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Poland's Economic Mess

Mounting debts, declining production, rising prices, food shortages: Poland's economic problems are dire.



The critical state of the Polish economy, which had given Solidarity a powerful political lever and Jaruzelski a plausible pretext for military rule, continues to affect the course of Polish events. The Military Council of National Salvation has already taken those unpopular austerity measures — formerly tenaciously resisted by the new political and trade union movement — which are indispensable for economic recovery: a return to a 42-hour 6-day working week, the reduction of rations, and above all a drastic increase in the price of consumption goods, particularly foodstuffs and heating. The military have also gone ahead with partial reform of the system of industrial organisation and planning, implementing those parts of the reform project which did not clash with military rule, such as dissolving large associations of enterprises operating in the same sector (but suspending self-management for the time being). In spite of the return to work and the end of strikes, however, these measures on their own are not sufficient to achieve economic reconstruction and recovery. The reopening of negotiations with elected workers' representatives and the achievement of some kind of political-economic compromise — desirable *per se* — are an essential precondition in order to avoid passive resistance in factories, normalise agricultural supplies and reactivate trade and financial links with the

West. For a change, economic constraints can play a positive role.

Deepening crisis

In 1981 national income in Poland fell by 15% ie, back to the 1974 level. Money wages rose 25%, and so did prices, but consumption supplies fell by 10%, leading to a further increase in the already large amount of unspendable cash in the hands of the population, not matched by goods in the shops. Industrial output fell by 13%, back to the 1976 level; agricultural output rose by 4% with respect to 1980, but this was a bad year, and this important sector was back to the 1972 level; besides, food procurements by the state slumped (meat by 25%). Martial law has worsened this picture, by reducing both industrial production (because of passive resistance, shortage of imported materials and sheer disorganisation of the planning system) and the marketing of foodstuffs.

Already in 1981 the suspension of investment programmes, lack of energy, raw materials and imported goods, had generated a labour surplus in some industries (building, machinery, metallurgy), exacerbated by attempts at rationalisation. At the same time, labour shortages prevailed in mining and agriculture. The Planning Commission envisaged the redeployment of 175,000 workers in 1981, 262,000 in 1982, 223,000 in 1983, and Labour Minister Anton Rajkiewicz indicated that in the near future 180,000 workers would have been dismissed from industrial enterprises, 150,000 from the building industry and 60,000 from transport. It was expected that 90,000 new entrants into the labour market would not have found a job. The presence of a substantial labour surplus — which economists put at over one million people — was also revealed by measures for early retirement, part-time labour, and generous incentives for transferring to the private sector. At the same time productive capacity was underutilised by 30-35%, with peaks of over 50%, so that capital was also 'unemployed' because of structural problems and the lack of imported goods (from steel cans to distilled water, and not only advanced technology) on which Poland had become exceedingly dependent.

External debt

Polish external debt, by the end of 1981, had reached 25.5 billion dollars with Western banks and governments, plus 4.7 billion dollars with the socialist bloc. This is no more than 1% of the value of Polish established coal reserves (if they were dug out of the ground and transported to Hamburg — a big if), or two-year cost of

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unemployment in Britain at the present rate; it was also, however, an amount substantially greater than the whole reserves of the Bank of England, and more than twice the level of debt that the Polish economy could cope with in normal conditions.

In the actual conditions, Poland not only could not repay debt as it matured but could not even pay all interests. On 26 March 1981 Poland stopped repayment of maturing debt and the amounts still outstanding were rescheduled for repayment over eight years with a four year grace period, but this arrangement was conditional on Poland paying up 500 million dollars overdue interest still outstanding, before the end of 1981; another 800 million dollars were still owing to Western governments for 1981. Polish gold and hard currency reserves, on the other hand, stood at a miserly 228 million dollars. (Of that 500 million dollars overdue interest, 200 millions were paid round the end of the year after military rule, apparently out of Soviet aid; Poland has promised to pay up the remaining 300

millions by mid-February). Another 6.5 billion dollars are maturing in 1982, plus another 3 billion interest; Poland needs to reschedule these maturities as well, and find fresh funds for paying interest. Trade balance with the West was reached at the end of 1981, but at the cost of a 30% fall in imports from the West, and parallel fall in industrial output and income. The external constraint, and above all the loss, in the course of 1981, of at least 1.5 billion dollars of short term loans not renewed by Western bankers, is *the* major cause of the Polish economic collapse in 1981. By withdrawing short term support, bankers have behaved wisely from their individual viewpoint, but collectively they have undermined the viability of their debtor and damaged their own collective interest.

Huge shortages

External imbalance was accompanied by an enormous internal imbalance, under the guise of open inflation (10% in 1980 and 25% in 1981) but above all of 'repressed' inflation, ie, endemic shortages of consumption goods, including necessities, rationing (which however was not covered by supplies, and therefore coexisted with queues *and* inflation), hyperinflation in the black market. US dollars, officially worth 33.5 zlotys until the end of 1981, had reached

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15 times their official value on the black market. Already in the autumn there was literally nothing at all in the shops; the population would buy immediately at unrealistically low prices anything put on the market, and would redistribute it through barter, while the national currency was replaced as a unit of account, means of payment and store of value, by foreign currency, cigarettes, alcohol. By the end of the year the population held over 1 billion zlotys in liquid assets of which only a small fraction was voluntarily held; the rest was simply unspendable, and corresponded — at the official exchange rate — to the level of external debt. There can be no doubt that the wage increases obtained at Gdansk in August 1980, raising incomes by a third while consumption supply fell by 20% in sixteen months, had caused directly the total disruption of consumption markets. Gross profits had fallen to zero in the socialised sector over the first three quarters of 1981. No more than two thirds of current incomes were covered by consumption goods, and the deficit was cumulated at a fast rate. Strikes and labour unrest cannot have done much damage: according to official sources 10,500,000 working hours were lost in 1981 through strikes, ie, less than an hour per worker per year; even if hours lost had been ten times as great, output could not have suffered much. But the free Saturday and the reduction of the working week, which had caused a fall of 7.5% in hours worked, must have had a deleterious effect on the state of supplies, directly and through its effect on coal output and exports.

In this situation, the systematic refusal by Solidarity to accept austerity measures and price increases, and the government's inability to go ahead without Solidarity's consent, had given great power to the new movement. The economic measures taken by the military government had been prepared and discussed for at least six months, and some (like the devaluation of the zloty and the increase in the price of industrial inputs) had been announced long beforehand. The price increases decreed on 1 February — by 241% on food and 171% on heating — appear exorbitant but apart from being partly compensated by compensatory wage increases and the revaluation of savings one should remember that as long as consumption supplies are maintained, even large price increases do not imply a fall in the

standard of living, where there is a large unsatisfied demand before the increase. The new prices simply correspond to the harsh reality of Polish consumption supplies. The price increases are a step in the right direction.

The necessity of compromise

Economic recovery, however, cannot be achieved by military decree. The military can force the return to work by coercion or by positive inducement — such as the distribution of clothing and food in the place of work — but are completely powerless against workers' passive resistance in factories. Absenteeism, sabotage, obstructionism, the Italian-style 'refusal to work' can still worsen further the economic situation, prolong and harden the state of emergency, which in turn would inflict new economic losses through economic sanctions. The suspension of self-management is also economically damaging, not so much because self-management might improve efficiency, but because it was always understood, in negotiations with Solidarity, that this could be the political counterpart of economic austerity. Peasants are also beyond the reach of the military; barring requisition, which would destroy future prospects of food supply, peasants cannot be forced to feed the towns, and indeed the possibility of bread shortages in the spring looms large for Polish consumers.

No matter how strong and reliable the Polish army and security forces may be, ultimately Polish generals are in the hands of Polish miners and workers, and Western bankers and governments. The plan for 1982 — now set aside — contained a pessimistic version and an optimistic one according to assumptions about coal output and trade with the West. The difference between 175 and 155 million tons of coal output (against 203 million in 1979 and 163 in 1981), and between balanced trade with the West or the necessity of running 1.2 million dollar surplus, in the 1982 plan imply a difference between +2.2% growth or -8.3% decline in income produced, and an even stronger difference in income distributed (respectively -1 and -15.6%). Thus it is imperative for the military to come to an accommodation, to a compromise which would enjoy a minimum degree of popular consensus necessary to persuade miners to dig coal, peasants to sow, and Western governments and bankers to continue with aid, trade and loans. Otherwise the shortage of coal for power stations and exports, food shortages, the lack of imported materials and semi-finished products, in the course of a few months

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will precipitate an economic crisis of such proportions as to unleash popular protest and revolt of a type familiar from Northern Ireland or El Salvador, in which case there is no doubt that Warsaw Pact troops would intervene.

Polish workers and military men, and Western bankers and governments, are playing the last hand of a dangerous game in which either they all win, in which case an economic recovery can still take place, Western credits are protected and at least part of the political achievements of the after-August can be preserved; or they all lose, with Poland starving under Soviet occupation, Western financial circles are disrupted by the write-off of Polish debt, American Mid-West farmers lose markets, and Western firms lose sales of gas equipment and access to Soviet gas. The lesson of Poland's 'state of war' is that intransigence does not pay; unfortunately, there is still no sign that that lesson has been learned by the protagonists of this painful story, in Poland and outside. D