COMMAND PERFORMANCE

by Zbigniew M. Fallenbuchl

Well before the summer of 1980, when angry shipyard workers in Gdańsk rose up and led a strike that spread across the country, Poland's economy was in serious trouble. With the end of the false prosperity of the early 1970s, shortages of meat, flour, sugar, and other staples had become widespread. Industrial productivity was low, the rate of economic growth had further declined, and the country was burdened with a massive external debt. The agricultural sector, once one of Poland's great strengths, was in disarray.

Since the summer of 1980, the situation has only deteriorated. Rationing is in force, and as mundane an item as a tube of toothpaste now sells on the black market in Warsaw for four times its official price.

Poland's economic difficulties—nothing new—have often been blamed on the mistakes, ineptitude, and corruption of the Communist regime's leaders and bureaucrats. That, indeed, has been the official "line" following each successive economic debacle. First the "Stalinists," then Władysław Gomułka, and then Edward Gierek have had to take the rap for Poland's badly malfunctioning economy. More recently, the regime of General Wojciech Jaruzelski has blamed the outlawed independent labor union, Solidarity, for "ruining the economy."

Yet the current state of affairs is no more the result of strikes and labor unrest than the earlier ones were merely the fault of failed leadership. Poland's various Communist rulers did, of course, contribute mightily to economic calamity. But the origin of Poland's predicament lies in the Soviet-style economic system and development strategy that were imposed on Poland after World War II, and in the subsequent subordination of Polish interests to Soviet designs.

A centralized system of economic planning and management, as now exists to varying degrees throughout Eastern Europe and in the USSR, has the presumed advantage of being able, by fiat and force, to mobilize a nation's resources quickly and fully and to deploy those resources to achieve the goals spelled out in the Plan, usually a five-year plan, the country's overall economic blueprint. Poland, a nation of 36 million people, with abundant fertile land, and plentiful coal, copper, and other minerals, is not a poor country. But its "command" economy—overly centralized and lacking any significant market mechanisms—has proved inefficient at exploiting the country's riches and clumsy at balancing supply and demand. Even butter has been in short supply at times.

Poland's economy has suffered in other respects from the nation's subservience to the Soviet Union. In pursuit of economic growth, Poland, beginning in the early 1950s, was compelled to copy the development strategy of its vast, populous, and very different eastern neighbor. Like Moscow, Warsaw stressed expansion of typically late 19th-century industries (e.g., iron and steel, heavy machinery, transport equipment), which required great quantities of capital, energy, and raw materials and were geared to large-scale manufacture. Production of food and of consumer goods (profitable endeavors to which Poland was well suited) was de-emphasized, while modern industries such as electronics and petrochemicals were neglected.

The result was that those sectors of the economy that could pay their own way—via the sales of coal, meat, or furniture, for example—had to subsidize the others, and so had little capital available for their own expansion and modernization. That is one reason why, as late as 1960, horses still provided about 86 percent of the traction-power on Polish farms.

Following Orders

Poland's commercial and financial relationships with other countries were also altered to serve Soviet economic and political interests. Though desperately in need of money for postwar reconstruction, Poland, on Soviet orders, rejected Marshall Plan aid and withdrew from the International Monetary Fund and the World Bank. During the late 1940s, Poland curbed its trade with the West dramatically, even as commerce with other Eastern European nations, and especially with the Soviet Union, increased. Until 1956, Polish coal was sold to the Soviets for much less than the world price. Other important—and probably unprofitable—exports to the USSR have included railroad cars and ships.

Finally, the economic system imposed on Poland was pro-

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General Jarosław Dąbrowski, who fell leading the forces of the Paris Commune (1871), stares out from a 200-zloty bill, worth as little as 37 cents in 1983 and, in reality, worth even less, thanks to shortages of goods to buy.

foundly at odds with Polish traditions and culture. One cannot put a dollar value on this factor, but it was important. As observers outside and inside Poland have long noted, its proud but troubled history as a state, its tradition of intellectual freedom, its openness to Western ideas, its anticommunism, and its powerful Catholic Church, have all combined to produce an implacably romantic, sullenly restive, and sometimes openly rebellious populace. When, during the early 1950s, the Warsaw government tried to collectivize agriculture, the peasants resisted, engaging in a slowdown strike, consuming whatever they could themselves and delivering little surplus to the government. Urban food shortages and rationing quickly ensued.

In sum, then, Poland's awkward planning apparatus, along with the other contradictions cited above, guaranteed that, whatever initial successes it might achieve, the country's economy would not work well over the long haul. The high economic growth rates of the early years became ever harder to sustain and in fact steadily declined—from an average of 10.3 percent in 1950–54 to seven percent in 1956. Improvements in the standard of living were increasingly costly and difficult to bring about. Despite all this, no basic economic reform was undertaken.

During the early 1950s, when Stalinism was at its peak, the regime launched its industrialization drive and, as noted, sought to collectivize the farms. Disgruntled over the results, workers rioted in Poznań in June 1956, demanding "bread and freedom." In October, Gomułka became the Communist party's new First Secretary, stirring popular optimism. The new regime quickly imported grains and foodstuffs to improve the average Pole's meager diet. The government also backed off on collectivization. (The acreage collectivized had never amounted to much more than one-tenth of the arable land in Poland.) To encourage improvements in workers' productivity, Gomułka increased output of consumer goods by reducing capital investment.

The period of hope was short lived. Bold proposals to decentralize the economy and introduce some market mechanisms —rather basic items like profits, interest rates, properly calculated costs, flexible prices—were discussed, but no lasting changes were made. In 1961, the industrialization drive was resumed. It came to a halt within two years, and the result was economic stagnation for the rest of the decade.

Motorized Golf Carts

To turn the situation around, Gomułka sought to revive and modernize the economy through new investment. With no outside sources available, he decided to finance his scheme out of savings achieved by forcing workers to live more austerely. But when he tried in 1970 to raise the relatively low food prices (by nearly 18 percent in the case of meat) and to hold down future wage increases, workers in the shipyards along the Baltic seacoast rioted, precipitating Gomułka's fall.

Edward Gierek, his successor, repealed the price increases. Then he and his advisers adopted a "new development strategy" (*nowa strategia rozwoju*) aimed at redirecting the economy toward engineering, electronics, modern food processing, and light industry. The key to the whole effort was to be an influx of Western capital and technology, made possible by the first stirrings of détente—and by Western credits. The borrowed money would not only cover the capital investment needed to restructure the economy, but also provide more consumer goods. For without that, workers would have no incentive to become more productive. "Our supreme goal," Gierek said in December 1971, is the "systematic improvement of living standards."

Gierek and his circle of planners had high hopes. They anticipated that the "new development strategy" would enable Poland to increase vastly its export of high-quality manufactured goods, from color TVs and hunting rifles to motorized golf carts. These would be produced in new, or newly modernized, plants with the aid of Western machines and equipment, under Western licenses or in cooperation with Western firms. The result before long would be a favorable balance of trade—exports would exceed imports—and the debt to the West would be repaid. In the process, Poland's economy would finally be "modernized." It all looked good on paper, and the money and technology began pouring in, notably from West Germany.

The Polish spending spree of the early 1970s made a mockery of the 1971–75 five-year plan. (The plan is the chief means of maintaining economic order where market mechanisms do not exist.) The myriad alterations—e.g., increases in investment rates, in personal income, in imports of investment goods—were made on an ad hoc basis and added up to "too much, too fast." The economy could not easily adjust to such rapid and poorly planned change. The "command" system was too rigid, and its managers were too dogmatic to undertake fundamental reform.*

Gierek's success crucially depended on expansion of Polish exports to the West both to repay the loans and to secure a steady flow of the imported materials, spare parts, and machines needed in a modern, open economy. But that expansion proved beyond Poland's abilities. For one thing, since official prices did not truly reflect the actual economic costs, it was impossible to calculate the real profitability of various export alternatives. Potential export items were also selected "from above" by central planners who lacked adequate information about world market conditions and even about actual domestic production capacities.

A Siberian Snow Shortage

Thus, nearly $1 billion was poured into developing and then producing, at a sprawling facility near Warsaw, a Massey-Ferguson tractor. But it turned out that, contrary to what the Poles first thought, their license from the Canadian firm did not allow sale of the products in the West. The tractors could not be sold to Poland's communist neighbors, either, because they were too expensive. And they would not be widely used at home because they could not be coupled with most Polish farm equipment. Hence, instead of the planned 75,000 tractors a year, the enterprise produced only 500. Such fiascoes were commonplace.

By the mid-1970s, a serious balance-of-payments deficit and

*The economic system was slightly modified in 1973 by the so-called WOG reform, named for the Wielkie Organizacje Gospodarcze, or "big economic organizations," that were involved. The idea was to introduce a certain measure of decentralization, along with some market mechanisms and flexible rules for setting prices, into the system. The decentralization, however, was only half-heartedly implemented and was soon abandoned.

a swiftly mounting debt had become alarmingly apparent. Thanks to official discrimination against private farmers and heavy investment in unproductive state farms, even grain was being imported. Clearly, some belt-tightening was in order. Yet, instead of reducing imports from the West gradually, thus cushioning the economy from the shock, the Gierek regime made deep cuts. The sudden shortage of parts and equipment reverberated throughout the economy. Poland's growth rate, which had experienced an artificial spurt during the early 1970s, now started to decline rapidly. From about 10 percent during 1972–74, it fell to five percent in 1977. Exports slumped, making matters worse.

By the late 1970s, the economy was careening out of control. The rate of growth of the national product fell to −2.3 percent in 1979 even as Poland's hard-currency debt rose to $20.5 billion. City-dwellers experienced drastic shortages of foodstuffs and had to wait in seemingly endless lines to get what little they could. Poles joked that if the regime's economic planners were ever sent to Siberia, they would cause a snow shortage there.

The government seemed helpless to effect a recovery. At the Eighth Party Congress in February 1980, the regime manifestly had no program beyond hopelessly tarnished plans to shift resources from investment to consumption, to severely restrict

In 1982, the Reagan administration considered declaring Poland in default on its U.S.–backed loans—but backed off, fearing the effects.

imports, and to expand exports. To make their formal "plan" for 1980 appear to work on paper, government economists simply doctored the numbers. The patient, however, did not revive.

After the Gierek regime's abrupt increase in meat prices in 1980 prompted a summer of labor turmoil—and the advent of the Solidarity era—the need for sweeping economic reform was given lip service. But that was all. No real reform of the economic system was ever undertaken, either under Stanisław Kania (who replaced Gierek in September 1980) or under General Jaruzelski (who replaced Kania in October 1981). All the flaws cited at the outset of this essay remained in place.

A Political Solution?

In truth, the Communist leaders were far less interested in rescuing the economy than in suppressing Solidarity. In this, of course, they eventually succeeded. Meanwhile, farm and industrial production continued to drop, and the massive debt to Western nations and banks continued to grow (to $26 billion in January 1983). A look at what has transpired since the imposition of martial law in December 1981 suggests that recovery is by no means just around the corner.

The regime's one economic success under martial law was an increase in production of coal. Coal output rose by 15 percent during the first three quarters of 1982 over the same period in 1981. But coal mining is a very special case. Unlike manufacturing microprocessors, say, mining coal is an industry in which the government can fix, and forcibly meet, high-output "targets" without worrying about quality.

This being so, the regime "militarized" the coal mines. Miners were subject to military discipline and could be court-martialed for disobeying orders. In addition to the "stick," there were some "carrots." For example, amid acute shortages of food, especially meat, miners got better meals in their cafeterias. And they got access to exclusive state stores where they could buy scarce items such as shoes and clothing.

But improved coal production, which meant more electricity, did not provide much relief for the rest of the economy. During the first three quarters of 1982, total manufacturing output (excluding production of coal and other minerals) decreased by six percent. In the textile industry, output declined by 14 percent; in iron and steel, by 10 percent; in food, by five percent.

Nor was the foreign trade picture any brighter. Not only did exports to nonsocialist nations decline under martial law, but so did imports from them, thanks both to Western sanctions and to dissatisfaction with the quality of some Polish products—portable tape recorders, to name one, that produced sounds all right but were housed in an ugly casing that deterred buyers. Imports from socialist countries fell off, too. For while exports to those nations did increase somewhat, Moscow compelled the Polish regime to pay back the Soviet Bloc countries for credits received earlier, thereby siphoning off Poland's export earnings. Poland, its economy now import-dependent, was unable to substitute imports from the Soviet Bloc for the imports it needed but could not get from the West.

The government often invoked the need to control inflation, fueled by widespread shortages, as an excuse for its imposition of martial law in the first place. Yet figures for the first three quarters of 1982 make it clear that, despite draconian increases in prices to relieve excess demand, inflationary pressures did not diminish. This was because the average Pole's nominal personal income shot up nearly 60 percent more rapidly than it had during the same period in 1981, even as shortages of goods and services persisted. The amount of idle cash in the hands of the populace went up by 45.9 percent. In other words, people had more and more złotys—and less and less on which to spend them. This surprising failure of the regime to control inflation can only be due to the government's fear of popular unrest—and to its consequent attempt to lull the public into believing that, despite the widespread shortages, their wages at least were increasing.

Martial law was suspended in December 1982, but the social situation in Poland remains explosive and the economy remains inert. The regime has, I think, only one way out of the morass: to begin to seek a "political solution." That means getting the support (even if greatly qualified) of the workers and, indeed, of the entire populace; taking steps that will persuade Western governments to remove their sanctions; and reestablishing economic ties with the West as soon as possible, all without upsetting the Kremlin.

The regime's decision to move toward ending martial law was interpreted by many commentators outside the country as proof of the military government's confidence and strength. In fact, however, it was probably just the opposite—a desperate action born of the regime's inability to arrest Poland's economic decline by force alone.