nakładem Trybuny Ludu, Warsaw, July.
- Protokoły (*Protokoły porozumien Gdansk Szczecin Jastrzebie-Statut NSZZ 'Solidarnoso'*), 1980, KAW, Warsaw.
- PTE (Polskie Towarzystwo Ekonomiczne), 1980, *Propozycje Zasadniczych Rozwiazan Reformy Gospodarczej w Polsce*, Warsaw.
- Raport (Rzadowy raport o *stanie gospodarki*), 1981, Nakładem Trybuny Ludu, Warsaw, July.
- Rocznik Statystyczny, 1980, GUS, Warsaw.
- Sadowski, W.—Herer, W., 1981, 'Nawis inflacyjny' (mimeo), Warsaw (forthcoming in *Ekonomista*).
- Siec, 1981, *Projekt ustawy o przedsiębiorstwie społecznym*, Warsaw.

- Simatupang, B., 1981, 'Polish agriculture in the 1970s: some problems', Research Memorandum no. 8110, University of Amsterdam.
- Staniszki, J., 1981, 'Poland in the 1980s', unpublished paper presented to the annual conference of the British National Association for Soviet and East European Studies, Cambridge, 21-23 March.
- Szafar**, T., 1979, 'Contemporary political opposition in Poland', (mimeo; unpublished), **Harvard**.
- Uchwała** nr. 118180, Rady Ministrów, z dnia 17 listopada 1980 w sprawie zmian **w systemie** kierowania przedsiębiorstwami państwowymi w 1981 r., *Zycie Gospodarcze*, n.3, 1981.