

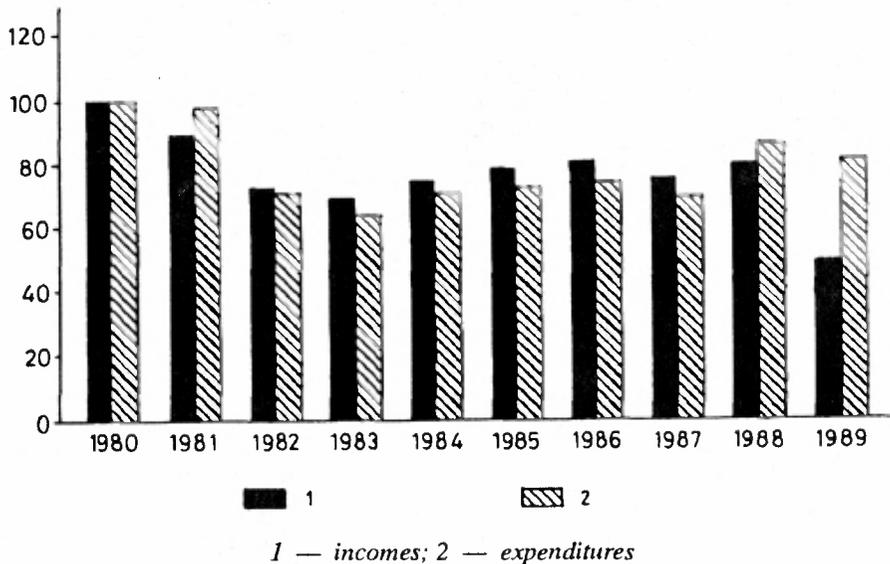
POLISH ECONOMY UNDER CRISIS

MAREK POTRYKOWSKI

Poland is the country in Eastern Europe that first commenced far reaching changes in the social system—transition from centrally planned and controlled economy of “real socialism” to the system of parliamentary democracy and market economy based on private property to an increasing degree in 1989. These changes were accompanied, however, by a weakening of economic activity and a dramatic deterioration of the monetary and market balance.

Polish economy has already been in the state of deep social and economic crisis for quite a long time. This economy functions under deepening disequilibrium, on the verge of breakdown of state finances. Ecological catastrophe is on the go together with housing shortage, the growing burden of foreign debt and economically motivated emigration of young generations.

Figure 1
Budgetary incomes and expenditures (at constant prices; 1980=100)



The present crisis is not the first one in the post-war period. Still, the downs in the mid-1950s and at the beginning of the 1980s were relatively quickly recovered by way of limitation on over-investment and the increase of market-oriented supplies. The other crisis, which occurred in the 1970s, was also countered by massive loans and credits, received by Poland from Western countries. These loans, consequences of which we are carrying on our backs now, also had a negative effect as they were used mainly to increase consumption and thereby contributed to the slow-down of modernizing investments in Polish economy.

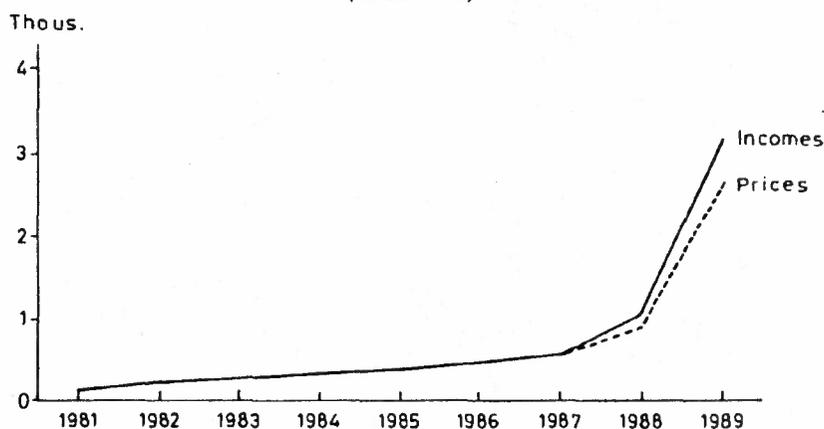
The first symptoms of the present crisis emerged at the end of the 1970s. The changes in economic policies, introduced then by the authorities with the aim to decrease market disequilibrium, did not succeed and the crisis was becoming more and more serious. On the basis of the comparisons of fundamental economic categories such as national income, consumption or real incomes of population, it can be concluded that Polish economy regressed by some decades.

As opposed to previous crises, the present one has significant spatial aspects. Within the set of crisis-causing factors the following can be distinguished:

- (1) A delay in the urbanization process with regard to the industrialization process. As to spatial aspects, this phenomenon is highly differentiated in intensity. Its direct effect is weaker than could potentially be achieved under the given circumstances, satisfaction of social needs and incomplete utilization of productive assets, which lowers, to a significant degree, the production scale potentially attainable.
- (2) A growing conflict between the social and economic interests in the sphere of utilization of natural environmental resources. An over-exploitation of the environment leads, on the one hand, to the deterioration of the conditions of social life over some areas of the country, and, on the other hand, to the limitation of the narrowly conceived effectiveness of economic activity.
- (3) Too high concentration of economic activity expressed through
 - (a) the concentration of multiple productive units, and
 - (b) exceeding the optimum production scale.Particularly negative effects were caused by the simultaneous appearance of both of these concentration types in certain areas.
- (4) An improper spatial organization of the productive apparatus entailing an unduly high level of transport costs in production and a low reliability of co-operative connections.
- (5) Disappearance of societal self-government on the local level. So the local communities have become an object, and not a subject of management, which resulted in an inadequate utilization of local growth factors and inadequate satisfaction of social needs.

The fundamental difficulty in the introduction of economic reform in Poland at present lies in the necessity of undertaking risk-bearing decisions inevitably entailing great costs for lack of necessary reserves. The socialist mechanism of economy existing now in Poland has attained the limit of its economic effectiveness, and has become the model which loses out in the worldwide competition against other systemic solutions. Furthermore, the model in question does not offer any adequate ideological alternatives at present. It is not clear what the shape of reborn socialism is to be, so that it could deal with dynamically changing social conditions.

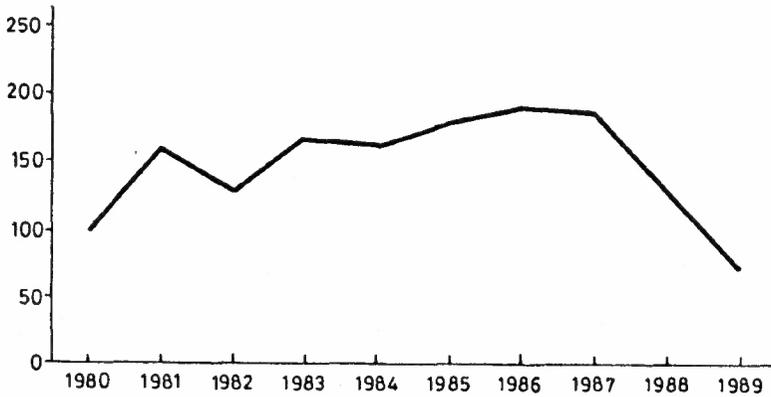
Figure 2
Prices and population income dynamics, 1980–1989
(1980=100)



The comparison with other countries indicates that the capacity to make sacrifices, which is absolutely necessary to overcome current difficulties, is much smaller in Poland than elsewhere. The degree to which members of the society identify themselves with the goals and strategies formulated by the authorities is very low, which leads to the lack of faith in the probability of success and to social apathy. The composition of the new government made up of people who had previously been active in the opposition brought new hopes for the improvement of the country's social and economic situation. It is strange indeed that, although real incomes for the majority of the society decline, industrial production decreases and inflation climbs upwards, and there are no obvious signs indicating that there may be economic improvement in sight, still there is strong approval of the activities of the government.

There are no economic reserves, resulting primarily from a significant decrease in national income accompanied by a strong social pressure on the consumption sphere, creating definite limitations on the magnitude of investments. Yet, the structure of the economy requires radical reconstruction, necessary also for undertaking production on a higher technological level, for which it is expedient to bear significant investment outlays.

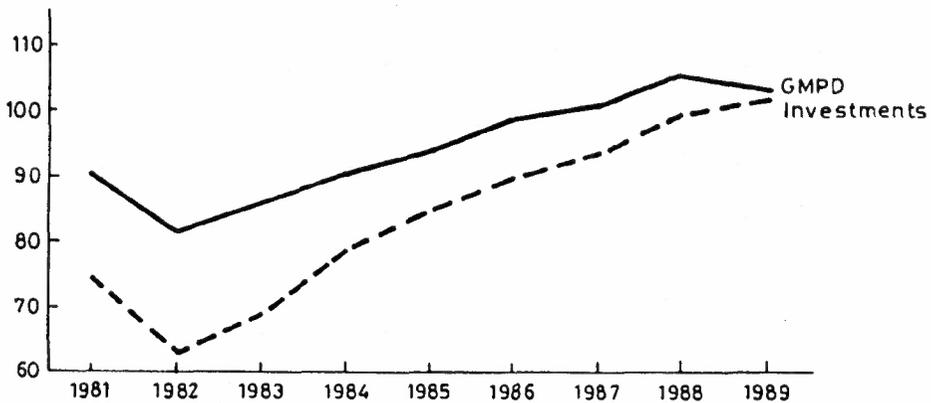
Figure 3
*Changes of the share of shavings in financial resources of the population
(1980=100)*



On the other hand, the burden of the foreign debt on Polish economy has very serious consequences in the form of inflation, and it shuts off the possibility to use foreign reserves for financing the reconstruction of economy.

In principle, the only source of reserves is human capital. Adaptation of economic conditions to natural tendencies towards the improvement of material situation and social

Figure 4
Investment outlays dynamics and the dynamics of gross material product divided (GMPD)*
* In the socialized economy (at constant prices; 1980=100)



status of individuals may set great free reserves of creative energy and thereby contribute to the dynamization of the country's development. The transition in the political setting of government in Poland may become the main element triggering the functioning and development of other elements of the country's socio-economic setting. Such a statement is based upon the conviction that the political regime which was in power until quite recently significantly braked development, and that once the brake is no longer obstructive, there should be advantageous social and economic transformations. It should be supposed that the causes of failures of previously attempted reforms lied in the fact that these attempts did not try to change the political system in any way. The necessity of the reform of the political system in this context is the result of the necessity of passing from the bureaucratic control mechanisms towards the market control mechanisms, the latter requiring qualitatively different political conditioning than the one proper for bureaucratic mechanism.

The present transformation of the political power setting in Poland creates new possibilities for economic, social and political activities. As of now, this transformation meets with broad social approval and enhances the credibility of the proposed development strategies. There is hope that thereby also the perspectives for foreign capital shall improve, in terms of the perceived stability of the situation in Poland, increasing the inflow of this capital.

The government program prepared recently is meant to forge the way out of the crisis. The main economic goal of this program consists of creating in Poland a market economy having features similar to the economic systems of highly developed countries. Carrying out such a task requires ownership transformations in the economy, together with the introduction of market mechanisms and the reform of the financial system.

The transformation of the ownership structures in the economy should be carried out on such a scale that they could determine the overall effectiveness of the economy and also become the source of sector and branch restructuring. The law has to be changed, not only to make it clear that private ownership of the means of production is now respected but also, and it is even more important, to make sure that private businessmen can get access to labour, capital, machinery and raw materials. This includes raising the hitherto rigid limit on the number of workers they are allowed to employ and, if possible, removing the limit altogether. It also means a legal promise that private companies will be equal to state ones when it comes to getting hold of whatever else they need to do the job. Poland is doing its best in this area. The law promising equal treatment to private companies is in the statute book, so these companies have full legal equality with state enterprises and can, in principle, employ as many people as they like.

Opening up the public sector. Even the most reform-minded people recon that the public sector will continue to dominate in Polish economy for years to come. For any economic revival, it is, therefore, essential to break up the huge inefficient public sector into smaller units and to make them compete. The fundamental rule to be followed is the public sale of state property, and facilitation in purchases by employees of shares of enterprises put out for sale. Alas, smaller units are no solution by themselves. There are too many loss-making state companies, whatever their size is, still kept artificially alive by subsidies because the government is afraid of closing them down.

The reform of the financial system is orientated towards attaining the convertibility of Polish currency, which would make it possible to open up the Polish economy to the world. No real competition is possible between companies, private or state-owned, until most of the prices at which they buy and sell are set by the market. While they wrestle with prices, subsidies and inflation, the government has to create a more flexible banking system which lends money to firms not on a planner's whim but on the sensible objective judgement of whether it is a good investment.

Commercial banks are needed in Poland. At present there are not any. The Poles need help to establish a network of banks. One way is to encourage Western banks to open branches in Poland. They would quickly attract the hard currency Poles have saved and turn this 'unemployed' capital into working capital.

These things are the skeleton on which the flesh of an efficient economy might take shape one day. They do not include the "normal" issues of economic management, least of all inflation. Inflation is abnormal in Poland in the sense that the system has allowed an extraordinary amount of inflationary pressure to build up; but it will have to be brought under control by the methods so painfully familiar elsewhere.

Suppose Poland carried through what it has now started to do—dismantling much of the apparatus of planning and supervision; breaking up the old state monopolies; and telling the managers of the smaller firms thus created to take it from there.

The managers of all the firms producing, say, women's shoes would then decide what sort of shoes to produce, how many and at what price, on their estimate of what the market wanted. Those managers who got it right could double their workers' pay, raise a large loan for expanding their operations from a beaming fellow at one of the new commercial banks. Those who got it wrong... This is the point at which the idea starts to wobble, and the question of ownership becomes inescapable.

Three different things can happen to a company that gets it wrong. One is to go bust, and put its workers on to the street. Another is to transform itself from inside, changing over to a new line of shoes, or maybe doing something entirely different. The third is to get taken over by somebody from outside, who will make necessary changes. All the three seem harder with socialist companies than with capitalist ones.

The course for steering out of the crisis is conditioned by the satisfaction of definite economic, social and political conditions. The economic condition is to curb and then sharply decrease inflation. The social condition is the wide approval of the government programs. The political condition is the conclusion of agreements with the IMF and the World Bank to determine together with particular groups of creditors what the new conditions of debt and interest repayment will be in accordance with the financial capacities of Poland. Simultaneously, steps must be taken to facilitate the inflow of foreign capital to Poland and to ensure more stable and advantageous conditions for investments than the ones in place today. Implementation of the economic program shall, first of all, require new credits to be obtained still this year from highly developed countries to import raw materials and semiproducts as well as consumption goods of special social importance.

One of the possibilities for the Western holders of Poland's debt to help Polish economy is to offer some of it for sale to Western companies, fairly cheap. These companies then could tell the Polish government that they were ready to cancel a bit of the debt in

return for a share in the equity a Polish state firm. The price would have to be right, and the Western investor would have to know that he could get a grip on the running of the firm; but, under those conditions, this could be a way of starting to resume the state sector of the economy, still by far the biggest part.

Short of that, the only practical form of Western assistance is the help in the building up of the infant private sector. The main way of doing this is the joint venture. Attracting Western partners into joint ventures requires a mixture of generous terms and bold marketing. But the West argues too much over the quantity of aids, and pays too little attention to their quality. Even small amounts of money, carefully directed, could make a big difference to Poland's attempted leap to capitalism.

The seven-nation summit in Paris in July gave the European Commission the task of co-ordinating Western relief efforts. The first meeting concentrated on emergency food aid for Poland, the second one focussed on help with economic restructuring, and the Commission presented an "action plan".

The action plan by the European Commission has five priorities. For **agriculture** the Commission proposes giving farm machinery and pesticides. To promote **access to Western countries** the Commission wants to lift export quotas, reduce tariffs and let in more farm products. To encourage **foreign investment** it suggests that the Poles become eligible for loans from the European Investment Bank (guaranteed by the EC budget). Many schemes to help **professional training** are planned. The fifth priority is **environmental protection**. The Commission presented its detailed ideas in private. Efforts would be concentrated on the basin of the River Vistula.

It is hard to tell how many countries will contribute individually to the aid effort. For example, the Paris Club of creditor governments is also waiting for the IMF agreement before its members attempt any formal rescheduling or debt conversion.

Figure 5
Polish export volume dynamics, 1980-1989
(1980=100)

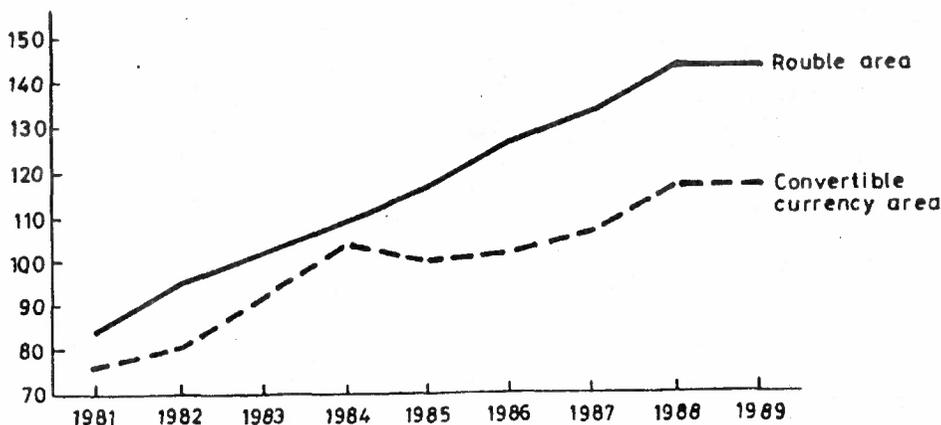
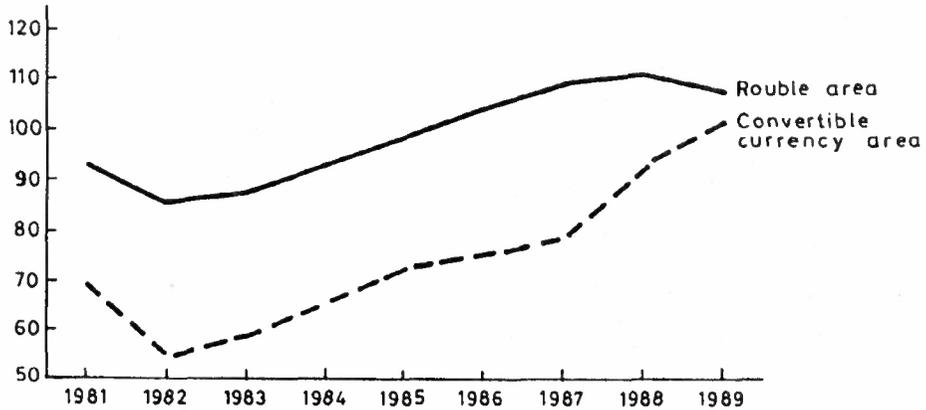
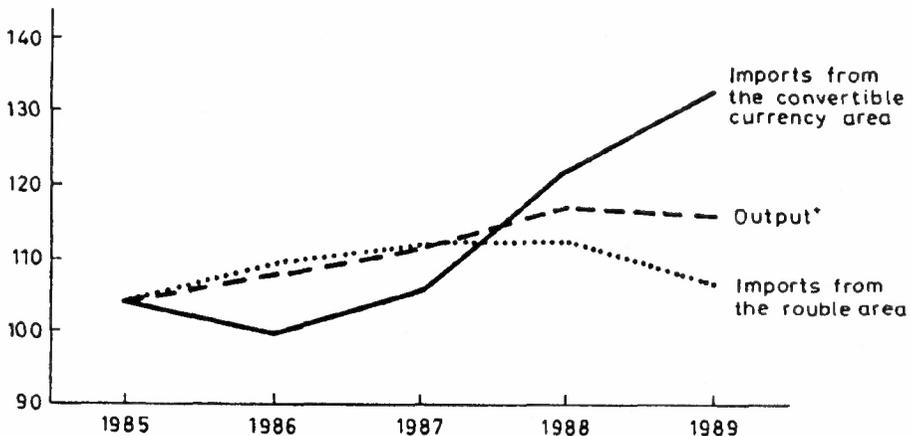


Figure 6
Polish import volume dynamics, 1980-1989
(1980=100)



The economic reform in Poland has no chances of success without an opening of the Polish economy to the outside world. Profound changes are necessary in the relations with CMEA (COMECON). In its present form this organization is outdated. The rules of trade

Figure 7
Intermediate imports dynamics and output dynamics, 1985-1989
* Output sold of the socialized industry (at constant prices; 1984=100)



between the socialist countries must be changed, accounts must be settled in convertible currencies, while contracts should not be signed by the representatives of governments but by producers and intermediaries. Multiannual international economic agreements should be annulled. Currently, large firms having long-term contracts within CMEA have no incentive in terms of competition, and the profitability of production has been ensured by governmental subsidies. Essential changes in that respect shall take place, however, only starting in 1991, since until then Poland is bound by previously signed multiannual international contracts.