

tries and industrial associations are supposed no longer to issue obligatory plans. Instead, enterprises themselves are to draw up their own plans, guided by anticipated profits. The central plans (perspective, five year and annual) are intended to outline future development of the economy as a whole (eg, allocation of the national income, structure of production, investment policy). It is intended that the Government will control the economic process and realise its socio-economic goals by manipulating prices, taxes, short and long term loans etc, and by utilising the market mechanism.

The fundamental innovations of the reform are the switch in central control from predominantly direct methods (ie, plan instructions) to predominantly indirect methods (ie, financial levers), and the establishment of enterprise autonomy. The latter comprises enterprise independence, self-finance and workers' self-management.

*Enterprise independence* means that enterprises themselves are free to decide on their own current operations. Decisions about the volume and assortment of production, the inputs used, techniques of production, suppliers and customers, employment, wages, marketing and allocation of profit are in principle left to the enterprises themselves to decide. In the current difficult situation, however, with severe shortages and disequilibrium and also because of social considerations, numerous products are allocated directly by the Government (for example products required for the 'operational programmes').

*Self-finance* means that enterprises must balance their books, avoiding losses and seeking profits. They are supposed to do this by raising efficiency and satisfying their customers. The results and significance of self-finance depend largely on the price system. There are three types of prices; fixed, regulated and free. There is also a progressive profits tax to siphon off excess profits. The reform strives to encourage enterprises themselves to rationalise production, allowing them to maximise profits left over for distribution. They are relatively free to allocate their profits between consumption (wages, bonuses and collective consumption) and investment. During the transitional period, however, self-finance is to be applied only gradually in order to prevent widespread bankruptcies, unemployment and social disruption.

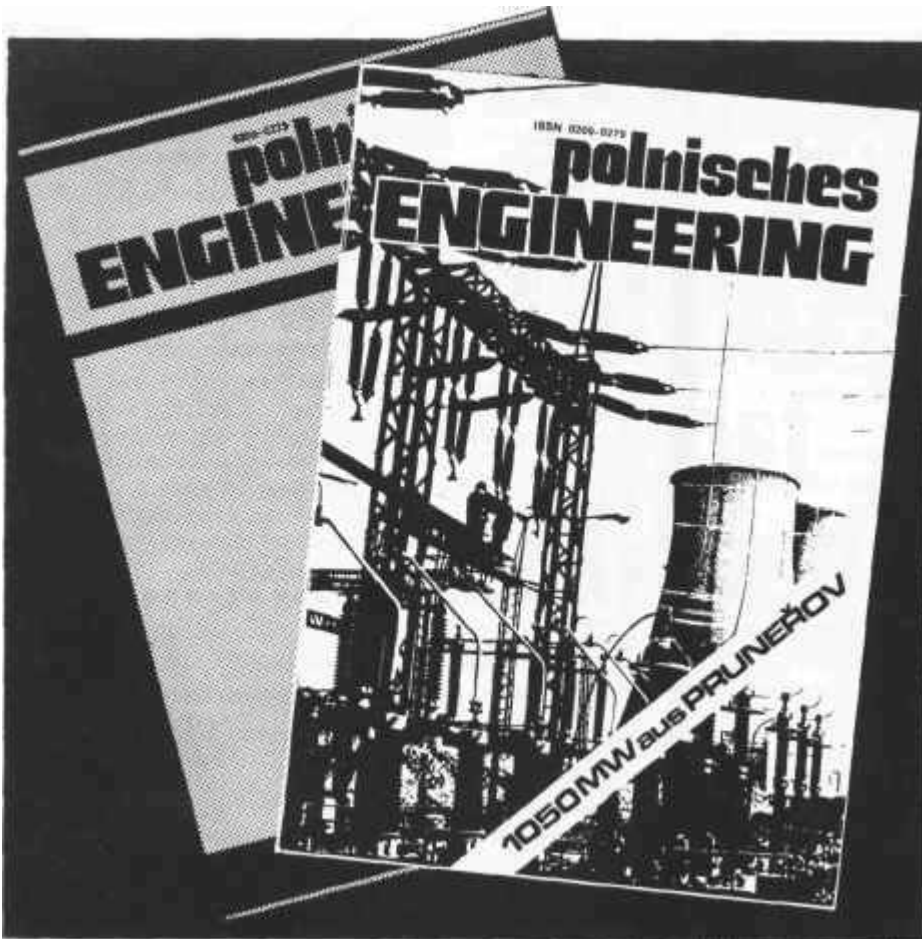
*Self-management*, the democratic participation of enterprise personnel in management, was one of the essential aspects of the reform as envisaged in 1981. The law on

### **POLISH ECONOMIC REFORM**

The need for a radical economic reform in Poland results from the characteristic problems of the administrative economy, the economic crisis of 1979-82, and the pressure by society for reforms during the period of social renewal in 1980-81. The reform is intended to improve efficiency in the use of labour, materials and capital goods, to establish economic equilibrium, bring production into line with requirements, and to facilitate economic recovery. It is hoped to achieve these goals by establishing an economic system that offers substantial scope for enterprise initiatives within the framework of a planned economy with a built in market mechanism.

What is officially referred to as a 'breakthrough reform package' was outlined in the document *Kierunki Reformy Gospodarczej* approved by the 9th PUWP (Communist Party) Congress in July 1981. A series of laws on workers' self-management, planning, state enterprises, taxes, prices, banking and foreign trade, which gave legal form to specific aspects of the reform, were passed in 1981-82. The number and competence of economic ministries was reduced and industrial associations were reorganised. Wholesale and retail prices were sharply increased early in 1982.

Under the new system, economic minis-



self-management, passed by the Sejm (Parliament) in September 1981, was the result of a compromise between Solidarity and the Government. The law allocated substantial powers to the workers' councils, for instance in the preparation of the enterprise plan, approval of the balance sheet, investment plan, distribution of profits etc. Workers' councils were given the right to appoint directors on a competitive basis, with appointment by the state organs confined to certain key enterprises such as the airlines and railways.

By 13 December 1981 workers' councils had been elected in more than half the enterprises. With the declaration of martial law, however, workers' councils were suspended. Subsequently the military regime tried to reactivate them in a much watered down form. The crucial power of appointing directors was removed from their competence and returned to the state organs (ie, the old *nomenclatura* system was restored). The authority of the state organs was enlarged to include also decisions about enterprise plans, statutes and rules. The abolition of martial law was supplemented by a special regulation which empowers the state organs to dissolve a workers' council in the event of a 'violation of the legal order or basic interest of society'. Self-manage-

ment as introduced in the autumn of 1981 promised to provide a social basis for a centrally planned economy with a built in market mechanism. Self-management as it exists today is just a facade for the *nomenclatura* system and the determination of all important decisions on the basis of instructions from above.

The reform was introduced during a grave economic crisis. During Poland's great depression of 1979-82, net material production, consumption and investment fell by 26%, 25% and 46% respectively; since mid-1982, however, the decline has stopped. Inflation is high and the scope of centralised allocation and directives is still large. Rationing of food and industrial consumer goods is still ubiquitous, although certain improvements have taken place, with items such as alcohol, cigarettes, washing powder etc, no longer being rationed. Shortages of raw materials, semi-finished products and fuel are widespread. Poland has received substantial aid from the USSR but Poland's trade deficit with the USSR is falling and the USSR is aiming at balance of trade equilibrium. This is one constraint on Poland's ability to overcome shortages by importing the necessary goods. Poland also has huge debts and heavy debt servicing obligations to the

capitalist countries which place severe constraints on her ability to import from them. This grave economic crisis provided a very hostile environment for the reform.

Self-finance as understood by the reformers has in fact not been introduced. Enterprises can still easily obtain loans, subsidies, tax exemptions and other privileges without any obligation to rationalise production. Under prevailing conditions of severe shortages and sellers' markets, enterprises can easily pass on their high costs to the buyers. Enterprises do not have to bother about raising efficiency. Instead they strive to improve their position through bargaining for greater allocations of raw materials, fuel, foreign exchange and subsidies.

The reformers hoped to establish an equilibrium market system in which price fluctuations would convey efficiency signals to producers and consumers. In fact, inflation and market disequilibrium are still threatening the economy. According to official statistics, the cost of living rose by about 100% in 1982 and average real wages dropped by about 25% despite average money wage increases of about 50%. Under pressure from society the Government has had to compromise on prices, by freezing certain prices, increasing the share of regulated prices, maintaining or increasing price subsidies, overvaluing the zloty etc. Both the inflation and the Government's attempts to ameliorate its effects are harmful to the reform.

Improvements in the efficiency of labour and materials use do not appear to have taken place. Indeed a certain deterioration, for instance a worsening of the quality of production, seems to have taken place in some cases.

Cz Bobrowski, chairman of the Economic Advisory Council, has expressed the view that significant results from the reform are only to be expected over a period of three to five years. Given the very difficult internal economic and political situation, and the external debts and unfavourable external economic environment, any significant results from the reform would be something of a miracle. Indeed, it seems not impossible that the reform will never be completely implemented and that in due course the country will relapse into a modified version of the traditional system whose moral, political and economic bankruptcy is well known. Despite this, significant economic growth is possible in the next few years because of the extent to which current production levels are below those of 1978.

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