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POLAND

Economic Reform

The following communication, dated 26 July 1982, has been received from the Permanent Representative of Poland.

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Since 1 January 1982, the Polish Government, pursuant to the decisions of the Diet, has been carrying out a basic reform of the management of the national economy.

The essential object of this reform is substantially to raise the efficiency of enterprises in order to increase the national product and improve its material structure, and to create more favourable conditions for the participation of Poland in the international division of labour.

At the same time, this reform is conducive to better adaptation of the rules governing the economy to the provisions of the General Agreement.

I therefore take the liberty of sending you herewith a booklet on the economic reform in Poland, which contains general information on the policies and intentions of the Polish authorities.

Please be so good as to take the necessary measures to bring this information to the notice of the contracting parties interested.

ANNEX

THE ECONOMIC REFORM IN POLAND

The economic reform begun on 1 January 1982 in Poland is a vast enterprise involving a radical reconstruction of both the mechanisms and the operating principles of the economy and of its structures. It is a long-term undertaking. It is estimated that it will take five to eight years to introduce the complete cycle of changes which will constitute the new economic system, and perhaps even longer to shape the new mentality of those responsible for management and for economic affairs at all levels and of society as a whole, which will have to re-examine its prevailing ideas and habits.

In this article we propose to give a brief presentation of the objects and principles of the reform.

Why is the Reform Necessary?

For a long time now many people have perceived the need for a fundamental reform of the economy. But it was only when the economic crisis really made itself felt, towards the end of the 1970s, and degenerated in 1980 into a political and social crisis, that work on the reform was initiated. For all the analyses of the crisis lead to the conclusion that its origins and causes must be sought mainly in the operation of the economy.

The basis of this crisis is the enormous disproportion between the potential or possibilities of the economy and its actual efficiency and productivity. In the course of its development, Poland has acquired an economic potential, particularly in the industrial sector, which is of world significance. It enjoys favourable conditions for economic expansion and for becoming a developed country. It does not lack basic raw materials such as coal, lignite, copper, sulphur, silver and others. Although it does not have sufficient quantities of oil, iron ore, potassium salts, etc., by comparison with other European countries its general resources in raw materials place Poland in a privileged position. Nor is it lacking in agricultural land. It has a demographic potential that is by no means negligible, and numerous supervisory personnel. In short, the conditions for economic advancement are favourable.

But the results achieved by Poland in its economic expansion up to the present are far from sufficient and well below its possibilities. The efficiency of its economy leaves much to be desired, productivity per worker being only 25-30 per cent of that in the developed countries (despite a potential in supervisory personnel which is comparable or even superior). This results in a relatively low standard of living - below the

real possibilities of the country and its social aspirations - which is a cause of tension, conflicts and crises. There is enormous waste of the factors and means of production, high consumption of materials and the quality and technical level of manufactures is inadequate.

All these negative features of the Polish economy are attributable mainly to its mechanisms, which do not create sufficient incentives for good productivity, high quality of production and effective utilization of the factors of production. There are also social aspects: up to the present the economic system has not given workers the satisfaction of participation in management, which is important for everyone, and especially for the most ambitious and creative individuals. For the system is rigid, bureaucratic, and controlled through administrative directives. This causes waste of human energy and lack of initiative and activity.

As a result of its low efficiency and quality, the Polish economy does not occupy the position in the world to which it could aspire in view of its resources, its potential and the aspirations of its people. The share of Poland in world trade is very small (even in good years it does not exceed 1.1 per cent; at present it is 0.8 per cent).

#### The Objects of the Reform

The general assessment of the Polish economy made at the beginning of the 1980s led to the incontestable conclusion that its structures, principles, mechanisms and aims must be radically changed. Against the background of this assessment, the objects of the reform were clearly apparent. The reform had to produce a system which would:

- achieve rationalization of the economy, i.e. effective utilization of the factors of production: capital, means of production, labour, etc.;
- ensure an increase in the national product and better adaptation of its material structure to social needs, indicated mainly by consumer demand;
- create conditions for the active co-participation of workers in the management process;
- enable the State to control the economic process which, on the one hand, would respect the principles of rationality and workers' participation, and on the other, would protect the basic principles of the socialist socio-economic system: social character of ownership of the means of production, equality of opportunity for all citizens, equitable distribution of the national product;
- improve the economic position of Poland in the world, through the competitiveness and high quality of the products offered, and durable links of co-operation.

### The Conditions for Rationality

The creation of elementary conditions for economic rationality was to be the first, very difficult step in the reform - very difficult because in practice it had to be made mainly at the social and economic levels. It was necessary, above all, to organize, and in fact to create, a whole new price and wage structure.

In both these areas - prices and wages - the situation was disastrous. Prices had long since lost any economic meaning and were in fact an almost fortuitous collection of figures, having nothing in common with the objective value of goods or service, with costs of production or with the laws of supply and demand. In addition, they were completely isolated from world prices, which prevented any real assessment of the effectiveness of economic links with foreign countries and hindered production for export.

The wage system, too, had long since lost its essential characteristic, namely, that the amount of wages must depend on the quantity, quality and social usefulness of work. An unskilled worker in building or agriculture was sometimes earning more than a good structural engineer or the rector of a university. At the same time, there was no logic in the wage system: for the same work in the same job, the wage differed according to the sector of the economy in which the worker was employed. The actual results of an enterprise had only a minimal influence on the amount of wages and income.

It is obvious that reform in these areas, especially price reform, had to precede any other measures to rationalize the economy. For if an enterprise, or the economy as a whole, is to move towards efficiency and rational consumption of the factors of production, its first requirement is a proper basis for calculating the funds engaged and the return on them.

The price reform was carried out in two stages: on 1 January 1982 there was an increase in the prices of raw materials and materials used in production, and since 1 February 1982 there has been a very substantial rise in the retail prices of foodstuffs, gas, electricity and heating, with compensations partly mitigating the fall in the standard of living caused by the price rises.

The reform has not yet quite established a rational price system, mainly for social reasons. An entirely rational price structure would, indeed, mean a radical change in the present system and, especially, a considerable reduction in the standard of living.

In any case, the action begun on 1 January and 1 February laid the foundations for a correct price system permitting the economy to develop in the desired direction. As regards wholesale prices for raw materials and materials for manufacturing, the general principle adopted was that their

level and structure must be based on world prices, with certain justified exceptions (for example, the price of coal, which is the greatest natural resource of Poland, and the extraction costs of which are lower than average world costs). An entirely new rate of exchange was fixed for the zloty against foreign currencies; this rate is flexible and changes according to the movements on world markets. It was on the basis of this new rate (Zl 80 for \$1) that the new prices of raw materials and manufacturing materials were fixed, though this rule was departed from in fixing the prices of raw materials and manufacturing materials which had been based on the cost of production.

A different method was adopted in raising the retail prices of foodstuffs, gas, electricity and heating. In these cases, world prices were treated as being of only secondary importance. Costs of production were taken as the basis, with some exceptions such as milk, gas, electricity and heating, for which the resultant rise would have been too great.

In February, the Diet adopted the law on prices, which henceforth will regularize the principles and mechanisms of price-fixing. The purpose of this law is to prevent, in future, the "degeneration" of prices which has taken place up to the present. Prices must be flexible and evolve according to the following three criteria: the level and structure of world prices; socially justified costs of production; and the law of supply and demand (in the price increases of 1 February the latter criterion was taken into account to a lesser extent, because of the abnormal market situation caused by the crisis). The law also prescribed the list of goods which are to have "official" prices fixed ex officio by the State authorities for social reasons.

The new prices and the rules for fixing them have provided the necessary basis for economic calculations. They make it possible henceforth to rely on the principles of rationality in economic activity. Consumers will also have to make rational choices concerning their purchases. That is another important aspect of the price reform. But in the area of consumption this effect of the reform cannot yet be assessed, mainly because of the abnormal market situation (shortage of a number of articles), but also because of certain consumer habits and choices which have taken root over the years.

In the coming months, reforms and changes are expected in the second decisive area of economic rationality, namely, that of wages. The principles of a new system of wages, bonuses, promotions, etc. are now in preparation. In the future structure of wages, or rather of workers' incomes, essential importance will also attach to other elements of the reform, which will be considered later. The chief of these is the principle of dependence of wages on the financial results of the enterprise, which is considered as an important incentive for increasing workers' output.

### The Economic System

The reform has introduced profound changes in the system previously applied in the Polish economy. The most important is the adoption of a new criterion for the assessment of economic efficiency. This new criterion is profit and the rate of profitability, understood as the relation between profit and the cost of processing. The law introducing these principles makes it a duty of the State to examine the annual balance-sheet of an enterprise, in order to ensure that it does not make excessive profits by raising its prices or engage in illegal operations, such as reducing the quality of its products, their usefulness, etc. This is very important, because the economic mechanisms previously in operation involved a high degree of monopolization of production. It is most important that the reform provides for the elimination of monopolies in the future, although, on a realistic assessment of the situation, it seems that this will take quite a long time. Until monopolization has been eliminated it can be a serious threat to the interests of consumers and may aggravate inflation.

It is expected that the criterion of profit and profitability will become the principal motive force of economic rationality, and that it will encourage enterprises to reduce their costs of production, make the best use of all the factors of production, improve quality and ensure that their products are competitive.

These objectives will also be promoted by other provisions of the reform relating, for example, to foreign trade. It is only in the more distant future that the new system provides for the convertibility of Polish currency, but enterprises already enjoy autonomy in regard to exports, and will thus be entitled to part of their foreign exchange earnings (the remainder in zlotys); this, in turn, will promote rationalization of the supply of raw materials and manufacturing materials.

Another important element of the reform relates to the system of taxation. As from this year, it has become the basic instrument linking the economy as a whole, and individual enterprises, with the State. The Diet has laid down the principles and the scale of four taxes payable by enterprises and other economic units. These are: turnover tax, calculated as a percentage of production sold; income tax, calculated on the rate of profitability (ratio of profits to costs); tax on real property (assessed on the surface area occupied and as a percentage of the value of production plant); tax on the wage-fund, calculated as a percentage. Henceforth, the State is not entitled to impose other charges on enterprises, except those for social insurance fund.

In another sector of the economic system - the banks - two questions are of importance. First, the new system breaks away from the principle of the monopoly of a single bank in the national economy, by providing for the establishment of new banks with differentiated structures; but it leaves the National Bank of Poland the right to issue currency and to determine

rational principles in the relations between enterprises and banks on the basis of economic criteria. Thanks to this change, loans and interest will be basic factors in economic activity.

### The Autonomy of Enterprises

The principle of the autonomy of enterprises has introduced the greatest "revolution" in the Polish economic system. It is, of course, the logical outcome of the economic principles and purposes of the reform described above. Rationality and efficiency of the economy can only result from the rationality and efficiency of each economic unit, which calls for the autonomy of the latter. That is why the principle of autonomy was the subject of the first decision concerning the economic reform, taken by the Diet in September 1981 and applied as from 1 October 1981 (Law on State enterprises and self-management).

Enterprises now take independent decisions, aiming to obtain returns in excess of their production costs and to ensure maximum profit. The autonomy of the enterprise can be restricted only by certain special legal provisions concerning, for example, protection of the environment, the general principles of the wages policy, the tax system, the policy on credits, etc. In short, what are involved here are only means of action by the State on the enterprise, not directives, as in the past.

It must be emphasized, however, that these are principles which will be fully applied only in a few years' time. At present, under the prevailing crisis conditions and for other reasons, such as the establishment of martial law, autonomy is in practice restricted. In view of the situation, it has been necessary to maintain, to a fairly large extent, the restrictions on purchases of raw materials and manufacturing materials by enterprises. At the level of the national economy, about 30 per cent of raw materials and manufacturing materials, mostly imported, are not freely on sale at present, and enterprises can only buy them after allocation by the Planning Commission or the competent Ministry.

Another restriction relates to foreign trade. In regard to State enterprises (which predominate in industry), there is a principle authorizing the State to order production of certain quantities of products required under international contracts. The rationing of means of payment in foreign currency also limits the autonomy of enterprises.

All these restrictions are of a temporary nature and are dictated by the state of the economy. Some of them, like the rationing of supplies of raw materials and manufacturing materials will be gradually reduced and eliminated, while others will be retained for quite a long time.

### The Structure of the Economy

Radical changes will take place in the structure of the economy as a result of the adoption of the principle of autonomy of enterprises. These changes are to be made in stages.

The first stage, which was carried out in July 1981, consisted of a reorganization of State administration at the governmental level. Eleven Ministries heading various sectors and branches of the economy were eliminated (for example, the engineering industry, heavy machinery and agricultural machines, iron and steel, mining, energy etc.). In their place, six new Ministries were established, covering the largest economic sectors (agriculture and the food industry, mining and energy, steel and mechanical engineering etc.). Further changes are planned at the ministerial level, even including the establishment of one or two economic Ministries.

In the first half of 1982, the intermediate echelon of the economic structure, i.e. the associations grouping enterprises by branch of activity or region, are to be liquidated. Only in certain sectors of key importance for the basic economic interests of the country, will enterprises be required to join associations. Nevertheless, the prevailing principle is that of full freedom of association. Thus the echelon which formerly had authority to impose its directives, for example, to dictate the production pattern of enterprises, decide employment levels etc. has been eliminated. The new system aims mainly at organizing co-operation between enterprises, providing conditions for their development and carrying on work on the new techniques and technologies.

The re-establishment of the polyvalence of economic subjects and their equality before the law is a very important economic, organizational and social change. It is true that this polyvalence of economic subjects also existed in the system which was attained up to the introduction of the reform, but in practice it was purely formal, and the principle of the equality of subjects was not respected. This formal polyvalence related mainly to co-operatives, which in practice were socialized and treated in the same way as State enterprises. However, the lack of equality mainly affected the private sector, which was restricted far more than was permitted by the Constitution and other legal instruments.

Under the new system the co-operatives recover the status of a fully autonomous economic sector on which the State can exert an influence only through certain economic instruments (taxes, customs duties, credits). The private sector becomes a subject having a full share in the economy, against which discrimination cannot be exercised.

The legal solutions already adopted provide for expansion of the rôle of new economic subjects of mixed structure. Henceforth it will be possible to associate State enterprises with co-operatives or State enterprises with private firms, to create joint enterprises with foreign



firms, joint-stock companies, etc. The principle adopted is that a modern economy requires differentiated and flexible structures, adapted to the various conditions and needs of its economic activity. It is only in this kind of differentiated structures that each individual can have his place, show a spirit of initiative, carry on his activities and derive satisfaction from them.

Important changes have also taken place in the sharing of powers between the central authority (Government, Planning Commission, Ministries) and the regional authorities of the districts, towns and communes. The regional authorities have acquired extensive powers, and in practice independently direct sectors of the economy, such as building and trade in their regions.

#### Self-management

The self-management of personnel in State enterprises is one of the foundations of the Polish economic reform (in co-operatives, self-management is automatically guaranteed - it results from their very nature as free associations of individuals wishing to carry on economic activities together).

The law on self-management is one of the first two exactments determining the principles of the reform (the other being the law on enterprises). By virtue of this law, self-management councils began to be formed in the last months of 1981. After the establishment of martial law on 13 December 1981, these councils were suspended, and new ones could not be set up. At the present time, their activities are being gradually restored with certain restrictions due to martial law.

Leaving aside the present abnormal situation, let us consider the model system provided for in the law on self-management. Under this system, questions of importance to the enterprise are settled by the whole of the personnel at a general meeting (in the case of enterprises employing up to 300 workers) or at a meeting of delegates elected by secret ballot (in the case of enterprises employing over 300 workers). The personnel can also express their opinion by referendum.

The personnel meeting (meeting of delegates) has authority to adopt the self-management statutes, to distribute profits, to assess the annual performance of the director and the workers council and, finally, to adopt the pluriannual plans of the enterprise. In addition, the meeting may express its opinions on all questions relating to the enterprise.

The council of workers, consisting of fifteen members (a different number may be fixed by the statutes) is the organ of self-management. It is elected every two years by the personnel, in direct general elections by secret ballot, each worker having one vote. The council adopts the annual plan of the enterprise, amends it when necessary, approves the balance

sheet and takes decisions on investments, the building of housing, the production pattern and the association of the enterprise with other enterprises. In fact the workers council is the organ which takes all decisions of key importance to the enterprise - subject, however, to restrictions resulting solely from general legal principles and the principles of the economic system described above.

During the discussion of the reform, most of the controversial questions related to the powers of self-management, in regard to the appointment of the director of an enterprise. Finally, a compromise was adopted. In a certain group of enterprises of capital importance to the country (railways, airlines, certain industrial undertakings) the director is appointed by the State authorities, whereas in most enterprises he is appointed by the workers council on a competitive basis. Both parties (i.e. the State authorities and workers council) have the right to oppose the decision to appoint or dismiss a director. If the parties do not agree, the dispute may be settled by the competent court.

The great importance of self-management derives from the fact that it must be the principal platform for integration of the workers with the objects of the enterprise, and for their real participation in the process of production, not only through their work but also through the taking of decisions concerning the most important problems of the enterprise.

#### The System of Control

One of the most difficult and controversial problems of the reform is that of relations between the State and the economy, between the State and the enterprise and, in the strict sense, the capacity of the socialist State actively to shape production policies and to adjust the distribution of the national product to the needs of society.

The arrangements adopted and planned provide sufficient guarantees in this respect. It has been explained above how the State will influence the enterprise through economic instruments such as taxes, credits, interest rates etc. Other safeguards have been included in the new planning principles. Of course, under conditions of autonomy of economic subjects, the nature of the planning system is radically changed. National plans are no longer sets of directives. Each enterprise will draw up its own plan quite independently, but obviously on the basis and within the framework of the national plan. The national plan will define the principles of policy in regard to credits and foreign exchange, and will fix the budgetary appropriations for new kinds of production and investment, and supplies of raw materials and basic manufacturing materials. Enterprises will thus know what they have to produce if they are to secure the best conditions of supply and the largest outlets and profits.

The State also retains the right to supervise and influence the employment and wage policy. In regard to employment it may act through the tax on the wage-fund already mentioned, and by means of certain reliefs and privileges such as the employment of apprentices. As regards wages, the State approves collective agreements, wage scales etc.

This brief presentation of the principles of the economic reform in Poland gives some idea of the unprecedented extent of the changes made and their experimental nature.

As indicated above, all the principles of the reform will be in full effect only in a few years' time. At present it is seriously limited. Some restrictions are due to the grave economic crisis and the difficulties it is causing. Hence the restrictions on purchases of raw materials and manufacturing materials and the authorization given by the Ministry of Finance to levy higher taxes than are provided for by law.

Other restrictions, especially those on self-management of personnel, result from the establishment of martial law.

It should be emphasized, however, that the interim principles on which enterprises are to work during the years 1982-83, take account as far as possible of the provisions of the reform relating to autonomy, self-financing of enterprises, the tax system and the method of appointing directors on a competitive basis. The personnel self-management councils are gradually resuming their activities and it may be expected that by the end of 1982 self-management will be the general practice.