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The Economic Crisis in Poland

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There are complicated interrelations between the economic, social and political causes of the present crisis in Poland. And the crisis itself is, of course, not only of economic character but also, and perhaps mainly of socio-political one. The analysis of all these problems goes far beyond the scope of this paper. Its subject matter is the theoretical description and analysis of the main economic causes and mechanisms of the Polish crisis which occurred in the early 1980's. We concentrate our attention on the economic aspects of the problem with some concern for social processes which developed prior to the crisis and during its existence.

The three subsequent sections will examine factors leading to the breakdown of the national economy: (1) factors connected with the peculiarities of economic growth and (2) with the performance and evolution of the economic control system. The last (3) section is devoted to the analysis of the course of the breakdown itself.

1. The Way of Economic Growth

Let us take into account three elements which characterize most programs of economic growth accomplished in Poland after II World War:

- 1) the method of investment,
- 2) relationships with the world economy,
- 3) the policy of employment.

From the point of view of investment processes one can call most of these programs "forced" ones. The first feature of such forced growth is the high and increasing proportion of investment to national product and to consumption. We describe it by changes of the relation of gross investment to consumption (I/C). The following table (next page) shows these figures for the period 1947–1978.¹⁾

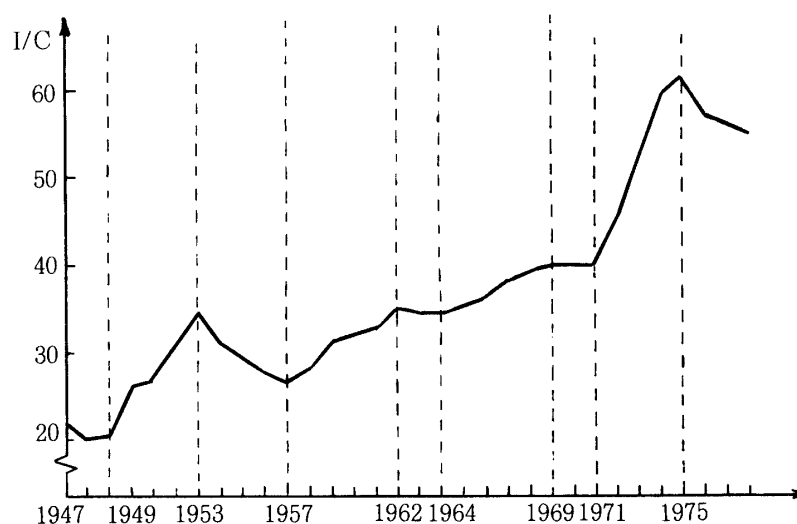
In the table we can see that at some critical moments for 1 zloty of national product assigned to consumption there were in 1953 and in 1962—about 35 groszes spent for investment, in 1969—about 40 groszes and in 1975—over 60 groszes. The meaning of these critical moments can be easily seen from the diagram describing the changes of I/C in the course of analyzed period.

The above mentioned moments were the turning points on the line of economic growth. At each of them the level of investment was the highest for a certain growth period. The diagram reveals then, four periods of an extremely forced growth in the Polish post-war economy, namely the years: 1949–1953, 1957–1962, 1964–1969 and 1971–1975.

1) The figures in the table show how many groszes (1 zloty = 100 groszes) were spent for investment while 1 zloty was spent for consumption. Calculated by Marian Górski (Warsaw University) on the base of data published by Główny Urząd Statystyczny (Main Statistical Office).

Relation of gross investment to consumption in
Poland in years 1947–1978

year	I/C	year	I/C
1947	21.7	1963	34.2
1948	20.0	1964	34.2
1949	20.3	1965	35.2
1950	25.8	1966	35.9
1951	26.8	1967	38.0
1952	30.9	1968	38.7
1953	34.6	1969	39.8
1954	31.3	1970	39.8
1955	29.5	1971	39.8
1956	28.0	1972	45.1
1957	27.0	1973	52.1
1958	28.0	1974	59.6
1959	30.8	1975	61.3
1960	32.1	1976	57.6
1961	32.5	1977	56.2
1962	34.8	1978	56.1



But “forced growth” means not only a great amount of investment but also, and perhaps—mainly, the special method of developing the economy.

A peculiarity of the described forced growth is the domination of the adoption of highly capital-intensive production techniques. The justification for such an activity is the belief that it is necessary to introduce so-called “modern technology” into the economy. This tendency resulted in and was accompanied by the fast concentration of industrial production, and successive elimination of small and medium-size plants. In agriculture it meant the development of comparatively low efficient big state enter-

prises, accompanied by insufficient investment into small private farms which use the major part of lands and give the bulk of agricultural production. Both in industry and in agriculture the forced growth was based on excessive exploitation and wasteful use of natural resources.

Investments were undertaken at the same time in a great number of industries. In the analyzed period many new industrial branches were established. In effect the economy became more and more diversified. This diversification, which meant the lack of necessary specialisation, was partly a result of the peculiarities of the control system which stimulated the decision-makers in all industries and on all levels of the command hierarchy to increase their investment expenditures, and partly it was connected with the poor development of foreign trade.

In all, this kind of forced growth consists of: a high and increasing amount of investment, which is scattered through many industries (high diversification of economy), the introduction of capital-intensive technology (with the high concentration of production), based on wasteful exploitation of natural resources.

The analysis of the relationships between the Polish and world economy reveals that there prevailed a tendency to autarchy. With exception of the period of 1971–1975, in all other analyzed periods the proportion of the foreign trade turnover to national product was low, the anti-import activity was stronger than the export promotion.

The third element of our analysis is the policy of full employment, which has great advantages, both from a social and from an economical point of view, but which at the same time imposes some restrictions on the process of growth.

Combining these three aspects of economic growth we come to the conclusion that there are numerous internal contradictions.

Firstly, a combination of forced growth of production with autarchic orientation results in choosing particularly expensive methods of production extension. Economy of this kind has a poor access to world technical development and is resistant to change itself. Forced to undertake many investments in many fields at the same time, it brings extremely delayed final product.

In this situation there is a positive feedback between forced growth and autarchy. The more closed the economy, the greater and more diversified the investments must be to achieve a desired rate of growth of the national product. On the other side: the forced growth (in the described sense) consolidates the closeness of the economy, its tendency to autarchy.

Secondly, there is a contradiction between capital-intensive techniques and the policy of full employment. In the cases of abundance of fresh labor force, sticking to the above mentioned technology demands still newer and increasing investment expenditures to create new work places. When, conversely, there is a shortage of labor, it threatens to limit the growth of production and impels to investment increase as well.

Both these points explain the main characteristics of the described process of industrial growth. The productive apparatus created in this way is extremely rigid, i. e. resistant to changes, and it includes an internal self-driving tendency to forced

growth.

Thirdly, there is a contradiction between the fast growth of the industry and the urban population and the slow increase of agricultural production, mainly because small farms which are dominant in the agriculture are not involved enough in the process of technical change and have not the necessary support from the side of the industry. It creates a strong food and raw materials barrier for the economic growth.

During the last of the analyzed periods (1971–1975) there was substantial change in the sphere of relations with world economy. The serious extension of foreign trade and foreign credits has lessened the first of above mentioned contradictions. Yet the continuation of the same process of forced growth as before combined with development of the wide contacts with the world economy gave rise to a new contradiction: between the world market demands and poorly specialized, rigid, low-efficient national economy, that had not been adequately prepared to face these new tasks.

On the base of this brief analysis we may make a final conclusion, that above described way of economic growth creates some mechanism which automatically reproduces and strengthens the pointed out tendencies and contradictions.

2. The Traditional Control System and Its Evolution

In most European socialist countries—with exceptions of Yugoslavia and Hungary—there exists very similar system of planning and management i. e. of control of the national economy. Its main features remain almost unchanged for decades. We call it a traditional control system.

Its organizational structure is hierarchic. It consists of central and local authorities, highly concentrated economic organizations like the unions of enterprises, trusts etc., and enterprises which enjoy a very limited freedom of choice of their activity. Central authorities use mainly direct commands given to subordinate organizations, both state owned and cooperative. These commands (“directives”) determine the allocation of resources and main tasks: “what to produce”, “how to produce”, “to whom to deliver the production”. The implementation of directives is supported by income incentives. The directives occur in the form of a hierarchic system of compulsory plans and moreover in the form of numerous commands given almost every day by superior organizations. The characteristic feature of this system is great instability of the rules of behavior of all the participants of the economic life. Incidental intervention from above the hierarchic structure is the dominant method of central control over the national economy. Most directives are formulated in physical terms or in value terms which are very formal, i. e. not active as market instruments. The role of money, prices, costs and profit are strictly limited and secondary. Moreover, there is no one consistent system of calculation for the outlays and revenues in the scale of the national economy. The gross output is used as a main indicator of implementation in the tasks of enterprises; the changes of outlays are of minor significance.

There are numerous well known negative consequences of the adoption of this kind of command control system. Let us enlist some of them:

a) the optimization of economic activity is practically impossible either on a national or on a partial scale;

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- b) the subordinate organizations are stimulated to give false information to the superior organizations, exaggerating their demands and achievements;
- c) the incentives for workers and managers to increase their efficiency and to introduce innovations are extremely weak;
- d) the permanent occurrence of shortages and, parallel to this, wastful use of resources is a normal state of affairs;
- e) the rigid organizational structure and the strong dependence up the line results in the very slow reactions of the enterprises and the economy as a whole to the changing situations.

Such a system as explained above acts in two opposite directions: at the same time it is stimulating and braking the economic activity. These characteristics of the traditional control system are contradictory to the policy of forced growth discussed in the previous section. As a result, the unforeseen irregularities arise in growth of different industries and in subsequent periods of time, depending on the on-going priorities and on the transient or local domination of driving or braking factors. In general terms it means a waste of a serious part of the economic potential and social energy. It is as if a driver attempts to drive a car at full speed with the handbrake on.

The above description of the traditional system is generally adequate to the state and cooperative sector and especially in the initial phase of the existence of this system. We must take into account also other components of the national economy and analyze the evolution of the system.

During the whole analyzed period of time, in Poland there were individual farms which were the dominating form in agricultural production and also a small number of private handicraft and commercial shops. Being under strong control and suppression from the side of the central and local authorities these small enterprises nevertheless enjoyed a much greater freedom than state and cooperative ones. Their activity constituted a genuine, although limited, market with the significant active role of the market instruments such as money, prices, profits etc. The same is true of individual consumption which is realised on the consumer goods market.

The general picture is therefore much more complex than what was described when we analyzed the planning and management in the sphere of state and cooperative enterprises. The whole system remains a command one but the central is exerted at the same time over the dominant, almost non-market socialist sector and over the private enterprises and individual consumers which are involved in the market relations. And what is more important, there are close and multi-channel interrelations between all these components of the national economy. In this situation there is a contradiction between—from one side—the directive management system addressed to state and cooperative production, and—from the other side—the consumer goods market and limited but still significant autonomy of individual producers. As a result there are permanent frictions in the contacts between these different parts of the economy. It explains why the disequilibrium caused by excessive investment and the faults of the management system tend to become deeper and deeper.

In the early 1950's we can find in Poland a good example of the first phase of the

traditional command system as described above. With the passage of time numerous, but slight changes were introduced into this system. A series of small reforms and some spontaneous processes during the next two decades brought about few quite new elements but significantly rearranged the traditional control system.²⁾

Firstly, this evolution went along the line of the so-called "decentralization". It is true that the enterprises received a little wider range of freedom and that the scope of market-type relations became a little bit greater even in the state and cooperative sector. But the main change was done within the central, intermediate and local administrative apparatus. In reality this process was a delegation of power from above to different lower links of the administration. We must add that this delegation could be immediately cancelled by the superior organs if they suppose that there was a misuse of power. In effect it was not the introduction of decentralized decisions made by the productive organizations but rather the deconcentration of economic power, its different distribution among the central and local authorities superior to the enterprises. It gave rise to the incoherent "multiheaded" control system in which the state, cooperative and private enterprises as well as the consumers were subordinate at the same time to numerous acting parallel superior organizations. The negative influence of these changes on the performance of the system as a whole does not need any detailed explanation.

Secondly, the organizational concentration of enterprises (the so-called Big Economic Organizations) strengthened their monopolistic position in relation not only to other enterprises and consumers but to the central authorities as well. All this resulted in the increasing internal contradictions of the system. It also weakened the central control over the economic processes and desintegrated the national economy. The role of horizontal, market-type relations increased but the behavior of economic organizations was poorly controlled by the market mechanism or by central authorities.

Summing up: the evolution of the traditional system during its second phase leads to the system which is more diversified and elastic but at the same time it is more incoherent, poorly organized and controlled, which gives rise to strong socio-economic contradictions among different groups of participants of the economic life. This system becomes less and less adequate to the ambitious and very risky programs of forced growth.

3. The Crisis

In the previous sections we described some mechanisms and contradictions of the economic life that can lead to essential difficulties and, consequently to a breakdown of the whole economy. They were: firstly, the peculiarities of the forced growth, the result of which is the rigidity of the productive apparatus and its tendency to self-reproduction of forced growth. Secondly, the contradictory evolution of the control system which at the same time stimulates and brakes the growth of the national eco-

2) My opinion is that most of these changes occurred on the principle of "kaleidoscope" which means that the same basic elements of the command system are differently configured, with some changes of their relative influence and role.

nomy. The general result of these contradictions is that the great efforts and sacrifices of the population give small or even decreasing final effects.

But such "technical" analysis is not sufficient to explain the occurrence of crises. For this purpose it is necessary to look at all those processes from the socio-economic point of view, taking into account the behavior of main participants of the economic life and the relations among them.

There are at least two main types of contradictions.

Firstly, there are contradictory relations between the three groups of decision-makers:

- a) the people who act on the highest level and make decisions on the scale of the whole economy (national top management, politicians),
- b) managers acting in the particular economic organizations (enterprises),
- c) administration, i. e. bureaucrats working in numerous offices dealing with economic affairs (ministries, local authorities, unions of enterprises etc.).

The development of the traditional control system increases the number of such bureaucratic organizations and the number of employees. Their power increases. Step by step there occurs significant autonomization of the administration.

The members of all these three groups are competing and fighting for power, for access to resources and information. It disturbs the smooth functioning of the whole system. But the most important result of these contradictions is that they hamper or make impossible significant improvement and progress within the control system. The numerous proposals and trials of economic reform supported either by politicians or by managers, or, sometimes by both of them, in most cases were wrecked by the active or passive resistance of the bureaucratic administration. This is quite natural because most of the planned and introduced reforms were aimed at more decentralized system which was to assure at the least the significant reduction of bureaucratic intermediate organizations. Consequently, the existence of the above mentioned socio-economic contradictions enforces previously analyzed contradictions between the development of the productive apparatus and the traditional control system.

Secondly, there is another contradiction between the control system as a whole, which is represented by the above mentioned groups of decision-makers and the majority of laborers subordinate to them. The heavy burden of investment and the low efficiency of the national economy result in a slow increase (or even in temporal decreases) of the standard of living. All this negatively affects the efficiency of labor.

Describing the reaction of laborers to the programs of forced growth we may use the notion of the barriers of growth. One can distinguish three kinds of barriers.

1) The so-called "inflationary barrier". This is the upper level of investment³⁾ (related to national product and to consumption) beyond which there occur significant, general inflationary processes. They, in turn, negatively affect the functioning of all economic mechanism and cause the decrease of the efficiency of labor.

2) The "social barrier". This is the upper level of investment beyond which

3) As it was said earlier, the problem is not only of the total amount of investment expenditures but of their structure and allocation, adopted technology, methods of implementation and use etc.

there occurs open social disapproval of the economic policy and serious social and political tensions.

3) The "efficiency barrier". This is the upper level of investment beyond which the results of economic activity—the increase of the national product, of investment and consumption—are smaller than that which would be achieved if the economy did not pass the barrier mentioned.

In all three cases we are speaking about the same socio-economic phenomena, i. e. the negative reaction of the people to the forced growth of production realised by the traditional economic system.⁴⁾ But in each case we stress different aspects of this reaction; the people react as consumers, as citizens, as laborers. Moreover, the relative significance and location of these barriers may be different in different countries and periods of time. For instance, in one case there may occur serious social tensions although the economy did not yet hit the "efficiency barrier". In another case there may be a strong disequilibrium and drop of efficiency but yet no social and political problems.

If the economy passes significantly beyond the first and the third of above mentioned barriers it is inevitable that it will come to a breakdown, to the point, after which it is impossible to continue the same path of growth under the same control system. Some changes, introduced at least temporarily, are then necessary. If it passes also the second (social) barrier, we have not only an economic but also social and political crisis.

The previous analysis of the forced growth under the traditional control system yields two conclusions:

1) This combination of such growth and control, with all their internal contradictions must lead to the breakdowns. No one economy can function in this way for a longer time without serious disturbances.

2) The long run evolution of the traditional system strengthens all these contradictions, which means that with the passage of time we may expect deeper economic crises connected with socio-political ones.

The postwar history of Poland with the well known dates of 1956, 1968, 1970, 1976 and 1980 (not to mention some other dates also important from the economic point of view), seems to confirm the conclusions formulated above.

There are yet some peculiarities of the last of these crises. One must ask what factors caused the economic breakdown in 1980–1981 to be so sharp and deep. And why the Polish economy and society cannot get out of this situation for so long a time? These problems wait for thorough investigation. Now I want to emphasize the significance of four such factors.

1) The command economy developing along the described path of forced growth was suddenly turned in a new direction in early 1970's. It was among other things an increase of the scale of foreign contacts. But the main thing was a wide adoption of new technologies in many industries and the development of the productive cooperation

4) Of course in all systems there are these barriers but their location is different and it depends on the character of the system: its economic policy, path of growth, methods of control, organization.

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with foreign countries. Unlike during the previous periods the economy became much more sensitive to the influence of the world market. Oil shocks and recession affected Polish economy very strongly. The growing burden of debts and difficulties in exporting goods resulted in the significant cuts in imports not only of consumer goods but also raw materials, energy and machinery. It gave rise to a cumulative process of decreasing production. In a highly diversified, poorly specialized economy with numerous newly established and developing productive processes based on foreign deliveries each individual cut of imports negatively affects many interrelated industries and starts an avalanche of successive production decreases which increase at a growing rate.

2) The elimination and suppression of small enterprises based on local resources of labor, raw materials and energy, deprived the Polish economy of one of its important potentials which might have been able to substitute for some productive possibilities lost as a result of diminished foreign trade. This factor accelerated the process of breakdown and made it much more difficult to get out of the crisis.

3) The traditional control system which earlier became highly incoherent, now—in the state of crisis—came to total collapse. After a short time the system of central planning and management not only became less efficient but lost any influence upon the economic life. In that place a greater role began to be played by the spontaneous, informal control processes. The economy is therefore functioning not only without “visible hand” of central management but also without any effective “invisible hand” of market control. The participants of the economic life—the branch and local authorities, managers, workers, farmers and consumers—began to behave as autonomous particles. Escaping from depreciating money they are strongly competing for goods, hoarding them and trading on the barter rules. Having pessimistic expectations about the future situation they act in such a way that their mass spontaneous behavior deepens the crisis.

4) During the described crisis the social contradictions mainly between bureaucratic apparatus and majority of laborers came to such a point that until now it has been impossible to make any reasonable compromise concerning the recovery program of the economy, i. e. of reshaping the structure of production, reforming the system of planning and management, changing the relations between the participants of the economic life.

Taking into account the above mentioned—and surely many other factors that have not been discussed—we can understand why the process of breakdown occur so quickly and deeply and why it is so difficult to find a way out of the crisis.

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