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REFORMS OF THE ECONOMIC SYSTEM - INTRODUCTION TO THE FUNCTIONING OF POLISH ECONOMY

1. INTRODUCTION

Socialist countries with centrally-planned economy have been making efforts recently to reform it. The reforms aim at decentralization and introduction of the market. An example here could be Hungary and China. Poland also makes efforts to orient its economy in the same direction. And although the present system contains certain elements of the market economy, there continue to prevail, however, characteristics of command-type economics.

Attempts to reform the economy were made several times in Poland. Unlike in Hungary (since 1969), Czechoslovakia (1968) and the Soviet Union (1987), where plans concerning reforms of the system were initiated at the central level (the political centre), in Poland they would arise under pressure of the society. Attempts at reforms were always preceded by major socio-economic crises (1956, 1968, 1970, 1980) usually accompanied by strikes, demonstrations of the population, and losses in life. In most cases, the government cabinets would change as well. However, the new "political centre" would start withdrawing from the reform sooner or later or it would introduce only superficial changes. These changes were, anyway, undermining the logic of fully centralized command-type system. The very essence of the system would naturally remain unchanged. The outcome was a formation in which the society "could live a little better" but which was far from

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economic rationality or any logic. Neither could it be described and explained in economic categories but mainly in sociological and political categories, because particular phenomena and economic processes were usually of an autonomous character and their joint appearance was often accidental.

Time had obviously an unfavorable influence on the reform. The society was losing its faith in any possibilities of success of the reform. Durable and unfavourable changes in the social and economic structure would result. Innovation-propensity was reduced and spirit of entrepreneurship gone. Economic relations were deformed. The economy would fall into a deep crisis and huge indebtedness.

In this difficult situation, new attempts to reform the economy were undertaken again. It is worth looking more closely at the existing economic system, the present socio-economic situation, determinants of the reform, and appraise critically its assumptions.

2. MAIN CHARACTERISTICS OF THE ECONOMIC SYSTEM

The basic difference in comparison with the market economy consists in this that means of production constitute socialized property (state or cooperative) being controlled centrally by the state. It is true that the private sector exists and its role even expands quite distinctly¹. However, it cannot be identified with the private sector in the market economy, because private firms are encompassed by the bureaucratic system based on commands and centralized allocations of industrial supplies. Quite naturally, this restricts their autonomy and their market orientation, and makes them heavily dependent upon the socialized

¹ Share of the private sector in the GDP rose from ca. 17% in 1978 to 18% in 1986. The non-agricultural sector represented respectively 5% and 8%, and agriculture 12% and 10% (Statistical Yearbook 1986, pp. 86-87 and 1988 p. 81). Thus, the private agricultural sector is of primary importance. For example, in 1987 - 76.5% of arable land belonged to the private sector, which was producing 80.7% of net final output. The non-agricultural private sector encompasses mainly handicrafts, small family production firms and services, including small retailing units, catering, etc. Taking into account various forms of private business not included to the private sector in statistics (e.g. joint ventures, outwork), and a significant scope of "shadow economy" it may be accepted that the share of the private sector in the GDP amounts to 30-40%.

sector holding a monopolistic position in relation to the private sector. The latter continues to be treated instrumentally by the state.

Unlike in the market-oriented economies, the socialist countries are characterized by their insignificant scope of market regulation. It is, moreover, determined by operation of various kinds of nonmarket regulation. Thus, economic resources are allocated exceptionally on the basis of objectivized price criteria and primarily on the basis of non price criteria - often of discretionary nature. Non-market regulation takes place through: commands, centralized allocations of industrial supplies, formalized bureaucratic structures, and bargaining.

The regulation based on commands and centralized allocations is emitted by the Centre and transmitted through hierarchical bureaucratic structures having a high propensity to expand the scope of this regulation by means of constantly growing number of prohibitions and commands effectively pushing out the market regulations. Such regulation through formalized bureaucratic structures involves mutual adjustment of these structures, as well as enterprises and households to these structures. It takes place as a result of: superior or subordinate situation (awareness of it generates definite behaviours); information and anticipations concerning behaviours of other units (entities, organizations); norms and traditions of behaviour developed through existence of bureaucratic structures and relations occurring among them².

In the regulation through bargaining an inter-level bargaining is of primary importance. It takes place between organizational units and pressure groups within a hierarchical bureaucratic structure. Such bargaining often occurs in an uncontrolled manner and it is of an informal character, but it has characteristics of formal solutions³. Its consequence is a specific mechanism of mutual adjustments.

The above mentioned types of non-market regulation based, to a big degree, on discretionary criteria in allocation of resources create favourable conditions for taking voluntaristic decisions

² J. Dietl, Czy można regulować rynek? (Can Market be Regulated) W: Procesy rynkowe (In: Market processes), Prace Naukowe Akademii Ekonomicznej we Wrocławiu, Wrocław 1986, no 339, pp. 9-17.

³ E. Balcerowicz, Pojęcie przetargu planistycznego (Concept of Planning Bargaining), Instytut Nauk Ekonomicznych PAN, Studia Ekonomiczne, no 10, pp. 295-307.

and for erosion of economic ethics⁴. On the other hand, economic units, with their restricted decision-making freedom, operate in conditions of uncertainty caused, among others, by different rules of the game being a result of different types of the regulation.

The central and disaggregated planning and management of economy do not allow to ensure an accurate allocation of economic resources, as economic and social processes are of a stochastic character. This eliminates any possibility for their disaggregated and simultaneously feasible central planning.

Moreover, the Centre cannot obtain reliable information about demand and social needs in the situation of permanent shortages and non-market regulations. What remains is determining a hierarchy of goals in an autocratic and a priori manner⁵.

In conditions of the commands and centralized allocations system, the seller's market (economics of shortages) becomes a structural feature. It is in accordance with the system that the Centre determines the size and structure of production and investments. Meanwhile, enterprises obtaining obligatory tasks do not display their sensitivity to movement of prices emitted by the Centre in order to restore an equilibrium, because responsibility for consequences of growing costs are assumed by the Centre mainly in the form of grants and subsidies⁶. Thus, the state of disequilibrium in the industrial market becomes petrified. It also becomes illusory to obtain an equilibrium in the consumer market due to increased wages in the industrial market and a tendency to deprive the consumer market from these factors of production for which there is demand in the industrial market. It is true that demand responds to prices in the market for consumer goods and services but it is hardly possible to restore its equilibrium by means of drastic cuts in consumption and price hikes. Although elasticity of consumer demand is higher than elasticity of industrial products (demand, it is considerably

⁴ J. Dietl, Moral Consequences of a Seller's Market. Polish Experience, International Journal of Research in Marketing, 1984, vol. 1, 2, pp. 117-125.

⁵ A. Lipowski, Przewidywane skutki uruchomienia mechanizmu rynkowego w gospodarce polskiej (Predicted Consequences of Launching the Market Mechanism in the Polish Economy), Instytut Nauk Ekonomicznych PAN, Studia Ekonomiczne, 1985 no. 10, pp. 331-354.

⁶ C. Józefiak, "Jak dalej reformować gospodarkę?" (How to Continue Reform of the Economy?), Zarządzanie, 1987, no 3, pp. 6-8.

weekend and deformed by: postponed demand poor assortment of supplied goods (low substitution elasticity of demand), high inflation rate, and psychological factors shaped by experience derived from supply shortages. Naturally, of primary importance is here the social pressure on raising wages together with bargaining conducted by different pressure groups⁷.

Passing now to the microeconomic level it should be stated that the adjustment process of economic units proceeds in an entirely different way in economics of shortage than in market economies. Demand and scarce economic resources of an economic unit constitute main constraints in the adjustment process in the market economy. Thus, an enterprise must adjust itself to requirements of the market taking into account its resources (hard budgetary constraints). In the economics of shortage, on the other hand, the main constraint is not demand but supply of factors of production. This refers to raw materials, auxiliary materials, machines, spare parts, production capacities of cooperating units and investment contractors, and labour. The system based on commands and centralized allocations itself, its bureaucratic structures, administrative distribution, and behaviours of economic units generate shortages. Production orientation and the resulting supplier's and not customer's motivation are common. Simultaneously, despite a shortage of factors of production in their material form, budgetary constraints faced by enterprises are of a soft character. In conditions of shortages and a parallel monopolistic structure of the economy, prices are not of an external character in relation to an enterprise no matter whether they are fixed by the Centre or by an enterprise. Anyway, it is not so much the market but costs which are a basis for their fixing. Grants and subsidies are of a common character, credits can be easily obtained, while taxes and other payments are often subject to bargaining.

The adjustment process of economic units to shortages assumes three forms. The first of them is planning the production volume at a level allowing to make allowances for bottlenecks. This

⁷ In bargaining concerning wage increases, these are as a rule big production enterprises in the industries obtaining preference of the state, and especially mining and heavy industries supported by powerful lobbies which usually win. In January 1988, under influence of social pressure the state resigned from initially planned radical price hikes in favour of a more moderate variant.

leads to freezing a part of fixed assets. Such a form can be met in situations characterized by drastic cuts in imports, considerable structural disproportions in the economy, and sudden appearance of supply shortages. Moreover, application of this form is typical for the first stage of the adjustment process.

The second form involves compulsory substitution, and the third - compulsory adaptation of production structure to available means of production⁸. Of course, a change in production structure can take place only when an enterprise possesses its autonomy in deciding about directions of production.

Procurement shortages of one enterprise generate shortages felt by other enterprises. Thus, a multiplier effect occurs and shortages are spread over the entire sphere of production. The process of acquiring products and decisions connected with it are stretched in time. It is a dynamic character, because factors determining purchasing decisions undergo changes in the process of searching for industrial supplies.

3. POLAND'S ECONOMIC SITUATION

The main cause of Poland's socio-economic destruction was and is the ineffective socio-economic system characterized by its centralization use of commands and central allocation of industrial supplies, very limited scope of market regulation, and a minimal share of the private sector. It is a fundamental causative agent responsible for other causes behind collapse of the economy. The structural features of this management system include among others:

- permanent shortages in the consumer and industrial markets;
- absence of objectivized economic criteria of allocation of economic resources; and
- lack of the society's economic motivation with all its consequences (drop in social innovativeness, labour productivity, etc.).

The other cause was and is the economic policy giving its preference to economic spheres not having any prospects for the future. Its main expression has been:

⁸ J. Kornai, *Economics of Shortage*, North-Holland Amsterdam 1980, vol. 1, pp. 30-81.

- development of heavy and mining industries at the cost of manufacturing industries, services, transport and trade;
- preferences given to the investment and, more generally, to the industrial market at the cost of the consumer goods and services market;
- technical and organizational concentration of the economy, reinforced by construction of hierarchical structures resulting in: almost full monopolization of the economy (including many natural monopolies), narrowing the assortment of produced goods and services, drastic deterioration of production quality (partly eliminating Poland from foreign markets), overgrown bureaucracy, production being inaccurate from the viewpoint of the domestic and foreign markets, restriction of labour productivity and high costs of production (in relation to remuneration for factors of production), high material - and transport-intensity of production⁹.

The third cause was excessive reliance on foreign credits especially in the years 1971-1976. It was not supported by the economic calculus. For example, expectations that credits would be repaid by export of products from companies built on the basis of credits were quite infeasible. Among others, production launched by means of foreign credits involved licences of products being in an advanced stage of their life cycle. Moreover, easy access to imports in those years was increasing import-intensity of the Polish production, because production of many articles had been abandoned and machinery and equipment for their production liquidated. It concerned, to a large degree, the local small-scale socialized industry, which had been cooperating with big factories previously. Elongation of investment cycles and raising of originally planned outlays, typical for the centrally-planned economy, were restricting credit-repayment abilities, with the ultimate result being the freezing of numerous already started investment projects. Of course, this unfavourable situation was affected also by external factors. They included: certain econo-

⁹ Average size of employment per one industrial plant is much bigger than in other countries, and it, moreover, had a distinct upward trend till the 80's. It amounted to 77 persons in 1960, 118 persons in 1981, and 91 persons in 1986 (in state-owned enterprises - 245,405 and 378 persons respectively). Average size of employment per one enterprise rose from 700 persons in 1971 to 875 in 1981, and to 887 persons in 1987. Coefficient of employment concentration in industry reached 0,87 in 1982. In 1986, 1,1% of total number of industrial enterprises were producing 33,6% of overall output and employing 31,6% of total number of industrial workforce (Statistical Yearbook of Industry 1982), GUS,

mic recession in the highly-developed countries, substantial deterioration of terms of trade and, finally, a drop in inflation. The last-mentioned factor eliminated any hopes for repayment of high interest on foreign credits owing to rising inflation rate.

Finally, the last one from among the causes stressed by me was an internal crisis released mainly by the martial law. It generated: social apathy carrying very dangerous economic consequences, isolation in relation to most countries with the market economy along economic sanctions (mainly those imposed by the United States), and costly and not always effective geographical reorientation of the economy.

Despite some doubts referring to estimation of the national income, deformation of its structure, as a result of absence of equilibrium prices, and limited value of the income growth indices as a result of ineffective allocation of resources, it may be worth quoting here general data.

The share of investments accumulation in the distributed national income was visibly decreasing starting from 1975. It amounted to: 20% in 1950, 36% in 1975, 22% in 1982, 19% in 1985 and 18% in 1987. The shares of basic sectors of the economy in the national income was as follows (in %)¹⁰:

	1950	1975	1980	1985	1987
industry	24.3	47.5	50.2	48.7	49.1
construction	8.2	13.6	13.3	12.0	12.0
agriculture	60.3	15.4	12.7	14.4	13.0

Drop in the national income could be observed starting from 1979 (1979 by 2.3%, 1980 by 4%), but in spite of it, consumption was increasing on the average by 4.5% over the period 1976-1980. The situation was aggravated by poor crops and resulting high grain imports (9.2 million ton in 1980). Between 1976 and 1979 foreign indebtedness rose from US \$ 12 to US \$ 24 billion. In the following years, a further collapse of the economy took place. In

Warszawa 1983, pp. 13, 21, 30-32, and Statistical Yearbook pp. 251-252, p. 237). In the branch cross-section, the monopolistic structure of the market is better visible. Thus, e.g. in 1982 full monopolization (one producer) concerned such goods as tractors, automatic washing - machines, sewing machines, typewriters, vacuum cleaners, motor cycles, radio sets, color TV sets, and I.C. engines (S. Jakubowicz, Monopol a struktura (Monopoly and Structure), Przegląd Organizacji 1983, no. 1).

¹⁰ Statistical Yearbook, 1987, XXII.

the years 1980-1982 production dropped by 22%, consumption by 14%, and investments by 52%. Only one-sixth of reduced domestic consumption could be oriented at export, and that could not improve, to any significant degree, the payments balance. Since 1983 there has been recorded some economic growth but from a much lower starting point than in 1978. The GMP rose by 6% in 1983, by 5.4% in 1984, and in 1985 already by a low 3.4%.

The year 1986 was a little more favourable for the Polish economy than 1985. The agricultural production grew by a high 5% and the industrial production by ca. 4.3%. Per capita consumption rose by 4%. Export to countries with convertible currencies went up by 6.1%, but by only 0.9% in constant prices¹¹. However, both economic indices and consumption of the population are lower than in 1978.

Poland has the highest hard currency indebtedness among all the European countries, which amounts to over 39 billion dollars. It represented 43 per cent of the Gross Material Product in 1986 taking the official exchange rate and it exceeds five-fold Poland's export revenues in convertible currencies. Full debt servicing last took place in 1980, when it constituted 95.9 per cent of export revenues in convertible currencies. In 1981, repayment of interest alone absorbs 63.5 per cent of export value and over the years 1982-1985 on the average 36 per cent¹².

The main conditions that should be fulfilled to improve Poland's economy is, on the one hand, a marked increase of export and, on the other hand, securing of further credits in convertible currencies allowing to narrow bottlenecks in the economy, modernize it and next restructuralize it. Consequently, it can be expected that legal regulations admitting and giving preference to entrance of foreign capital to the domestic market will be liberalized.

In 1987, Poland's export constituted 9.4% of the Gross Material Product, while import - 8.3% and respectively - 23.1 and 20.5 National Income¹³. In comparison with periods preceding the crisis, the share of Poland's foreign trade on markets of non-socialist countries dropped sharply. In the case of agricultural

¹¹ Poland: Reform, Adjustment and Growth, II experts report of the World Bank, Washington 1987, pp. 2-7.

¹² Poland: Reform... op. cit., pp. 15-16.

¹³ Statistical Yearbook 1987, pp. XVII, 78, 80, and own computations.

products and foods from 0.9 per cent in 1960 to 0.3 per cent in 1981-1982, and 0.5 per cent in 1984, and for industrial products from 0.4 to 0.2 per cent¹⁴.

4. DETERMINANTS AND ASSUMPTIONS OF THE ECONOMIC REFORM

So far the assumptions of the economic reform formulated in 1981 have not been realized not to say anything here about certain doubts which may be addressed to the assumptions themselves. That was due to the fact that the assumptions regarding a change in the structure of power, elimination of hierarchical bureaucratic structures, democracy in the social and economic sphere, creation of the capital market, and expanded role of the private sector were not consistent enough.

Although many acts of law referring to the reform were issued, a part of them were not consistent with the assumptions of the reform, while others could not be realized as there were not created favourable external conditions for it. Thus, system changes in the regulative sphere of the economy are insignificant and, in fact, it is still at the starting point.

It brought certain negative phenomena:

- growing economic backwardness in relation to the economically developed countries, increased indebtedness accompanied by absence of enhanced capacity to repay debts, and, finally, further restriction of freedom of the economic manoeuvre required by the economic reform;

- continuation of a harmful economic policy of developing the heavy industry and concentration of the economy despite opposite declarations and even acts of law (e.g. Law about demonopolization), consequently, restructuralization and modernization of the economy are today more difficult than at the beginning of the eighties;

- deepening of social-moral destruction, e.g. growth of corruption, "shadow" economy, social apathy, desire to emigrate among the young generation;

- further expansion of bureaucracy (often in different form than previously), which constitutes the main force opposing reforms;

¹⁴ Poland: Reform..., op. cit., pp. 8-9.

- turning away from the economic reform among a considerable part of the society, which has lost confidence in effectiveness of reforms and on the basis of earlier experience identifies the reform only with increase of prices and deterioration of living standards.

There are, however, some positive aspects creating certain pre requisites of deep changes of the system. They may be said to include:

- process of democratization and liberalization of social life
- greater than before determination of the supreme authorities to carry through reforms,
- transformations occurring in the Soviet Union expanding considerably field of manoeuvre from the political side,
- Poland's exit from international isolation and subjecting new credits to socio-economic reforms (among others, pressures exerted by the World Bank and The International Monetary Fund, with similar requirements for supporting credits imposed by the United States),
- enhanced interest displayed by highly developed creditor nations in Poland's economic development,
- increased pressure of different social groups, especially opposition Solidarity side, intellectualls and also the church, in the direction of radical economic reforms,
- firm radicalization of views referring to scope of the reform, also among certain representatives of the top authorities, but primarily among the young generation,
- enhanced social awarenees, especially of the young generation, about necessity of expanding the scope of the private sector.

The economic reform in Poland is based on a principle of common introduction of the market regulation. However, in as much as transformation of a market economy into a non-market economy is a relatively easy procedure the restoration of a market mechanism is difficult - it is easier to destroy than to rebuild. It becomes necessary to restore the market in all its segments. That implies pluralism also in these spheres in which the state will unwillingly abandon its direct command-type management (e.g. coal mining, heavy industry). In order to release initiatives of particular entities it is especially important to create the capital market, which makes possible and expands the range of economic choices both for economic units and households. In the

previous reforms in socialist countries there has been introduced the market for consumer goods to a bigger extent than for industrial goods. In reality, on the other hand, the market regulation in the industrial market is particularly important and it precedes that in the consumer market, because prices in the industrial market provide a basis for prices in the consumer market. Hitherto, the market in the socialist economy has been treated instrumentally. The state has been utilizing it as one of means of its policy. Therefore, it is necessary to ensure a legal system recognizing the market as a basis of the economy and protecting this market.

The market may be obviously influenced from outside, it is possible to participate in it but the market itself as a system of self-regulation cannot be liquidated. Hence, there must exist legal institutions protecting this market.

One should not entertain any illusions that the market is an alternative commonly accepted by the society. It can hardly be expected also that people are familiar with it and with it consequence for everyday life. Its image has been partly shaped by the scope of protective functions of the state and enterprises, by subsidies and structure of prices ensuing from them by a dogma about full employment irrespective of labour productivity, and finally by restricting the element of risk and autonomy in decision making. Hence the need for activities that would pave the way for changes in social awareness in direction of acceptance of the market and its institutions.

The most important characteristics of the reformed economy could be considered to be its depoliticization transformations in the ownership structure and demonopolization.

All enterprises and organs of the economic administration should be depoliticized. The use of political nomenclature in its various forms e.g. the so-called acceptances by the party organs or their recommendations must be outlawed. Anyway this also concerns other spheres of the social life.

Negative selections of cadres characteristic for the Polish economy for 43 years had its main source in the institution of nomenclature. Its consequence were different bureaucratic lobbies effectively blocking all activities aimed at changing the anachronic social, economic and political system.

Continued maintenance of the political selection of cadres constitutes one of factors behind incapacitation of enterprises

and their passive attitude towards their environment. I do not perceive any chances for improved efficiency of management, to say nothing about marketing orientation, when the present principles of selecting management cadres are left unchanged. It should be added that the forms of political pressure assume quite differentiated and generally covert varieties, with using non-legal procedures.

Transformations in the ownership structure of the economy should go in the direction of far-reaching reprivatization¹⁵. The principle of multi-sectorial structure of ownership calls for strict application of the same rights and obligations for all economic units regardless of an ownership sector to which they belong. It is especially significant to abolish inequality in access to factors of production and in taxation principles¹⁶. One of ways of reprivatization should be a sale of a part of production assets to private buyers. In the future, the structure of ownership should be decided by market selection. Hitherto existing public and cooperative enterprises should undergo significant transformations resulting in appearance of pluralistic forms of ownership, and in particular self-government ownership. It will pave the way for further transformations in forms of ownership such as e.g. employee partnerships, stock companies, cooperatives, mixed public-private partnerships. An important role may be played by handing over a part of shares to employees. This will, moreover, speed up creation of the capital market. Supervision over the national property should be performed by an organ of state treasury separated from the state administration.

Demonopolization of the economy is of very great significance. It represents one of the fundamental conditions for introduction of regulation through the market. This calls for: liberalization of market entries and exits; split up of multi-plant enterprises

¹⁵ The Law about Economic Activity has been in force as from January 1st, 1989. It creates favourable conditions for development of the private sector and introduces certain elements of equality of all ownership sectors.

¹⁶ Share of taxes in the national income amounted to a high 32.4% in Poland in 1987 and it was displaying an upward trend (23.8% in 1980), while its share in the state budget amounted to 77.5%. Share of turnover tax (consumption tax) in the national income reached 12.8% in 1987. A high taxation of enterprises, their differentiation, and a variety of tax bases have an antimotivational impact. Before the Second World War, taxation had been reaching 20% of the national income and it had been considered very high.

through administrative solutions provided the structure of production factors allows for it; and liquidation of bureaucratic structures of management of enterprises, both indirect and central.

It is postulated that all units belonging to the intermediate level of management, including cooperative units, should be abolished by the end of 1989. It would be necessary here to impose a ban on their reconstruction if they assume a monopolistic position.

The antimonopoly body must be equipped with very wide competences, excluded from the government administration and subordinated to the Parliament.

There must be abolished administrative distribution in the form of allotments of goods, convertible currencies, credits, etc. Finally, it is most important to create the same tax conditions for all enterprises irrespective of the ownership sector.

There are also awaited major positive changes, which will allow to attract foreign capital. The most important of them are less restrictive taxation, liberalization of procedures of granting permissions for foreign capital and foreign firms, as well as some facilities in transfer of profit in convertible currency.

It is necessary to introduce a prohibition on intervention of the State in internal affairs of enterprises and in relations among these enterprises with the exception of cases envisaged by law (for instance, protection of working conditions or natural environment, and money). An important role must be played by the new economic policy with regard to fixing basic economic macro-proportions. Inviolable magnitudes must be: volume of consumption, which should be increasing at the same rate as the national income and the servicing of debt negotiated with the foreign partners. Hence, the level of investment outlays will be limited by the accepted principle resulting from the above proportions. This calls for appropriate regulation of investment demand.

The share of the fuel-energy and raw materials sector in total investment allocations should be radically restricted in favour of: investments contributing to decreased energy- and material-intensity of the national income, food economy, protection of natural environment, and housing sector.

It is necessary to launch consistent antiinflationary measures. This calls, first of all, for liquidation of deficit of the state budget, which exceeds one billion zloty. This deficit may be

easily liquidated by reduction of expenditure on armaments, repression sector, and administration. The state budget may be, moreover, obtaining additional revenues from the already mentioned sales of public assets to the private sector. Liquidation of heavily-subsidized enterprises will contribute to restricting a redistributive function of the budget. Reduction of subsidies for coal mining will operate in the same direction.

That is why the opposition-Solidarity side believes that starting from 1991 it will be possible to attain a constant budget surplus. It is indispensable to curb excessive price hikes made by enterprises holding a monopolistic position through leaving additional taxes whenever price increases are higher than rate of inflation for a given industrial sector.

An important role in curbing inflation may be played by the lowering of the free market exchange rate of hard currencies. This requires, on the one hand, a ban on sales of goods and services within the framework of the so-called "internal export" and on the other hand, ensuring greater attractiveness of the sold public property. The latter will lead to an increased supply of hard currencies possessed by the population. Finally, it is indispensable to withdraw from circulation the so-called "empty money", which can be accomplished both through the already mentioned inflationary payments (taxes) and through sales of the state and cooperative property.

5. CONCLUSIONS

At the time this article was submitted for corrections in April 1989, Poland's economic situation had undergone a further destruction. The inflation rate in December 1988 in relation to December 1987 amounted to ca. 80 per cent. Judging by the movement of prices in the first quarter 1989 it will exceed 120 per cent this year.

Dollarization of the economy is increasingly stronger. The dollar's exchange rate in the free market reached 4,000 zloty and exceeds seven times its official trade exchange rate, as well as the dollar's purchasing power. Hard currency has become the basic means of hoarding and the basic means of payment for consumer and industrial goods in short supply.

Strikes in many enterprises force out an uncontrolled growth

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of wages. The market disequilibrium tends to increase substantially. The quality of production and competitiveness of the Polish economy decline.

The private farming is threatened as a result of a drastic drop in its profitability due to an artificial suppressing of price movements for agricultural products accompanied by a considerable increase of prices for industrial products.

In this situation resembling a deadlock, the authorities approved of the "round table" talks with the moderate opposition grouped around Lech Wałęsa. Following three weeks of sometimes dramatic negotiations conducted in three major groups and several subgroups there was signed a historical consensus affording a dose of hope for a significant process of liberalization in the political, social and economic life. In as much as the West accepted this social consensus with great enthusiasm, the Polish society exhausted by hardships of daily life, lack of confidence for the government and the worst possible experience welcomed it without any bigger enthusiasm. Anyway, the society is afraid of economic reforms, which must involve numerous renunciations. The bureaucratic-party apparatus, personified during the talks at the "round table" by the official (state-controlled) trade union, formulating populist, demagogic slogans was attempting to block the real economic reforms. It will be certainly difficult to execute them in the future despite even the best will of the government.

A considerable part of the postulates contained in these deliberations are to be realized. On the basis of agreements arrived at and my personal experience acquired in the course of negotiations on the Solidarity-opposition side I am inclined to cherish some doubts:

- well-advised efforts to check the pauperization process of society have led to stretching in time the process of adopting market orientation by the economy;

- only superficial success has been achieved in the field of full depoliticization of enterprises with formal withdrawal of the nomenclature institutions - one can fear that the authorities will not resign from covert forms of pressure on appointment of managerial cadres in enterprises;

- demands to realize the full employment postulate may restrict the process of economization of enterprises, and especially reduction of administrative overgrowth and promotion of organizational progress;

- apprehensions are expressed that antiinflationary measures will not be launched on a sufficient scale, and especially statements concerning ways of liquidating the state budget deficit and reduction of the amount of money in circulations are not concrete enough;

- too little emphasis has been laid on privatization of the economy and in particular on interventionary measures accelerating this process.

Jerzy Dietl

REFORMY POLSKIEGO SYSTEMU EKONOMICZNEGO -
WPROWADZENIE DO FUNKCJONOWANIA POLSKIEJ GOSPODARKI

Wysiłki zmierzające do wprowadzenia gospodarki zorientowanej rynkowo w Polsce, a także próby zreformowania systemu politycznego i społecznego nie dawały już dotąd rezultatów. Zwykle poprzedzane były presją społeczeństwa i kryzysami społeczno-politycznymi (1956, 1968, 1970, 1980). Władza czyniła pewne ustępstwa w kierunku liberalizacji i demokratyzacji systemu, ale po pewnym okresie zapoczątkowane reformy były cofane. System powoli ulegał wprowadzicie decentralizacji, ale daleki był od przywrócenia regulacji rynkowej. Różnice w stosunku do reform w innych krajach socjalistycznych polegały między innymi na tym, że tam inspiratorem reform było zwykle centrum, gdy tymczasem w Polsce społeczeństwo. Wydaje się jednak, że obecnie władza zdaje sobie w części sprawę, że jedynie głęboka reforma systemu może powstrzymać destrukcję ekonomiczną i społeczną.

Charakteryzując aktualny system ekonomiczny podkreślono w artykule między innymi ograniczony zakres regulacji rynkowej oraz sektora prywatnego. Niezbędna staje się zmiana struktury własności i doszukiwania się założeń ideologii socjalistycznej nie tyle w sferze produkcji, ale podziału. Podstawowe znaczenia ma także demonopolizacja struktur gospodarki i decentralizacja centralnej dotychczas alokacji i zasobów gospodarczych.

Wskazano na ujemne strony regulacji pozarynkowej, wyróżniając regulacje przez plan, struktury biurokratyczne i przetarg. Wskazano na nieuchronność pogłębiania się dysproporcji gospodarczych w warunkach pozarynkowej gospodarki centralistycznej.

Na tym tle scharakteryzowano aktualną sytuację ekonomiczną wskazując między innymi: pogłębiającą się nierównowagę, wzrastającą inflację i jej źródła, brak ekonomicznych kryteriów alokacji zasobów gospodarczych, motywacji społa-

czeństwa i nietrafne kierunki inwestycji. Rozważono konsekwencje zadłużenia Polski i uwarunkowania jej orientacji eksportowej.

Ostatnią część obejmuje kierunki i założenia reformy ekonomicznej. Podkreślono zarówno uwarunkowania negatywne pogłębione przez brak realizacji zapowiadanej reformy w latach 1984-1988. Równocześnie wskazano na pozytywne strony wyrażające się skłonnością władzy do reform i dialogiem ze społeczeństwem i korzystną sytuacją zewnętrzną.

Na zakończenie wymieniono te działania i zmiany, które w podstawowy sposób mogą urealnić trwającą reformę.