

**UNIVERSITY OF WARSAW**  
Institute of Space Economy

# **REGIONAL and LOCAL STUDIES**

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**Stanisław M. Komorowski**  
**POLISH ECONOMY  
AND ITS FUTURE**

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# **POLISH ECONOMY AND ITS FUTURE**

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# Preface

In 1989 and 1990, the system of real socialism has totally collapsed in East-Central Europe. Nobody with some sense of reality and humour has assumed it was a strong system. But very few have seen that the weaknesses of that system were so deep and great and that it would collapse so quickly and easily. I think six sources of this weakness can be outlined in this context:

1. The exogenous character of the system (Oskar Lange – *each country was a small copy of the Soviet Union*);
2. The totalitarian or semitotalitarian character of the political process;
3. The grosso modo low quality of the ruling élites – the partially external legitimization of the élite;
4. The low productivity of labour and capital;
5. The high burden of armaments;
6. The high burden of indebtedness.

One could develop very interesting comparative studies on the profiles and styles of bankruptcy of real socialism in different countries of East-Central Europe. Similarities and differences among Poland, Hungary, East Germany, Czechoslovakia, Rumania, Bulgaria and Yugoslavia could be a fascinating subject for research.

The process of bankruptcy may be analysed along comparative lines, concentrating attention on the scope and intensity of bankruptcy, its velocity, cost, and “elegance”.

The profiles of the bankruptcy are important not only from the point of view of *rerum cognoscere causas*. The profiles are a valid starting point

for any prognoses of the future of parliamentary democracy and market economy in those countries.

There are two approaches in the studies on the bankruptcy of real socialism in Poland – the external approach and the internal approach.

The external approach accepts the value judgement that real socialism was *ex definitione* a wrong and bad system doomed to failure in any conditions. In the framework of this approach there is an ample place for nihilistic attitudes expressing the point of view that the record of real socialism in Poland is totally negative as a set of consecutive crimes, errors and disasters.

The internal approach is accepting the value judgement that real socialism was potentially a good system with great chances of survival and success. That potential and those chances were destroyed by internal forces and especially by totally misguided socio-economic policies, mismanagement of growth and deeply wrong approaches to the theory and practice of planning.

In this context the study of S.M.Komorowski – The Drama of Poland's Economy after World War II – is a particularly interesting, challenging and controversial contribution. Let me present five comments in this context.

1. It is not a study written by a professional historian with all rigours of this discipline. It has been written by an actor of the Polish economic scene with all passions of his colourful life as the manager, civil servant, planner, and scholar (see the note about the Author). The critical mind, vast interdisciplinary knowledge, multiplicity of participation and observation points have created a good background for the Author to write this book on the Drama of Poland's Economy.

This book has a very strong personal dimension presenting the drama of an officer who spent all his life on the battlefield of the Polish Economy and only for a few years working in the subjective climate of euphoria (1945-1949).

Let us quote S.M.Komorowski in this place.

*This is a book based on personal recollections, analyses, reflections, impressions, and opinions of the author and may in many ways differ from opinions widely held by people somehow related to the facts described as well as other people who rather seldom realized what is going on around them, but willy-nilly have been obliged to bear the consequences. The author's view-point is, of course, professionally biased – his approach and opinions are managerial and tend to look after solutions feasible in given conditions when they cannot be altered favourably. The author does not*

try to convince anybody, however he asks everybody to consider neutrally his arguments<sup>1</sup>.

2. The book of S.M.Komorowski is a good example of the internal approach. It is impossible to suggest the Author to accept the external approach, this would be against his fundamental value judgements and – what is even more important – would be a destruction of the sense and mission of his life.

If we respect the principle of academic liberty we should publish some contributions like this book, following the rule *audiatur et altera pars*.

To my mind, the belief of S.M.Komorowski that real socialism was a potentially good system has increased the passion of his bitter critique of the stupidity and incompetence of the bureaucracy that has led the system to bankruptcy.

In this context, one may express the opinion that the internal critique of bureaucracy is sometimes more convincing than the nihilistic external approaches.

3. The book of S.M.Komorowski should be seen as a follow-up of the valuable contribution of Jan Szczepański "Poland Facing the Future"<sup>2</sup>. Both books are an inducement to analyse the Polish experiences of the XX century – as a confrontation of external and internal approaches.

Such a confrontation would be interesting and useful for scholars – in both Poland and abroad – involved in the analyses of the bankruptcy of real socialism in our country.

4. In the critical evaluation of the study of S.M.Komorowski we may formulate the question how the six weaknesses of real socialism, mentioned in the beginning of this Preface, are perceived by the Author.

In brief, two points are almost totally missing in the book:

- (1) the evaluation of the negative consequences of the Soviet influence on the structure and efficiency of Polish Economy,
- (2) the negative impact of the very high burden of armaments.

There is also a disagreement concerning Hilary Minc, one of the most prominent figures of the Polish economic history in the decade 1944-1954.

For Komorowski – Hilary Minc was a brilliant hero of the reconstruction period. For me – Hilary Minc was, first of all, a man of Stalin, implementing in Poland the mission to incorporate the Polish Economy into the economy of the Soviet Empire. I agree with Komorowski that

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<sup>1</sup>See: item 6th "Time for some explanations".

<sup>2</sup>J.Szczepański, *Poland: Facing the Future*, 1989, University of Warsaw, Regional and Local Studies, Vol.3



Hilary Minc was an able man and a strong personality. The real role of Minc should be a subject of a historical monography.

5. The manuscript of this book was concluded in early spring 1989. It will be published in autumn 1990. So the book was written in the old times of real socialism and is published in the new times of Independent Polish Republic – of Polonia Restituta.

The critical reader will answer the basic question – if the interpretations of S.M.Komorowski still have some historical and prognostic validity. I think the answer is “yes” if we accept the attitude of pluralistic and comprehensive interpretation of the Polish reality.

\* \* \*

This is a controversial book. The decision whether to print or not to print this book is a very difficult one. Many formulations and approaches of S.M.Komorowski will induce very critical reactions especially by scholars following external approaches.

I think, however, that we should be really faithful to the principles of academic liberty – and publish contributions that enrich our intellectual experience and stimulate the really pluralistic approaches in studies concerning the past and the future of Poland.

I hope that many scholars in Poland and abroad will share my judgement concerning the publication of this really unconventional book.

14.VII.1990

Antoni Kukliński

# 1.

## Time of Reconstruction

The years 1944 and 1945 put an end to the Nazi occupation of Polish territories. With the Soviet Army advancing on Berlin, a new governing establishment dependent on the U.S.S.R., came to power in Poland.

The economy was in a shambles and winter was in sight.

There was not much discussion; either at the beginning or during the next two to three years. There was too much to do and thus there was no time for sterile preoccupations. The organization was simple. There was the Economic Committee, later the Economic Committee Council of Ministers (Komitet Ekonomiczny Rady Ministrów - K.E.R.M.) and the Ministry of Industry and Trade (established on the 1st December 1944) both headed by Hilary Minc, a well-educated and ingenious man with a lot of common sense and organizational ability who trusted people and had a talent for picking the right man for a job; he quickly became enormously popular among industrial managers.

Land reform was decreed in September 1944. A more difficult problem was that of non-agricultural enterprises, particularly the extractive and manufacturing industries. Some believed that they should be socialized (the Polish Socialist Party's view-point) other voted for nationalization. The difference is very important, socialization implies the so-called group-ownership. The dispute lasted more than one year and was finally resolved in January 1946 by the decree on nationalization. There are people who are of opinion that the land reform contributed very little politically and economically, and was an anachronistic and regressive solution with no positive future - all other East-European socialist countries, with the exception of Poland, did nationalize land sooner or later. However, today discussion of this issue is ridiculous; more relevant are the measures leading to the modernization of agricultural activities, inter alia, through an important extension of the size of individual farming units. Others consider today that socialization was a better solution, and under cover introduced the state enterprises to the pattern of, de

facto, group ownership (a disaster which will be discussed later within the context of the so-called "economic reform").

Current problems were pressing and calling for immediate intervention. Although exhausted by its efforts, and itself dependent on substantial external deliveries, the U.S.S.R. offered material assistance, delivering several essentials: some raw materials (particularly cotton), fuels, food, trucks etc. within the framework of the first post-war trade agreement. Of course, the Polish side supplied in exchange sugar, spirits, brewery barley, flax, cement, steel, and some machinery - commodities manufactured in the liberated area of Poland in plants which had been taken too quickly to be dismantled or demolished by the Germans. Much success was achieved thanks to the Polish talent for improvisation; however, behind this lay the organizational talent and effort displayed by people who were now solving problems hitherto completely unfamiliar to them.

And the situation was difficult. The eastern part of Poland was agricultural rather than industrial, and those industries which did exist were mainly of the agro-allied type. This focused on the importance of the food producing sector of the economy which was essential both for the war effort and for the population brought by the Germans to the brink of starvation. Thus this sector's activities had to be quickly organized and developed, bearing in mind the needs of the western part of the country in the next year. It was Lublin and the eastern part of the country that had always been its granary.

The other basic problem was the organization and the preparation for future activities in the western part of Poland, beyond the pre-war western borders, i. e. up to the Odra and Nysa Łużycka rivers which following the Yalta conference (February 1945) were regarded as the future Polish western borders. The Polish authorities in Lublin (later in Warsaw) did not have at their disposal at this time adequate economic information about these territories. The armies stop-over on the Vistula line, which lasted almost six months, and more generally the frontier line between the Baltic sea and the Turkish/Greek border - that is, the time needed to prepare logistically the final offensive which started in January 1945 - divided Poland into two parts. Little was known on each side of the frontier about what was going on. The focus of intelligence was concentrated on military movements and to some extent on political issues.

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The Polish underground movement, although split by and large into two parts, was well organized and was prepared for the liberation coming

from the East, brought by the Red Army, on the side of which the 1st and later the 1st and the 2nd Polish Armies were fighting. Technically and numerically, the military, para-military civilian underground organizations connected with the Polish Government in London were more important and larger. However, the political problems and differences which played an important role in determining the behaviour and actions of the underground's leadership remained largely unknown to most of the rank and file, the attention of whom was focused on the Germans: waiting for the day when they would fight them and push them out of the country.

This issue is very complex; it is still controversial and awaiting full historical clarification. It goes far beyond the scope of the present study, for which it is important only that such division existed and that there was a mutual distrust which hampered understanding and fully developed co-operation between the two sides. However, it would be totally wrong to consider that there was no co-operation and that the existent underground organization (although it remained largely in the underground) did not contribute importantly – if not decisively – to the success of Poland's post-war reconstruction.

The technical and organizational preparations for these complex actions started somewhere in 1942 and were conducted by small groups of highly competent people usually organized on an enterprise basis<sup>1</sup>. It was oriented toward the following objectives:

- protection of the enterprise in general terms and particularly of its most valuable possessions, e.g. technical documentation (i. a. "know-how"), costly equipment, instruments;
- protection of the personnel in general and particularly of specialists and a skeleton management;
- preparation of plans for an orderly bringing of the enterprise to a standstill and preparation of plans for putting it back into operation in different conditions (which could be expected).

Moreover, in several enterprises special groups had been organized to take over more important German enterprises in the recovered Polish western territories, to reconstruct them wherever necessary and put them into operation as soon as possible, giving priority to those which were most important for the war effort and post-war reconstruction. These

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<sup>1</sup>Co-ordination was assured by hierarchical relations based on geographical criteria with strict observation of all the rigours imposed by the requirements of conspiracy. These groups usually included several qualified workers. The members of these groups often belonged to very different political organizations and, in spite of that, co-operation was excellent.

activities included intelligence operations on German territories – gathering information on more important elements of the Germans economic system. These activities were also related to post-war reparations.

For example there was a group (led by Prof. Andrzej Bolewski and Prof. Stanisław Leszczycki) which during the several years of German occupation gathered information substantiating Polish claims in respect of its western borders on the Odra and Nysa (Łużycka) rivers which later was used by the Polish delegation during the Potsdam conference.

The defeat of the Warsaw Uprising caused serious personal losses and important organizational damage in the above described underground organization: many people were killed, many deported by Germans to P.O.W. and concentration camps, and other dispersed all over the country's territory. Nevertheless the organization survived and was instrumental in the process of the post-war reconstruction of the Polish economy.

The above mentioned split ended formally in June 1945 when the Western Powers recognized the "Lublin government". However, nothing had changed practically. The above-described organization never emerged from the underground, but nevertheless participated actively and very successfully in the reconstruction of the Polish economy. Several participants in this organization occupied very important positions within the public economic administration – particularly in industry and finance. The purge came much later.

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There was a lot of improvisation in the activities conducted from Lublin in 1944. The territorial administration was slowly taking shape, parallel to that of the central government. Most people employed in this apparatus were military personnel detailed for the work in the civil administration and thus wearing military uniforms and carrying arms. These gave this administration a general military pattern in its style of operations. There was a serious shortage of qualified technical and managerial personnel. The withdrawing Germans pushed the population westward by all means available to them. Only where they were taken by surprise or heavily defeated, subsequently withdrawing in disorder, did the population have the chance of staying. In this respect the rural areas were in a better position. Towns were more systematically evacuated, particularly people employed in industrial enterprises. An important role was also played by anti-Soviet propaganda; Polish people had been under its pressure.

Thus it was very important to manage properly those people who were available. On the other hand there was the problem of how to secure as fast as possible and in their entirety all the infrastructural technical and social assets, industrial enterprises, stores etc.: to protect them, reconstruct wherever possible and necessary, and to set them working again in an orderly fashion. This required a huge properly-staffed organization which would follow the advancing armies when the expected offensive occurred.

With this purpose in mind the Economic Committee established an organization of "Operational Groups" which, in theory, were composed of technicians, managers, and some supporting personnel. In practice, however, these groups were skeletons which recruited personnel on the spot, i. e. at the place to which they were assigned. The headquarters of the Economic Committee<sup>2</sup> was first in Lublin but very soon shifted to Warsaw - Praga (the right bank of Vistula) where from January and February, several groups were sent over the Vistula westward to follow the rapidly advancing armies.

These groups were composed of highly motivated people, sometimes excellent professionals who later played an important role in the country's post-war development; most of them were young people with technical education and some industrial experience. Courageous, ingenious and flexible, they were ready to work day and night and to take the risks wherever necessary. They were organized on a military pattern although because of shortage of uniforms, they often at the beginning wore civilian clothing. More generally these groups were very poorly equipped when dispatched on their mission - they would be given a beaten-up old truck, some gasoline, one revolver and/or a rifle and a few rounds of ammunition, plus - most importantly - first-class identity documents and authorizations (Government plenipotentiary), in both Polish and Russian. Formally, at least the head of the group was a plenipotentiary of the Economic Committee of the Council of Ministers, which was a very high rank indeed in the Government hierarchy; and their documents carried orders addressed to all civilian and military authorities calling for them to be given any help they might need in connection with their activities.

The organization of these groups was hierarchical and geographically conterminous with local government districts. However, much depended on the personnel capacity of the head of the group and the importance

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<sup>2</sup>Headed by A. Wislicki, then captain in the Polish army, engineer by profession, and today a retired professor of a technical university.

of his territory – there was not much bureaucracy in external relations and direct operational relations often prevailed.

Arriving on the spot, these groups quickly grew in strength both in personnel and material resources; some of them were perfectly organized, well staffed, equipped, and stocked, and performed their tasks outstandingly. Their activities were particularly important in the recovered territories (Western and Northern) where in most cases they settled and developed much earlier than the regular civilian administration, and provided a successful substitute. This was particularly important in the territories which had not been damaged by military activity, where a more or less normal life continued and where the local population was in need of protection and order.

The most important task for any group was to get organized and acquire strength by itself – so as to be capable of performing its duties in an orderly fashion; this required personnel, transport, and communication, of course, followed by adequate supplies. It had, parallel to this, to develop control over the territory to which it was assigned and more particularly where its economic equipment and activities were to be used. A big problem was to gather information about what remained. If this was a relatively simple question in the pre-war Polish territories, where the entire population was Polish and the German occupation forces had exercised only overhead control, it was a major problem on the newly recovered former German territories where readily available information was scarce, sometimes nothing more than the local telephone directory.

This is where ingenuity played an important, if not decisive role. In Wroclaw – a town which the Germans converted into a fortress which capitulated two days after the rest of the German army – which was heavily damaged and about which information was scarce, and where the operational group numbered only six professionals – some of them really excellent people – plus one driver, and two secretaries (plus one hardly moving truck, and one revolver) – the group called all the former employees of the Chamber of Commerce and Industry to work (in return for food, and the protection of their families and residences) and asked them to prepare an inventory of what remained in the town: factories, stores of any kind including wholesale and retail, enterprises etc. The technical infrastructure was also subject to an inventory taken by German personnel under Polish supervision; using files, registers and card indexes the German staff prepared the required inventory in less than a week. Meanwhile the group recruited a large number of Polish personnel from a local concentration camp and in a week or so was almost 300

strong, among them, an industrial guard of almost 200 men commanded by Polish officers and petty officers, most of them professional, who had been making their way back on foot from the P.O.W. camps (most of them from the former Polish Eastern territories, now Soviet territory).

Of course, the operational groups worked in a different way in the Polish pre-war territories than in the recovered Western territories, where only a few autochthonic Polish inhabitants remained among the German population – although there were some places with a higher Polish concentration, where they did play an important role helping the operational groups.

On the pre-war Polish territories all establishments were – in most cases – well guarded by their personnel, often in the absence of the managers or owners. However, this personnel was in need of protection and support, and of documents authorizing them to continue to do what they had been doing. Thus in most cases the first action of the operational group was to establish in any unit a temporary plenipotentiary nominated in the name of and on behalf of, the Polish Government.

And this is where the preparations made in the underground, in event of the situation which would emerge immediately after the Germans had left, were invaluable, although usually never disclosed to the authorities because of their known negative attitudes toward anything which was related to the exiled government in London. It was not necessary to disclose how and why actions successfully implemented have been organized in advance during the occupation. People emerged, grabbed work, and did well, operating speedily, efficiently, and purposefully. And often, not at all incidentally, people or groups of people, emerged with nominations and recommendations given them by the central authorities (and properly addressed to operational groups) and started working. Apparently nobody knew about the relations that existed between the people who took important central managing positions and those who went to places in line with plans established much earlier during the occupation<sup>3</sup>.

Preparations for dispatching the operational groups in the Western direction, i. e. over the Vistula, started as early as December 1944, not only in the headquarters of these groups but also in the Economic Committee as well as in the recently created Ministry of Industry and Commerce headed by the omnipresent and inexhaustible H. Minc. Already

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<sup>3</sup>This story remains to be written, however, there are serious doubts if it will be possible to recollect these arrangements and events which seldom existed in writing because of their conspirational nature they have virtually never been disclosed; most people of higher rank died long ago without writing their memoirs.



in December 1944 the first groups (voivodship level) were organized and an estimated time for their dispatch was fixed: Kielce - 18th January, Kraków - 20th January, Łódź - 24th January. However, the offensive went faster and the groups arrived earlier: Kraków - as planned i.e. 20th January, Łódź - 21st January.

The operational groups at voivodship level received one more task - the establishment of the offices representing the Ministry of Industry in the voivodships. In practice these duties were - in most cases (i. e. except for Warsaw and Katowice) - performed by the operational groups themselves, the said offices coming into existence much later. They never played any important role except in respect of small industries and small enterprises. Operational groups performed impressive work which was never properly appreciated. Working often in extremely difficult and dangerous conditions they put into operation all the industrial undertakings which were vital for the Polish economy at that time. Their existence and activities terminated in practice in August 1945 when the Congress of Recovered Territories (Kongres Ziem Odzyskanych) was held in Wrocław and Jelenia Góra, organized by the operational group for Lower Silesia.

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By and large one may say that the first six months of the year 1945 were decisive for the reconstruction of the Polish economy and maybe more particularly for the creation of its management system: its structure and organization, its way of functioning and a specific style in which direct contacts between the boss and the managing personnel dispersed all over the country were particularly important. All this was, of course, directly related to H. Minc's personnel management policy, conceived and implemented largely by himself.

Early in 1945 there was no personnel management department in the Ministry of Industry and when it came into existence later it was for a long time H. Minc's own creation and under his leadership. In this, H. Minc displayed his exceptional ability to choose the right people for each job. He was the person who at that time recruited several renowned top Polish managers active before 1939 in different branches of business and put them in key positions in industry, in spite of their known relations with the underground Home Army (Armia Krajowa) and the Polish Government in exile in London during the occupation. The cur-

rent deputy minister of Industry H. Róžański wrote later in his memoirs<sup>4</sup>: *Minc probably met imputations that he had put in key positions elements which were alien from the class view-point and thus during an industrial conference said that the question was raised whether the manager may have a view-point differing with his own. I do not ask the manager to represent the same view-point as my own. I demand that he works well and manages his enterprise well. I believe that if this is the case than on that platform my view-point and his will easily grow closer together.*

The people chosen by Minc attracted to the reconstruction work large numbers of professionals known to them before the war. This led to formidable mobilization of people, who did not ask when and how much they would be paid for their efforts and did not count the hours they worked.

Meanwhile, parallel to this, conceptual discussion about the structure and organization of the management system for the national economy began to take shape in line with the ideas proposed by H. Minc.

Industry was divided into key and territorial industries. The former were managed through the centralized management system – under the Ministry of Industry – and the latter by the public territorial administration because it included units which were basically of local significance only and were therefore distinguished by their size, e. g. in terms of employment.

It should be mentioned here that the legal status of most of the above mentioned enterprises was for the time being unclear – they were temporarily managed by and on the behalf of the State. Meanwhile a very heated political discussion was conducted at the highest level on whether private industrial enterprises should be nationalized or socialized; the Polish Workers Party favoured the former solution and the Polish Socialist Party the latter. Of course, the problem was more complex, although this was the heart of the issue. Finally in January 1946 a law was enacted by the National Council introducing nationalization of virtually all except small scale industries.

Meanwhile the key industrial enterprises were organized into so-called “unions” according to their line of business, for example: the Machine-tools Manufacturers’ Union or the Rolling Stock Manufacturers’ Union. These unions were organized according to basically the same, if more aggregate criteria, into Central Administrations. In some cases where the industry was typically composed of very large units

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<sup>4</sup>Róžański, H., *Śladem wspomnień i dokumentów (1943 – 1948)*, PWN, Warszawa 1987, p. 168

(enterprises) there was no "union" level - the enterprises were directly subordinated to its "Central Administration", like for example the iron and steel industries. Coal mining was similarly organized, although the "unions" based on geographical criteria. Except for coal mining, all other extractive industries were included in the "unions" which they supplied with raw materials.

The construction industry was organized under a separate ministry, as was agriculture. Power generation and distribution was considered as manufacturing and therefore placed under the Ministry of Industry. Moreover, there were separate ministries of transport, of communication, of foreign trade, and of internal trade.

With the growth of different industries the Ministry of Industry was divided into several specialized ministries, although this did not necessarily always lead to the suppression of the Central Administrations. This type of centralized industrial management system - with minor alterations - survived for virtually all the post-war period and was discontinued by the "economic reform" in 1981.

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It has already been explained that the status of enterprises existing on Polish territory was - from the legal view-point - temporary and was finally settled only in January 1946. As far as Polish enterprises on pre-war Polish territory were concerned the situation was - for practical purposes - clear, although there was a problem connected with the enterprises considered by the Soviet authorities as German, as well as that of all the stock of fixed capital on the recovered territories, i. e. either West or North of the 1939 Polish-German border. Although the problem was basically legal and was to be solved through Polish-Soviet negotiations, it also had an important practical aspect - plants were considered as war booty, dismantled and sent to the U.S.S.R. Some of these plants, particularly in the territory of Upper Silesia, were treated as Polish (actually they were based on mixed capital, some of which was Polish, and some German) and were vital for the Polish economy. This aspect was also very important in respect of several enterprises in Lower Silesia<sup>5</sup> or in other parts of the recovered territories. After the agreement between the super powers reached in Potsdam, the Polish borders were clearly fixed and the problem of war reparations settled as a share in the volume of reparations received by the U.S.S.R. A settlement was to be arrived at

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<sup>5</sup>Some of them were regarded as direct compensation for equivalent plants on Polish pre-war territories which were completely destroyed by the Germans (for example in Warsaw).

between the Polish and U.S.S.R. governments but this involved problems resulting from the newly fixed Eastern Polish borders. These problems were settled in August 1945 by two treaties: one concerned with the Polish-Soviet border and the other concerned with reparations.

In this way, one might say, all the basic premises for the reconstruction and development of the Polish economy had been established, or were heading toward their settlement (e. g. the nationalization issue).

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All that has been said up to now about the management system structure and organization of the economy can only give some idea of the skeletal structure, and is far from giving any consistent explanation about its functioning. On the other hand it was still far from its final working shape, which emerged during the implementation of the so-called "Three-year Plan".

The high degree of centralization displayed by the management system in 1945 resulted from the peculiar conditions prevailing at the time and should be considered as adequate. Many commodities were in extremely short supply and thus there was no other way to deal with their distribution but central allocation, although other solutions were sought.

This remark reminds me about the problem of sheet-glass needed for the reconstruction of the "Pafawag" railway cars factory in Wroclaw. More than 100,000 square metres of wire glass were needed to be supplied in September - November 1945. H. Minc addressing his remarks to the manager of "Pafawag" said: *I am not going to have such a quantity at my disposal this year, but I may give you a glass manufacturing factory in Walbrzych so you will make the glass for yourselves.* And so it happened although late in August nobody from "Pafawag" had the slightest idea how to manufacture sheet glass. Somewhere in April 1946 the factory was transferred to the Glass-makers Union after all the needs of "Pafawag" had been satisfied (a lot of glass was meanwhile bartered against other commodities which were then in short supply). The case is typical of the flexibility and entrepreneurship of that time - a quality which was soon lost completely under the ubiquitous pressure of the bureaucracy.

However, this kind of management style has specific requirements, i. a. it called for uniformity of many procedures and, of course, of the information system - even if reduced, as was then the case, to systematic reporting. At this point it is necessary to remark that a centralized decision-making system evokes and stimulates rapid development of bureaucracy (in the negative, pejorative, anti-Weberian sense). The most

visible symptom of its development is its insatiable appetite for any kind of information (most of which is irrelevant for the management of the enterprise and has a formal bureaucratic character) and a continuous reduction of the management autonomy of enterprises. In such conditions the requisite variety (W. R. Ashby) of management system – the enterprise – remains constant, although parallel to this its management ability to generate variety is seriously impaired, leading to an inability to control the system entrusted to the management. Meanwhile the stream of information going upward does not in practice enable higher ranking management to generate more variety as required to substitute for shortage of variety among enterprises' management. This way the system becomes progressively unmanageable. However, in 1945 – and for a couple of years thereafter (up to 1948-1949) – this danger was not imminent and was not seriously appreciated. Managers were rather optimistic and indulgent in relation to their superior organizations... and their bureaucracies.

Forty years of extremely bad experiences made not only the managers but also public opinion highly vulnerable to any symptom of bureaucracy which virtually knocked down our political, social, and economic systems. Thus we must observe and analyse the situation in 1945-1948 in the context of all that happened later and see the germs of the future catastrophe already in the patterns developing at this early time.

However, whatever may be said now about what was done then, one has to admit that the conditions of that time called for immediate solutions which, of course, were to be seen only partly in the future-oriented context and in many cases as temporary solutions only, although the peculiar feature of everything temporary is that it usually lasts a long time. Certainly, these future-oriented solutions are more interesting but in spite of that they have been later distorted to the detriment of the Polish economy and its management system.

At the beginning of June 1945 a countrywide industrial conference (in which more than 500 persons participated) was held in Warsaw. This may, up to a point, be regarded as a kind of briefing session; certainly, this was the impression given by the concluding remarks made after the discussion by H. Minc. The purpose of this conference was mainly organizational, although some conceptual discussion was also devoted to the development programmes. This conference was followed by eleven conferences organized by the "Central Administrations" of different industries, which dealt with the labour remuneration system, and the planning and reporting system (and within it the accounting system). During this

conference the Chairman (E. Droźniak) of the Polish National Bank (the central bank at that time) presented a paper dealing with the financial policy in general, and more particularly with the financing of industrial activities. At that time their profitability – and economic effectiveness – was considered important; it was expected that the industries would contribute to the Treasury revenue.

Problems of personnel management were also presented and discussed. For the first time the idea of retraining workers with the intention of promoting them on top managerial positions in industry was put forward. A retraining programme for 500 workers “eligible” for such promotion was announced as an objective to be accomplished by the personnel management services. The delicate problems of the relationship between trade unions and enterprises’ management, and thus of the role and position of the factory council, were also discussed in depth.

As expected these programmes were not successful. A few months of retraining is not enough to produce a qualified industrial manager: just the opposite is true. A full formal education plus talent plus several years of rigorous additional training are required to obtain acceptable results (miraculous exceptions are a thing of the past and cannot be reproduced nowadays). Factory councils and other employees’ organizations will always represent first of all their own interests and not those of the owners which are represented by the enterprise’s management: idealistic relations are beautiful, but do not work in the reality of our world now and probably for some time to come. These facts had been proven already in 1945 and in the following years, later again in 1956 and thereafter, again . . . and again in 1981 – without positive results. Of course, one may say that this was the political side of the programmes which contradicted their pragmatic, and more particularly economic, side. However, more or less the same was true of the other more pragmatic programmes regarding salaries and wages, planning, and the information system. Let us review them one by one.

Wage and salary policy or more broadly incomes and prices policy was subordinated to two factors: maximization of capital accumulation – for obvious developmental purposes, and income equalization as a purely demagogic quasi-political instrument. These tendencies were assisted by an extremely primitive and completely anachronistic piece-work system of incentives which favoured non-qualified manual workers on non-mechanized operations; more generally the equalization processes were oriented against qualified personnel, particularly the highly educated intelligentsia, leading to terrible injustices (and plainly ridiculous

situations)<sup>6</sup>. This primitive approach and the obvious injustices which it generated led to distorted and later to the complete abandonment of any scientific methods of working-time estimates and thus any progressive system of stimulating labour productivity.

Actually - in the 1980's - the situation is such that really almost nobody possesses the relevant knowledge (accumulated during the last 90 years, starting with Taylor) and the indispensable experience in this field; very few scientists know the theory of problem.

Such an approach to wages and salaries led to drastic undervaluation of labour in relation to the other factors of production interfering with the logic of the basic system of values which i. a. governs the economically important proportions relevant for the substitution among the production factors. On the other hand wages and salaries were reduced to bare subsistence requirements. J. Szczepański considers this level of remuneration as a "survival allowance" which was by definition stripped of any motivational capacities. This, of course, should be seen in the light of the fact that the people were deprived of the economic entrepreneurial initiative and thus such "socialist economy" should accept the responsibility for people's subsistence. The easiest way to secure it was through employment in the socialized economy - thus the constitutional obligation of full employment for all is its consequence. It follows that the remuneration cannot be correlated with the quantity or quality of the product of labour because it should first of all secure people's survival - their subsistence<sup>7</sup>.

The war had completely destroyed the statistical services which had been well developed by 1939. It would be difficult to talk about any organized information system in the pre-war period - it did not exist, except for the statistical services. The system of reporting introduced late in 1944 was thus creating the basis for organization of the information system and - within it - of the statistical services. These had been reestablished in 1945, largely on the pre-war organizational pattern as the Central Statistical Office (Główny Urząd Statystyczny - G.U.S.) with regional branch offices situated in all the voivodships based on pre-war legislation. As soon as these offices began to operate - which happened

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<sup>6</sup>Interestingly enough these arrangements were (and are till today) seriously criticised by the working people, although they continue to be promoted by "politicians" and other demagogic elements seeking a political career. However, later this approach proved to be double-edged and in the 80's seriously complicates and hampers the proper solution in the delicate field of prices and incomes policy.

<sup>7</sup>See: Jan Szczepański, *Poland - Facing the Future*. University of Warsaw, Institute of Space Economy, 1989.

during 1945 – the reporting system was refashioned by statistical services and largely subordinated to their requirements. However, three important factors intervened negatively in these developments: (i) the prepared information concentrated on that required by the central administration orientation which quickly became irrelevant for the intermediary levels of the administrative hierarchy, (ii) the confidential character of the data gathered and the information produced (only after 1956 did statistical information start to be published, although much of the really relevant information was still kept confidential and was accessible only to some high-ranking persons), and (iii) processed information was methodologically biased and propaganda-oriented. Among these factors the first was perhaps the most important. The organization of statistical services, which should be regarded as the skeleton of the whole information system, did not play a basic role in its development. Information was scarce and not always accurate. This led to the development of the “private” information services established by different authorities for different purposes, all of them burdening all their subordinate units with specific reporting tasks seldom based on proper methodological premises and uncoordinated.

Another problem was created by planning. By and large everybody was planning something. Particularly the industrial managers, mainly technicians by training, were enthusiastic in this respect. Planning in well managed industrial enterprises was nothing new; the necessary knowledge and practical experience was there. Most of the well managed enterprises did, in the first post-war years, develop an extensive economic planning system which was never understood and appreciated by “central” bureaucracy and thus discontinued early in the 50’s. However, such approach to planning was not understood among the high level government authorities (who *de jure* knew everything better than anybody else) – where there was neither theoretical knowledge nor any practical experience of country-wide planning. Of course, there was the U.S.S.R.’s experience and knowledge in this respect, although very few really knowledgeable people were acquainted with it – and if so than only very roughly. However, it was clear that a central planning authority was necessary and it should come into existence under the aegis of the Economic Committee of the Council of Ministers (K.E.R.M.). However, there was the problem of finding a first class candidate to organize and manage this central planning authority. An excellent appointee was found in the person of Prof. Czesław Bobrowski, member of the Polish Socialist Party who had just come back to Poland. Early in Septem-



ber he became the Chairman of the Central Planning Office (Centralny Urząd Planowania - C.U.P.), and H.Róžański, Deputy Minister of Industry, was nominated as his deputy. At the same time Prof. Cz. Bobrowski became - *ex officio* - deputy Chairman of the Economic Committee of the Council of Ministers (of which H. Minc was the Chairman) and H.Róžański remained as before the director of the office of this Committee, which was to be accommodated within the Central Planning Office. This personal union with the highest economic authority in the country enormously strengthened the joint forces of the Economic Committee, Central Planning Office, and the Ministry of Industry - all under the control of H. Minc, who was at that time the unquestioned dictator of the Polish economy. Cz. Bobrowski came back to Poland conceptually prepared for the organization of the country's central planning as well as knowing whom he would invite to work with him - that is, distinguished Polish specialists known to him from before the war.

Having said all that, it should be pointed out that the considered concept of planning - which was at the basis of the Central Planning Office - was narrowly economic and burdened from the beginning by the neo-classic neglect of the social underpinning and of the spatial dimensions of the social system and its economic sub-system<sup>8</sup>. These omissions led to the creation in 1946 of the Central Spatial Planning Office which legalized and confirmed the disintegration of planning - an error which would lead to many basic errors which burden Polish central planning to the present time. However, at the time of its inception nobody realized the consequences and more particularly their coming scale and impact.

However, at this moment all that was apparently less important. The primary objective was reconstruction since the losses caused by the war were tremendous. Poland lost more than 6 mln people, i. e. 22 per cent of its population. Military activity destroyed almost 20,000 industrial enterprises. It has been estimated that 39 per cent of the national property was wrecked<sup>9</sup>. In the countryside some 470,300 peasants' farms had been either damaged or completely destroyed; the number of cattle diminished by 67 per cent and of pigs by 83 per cent. Most of the towns were in ruins, with Warsaw particularly severely damaged. Moreover practically one-third of the population had to be shifted from the Eastern to the

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<sup>8</sup>If the capitalist system should be seen as the economic one to which the society is subordinated, the socialist system is social and its economic sub-system is subordinated to its society - this is a very important difference. The error made in this respect at the very beginning continues to the present.

<sup>9</sup>The quoted figures refer to Poland within its present borders; see: Ciepielewski, J. et al., *Dzieje Gospodarcze, P.W.E., Warszawa 1977, p. 584.*

Western recovered territories – an exodus of extremely important and virtually incalculable social and economic consequences.

Land reform – decreed in September 1944 and implemented in the years 1944-1946 – was certainly important both socially and politically, although doubts may be cast on whether it was economically positive at the time of its implementation or in the long run. Its advantages are highly debatable – the size of the farming units created was in most cases non-viable and thus technically and economically retrogressive. The whole story of post-war Polish agriculture is a continuum of inconsistencies, contradictions, injustice, mismanagement, abuses and lawlessness. The results were felt in the 1970's and later when agricultural production was insufficient to feed the nation, necessitating large imports of food (just when Poland lost its creditworthiness). However, in 1945-1946 the land reform was regarded as something natural, obvious, and one of the essential elements of the major changes which were under way. Serious shortages in the means of production were the primary preoccupation of both the peasants and the government – food was the first and most important commodity. On the other hand at this early post-war period, unemployment in the countryside was a problem and the type of agriculture that developed, combined with the shortages of the means of production, kept the situation more or less balanced and prevented the rural exodus which came later with the forced industrialisation, after the first reconstruction period.

One may say that the planners were in a difficult situation. On the one hand, there was the well controlled nationalized sector of the economy and on the other, agriculture – with some 70 per cent of land in private hands, apparently very difficult to keep under control. However, there was a remedy in the system of contracting which stabilized the market for agricultural products – since, the tightly controlled, black market was marginal and insignificant – and thus gave the State the possibility of controlling this vital sector of economy.

Nevertheless it was extremely difficult to come to grips with industrial production which was growing largely spontaneously – and quite dynamically: reconstruction was in full swing. At this moment community of technicians and engineers which was extremely active and, in spite of terrible war losses, numerous, brought very substantial conceptual aid. The pre-war professional technicians' and engineers' organizations reemerged in an organized form in 1945 and were under way to federate compulsorily in one country-wide organization later called the "Chief Technical Organization" (Naczelna Organizacja Techniczna – N.O.T.). This orga-

nization called a Congress in Katowice in January 1946 with the purpose of tracing the outlines of the future development of the Polish economy. This Congress exceeded expectations. Information about the current state and developmental prospects of different industries extractive and manufacturing, agro-allied and forest-based, energy generation and the construction industry, transport and communication – were presented in detail and with imagination by the best specialists in each line of business and discussed with the participation of the producers and recipients as well as top Government authorities including the Central Planning Office. This information proved later to be invaluable for planners – immediate reconstruction programmes were displayed and the conceptual basis for future development largely created.

During 1946 the Three-year Plan of Economic Reconstruction – for the years 1947-1949 – was prepared and enacted by the Sejm (2. 07. 1947). Its main objective was to achieve the pre-war standard of living of the working people through post-war reconstruction, the stabilization of the socialist régime and socio-economic restructuration, particularly reconstruction and the fast development of extractive and manufacturing industries as well as through integration of the recovered territories with the mother country.

It was planned to achieve 140 per cent of industrial output, 110 per cent of agricultural output of the 1936-1938 annual average, and the fixed capital formation was to be concentrated on industry and transport – their share in investment outlays planned to be 75 per cent of total accumulation. These targets – both in industry and in agriculture were achieved before the end of 1949, namely in November of this year, the consumption per capita surpassed the pre-war level, and the national net income per capita was 75 per cent higher than in 1938; the per capita output of industry achieved 250 per cent, and of agriculture 128 per cent, of the pre-war level. The success was striking.

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The strengthening and stabilization of the socialist régime was a key objective of the Three-year Plan which, of course, as an objective was directly related to and dependent on economic progress. These processes were progressing in many different ways and they had many different aspects. It is not the subject of the present study to give an account of these political processes, besides it is still too early to discuss these problems, many features of these processes remain unexplained and the proper sources of information are still inaccessible. However, they did

have an important and many-sided impact on the country's economy. And in such a context the symptoms and their consequences are relevant. What caused these symptoms is by and large known, although not in detail; particularly the whole political and personal machinery which was working behind the scenes are still to be studied in depth and elucidated. This should be done by specialized historians. It looks as though the time for such studies is coming although there will still be strong opposition to them – many people who were involved in or who took advantage of these mechanisms are still alive.

Today everything seems more or less clear. Stalin's terroristic way of ruling was penetrating into the Polish management system simultaneously, from the top to the bottom of the governing hierarchy: both through the Party, i. e. the political system, and through the administrative system which was subordinated to the political one on each level as well as through the functional services which penetrated the whole management system with full disregard of its hierarchy as well as of the fundamental principles of organization and management, particularly the principle of the oneness of the management and responsibility. Once a manager is not free to choose the people with whom he cooperates and shares responsibility, he cannot be held responsible any more for the system which is entrusted to him. This way the destruction of the management system began; professionals were dismissed and replaced by politically trusted figures, irrespective of their professional qualifications, not to mention other often more important quality features. These people were recommended by the political system – within the famous concept of "nomenklatura" – and no other people could be employed in managing positions, even those at a very low level of the hierarchy. The poor quality of most of these people was later described as: "mean, passive, but faithful". The main feature of these people was that they were dependent on the authority which had promoted them – and this authority was not the one under which they had to perform their duties.

Looking on these features from the Weberian view-point these people did not fulfill the basic requirements, namely:

- that of the separation of the problems related to their position from their personal problems (interests);
- that people should be promoted only on the basis of their qualifications;
- that the hierarchical organization of the administrative structure should be strictly observed; and

• that of the full freedom of decisions within the granted scope of competence – as a factor related to the personal responsibility.

Of course, the so-created bureaucracy has nothing to do with the Weberian ideal bureaucracy and just corresponds to the pejorative meaning of this term as defined by A. Gramsci<sup>10</sup>. The essence of the problem is related to the divergence between the objective function of the really responsible manager and the objective function of somebody assigned to the position for other externally controlled reasons.

More generally it should be pointed out that this divergence of the objective functions is typical for the functional structural elements of the management system acting with disregard of the hierarchical relations within the management system – the divergence refers to the differences in objectives which may be not only divergent but even contradictory. Once the direct intervention of functional elements is permitted (or tolerated) the whole management system loses its consistency and disintegrates – because the managers cannot then be held responsible for the sub-system entrusted to them, over which they are supposed to execute full control. And this is exactly what happened in the Polish management system already sometime during the late 40's. Different governmental or extragovernmental (political) functional authorities started to interfere directly with the management of the enterprises etc.

One should say immediately that this interference was more than often of bureaucratic type and had nothing to do with political vitiations – only the bureaucracy (à la Gramsci) was a product of them, and particularly of the personnel policy.

Makers of bureaucracy – bureaucrats in their own right – who were poorly qualified, had a very limited capacity for generating variety. Therefore – for the sake of their own security – they developed uniformity. Of course, it is important to distinguish the difference between standardization and uniformization. It is strange that bureaucracy, as a negative phenomenon, although considered by K. Marx and his most prominent followers, including W. I. Lenin, A. Gramsci (who gave maybe the most pervasive Marxist study and critique of this phenomenon, never translated into the Polish language – sic! – because the bureaucrats never liked the idea of its publication) was never thoroughly studied in Marxist terms. In this respect much more was done, relatively recently, by Western scholars involved in studies of the theory of teams and more broadly

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<sup>10</sup>Gramsci, A., *La giungla retributiva, Il Mulino*, Milano 1971.

the sociology of organization and of organized activities – and thus also of bureaucracy<sup>11</sup>.

Still the managers were not attacked frontally. However, their situation deteriorated visibly, and their authority was systematically undermined. Apparently this action was directed against the intelligentsia, against white-collar workers, and professionals, against all who had been suspected of representing counter-revolutionary, anti-socialist and anti-communist attitudes.

And virtually everybody was suspected. The time of great purges, prosecutions of innocent people, among them great patriots and war-time heroes, lawlessness and atrocities, was coming. Officially, managers were under the protection of the Party, a protection publicly announced at the very top level of the Party and governmental authorities. However, the atmosphere was deteriorating – one might say it was foul; hypocrisy was omnipresent. Apparently everything was under control, but nevertheless the managers were feeling more and more insecure and impotent.

As I have already pointed out, it is beyond the scope of the present study to describe the ongoing political processes and dangers. However, changes were under way. And these appeared on the outside in a guise different from their real content. This was deeply related to the struggle for power among the leading individuals. Externally it was a struggle for ideological and political principles which were in the process of conversion into dogmas.

More or less at the same time the concept of economic policy was changing. An important impulse was provided by the Polish – U.S.S.R. economic agreement concluded in January 1948. It should be realized that this agreement was politically very important and may be regarded as an East-European counterpart to the Marshall Plan. This agreement provided substantial economic and technical assistance for rapid expansion of manufacturing industries in Poland. The most important industrial projects of the Six-year Plan (1950-1955) came to existence within the framework of this agreement (Iron and Steel Plant in Nowa Huta, and several other basic industrial plants as well as wage-goods producing units).

This agreement, however, was not only a political counterpart to the Marshall Plan and thus contributed importantly to the deterioration

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<sup>11</sup> Among them: H.A. Simon, T. Parsons, E. Etzioni, M. Crozier, J. Marschak, R. Radner, E. Friedberg. A special position belongs to N. Parkinson, L.J. Peter, P. Townsend and others also approached the problem from a satirical (and very instructive) point of view. As explained above M. Weber placed himself in a very specific position considering an utopian concept of ideal bureaucracy, confusing the problem with the reality of the management systems.

of the East-West relations, but it was also prompted by the successes achieved in the post-war reconstruction of the economy of the U.S.S.R.. This was a positive example in respect of the desired fast economic development through development of basic industries ("machines producing machines") and through an extended effort by Polish society related to restricted consumption of course, but nevertheless promising. On the other hand, however, this agreement marked the beginning of an adventurous policy of "growth at any cost" which disregarded society's aspirations and living standards and which was pursued during the next three decades.

In spite of its apparent attractiveness this emerging development policy gave rise to doubts among professionals, and more particularly among those involved in planning. Its acceptance required changes in the plans for 1948 and 1949, i.e. for two of the three years covered by the plan currently being implemented. Criticism of this kind was unacceptable in the prevailing conditions. One of the early losers was Cz. Bobrowski, the Chairman of the Central Planning Office who had so far apparently been on very good terms with H. Minc the architect of the new economic policy (however, H. Minc also completely changed his mind - today we may guess under pressure from whom and at what price). Bobrowski was forced to resign and his position was taken by T. Dietrich (deputy Minister of the Treasury and also a member of the Polish Socialist Party). Externally the conflict was developed around some methodological problems: the methods of planning as such, the method of national accounts statistics - more generally an anti-Marxist approach to planning and yielding to the influence of bourgeois economic theories. Interestingly, Oskar Lange, a Marxist economist of world-wide renown, and one of the most prominent Party members, was methodologically on the side of Cz. Bobrowski. This, however, was of no help. The attack was personal - there was no enough room for two competing policy-makers and in the struggle for power H. Minc - a member of the Polish Workers Party - was much stronger than Cz. Bobrowski - a member of the Polish Socialist Party. He left Poland and remained abroad till 1956 to disappear again after the 1968 excesses. He reemerged again in 1980 in relation to the "economic reform" being active in its formation (he retired formally in 1987).

However, one should not be misled by these externalities of the process of changes which was under way. The externally apparent personal Minc - Bobrowski showdowns had a much deeper background, a struggle for power (or maybe rather for a place under Stalin's sun) among the

high-ranking Party members and their realignment related to the tightening Stalinist régime exposed by Gomulka's failure. Minc became vulnerable and was forced to counterbalance his former loyalty to Gomulka and his relatively liberal methods of ruling the economy particularly in his personnel policy by some more stern actions. In such conditions there was no room for personal loyalties, moral and ethical constraints – survival was at stake.

Nevertheless this “planning climax” resulted in the undisputed supremacy of the Polish Workers Party members in economic questions and – to an important extent – cleared the way toward the union of the two leading Polish political parties in 1948.

During the unification congress of the Polish United Workers Party, H. Minc presented the conceptual outline of the Six-year Plan (1950-1955). Thus the scene for the new stage of development of the Polish economy began to be cleared of all those who could eventually influence the shape of the Six-year Plan, later called the “Plan for Economic Development and Construction of the Foundations of Socialism”. However, before this plan was ready and its implementation could start, more changes occurred. Some of them may be considered as apparently of lesser importance, few may appear as of major importance, but all of them together were decisive in the swiftly advancing process of decision-making centralization resulting in the deprivation of State-owned enterprises, i. e. of their managers, of autonomy, and thus of their ability to generate the requisite variety needed to control the relevant enterprises.

As usual in such situations, this restriction in the managers' decision-making power resulted in the decision-making capacity being shifted to superior levels of the management system hierarchy. However, this was leading directly to the phenomenon depicted in L.J. Peter's book *The Peter Prescription* – namely that decision-making was controlled by people who succeeded in the achievement of their levels of incompetence. This in turn provoked the bureaucracy to search for arrangements which would liberate it from central responsibility for decisions made – a situation which might be achieved through the creation of regulations (legal arrangements) providing a readily prescribed decision for any situation which might occur; this way the process of decision-making was converted into “decision-proceeding” which does not analyse the substance of the problem, and particularly the future consequences of the decision made, but is reduced to the search for the regulations which determine the kind of action that should be taken. And in case when such prescription does not exist (has not been foreseen by the existing regulations) no action



could be taken unless a new relevant could be promulgated by the authorized institutional body – preferably by the Sejm (Parliament) to dilute or virtually eliminate the possibility of responsibility. Four decades of such a bureaucratic régime were to result in the complete paralysis of the public administration (state management system) which totally blocked the implementation of the “economic reform” forcing the prime minister to state publicly – in the Sejm – that “everything that is not explicitly prohibited is permitted”.

Of course, this sentence is perfectly logical and its sense is progressive. Nevertheless, this sentence cannot abolish many thousands of legally sanctioned regulations introduced in the past four decades. Thus this may be accepted only as a declaration of good will on the Government’s part but has very limited practical significance.

All this, of course, started modestly by apparently minor regulations. To give examples:

- the introduction of regulations regarding the printed forms used i.a. in enterprises which (i) prohibited their printing in the enterprises’ own printing facilities, and (ii) introduced centrally (for the whole country and all enterprises, institutions, etc.) printed forms.

A voluminous treatise could be written on this subject; the unified centrally designed and printed forms may have been adequate for some primitively organized enterprises but were absolutely inadequate for any more sophisticated and specialized organization, particularly for enterprises which insisted on proper accounting and complex information gathering. Many forms were simply no longer available because the bureaucrats did not understand that they were necessary;

- the imposition (on business) of a new “economic and financial system” – implemented and executed by the banking system – which secured day by day detailed financial control of each enterprise with complete disregard for the enterprise’s objective function, i. e. its purpose and sense of existence including the economic implications of its functioning;

- employment limits were set up – for the whole enterprise and for some of its departments, e. g. for the book-keeping department (with full disregard for the methods of book-keeping used and the purpose of book-keeping in particular except for the specific requirements of the bank and the fiscal authorities – analytical information about economic effectiveness was neglected, and on profitability only tolerated; at this time the external interference in book-keeping was only partial – further refinements were to come later, in the early 50’s);

- the enterprises' organization scheme (organigramme) – only one and obligatory for all “state” enterprises – was imposed with a total disregard for the enterprises' line of business and other specificities, including their size (one general manager with two deputies – the technical deputy manager and the chief-accountant – as the enterprises' executive committee) – this regulation was fiercely fought and as a result of convincing arguments many exceptions have been permitted;

- personnel policy was externally directed; the general manager's capacity in this field was virtually nonexistent; he could only object in some extreme cases, but not always successfully;

- the general manager (executive president – in U.S. terminology) of the enterprise was formally subordinated to a well defined hierarchy of the management system (administration) of the economic subsystem, although in current practice he should also conform with the decisions made by the ruling party local and higher authorities; this applied not only to Party members (who by definition were subordinated to the Party's organization) but also to the non-partisan. This dichotomy was caused by the adoption of the overruling principle of the supremacy of politics, and

- in 1949 started the purge in industry which continued well into 1951 and even 1952; virtually all professional managers who had acquired their knowledge before the war lost their posts; some of them retired, many went to project designing enterprises. People of political origin came to occupy their posts. Mining was the only line of business which did not lose its managing personnel – thanks to the regulations in the mining legislation.

More phenomena emerging from political considerations on the one hand, and the growing bureaucracy on the other hand, with a different – both in kind and strength – impact on the enterprises, and more importantly on the economy's performance, could be listed here. However, this is not a detailed account and the examples mentioned well depict the situation, the atmosphere, and the attitudes characterizing the period of the time under consideration.

Nevertheless, certain features which were developing at the time, although they had so far neither a direct nor indirect impact on the economy, were in the future to play an important role and have such an impact. In saying that, we have in mind two features which were starting to develop in academic life; in general and political economy in particular.

In respect of scholarship in general, there was an overriding preponderance of politics. This applied in fact to all spheres of life, and led to

two important dangers. One was the selective biased dogmatization of scholarship, and the second, serious non-scientific distortions of scholarship, including politically desirable errors. Probably the most pervasive representative of this latter line of development was T. D. Lysenko – who was an imposter. Although dogmatic distortions of such magnitude never flourished in Polish scholarship, the yield was seriously affected, causing stagnation, if not regression, in many disciplines. Discussion and constructive criticism, the indispensable elements of any progressive academic discipline, were carefully avoided. Science was silenced and induced to express itself in terms of apologetic voluntarism.

In respect of the economic sciences the situation was perhaps particularly difficult. Marxist political economy was simplified, dogmatized, and thus vulgarized. What was termed “economism”<sup>12</sup> was its most popular expression. At the same time, the teaching of the so-called “bourgeois” economy was reduced to one-sided, biased and unproductive, selective dogmatized criticism which led nowhere. The monistic concept of scholarship – particularly important in respect of the social sciences, *inter alia*, economics – was completely forgotten. Moreover, certain areas of scholarship were considered as “taboo” and thus left unconsidered – like for example welfare economics or more generally microeconomics – (in spite of M. Dobb’s insistence – and he was considered a Marxist economist)<sup>13</sup>. This way a new generation of economists was emerging – composed of crippled semi-professionals (they are now busy implementing “economic reform” in Poland).

It should be added here that modern methodological developments in scholarship were also crippled because of the anathema pronounced against the systems approach and general systems theory which was described as “modernism”, “ideological degradation”, or “abstractionism” – all forbidden (revisionistic) deviations. In spite of that, Oskar Lange was among the early forerunners who tried to use the systems approach and cybernetics in complex economic analysis. However, at the time, this approach did not arouse much interest and was criticized from very comfortable and politically safe positions. Only later in the 1970’s he started to be quoted and awarded for his merits. The same applied to Henryk Greniewski who made some important contributions to the

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<sup>12</sup>An expression which is generated by the conviction that all the social phenomena and changes may be explained by their direct and one-sided reduction to their economic basis and that economic phenomena and processes are the only active factors of development.

<sup>13</sup>This is why today when struggling with the “economic reform” the economists do not have at their disposal any real knowledge about “socialist” enterprises. See: Dobb, M., *Welfare Economics and the Economics of Socialism*; Cambridge 1969.

systems approach – and became better known abroad than in his own country. Strangely enough, a whole generation of scientists till today reject systems theory and the cybernetics which they did not learn at the right time, and about which, in old age, they are too lazy to learn.

The same applies to scientific organization and management – science which was highly prized by W.I. Lenin, but nevertheless heavily criticized under Stalin's rule, particularly by the bureaucracy which understood the dangers which would be introduced by the proper and efficient structure and organization of a management system – dangers which have to be avoided by any bureaucracy which would like to survive. Thus in 1948 the Society for Scientific Organization and Management reactivated in Poland after the war (in 1945) was disbanded (and again reactivated after 1956).

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Thus by the end of 1949 after the extremely successful accomplishment of the Three-year Plan, Poland was entering a new period: that of the Six-year Plan. However, parallel to the development of the economy, instead of a modern management system massive foundations were laid down for the worst possible type of bureaucracy based on the famous “nomenklatura” which contradicted the principles of an efficient management system.

## 2.

### Time of mismanaged growth

After the successful implementation of the Three-year Plan the stage for further development was apparently set. Both the real and the management system were somehow reconstructed. Output was slightly larger than before the war. People had been resettled and the recovered territories populated. A new, ambitious Six-year Plan for 1950-1955 was ready and passed by the Sejm in July 1950. The Central Planning Office was replaced by the State Economic Planning Commission (Państwowa Komisja Planowania Gospodarczego – P.K.P.G.) headed by H. Minc who became the first Deputy Prime Minister and continued as Chairman of the Economic Committee of the Council of Ministers; the Ministry of Industry was split into several specialized ministries.

However, all this looked good only on the surface. Both the external and internal situation was deteriorating rather fast, and difficulties multiplied.

Externally, the cold war started, East-West relations were deteriorating rapidly. The embargo imposed by Western countries was painful, particularly in respect of capital goods, the import of which was decisive for the modernization and reconstruction of productive facilities. Rising tension stimulated the modernization of the army and thus the need for reconstruction of the armaments and army-related manufacturing capacities – a relatively important development programme which was not foreseen by the Six-year Plan; these tasks emerged as additional, “on top” of the plan which was not changed to adjust to the changed structure and magnitude of demand.

However, at this point one important remark must be made. Both the embargo on capital goods and the unexpected military demand for rather sophisticated modern equipment – additional obstacles/difficulties imposed on Polish industry – had one important positive aspect: they forced unaided autonomous technical developments which otherwise would not have been considered at all. For example it was necessary to start the

manufacture of several types of machine-tools – and thus the need to design them and to develop the required “know-how” – which were not foreseen by the original plans. Military demand boosted development of qualified workers and technicians as well as imposing on several industries highly demanding quality requirements. Nevertheless, this was the only positive indirect aspect of the situation, which otherwise implied terrible wastage of resources spent on the creation and development of armament industries as well as on mastering problems which otherwise could have been non-existent.

Much more important and potentially more dangerous were the rapidly developing internal problems which were started deliberately either for political reasons or under the guise of “political” reasons but in fact reflecting the interests of certain groups of people (pressure groups). However, in these conditions there were many problems which originated in simple ignorance, combined with the necessity of distinguishing oneself in order to improve one’s own position.

It should be realized that the most basic economic problem which Poland was facing at that time was to gather the resources needed for the implementation of an ambitious development plan. The export of natural resources (coal could yield only a very limited volume of means, and thus the only accessible source was human labour – an abundant but mismanaged factor of production). Accumulation was to be extracted from labour; from agricultural labour through low pricing of agricultural produce (a State monopoly<sup>1</sup> through control of the trade in agricultural products) and from non-agricultural labour through the State employment monopsony which enabled the State to keep wages and salaries at a desirably low level. Using this method, labour started to be undervalued in relation to other factors of production.

As the State controlled all consumer prices by means of a virtually monopolized distribution system (although a black market always existed) wages and salaries could be kept low – just on a level sufficient for satisfaction of the most basic necessities, primarily food. Of course, such a system had nothing to do with voluntary saving which contributed to social accumulation – it was a purely compulsory system which extracted from people as much as the bureaucracy requested, often disregarding whether it was actually possible to extract so much.

And such compulsion is not easily explainable to the working masses. The creative euphoria oriented toward the country’s reconstruction could

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<sup>1</sup>By means of pseudo-cooperative arrangements which in reality were and are monopolistic para-statal enterprises.

work effectively only for a few years and its visible effects were diminishing, although its pervasiveness diminishes quickly with the individual and collective feeling caused by empty pockets and severely limited consumer satisfaction. Thus economic compulsion had to be additionally strengthened by other measures.

One of them was psychological and is well known under the term "urawnilowka" which is based on the non-identity of two different concepts: namely equality and equity. Equality is never equitable and vice versa: equity does not imply equality. In socialism, equity does mean equality, but in contrast, it means that remuneration for labour must be proportional to its effectiveness – and this does not imply equality. However, when wages and salaries are compulsorily kept low then they are accompanied by the demagogic equality argument that everybody's needs are equal. Of course, nobody additionally explains that such equality implies unequal contribution to the common accumulation. All this has a negative impact on labour productivity, and its remuneration ceases to be motivational. To keep the workers quiet, salaries are kept low and the remuneration of wage-earners is divorced from workers' individual qualifications – the easiest way to achieve this is through piecework, which favours non-qualified workers and more generally favours blue collars in comparison with white collars – who are often paid much less than the workers.

In Poland these relations have been taken beyond the limits of pure nonsense; an average bricklayer is paid better than a renowned university professor; and, what is perhaps more pervasive – the bricklayer's technical supervisor (foreman) makes less money than the bricklayer. Generally a growing number of people is not interested in getting better qualifications because they do not pay correspondingly more.

Of course, these factors necessarily failed to create a labour stimulating atmosphere. To keep the situation under control the Roman principle "divide et impera" was utilized. Workers were against the intelligentsia, and against the farmers (the mass media has produced a stereotype of the farmer, presenting him as a relatively rich person indulging in conspicuous expenditure – a Russian "kulak" – and generally as a socially degenerate. A careful statistical analysis does not confirm this opinion); the farmers against the urban dwellers, and particularly against the intelligentsia; only the intelligentsia was patiently expecting a better time – many of its members working diligently without regard to material rewards. It was for this reason that it became the social group most hated by the bureaucracy, political demagogues and the other conjunc-

tural people and was regarded as the potential enemy of socialist ideology and régime.

Strangely enough it is among the intelligentsia that the most sincere and true protagonists of the socialist ideology were to be found ( the communist ideology was regarded as worthy but utopian); however, they were also very critical in respect of its daily practice which, except for words, had not much in common with the declared principles.

For these reasons, the intelligentsia was regarded by the ruling bureaucracy as the social stratum potentially most dangerous to the current régime, more generally, anybody who criticised the régime and anything in any way associated with it, was dangerous and thus kept under preventive control, which quickly developed into terrorism implemented by the security of authorities modelled on the Stalinist pattern and brought to perfection by years of practical experience. Thus there was lawlessness, atrocities and crimes were committed, many people lost their lives for being honest patriots and war-time heroes. All this had a terrorising impact on society, however, neither its pressure was as strong nor did it last for so long as in other socialist countries.

There is no need here to go into any more detailed description or considerations. The XIXth Conference of the U.S.S.R.'s Communist Party held in July 1988 answers all possible questions in this respect. The logically negative impact of the régime based on terror and lawlessness is not only known but also recognized by all including the population of socialist countries. However, their bureaucracies are not of the same opinion and thus represent the major obstacle to these countries' political and social reconstruction ("perestroika").

Of course, we still do not know - and probably will never know whether the Party and government authorities of that time (i. e. late 40's and early 50's) fully realized the dangers related to acceptance of such a short-sighted socio-political set-up and its impact on the economy and the economic behaviour of individuals, particularly those who were involved in decision-making processes. Moreover, if they did realize what was going on, whether they considered properly the limits within such a policy could be continued, i. e. when it would have to be discontinued to prevent possible disruption caused by the exhaustion of the working masses patience. This, of course, is not an exclusively Polish problem. All socialist countries are facing it.

However, this is not the sole consequence of the chosen policy. The relative (as well as in absolute terms, of course) undervaluation of labour was to execute an important impact on the whole of economic relations



and with time cause a hidden disequilibrium which – because it was hidden – was particularly dangerous for the economy in which profitability and economic effectiveness were to be unrelated (independent) features – in the sense that a profitable economic performance could be disastrously ineffective economically and vice versa – unprofitable activities could be (nevertheless) highly economically effective – because of the fact that the whole price system ceased to reproduce true economic relations and any logical valuation system and started to be an arbitrarily imposed misleading set of abstract figures.

Already early in the 50's, industrial projects designing offices faced serious difficulties with economic analysis of the proposed plants. Because of labour undervaluation no modern labour-saving design could be proved economically effective and superior when compared with labour-intensive obsolete plants; however, labour was scarce, particularly qualified labour, and the investors required labour-saving designs (they did not care for effectiveness as it was required – quantity was demanded). The misleading results of such an economic analysis conducted on the basis of currently paid expenditures, i. e. labour costs, emerged immediately when the designs were, for comparative purposes, analysed, for example, in costs prevailing in Austria.

However, the bureaucracy was not interested either in prime cost nor in the economic effectiveness of the performed activities. In a way this was substantiated by the fact that the formally calculated costs following the imposed book-keeping (accounting rules and prescriptions) did not reflect the real values and were therefore misleading. Only the formal aspects of financial accounting were of interest and in a rather specific way which led to a thorough reform of the accounting method and the accounts system, *inter alia*, with the prime cost calculation method which completely distorted the profit and loss account (losses could be distributed on the individual accounts being considered as costs incurred in the process without regard to the sources of these losses which in this way were hidden and thus indirectly legalized. For example the losses incurred through the underutilization of productive capacity were distributed and charged as costs incurred in relation with the actual production.

This very specific kind of economy was developed mainly by the Ministry of Finance and more particularly by the fiscal authorities. It was called "the economy of envy". It has developed, and still does, a killing effect on any entrepreneurship and initiative and thus on the whole economy (its nickname was originated by the famous writer M. Wańkiewicz

as “disinterested envy”). A separate treatise could be written on this subject.

This basically sound idea, which provided for the imposition of austerity measures on society in order to increase accumulation, and thus fixed capital formation, to increase the extended reproduction of the fixed capital, and thus to speed up the expansion of productive capacities, led to several undesirable consequences which started to work to the detriment of the country's social system and its economic sub-system.

All this happened only because the implementation of a basically sound concept was based on a policy which assumed that the society could be cheated – be compelled to accept an austerity régime without its own consent, because it was hidden in a wages and salaries level policy, without showing how much of the value of people's toil would be taken away from them and how it would be used (in terms of purpose and effectiveness). Hypocrisy is always dishonest and thus leads either nowhere or to new lies. Why were the people not paid the full value of their work and charged with taxes which would reduce their net income to the required<sup>2</sup> austerity level? However, then the government would have had to give a proper account of the financial means used in this way. It was hoped that all the above-described distortions would not necessarily emerge and materialize with all their negative consequences, however, they eventually did in 1978 and became publicly felt in 1980, nevertheless, never officially disclosed or otherwise admitted.

The austerity measures as we have said were applied to people's incomes. Wages' and salaries' levels in the state and para-statal enterprises (also, i. a. in the pseudo-cooperatives like “Społem” or “Samopomoc chłopska”) could easily be controlled.

Agreements resulting from collective bargaining, signed between the (tightly controlled) trade unions and government representatives (economic administration) fixed and listed i.a. the levels of hourly or daily wages and monthly salaries for each type and level of professional qualifications (for each line of business), and the system of incentives and bonuses related to work productivity and quality as well as other elements of remunerations (like supplements for overtime work, night work etc.) – i. e. a tariff. Later additional controlling devices were introduced; they limited the amount of wages and salaries bill for each enterprise and related this amount to the value of the output. However, this system was later proved to be completely ineffective because it was inconsistent with

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<sup>2</sup>In this context “required” means such which could be balanced with wage goods accessible on the market (implies both prices and demanded structures of the supplies).

legal premises which regulated the relations between the employee and the employer; moreover, the trivial cybernetic rule that output can be regulated only on the input side was overlooked.

More difficult was the problem of controlling the income levels of individual entrepreneurs, particularly individual farmers. Considering this problem we will simultaneously review a more general problem of the agricultural sector – perhaps a relatively minor (and diminishing) contributor to the national income, but basically an important one. Deficient agriculture always hampered or even made impossible any economic development; this is well known and thus there is no need for argument.

The performance of the agricultural sector in the Three-year Plan was – in spite of obvious difficulties – more than satisfactory. It is difficult to say how, if at all, and to what extent this success should be ascribed to the land-reform decreed in 1944. However, in 1948 the Polish Workers Party policy toward individual farmer changed dramatically – these changes were announced by H. Minc in a speech delivered during a plenary meeting of the Party's Central Committee (August-September 1948) which was entitled "Current Party Tasks in the Field of Rural Economic and Social Policy". Its attention was focused on the class struggle in the countryside and on collectivization. H. Minc proposed a long-term programme of the transition from individual farming to the collective economy and modern marketable production. He warned that the peasants were strongly opposed and suspicious. Thus he recommended slow implementation of the collectivization programme and made it dependent on the resources which the State could allocate for this purpose; he pointed out that scarcity of these resources would seriously affect and slow down the process. He insisted on patience and underlined the enormous multiple damage which might be caused by hasty implementation of the programme and particularly by any kind of coercion<sup>3</sup>.

In spite of all the experience, particularly that of the U.S.S.R., and strong resistance, the programme implementation neglected all these warnings. Its terribly negative results are well known. The important decline in agricultural output (although partially influenced by climatic vagaries) in the years 1951-1952 and the very slow increase during the remaining period of the Six-year Plan (compared with its 1949 level) was caused mainly by an irresponsible implementation of the collectivization programme. And in 1956 not only the programme but the collectivization concept was officially and formally abandoned. But who is going to repay the nation-wide suffering caused by this lack of responsibility?

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<sup>3</sup>See: Rózański, H., op. cit., pp. 532-533.

In spite of that the idea of land concentration in the State's hands was not abandoned, although implemented in another way which was particularly vigorously pushed forward in the 70's. The perspective development plan up to 1990 expected that during this time 60 per cent of land would be socialized.

The concept was based on depopulation of the countryside deprived of the possibility of modernizing its farming technology and practice, deprived of chances to develop the rural infrastructure and to improve the peasants living conditions and by spreading lawlessness and by tolerating all the illegal coercive methods to discourage the farmers and induce them to abandon their land. With this in mind the extortionary peasants' old age pension system was created and introduced, according to which a farmer who surrendered his land to the State was granted a rather low monthly pension. The results were very disappointing, and besides the State was completely unprepared for taking over the small holdings handed over, which were scattered in small pieces of land over considerable areas – hundreds of thousands hectares of land remained untilled. Arrangements were changed, designed to introduce a more humanitarian scheme and the condition of land cession abandoned.

Finally in the 80's, constitutional guarantees were given to the farmers in respect of the inviolability of the private ownership of land; now the revision of the maximum permissible size of a private farm (up to now, only 50 hectares) is under consideration and the purchase of land in order to achieve an economically viable size of the farm is encouraged and financially facilitated – as are, more generally, all undertakings leading to modernization.

However, the farmers are still suspicious and reluctant – it will take many years to recapture the peasants' confidence toward the administrative officers and the Government, and toward the Polish United Workers Party. One should observe that the petty local, particularly fiscal, bureaucracy is totally saturated with Stalinist dogmatic concepts, accustomed to corruption and impunity, and considers that it is its duty, as well as right to rewards and recognition, to discriminate against the farmers. Hypocrisy still remains one of its most prominent features (originating directly from the "nomenklatura"). This treatment of the farmers is not specific to the officers of the territorial organization. A local, rural community of farmers is institutionally beset by different monopolistic organizations which, acting together with the territorial authorities, tightly control each farmer and all of them particularly in respect of the supply of the means of production, capital goods, and sale of products.

The farmers are totally dependent in this respect. And the period of the implementation of the "economic reform" (1981-1988) has proved how difficult it is – even for the Government and the Party – to break these ties.

Considering the problems of the countryside one should not overlook the difficulties arising from the complete lack of development planning and more particularly of any system of settlement development, restructuring, and reorganization, the lack of which was combined with the neglect of teleological and ecological considerations, which are so vital for the countryside.

The rural structure is antiquated and its organization anachronistic – corresponding to the transport and communication techniques of the early XIXth century. The smallness of individual villages means that the number of local instances is very large, multiplies road etc., connections and more generally makes the provision of the necessary infrastructure – both technical and social – economically impossible. The existing settlement system is a downright nonsense.

Of course, this situation is a historical heritage. The partition of the country which lasted almost 150 years, the inter-war period, and, of course, the 40 years of discrimination and harassment of peasants' individual farming have virtually determined the present anachronistic and nonsensical picture. And nothing has been done in the last 40 years to change this picture and contribute through these changes to another, better fate for the peasants. In this respect, the comfortable idleness of the so called "spatial planners", whose abilities could not go beyond their renowned voluntaristic apologizing has been and still is particularly revolting. The individual farmer was despised and discriminated against by the régime and its bureaucracy, and thus it was dangerous to take their side – the "spatial planners" themselves became bureaucrats.

However, meanwhile these farmers did not give up; they built new (apparently modern and very ugly) homes as well as their new farm buildings just where their families had lived from time immemorial. In this way the anachronistic rural settlement system was petrified for one more century – and nobody objected to it. Not much imagination is required to depict the consequences of such a *laissez-faire* attitude on the part of the "spatial planners", architects, and urbanists... Who is going to pay for their egoistic conformity? Of course, the whole of society.

The lack of a technical infrastructure will for many years hamper the development of modern agricultural production – animal husbandry, included – and the lack of a social infrastructure will push people towards

the large towns. The nonsensical structure of the settlement system will aggravate its own situation because of the neglected development of the smaller and middle-sized towns. They were too small and too anonymous to attract the attention of the "great artists" and "great scientists" dealing with large urban centres – practicing "big is beautiful" – resulting in the crippling urbanization of Poland. The result is that the people are today plagued by the acute shortage of housing which the "great artists" are trying to solve by building apartment houses in locations where they are most expensive (particularly in Warsaw and Upper Silesian Industrial Region – G.O.P.).

Maybe the worst feature of this situation is that the people responsible for its solution are not ready to admit that this situation is faulty and in need of thorough remodelling. Their bureaucratic mentality – and ignorance combined with arrogance – does not allow them to understand its appalling social and economic aspects and consequences.

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Generally non-agricultural activities were by 1950 in better shape than agriculture and the countryside. Whatever was its future development policy – in detail – it was development-oriented and at the time there were no easily discernible extraordinary obstacles, or if so then they were only emerging.

Nevertheless these difficulties and obstacles were in the making. The years 1949 and 1950 witnessed a general purge among managers. Virtually all pre-war general managers and most of the professional managing personnel with some pre-war experience were dismissed from their managing positions. The older among them were pensioned off, the younger transferred to projects designing offices, technical scientific institutes; some joined technical universities. Most of them were deprived of the right to occupy any management position. However, a few of them were employed as consultants; for example Andrzej Zaleski, a former Polish top-class industrial manager, was, for some years, a consultant to H. Minc.

These managers have been replaced mainly by workers or non-graduate technicians chosen on political grounds. Many of them tried to escape such appointment, although this was difficult, because Party orders had to be obeyed. Experience demonstrated that in this way industry incurred serious losses. Very few of the new managers held out for a longer period of time and eventually became real managers; most were dismissed or resigned rather soon, and others accepted the role of figure-heads.

The managers' purge was a political mistake and an economic tragedy. The orphaned enterprises were the greatest losers. And, so, of course, was the national economy and the whole of society.

Even today it is difficult to say whether the weakening of the enterprises' standing and position was intended by the authors of the concept of the purge. However, this purge was an important success for the bureaucracy. The chances of any bureaucrat being promoted to his level of incompetence increased considerably. The ignorance of the newly promoted managers was also "promising".

Many factors contributed to the weakening of the enterprises' position in their relation with the bureaucracy which systematically strengthened its position.

The first, and maybe the most important, was the personnel management policy which was based on a completely wrong interpretation of the concept of "nomenklatura". This interpretation resulted in a negative – nepotistic – selection of candidates for the key positions at any level of the management system hierarchy because only mediocre candidates were promoted<sup>4</sup>. The obvious result: a systematic weakening of the enterprises' managers, leading to an inability to control them, followed by lack of managers' self-dependence and the need for increasing external interference into the enterprises' affairs.

This management weakness led in turn to different external interventions in the enterprises' internal affairs. These interventions multiplied quickly leading to internal disorganization of the enterprises<sup>5</sup>.

Disorder which started to prevail in the enterprises could not be tolerated and thus called for external intervention<sup>6</sup>.

These interventions caused either structural and organizational changes or most frequently provoked the issue of new regulations – aiming at reducing the enterprises' autonomy (reducing their variety). Most of these regulations were addressed uniformly to all enterprises. The bureaucracy always took proper care to ensure uniformity. Most such regulations aimed at the replacement of the decision-making processes by

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<sup>4</sup>Because their promotion did not endanger the position of all these who already achieved their level of incompetence; see Peter, L.J., op. cit.

<sup>5</sup>In 1952 – i.e. three years after the last professional general manager left the "Pafawag" – a railway rolling stock factory famous for its achievements and organization – a ministerial commission was controlling the already ailing enterprise looking for ways and means to revitalize it: in its final report the commission wrote: ... *some traces of organization are discernible*...

<sup>6</sup>It is very interesting to observe how seldom the managers have been blamed for incapacitation of their enterprises – they have been treated like "sacred cows" – for obvious reasons, of course.

predetermined solutions of the problem and prescriptions for how the management should act in any particular situation.

Of course, solutions for problems depend on several factors and only some cases can be predetermined independently of the actual existing situation (after all, both the system and its environment are of a stochastic nature). And this is where "plans" come into the picture. In this context the "plan" must also be seen as some kind of regulation<sup>7</sup>. This way the enterprise was increasingly beset and held at bay by multiplying decrees, laws, regulations, etc. as well as by the "plans" imposed on them by their superior authorities in relation to the process of implementation of the "National Economic Plan" or, as it was called more recently, the "National Socio-economic Plan". The problem of "plans" and "planning" is important and will be discussed later in more detail.

Considering all these problems one should not overlook the fact that the discussed enterprises were elements of an economy which later was to be described by J. Kornai as the *Economics of Shortage* (North-Holland, Amsterdam 1980) – and these shortages were increasingly felt by the Polish economy in the early 50's. Of course, not all these shortages resulted from the circumstances described by J. Kornai. Some of them were caused by the conditions created by the "cold war" and the embargo imposed on many items which were in short supply in socialist countries, and thus also in Poland. This regards particularly some raw materials, which were not available in Poland (i.g. crude oil, aluminium), many capital goods which by their very nature cannot be manufactured in every country (a situation witnessed by the fact that in the 60's the West-European countries' investment projects were characterized by their imported component of 54 per cent ad valorem; this indice grew to 72 per cent late in the 70's and, of course, the most modern and advanced equipment which at the given moment is manufactured by only one enterprise. Of course, the balance of payments barrier is omnipresent, however, it belongs rather to the Kornai's type of shortages.

One should distinguish here between the liberal, open market economy, and a country in which "economies of shortages" imposed the necessity for a tight control of the market. In these latter economies, there is the problem of allocation of the limited volume of commodities (services) which are available among the actual and potential users. The problem has both substantial and methodological aspects and was the subject of a very heated discussion conducted at a very early stage of the Polish

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<sup>7</sup> Actually the centrally issued "plans" – enacted by the Sejm – became parliamentary acts, and thus laws which remained valid during the whole period of time encompassed by the "plan".



post-war administration development – in Katowice in March 1945. The question was to whom the required commodity should be allocated: to the manufacturers or to the final user. In spite of the majority of arguments being in favour of the “final users”, it was decided to favour the manufacturer – in real terms a solution in favour of bureaucracy, because the responsibility was shifted to the manufacturer and the bureaucracy was excused for its neglect of the final user’s needs.

Bureaucratic allocation of all scarce means of production makes the bureaucracy important and gives it decisive power. The way of using it is difficult to control – it opens a very large field for all sorts of informal manipulations in favour of pressure groups, in favour of the “very important” etc., including enormous opportunities for corruption. Thus all possible efforts were made to subordinate to formal allocation virtually all commodities and some services – what was abundant could be made scarce by ingenious manipulation of the supply of inputs needed for their manufacture. Experience gathered in connection with the implementation of “economic reform” in the 1980’s demonstrates how incredibly ingenious the bureaucracy may be in adapting itself to the changing conditions and thus prevent any effective change in respect of the allocation system and practice.

However, in the long-run the imposition of the so-called “economic-cum-financial” system by the Ministry of Finance on all the country’s economic life has proved to be its most efficient killer. None other than the fiscal-cum-banking system – or actually the conversion of the economy into a budgetary system – has imposed the bureaucratic mentality on the whole bureaucracy and has dismantled all the country’s management system raising the entropy of the country’s system to almost 1.0.

In this respect the functional Ministry of Finance was competing with another functional unit – the State Economic Planning Commission (Państwowa Komisja Planowania Gospodarczego – P.K.P.G.). Both these structures, as functional, for basically important organizational reasons should be unconditionally deprived of any decision-making power, although both of them demonstrated the strongest lust of power with complete neglect of their supporting-cum-complementary and service role in respect of the government – both tried to execute their power above the government.

It should be pointed out here that such situations – as a product of the ignorance and boundless arrogance of the top-central ruling bureaucracy, which in the final account each time resulted in the loss of power, and

more particularly in a considerable loss of confidence among society – were to lead the Party-cum-Government establishment to its collapse in December 1981, disguised behind the declaration of the “state of war”. This incredible arrogance meant that instead of anticipating difficulties with judicious and effective decision, this bureaucracy – always reluctant to retreat – reacted too late to try to defend an already lost position. So it was in 1954-1956, in 1968-1970, in 1978-1981, and so it is now when the bureaucracy opposes itself to the implementation of the reforms which are unavoidable (losing again in September 1988).

We shall return to this “problem of power” later, in the context of “planning” and its role versus fiscal-cum-budgetary imponderabilia, and deal with them in a more complex way.

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The weakening of the enterprises’ management expressed itself also in another way, that is, with reference to the problems of technique, technology, technical progress, output structure etc. – a vital area of problems for each industrial undertaking. Their future depended on proper and timely solutions in this sphere – the quality of their products and, more generally, their competitiveness, both in qualitative and economic terms. Research and development activities are at the basis to the solution of these problems.

However, one should realize that Poland lost more than 20 per cent if its population during the war and that the losses among the intelligentsia were disproportionately heavy – this applies also to the technical intelligentsia. In spite of that, the personnel management policy – we have pointed out – was directed against the intelligentsia and thus importantly reduced their employment opportunities. Thus the situation of disposable professionals was very difficult. This situation exerted an important and, of course, negative influence on industrial output, and more generally on the economy’s efficiency.

In these circumstances the industrial unions organized central technical units, most often central design offices, in which they concentrated the available specialists. In a way this was a solution which could be accepted as a temporary arrangement if such an extreme shortage of specialists really existed in the given line of business. However, artificial, totalitarian, bureaucratic solutions are always burdened with negative aspects, *inter alia*, resulting from the abuse and misuse of the otherwise – on a higher level – accepted solutions.

These abuses and misuses were related to favours which were granted by the union or other higher level managers, and to some enterprises

- in the sense that these centralized technical offices were attached to these enterprises, usually located on their premises. It is not necessary to explain how important such favoured treatment was. Such decisions were sometimes very deeply rooted. For example, the union's manager, before the war, was the manager and a shareholder of the favoured enterprise. In doing so he bore in mind (and this was often the case in the early period of time: 1945-1946) that the whole situation might be reversed and the said enterprise would again become private - its competitive capacity would thus be significantly improved. At the same time other union's enterprises were forbidden to organize similar centres on their own. This, of course, handicapped these other enterprises, a fact which was painfully felt by them a few years later - particularly when the "economic reform" of the 80's started.

However, these technical limitations which stemmed from the overall weaknesses of the enterprises as well as from the shortage of qualified technical personnel<sup>8</sup> also made a very negative impact on the current standing as well as the future of industrial enterprises; some higher ranking new "managers" who were facing difficulties - for them insurmountable - sought the simplest ways out of them (more often additional investment was regarded as the universal remedy for all difficulties).

It should be added here that the poor and continuously deteriorating organization of the enterprises contributed importantly to these difficulties. This is why the so-called "technological gap" should be ascribed not to technical but to organizational deficiency - the "organizational gap".

These converging difficulties led directly to the simplification of the production programmes both from the quality as well as from the assortment view-point - a tendency toward low (poor) quality and towards as narrow an assortment as possible ("mono-product").

This was an extremely dangerous tendency - toward mass production of simple products which was feasible using large inputs of unqualified labour which could be easily in-job trained. This tendency expressed itself in many ways.

Some of them were reasonably healthy, based on narrowing the manufactured assortment to few lines of standardized mass production, us-

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<sup>8</sup>The new "managers", who replaced the "old" professional managers, did not attract any high-quality technicians - quite the opposite having difficulties in finding their understanding for new progressive, and thus difficult and burden some technical ideas they preferred to leave such enterprises seeking employment under more attractive managership, or in project designing-consulting offices (where the cream of old technical and managerial people gathered), or in technical universities, vocational training centres, etc.

ing highly capital-intensive technology. However, poor organization, irregular supply of poorly standardized and thus low quality inputs, and expensive – because of low productivity – labour, seldom permitted economically effective performance in such an enterprise.

Another, and more dangerous tendency could be seen in factories, which were traditionally involved in a rather sophisticated individual or short series manufacture of products made on order to the clients' specifications – for example in the machine building industry factories called "general machine building" (jobbing principle) – the output of which was of the required quality (following agreed specifications and standards), sometime very high, and fairly profitable and very competitive. In the Polish machine building industry there were several such enterprises, including some renowned abroad, with a usually broad but nevertheless well-defined line of business specialization. They used to cooperate with several specialized subcontractors, often small and, of course, private workshops. For these enterprises the described tendency was catastrophic. They were quickly converted to manufacture a narrow assortment in long series (years) of quasi-sophisticated products. Only a few managed to preserve their good name and high quality<sup>9</sup>, although they also had to narrow their assortment, seldom fully using their productive capacity through acceptance of small differentiated orders to get their equipment fully loaded<sup>10</sup>. Nevertheless many such factories completely lost their established range and shifted to the manufacture of ordinary and rudimentary products of low quality.

Saying all that – in severely critical terms – one should, however, do justice to certain industries which either preserved their qualitative and quantitative capacities, or improved and extended them, as well as to those which built new plants and started completely new production lines not known in Poland before. This applies particularly to the manufacture of a broad and diversified assortment of military (army, airforce, and navy) supplies, the automobile industry, the shipbuilding industry, earth moving and building machinery, the chemical and pharmaceutical industry, and some light industries (glassware, furniture, linen). The industries listed were technically successful, although the same cannot be said of all of them from the view-point of their economic effectiveness. The profitability of many of them was achieved on a closed and protected

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<sup>9</sup>For example the famous H. Cegielski enterprise in Poznań with a very diversified manufacturing programme, *inter alia*, top class marine engines (Sulzer licence) and power plants for ships of high quality exported all over the world.

<sup>10</sup>The peculiar system of prime cost accounts did legalize charging the losses caused by non utilized capacities on the accounts of currently manufactured products.

market. Moreover, in several cases these industries were ostensibly unprofitable and in need of heavy budgetary subsidies. It should be pointed out that because of the complete distortion of the price system the true, real economic position of any manufacturer was never known (as inputs were often heavily subsidized).

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The implementation of the Six-year Plan was started even before it was formally enacted by the Sejm (in July 1950). It is difficult to say now – almost forty years later – whether the above described difficulties which developed almost unhindered were fully known and understood by the top decision-makers, for example by H. Minc. However, there are some pointers to the fact that there was some awareness of the existence of these difficulties, because certain countermeasures, although indirect, were considered and introduced. It looks as though Minc understood well enough that the real causes of the emerging and developing difficulties could not be removed because of their political nature. This applies particularly to personnel policy – based on the “nomenklatura” – as the first and prime cause of all difficulties, rooted in the lack of qualified and experienced professional managing personnel.

Of course, although such specialists were not numerous they were available and could fill all the most important key positions; but they were barred from any managerial positions and thus – for practical purposes – non-existent. And there were no other people to replace them, to provide a substitute for them. And those who were promoted to these positions were virtually worthless (as managers).

Knowing H. Minc and his personnel policy from 1944-1948 i.e. (in Poland) the pre-Stalinist period, one must realize that he understood the situation well enough and was aware that the personnel policy – particularly in respect of managerial positions – could and would not be changed. Thus another solution, if possible, ought to be adopted.

A similar problem was faced by the Ministry of Finance which, after all, was responsible for the proper use of public funds and means. Although there was originally no direct control, the need for it was – in prevailing conditions – easily arguable. The “new” managers did not give satisfactory guarantees of proper care for the funds entrusted by the Treasury to the enterprises and thus to their managers. Therefore the first move was to give the chief accountant the right to supervise the general manager’s decisions, and more particularly to give the chief accountant the sole authorization to decide upon any expenditure.

This, of course, was a new breach in the consistency of the enterprise's organization, and more particularly in the principle of management unity. In this way the general manager ceased to be general and the management became a collective affair – and thus nobody was really responsible for the whole enterprise. Such an arrangement, however, was of a preventive character and did not solve the enterprise's management problem: who and how would manage the enterprise? – if its supervisors considered the actual manager unable to do so and he could not be removed from his position and replaced by somebody with adequate professional qualifications for performing the manager's duties successfully?

This is where planning – or rather plans – came to the fore. Of course, the solution adopted reflects the typically poor state of knowledge in the field – both theoretical and practical – in the late 40's and early 50's. The scene was largely obscured by the almost mystical belief in the unlimited possibilities of econometric modelling. Of course, this belief was a product of the "economism"<sup>11</sup> which flourished at that time.

Maybe the most striking feature of that time was the lack of any proper definition of "planning" and the "plan" as well as of their role in the functioning of the management system. It should be of course recalled that at that time neither the theory of systems (L. von Bertalanffy) nor cybernetics (N. Wiener) – newly born in the 40's<sup>12</sup> – was known to Polish planners<sup>13</sup>. Moreover, the first interpretation of organization and management science in terms of the systems approach – by R.M. Stogdil – was published only in 1967<sup>14</sup>. And the application of the systems approach to organization and management and more particularly to planning and its role in management gave it a theoretical basis. However, nothing really changed in understanding of it which was first clarified by H. Fayol and later transposed into terms of economic planning by J. Tinbergen as early as in the 1930's. Planning in industry was well developed and enormous experience was accumulated through many

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<sup>11</sup> "Economism" – a belief that all phenomena and social processes can be explained in economic terms and that the economic processes are the only active development factors.

<sup>12</sup> The relevant basic works of L. von Bertalanffy were published in 1947-1950, and of N. Wiener in 1948.

<sup>13</sup> *Inter alia*, because Stalin regarded these disciplines as anathema and banned them, officially dubbing them manifestations of "modernism", "ideological degradation", and "abstractionism"; O. Lange became interested in these sciences much later; his relevant book was published in 1962.

<sup>14</sup> Stogdil, R.M., *Basic Concepts for a Theory of Organization, Management Science*, Vol. 13, No 10/1967, pp. B.666/676.

years of its application<sup>15</sup>. Its use at the national level was promoted in the U.S.S.R. in the 1920's, although its organizational and managerial aspects were lost<sup>16</sup>.

By and large Polish planning practice in the late 40's and later was economically oriented (and biased) and based on the primitive balance sheet method. The organizational and managerial aspects of planning were completely neglected. The plan was expected to substitute for the management system – a typically bureaucratic concept<sup>17</sup>. This belief was so strong in Poland that it has blocked any progress in planning till the present day<sup>18</sup>.

For almost forty years heroic efforts have been made to prepare a plan which would display a full set of information about what and when each organizational unit of the country's system should do<sup>19</sup>. Such an approach to planning is, of course, deterministic – and it is so deliberately, since it is intended as a substitute for the management system. This implies the necessity of anticipating decisions – for a relatively long period of time – much earlier than is required for efficient functioning of the real system.

“Planning” methodology which neglects the existence of the management system is hovering in a vacuum because it addresses itself to

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<sup>15</sup> One should not forget the basic works of H.L. Gantt (1898) and K. Adamiecki (1903) as well as the progress achieved by the availability of electronic computers which made the concepts of Denes Koenig (1870's) – in respect of the algebraic interpretation of graphs – workable in the 1950's (CPM and PERT).

<sup>16</sup> These aspects did reemerge in the 1970's in the context of the so-called automatized management systems.

<sup>17</sup> Bureaucracy does and will do everything to avoid any kind of responsibility for its doings. In this respect the early enthusiasm of bureaucrats for computers was characteristic. They hoped that the computer would liberate them from the duties of decision-making, i.e. they thought that the computers would be able to take decisions and bear the responsibility for their correctness. This belief gave a very strong impulse for intensive computerization of their offices. However, bureaucracy soon realized that computers were not going to take over the burden of decision-making, and they could not bear the related responsibility. This resulted in a considerable slow down of the computerization processes reflected in the numbers of processors installed – this phenomenon is clearly visible from statistical data on numbers of computers sold in the 1960's and 1970's.

<sup>18</sup> See: Decree on socio-economic planning from February 1982, particularly its first article which explicitly states that the “economic development is actively shaped by a system of socio-economic plans” and not by the country's management system; this decree does not foresee the existence of any management system.

<sup>19</sup> In this context one important piece of information is missing, namely the answer to the question “where?”. This lacunae is caused by the disintegration of planning resulting in the neglect of the teleological and organizational aspects of properly performed planning.

everybody and to nobody – a typically bureaucratic situation, a collective in which there is nobody responsible. Thus, there is no reason to wonder that in a country ruled exclusively by a bureaucracy – and thus simultaneously by everybody – nobody is responsible either for its management or for the plan's implementation; that nobody has an interest in changing this ridiculous situation.

Thus the first problem is to clear the objective of planning activities and consequently to define the meaning of the word "planning" as well as the role of planning in the functioning of the management system. Following these clarifications the word "plan" should be defined and the role of the plan in the functioning of the management system clearly determined. Without this, no step forward can be made.

To conclude the discussion about the "plan" regarded as a substitute of the management system it is important to accept a clear-cut conclusion – that such a concept is simply utopian and thus cannot materialize particularly because both the social system – and its subsystems, like its economic subsystem for example – as well as its environment are by their very nature behaving stochastically and thus their future cannot be predetermined – it can only be guided toward a chosen set of goals – described in dialectical terms – or more precisely towards chosen objectives, the feasibility of which is analytically proven, by a successful implementation of a set of tasks within a fixed period of time.

Planning's main task is to organize the future activities of a given system so as to achieve a chosen set of objectives under the pressure of constraints deliberately imposed (with society's acceptance) on the development process, as well as of independent constraints, the impact of which on a functioning system cannot be avoided, although sometimes they may be either reduced or magnified by the management system. In other words: planning should be such as to keep the system continuously searching for the *extremum* of its objective function, while however, simultaneously minimizing the system's entropy. Thus planning presents itself as a continuous analysis of the present and of the future dynamic states of the system, taking into consideration the actual and expected behaviour of the system's autonomous elements as well as of its environment and of the relation between the planned and actually realized trajectory of the system. The results of this analysis are addressed to the management system together with the considered propositions for steering and the regulatory decisions to be made by it.

What has been said above clarifies also the role, and thus the content, of the "plan", which should be considered as a set of tasks to be per-



formed by a given system during a fixed period of time using a defined volume of means and observing a set of deliberately imposed constraints which is addressed by the Parliament (Seym) to the management system (in the case of the "central" plan - to the Government) which is thus made responsible for its implementation; simultaneously the plan enacted by the Seym serves the Government as authorization to use the allocated means for the purpose of the implementation of the plan.

Now, comparing the reality with the above-described expectations, one arrives at the conclusion that there was no planning except some sort of analysis which served the compilation of the so-called "plan", which had nothing in common with the above-described plan (or proposed description of the plan). The "plan" prepared in this way could not assure proper guidance for the management system and thus for the steering and the regulation of the real system.

Maybe the most paradoxical feature of such "plans" was that they were not management system oriented and also did not have anything to do with the system's objectives which, of course, had an exclusively social content - however, the "plan" was economic growth oriented and provided mainly for investment activities (fixed capital formation) as an objective. This was an indice of the plan's degradation - in the 70's the only way of solving any kind of problem, particularly production problems, was investment; the result is known: in the 80's the economy is not in a position to utilize more than about 40 per cent of its productive capacity and simultaneously this economy is plagued by several important shortages, particularly in respect of the population's standards of living.

The method of planning - i. e. preparing the "plan"<sup>20</sup> was rather primitive and was leading towards a major degeneration of the relationships which were at the basis of this planning. Maybe its worst feature was the lack of proper economic analysis. However, with complete chaos in the price system - which was completely divorced from any value system - a misleading system of accounts, such analysis was virtually impossible<sup>21</sup>. A foreign (capitalist) set of prices were used by project designing and consulting organizations to analyse the designed

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<sup>20</sup> Annual, medium-term (five-year), and perspective plans (10-20-year) - of these latter only two so far have been prepared: (i) what was called Kalecki's plan for 1961-1975 which was never implemented, and (ii) the 1971-1990 plan which was never fully prepared and, of course, never seriously considered.

<sup>21</sup> The use of an "invented" price system would be an obvious nonsense. Tests have been made with the use of some other country's price system, although it would be dangerous to draw conclusions based on such an exercise because each country's price system differs widely (for example: compare Austrian and French price systems - comparison was possible because

plant economic viability showing contrasting results when compared with the same analysis based on Polish prices (of course, in Poland, no labour substitution paid). However, the industrial projects evaluation committee attached to the State Economic Planning Commission refused to base its decisions on such analysis – although its members were personally interested in such comparisons.

However, the major source of distortions of plans was related to the use of the iterative method of plan consultation (and checking their consistency) with the relevant ministries, unions etc. and individual enterprises. Very early, the enterprises rightly understood the need for and the way to protect themselves against arbitrary decisions imposed on them by the superior bureaucratic levels of administration – who were frequently fully ignorant of the enterprises' real productive capacities on the one side and on the other about their real technically legitimate needs for inputs. With time the differences of opinions between the State Economic Planning Commission and the ministries and their subordinate organizations and enterprises increased. The planners were trying to extract from the industry as much output as possible against the minimum of inputs, particularly those which were in short supply. One might say that "negotiations" of this kind quickly converted themselves into crude bargaining and the whole relationship became a game in which personal influence and pressure groups as well as political arguments played an important role, and so technical and economic arguments lost their significance.

Formally, the procedure provided the preparation of an outline plan which was sent to the ministries for consultation. In turn the ministries disaggregated their part of the plan outline and sent it to Central Administration... to unions,... and in this way the plan arrived at the enterprises; they prepared "counterplans" and sent them back upwards stepwise to the "central planner". Of course, the result of such iteration differed widely from the original outline and usually was unacceptable particularly because of the lack of internal consistency and, of course, resources. Theoretically the "central planner" after making the necessary adjustments was supposed to repeat the time-consuming iterative procedure as described above once again. However, this was found to be non-productive. Thus, instead, direct talks involving different management levels were conducted and resulted in negotiations – bargaining – or sometimes arbitrary orders.

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of the existence of rather detailed comparisons of their prices with the Polish price system; such an exercise was conducted by Polish Central Statistical Office).

However, the whole of this "planning" procedure was – besides obvious technical deficiencies stemming mainly from bureaucratic ignorance – burdened with many weaknesses, among which the most important was that this whole game was restricted to the so-called sphere of "material production" <sup>22</sup>, and therefore this was very much "production for production's sake" and not as a social purpose. Moreover, it was concentrated on extractive and manufacturing industries of the group A (raw materials, semi-products, capital goods) with much less attention given to other industries (agriculture and animal husbandry, fishing, forestry, agro-allied and forest-allied industries, construction, transport, communication, trade, etc.) which were notoriously weak. The relevant ministries headed the economic administrative sub-system of the country's administrative system.

At this point one remark may be required in clarification. The country's administration system may be schematically presented as composed of a "centre" and two sub-systems, namely: the economic administration and the territorial administration. This organization of the administrative system may be criticized for dualism – because any one subject was subordinated simultaneously to two<sup>23</sup> hierarchical sub-systems, which of course (theoretically), had precisely divided competences. In the "centre" there were elements heading each of the sub-systems and, of course, functional elements which, however, ought to act upon the said sub-systems only indirectly, through the government – for otherwise there would be "a state within a state" and plain chaos.

If the "economic" sub-system was planned – in the sense that from the "bottom" up to the "top" level, relevant plans were worked out and then when the national plan was enacted they were obliged to implement the plans on which it was based – the "territorial" sub-system was not subject to any similar "planning" procedure. In fact, it did not have any "planning" apparatus.

Formally, at the voivodship level, there was a planning commission, although this was a department of the (central) State Economic Planning Commission which was completely independent from the territorial administration. There was also an office of the so-called "spatial planning"

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<sup>22</sup> An expression used by the Marxist economy to distinguish primary (income generating) from secondary (income distributing) activities.

<sup>23</sup> This is somehow idealistic and in conformity with basic principles which request that the functional elements of the "centre" be rigorously kept at bay. In Poland, till now, this basic principle ignored the resultant observed chaos.

<sup>24</sup> dependent upon the ministry of construction, although completely independent of the territorial administration. Nota bene, this was maybe the most awkward situation, these two planning offices active at the voivodship level were completely independent of each other and if they co-operated that was only a result of private and personal relations between their managers. Thus we may say that there was no planning relevant for the administrative sub-system which would either support its activities or substitute for their management.

It should be pointed out here that the sub-system of the territorial administration was reorganized in 1950 losing pre-war dual character of the state administration and local self-government. The latter was discontinued and the (state) territorial administration sub-system was theoretically subordinated to the so called "national councils" (attached to all hierarchical levels of the territorial administration) which were given some local legislative authority within the limited autonomy given to them and defined by the Sejm (Parliament) as well as a limited formal controlling capacity over the respective administrative authorities. However, in fact the field was tightly and exclusively governed by the "centre" of the country's administration within the so-called "democratic centralism" (theoretically following the W.I. Lenin's definition, however, in practice completely distorted).

Having explained this rather extraordinary situation it should be pointed out that the central planning organization was the "State Economic Planning Commission". This word "economic" reflected the limitations of the "planning exercises" as they were practiced. The focus was on the supply side - the other side was largely neglected because it burdened the economic side with its demands, and was always short of everything necessary to match its own current expenditure on inputs and capital formation. Production enjoyed priority over consumption and society's developmental needs (including investment in the social infrastructure)<sup>25</sup>. Thus there was not much to be planned on this side

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<sup>24</sup>The so-called "spatial planning" is a particular problem generated by ambiguity of the word "planning". Its use creates a myth because this is not planning but designing which provides only a vision of how the considered territory will look in the future and has nothing to do with the organization of the activities related with the implementation of the designed vision. Thus this is only an architectural-cum-urbanistic exercise which does not consider all the factors involved, particularly the future value system. Moreover, these visions are not checked in respect of their economic implications - it is first of all an "artistic" impression.

<sup>25</sup>In this context the author of the present forwarded the question "Development - for whom?" - see his paper published in the *Africana Bulletin* (Warsaw University), No 17/1972, pp. 125-191.

- this expenditure was left to the budget with its own methods of budgetary "planning" which did not have much in common with the kind of planning under consideration at the moment.

Thus all this planning was extremely primitive and encompassed a very small part of the social system - it did not even take into account either the whole economic sub-system or the whole of economic activity. Moreover, although expressed in monetary volumes (some factors were expressed and analysed in physical units) - the whole plan never considered financial problems. There was no planning of financial flows. Moreover, there was no formal and substantial relations between the annual plan and the budget.

And although the focus of planning was on material balances they were so strained that several planned tasks always remained unaccomplished. Nevertheless, plans - on the whole - were accomplished in excess, of course, in value terms. The discussion on whether the accomplishment of the plan in excess is permissible or not, which continued from the very beginning of planning in Poland, remains unconcluded. This question cannot be answered univocally - in certain conditions and in respect of certain goods (the demand for which is far from being satisfied) it is desirable but in many other situations it may lead to significant waste and, moreover, may indirectly cause serious damage e.g. non-accomplishment of the planned production because of the shortage of a material (in short supply) wastefully used to accomplish in excess another production (for which there is no immediate demand) - the classic example being the proverbial fifth wheel for a waggon. However, this "excess" is very important for the propaganda and precious for bureaucracy.

Particularly dangerous was the notorious overstrain of investment (fixed capital formation) - in two ways: (i) lack of balance between the demand for and the possible supply of inputs - both in construction materials and capital goods (and more recently in labour), and (ii) lack of balance between the productive capacity of enterprises involved in projects implementation and the demand for their services which were always in short supply. Moreover, the organization of the "project implementation sector" was particularly poor in all respects. Thus the project implementation cycles were three and more times longer than in the Western countries (due to poor organization and notorious shortages of materials and capacities).

However, the worst aspect of this planning was its lack of interest in technical and organizational progress and, more generally, in economic

effectiveness, social rationality and efficiency. This was caused by the method of planning adopted – even, one may say, the philosophy of planning, and thus also its purpose. In spite of all declarations – which have been focused on improvement of working class standards of living – the real object was to achieve as high a growth rate of material production output as possible and through this, the achievements of as high a growth rate of the net national income as possible: that actually achieved and that distributed.

It is important to observe here the lack of interest in either gross domestic product or gross national income. It is difficult to say now why it was so from the very beginning. However, in the 70's this problem was internally discussed in the Planning Commission and its inadequacy ignored. This created the opportunity to hide the real expenditure on fixed capital formation (by the net figures it is always lower than the real – as long as the gross expenditure grows) was priced at the cost of the difference between the nominal and the real depreciation which in practice was considered – by the Ministry of Finance – as centrally collected budgetary revenue. The whole trick was to: (i) avoid showing in the plan the truth about the inadequate fixed capital restitution processes (i. e. the increasing rate of its decapitalization), and (ii) avoid showing an exuberantly high share of fixed capital formation in distributed income. The explanation is very simple. The “central planner” was cheating and the economic knowledge of the high-ranking people was either insufficient to notice the fact or approved such manipulations for propaganda purposes. The “central planner’s” trusted people did not accept any change in this respect.

Standards of living were measured in terms of consumption paid from individual incomes and paid by the budget, i.e. collective consumption. For political (bureaucratically understood) reasons (to speed up the achievement of communist economic formation) the latter should grow faster than the former. But the wastage of resources built in by the lack of proper organization was and is horrifying.

However, the iron rule of planning was that the output of the means of production should grow faster than the output of the means of consumption. Independently the priorities were always given to everything related to the output of the means of production and never to the means of consumption. Moreover, consumption was considered and measured in a very primitive way – actually an improvement in the survival level was regarded as fulfilment of “improvement in the standards of living”;

the deliberate austerity was extreme – a private bicycle was to be the imaginable heights of private luxury.

An austerity régime was certainly desirable during the Three-year Plan; nevertheless its main objective was to achieve better average standards of living than before the war. And this was achieved. However, such standards did not correspond to people's aspirations. Thus the problem was: "austerity – up to what point?". This question was never properly answered. Bureaucracy thought that something between 1 and 2 per cent per capita and per annum would be enough – and with such bureaucratic efficiency more was hardly possible. The opinion of the working masses about this was expressed in 1956.

However, the most important weakness of planning was that this was not planning but only preparation of plans – annual, five-year, ... etc. There is an important difference between the cyclical preparation of plans and the continuous process of planning. If the former is a policy-making operation, then the latter assists the management system in the implementation of the former. And, of course, there is no planning without a follow-up – without a permanent forecast about what may happen to the system considering the currently expected behaviour of the system itself and its environment. Nothing like that was even considered by the "central planners" who in succession passed through the chairman's armchair; not one of them was either a professional manager or a professional planner.

The plan should not say how something ought to be done – that is a management problem. The plan should say **what should be achieved**. And this "what" must be a consistent complex. And thus planning appears as an organizational problem, the solution of which is constrained by many different factors, including economic factors.

However, and not only in Poland – good organizers are in very short supply. This is also true for Europe when compared with the U.S.A. (the most advanced country in this respect – however, considering the prices for top-class consultation – true experts are also in short supply there) – and this was and is very true about Poland. Among the presently socialist countries Germany, Hungary, and Czechoslovakia have been the most advanced. However, the Stalinist retrogressive approach to organization and management was terribly destructive in this respect. Enterprises which have been very well organized and managed in the years 1945-1948 have been completely disorganized in the early 50's. The same can be said about the State's management system – it was dismantled already in the 50's.

This phenomenon – a result of protracted stupidity and negligence – came to be called the “organizational gap”, to depict the abysmal deficiency dividing Europe and the U.S.A. It came to be recognized as the main reason for the existence of the “technological gap” between countries.

The neglect of the problems of organization and management in Poland has twofold roots: (i) political discrimination against the relevant science, and (ii) recognition of the damage which such a scientific approach to these problems might cause to the self-styled authoritarian bureaucracy. In such conditions anything what might smell of being related to scientific organization and management was combatted with all means and full determination. And this situation nominally lasted till 1956, and in fact its practice continues till today. The reasons are simple. People with true knowledge and experience in this field living in Poland in the early 50's could be counted on the fingers of one hand. Of course, they were well known and kept by all possible means on the side-lines. Parallel to this there was a group – a little more numerous – of people who possessed a certain amount of theoretical formal knowledge (today obsolete) in the relevant area, but no practical experience – they had never managed any major or well organized enterprise. Finally there was (and is) a still more numerous group of people who considered themselves as top professionals in the field, although many of them were imposters who came to the top thanks to their personal relations and formal position. Their merit is that they did not let the science of organization and management be completely forgotten; the two first groups were forced into silence.

Over many years the situation did not change much. Virtually all the members of the first two groups either died or retired. The third group is active and may be divided into two sub-groups: (i) scientists who acquired some, often rather awkward and already anachronistic theoretical knowledge, but had no practical experience and did not understand the need for it – they never left the academic premises where they are teaching now, and have never managed anything (they are usually economists by formal education), and (ii) practitioners – people with some experience and understanding of the importance of the problems, although they have no modern theoretical knowledge (usually technicians by formal education). And what is maybe most important, both these groups have nothing to do with the State management system, particularly the higher levels of bureaucracy, *inter alia*, with the “central planner's” of-



fices where a very peculiar mix of people work, particularly in managerial positions.

On the other hand planning – economic planning – is dominated by economists who consider themselves perfect organizers. This is a very peculiar feature of Polish economists in spite of the fact that they very seldom have any practical experience – their background being usually either “scientific” or clerical. Thus the whole so-called “planning” was never affiliated with any organizational or managerial problems and never considered the necessity of solving them.

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Thus there we are in the early 1950's, implementing the Six-year Plan. Following the bureaucratic fundamental principles and uses only the successes were made public, although no analysis was ever carried out what went wrong and why. And very soon many things went wrong. The atmosphere – euphoric in the early post-war years – was deteriorating rapidly. Poland entered the period of being ruled by terror. Nobody knew when he would be arrested or for what reason he would be prosecuted. Thus there was no possibility of any critical analysis of what was going on. Besides everything was secret – thus theoretically there was no way to know what was going on. Now the assessment of the events and of their consequences has become a task for historians.

Of course, many things could have been done in a much better way and more efficiently, *inter alia*, from the social viewpoint; the social cost of what were doubtless achievements could have been much lower.

Thirty years is a long period of time. The political development context was changing, as was its international environment; the internal situation in the country was also changing significantly. Thus it is justifiable to divide this period of time into sub-periods which could be identified particularly on the basis of political criteria which had a decisive impact on the economic processes.

For the present purpose it is enough to distinguish three sub-periods; of course, these can be further sub-divided. These three periods are as follows:

- Six-year Plan period, or more precisely, 1950-1956;
- the Gomułka period, i. e. 1957-1970; and
- the Gierek period, i. e. 1971-1980.

What these three proposed periods have in common is that all of them ended with a social crisis, and each of these crises was socio-political in kind, although prompted by economic difficulties which, in turn, were

caused by socio-political dogmatic immaturity and bureaucratic mismanagement. Of course, this approach is a kind of simplification, although a more detailed approach does not supply us with much more relevant information.

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The Six-year Plan was started at a time when the working masses were still full of enthusiasm and mobilized by the successful accomplishment of the Three-year Plan. In saying so, one must remember that one of the critical arguments raised against Cz. Bobrowski, the architect of this plan, was that the "consumption" objectives went ahead of the material production objectives. People did work hard, but they saw direct results of their effort, and improvements in their living standards. Thus, their motivation was maintained at the right level. In contrast, the Six-year Plan announced austerity measures; increases in production were to outrun the improvement in living standards. This basic change in the social policy and thus in turn also in economic policy together with the basic errors made in collectivization policy and thus agricultural policy plus the general pressure of terror on society were at the basis of the socio-political failure of the Six-year Plan. What purpose can be served by economic achievement which is at the same time a social and thus political failure in a socialist country?

In spite of what has been said above, the period of the implementation of the Six-year Plan should be subdivided into two sub-periods: (i) 1950-1953, and (ii) 1954-1955 (or, maybe, 1958 - this is however, beyond the Six-year Plan). In 1953 the implementation of this plan was about to collapse and the social situation became menacing.

Already above the concept of generating means for the implementation of the Six-year Plan was discussed. Officially the plan's strategy - particularly for the first four years of its implementation - was to maximize the utilization of the available labour resources; a special role was assigned to employment growth - the main development factor. Moreover, this strategy assumed that production increased in this way and thus accumulation, would be utilized to increase fixed capital formation in the material production sector, particularly for the development of the heavy industries - regarded, at the time, as the main obstacle to the fast growth of industry and thus the economy.

Development of the raw materials base was a strategic choice made very much following the U.S.S.R.'s example, however, in some cases without proper consideration of the size of the country and of its natural

resources<sup>26</sup>. Much more important and promising was the development of certain lines of machine building industries. However, some choices in this line of business gave rise to doubts. This objection applies particularly to the exaggerated development of shipyards as well as of the automotive industry (passenger cars).

Others, based on quality workmanship, material – and capital-savings were certainly correct – this applies to power plants and their equipment; ships' power plants machinery and equipment; mining machinery; machine tools; electric machinery and equipment; rolling bearings, etc. A good start was made in the field of electronics, although further developments were disappointing. The problem has been discussed already above. The tendency toward large scale mass production plants was crippling, if not killing any opportunities for inventiveness, innovation, entrepreneurship, organizational and technical progress. Gigantism was overriding any reasonable, economically effective and profitable initiatives which, however, were simultaneously not so spectacular for propaganda purposes.

It has been already said above that the bureaucracy had created conditions in which any economic analysis, and more particularly one which could prove a project's economic effectiveness led to irrelevant results and was thus practically impossible. However, the economic analysis of these gigantic projects, in comparative terms, yielded negative results. Who then permitted these giants?

Strangely enough, Polish leaders contracted a typically bourgeois parliamentary disease caused – in the West – by cyclical elections where the outcome is unknown. In the context of the prevailing conditions in Poland, which seemed to have every chance of lasting indefinitely, the shortsighted policy of quick and spectacular effects – useful for propaganda – was unfounded.

However, it was not only in the field of industrial development that the Six-year Plan policy was catastrophic. Serious errors were committed in agriculture – the warnings expressed by H. Minc in 1948 were not respected. Senseless and reckless discrimination, in spite of all warnings, against the private sector, particularly in respect of craft production, without taking the necessary measures to provide substitutes for discon-

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<sup>26</sup>In Poland there were no iron ore reserves which could be a long term basis for an iron and steel industry and the available coal was of poor quality from the view-point of using it for the manufacture of metallurgical coke. Thus if even the early development of this industry – the Nowa Huta project near Cracow – may have been legitimate, its further development on the same lines was a suicidal nonsense.

tinuing productions, another "glorious" achievement of the bureaucracy, particularly of the fiscal one – caused disruption in co-operation and thus serious difficulties in several vital activities of state enterprises and thus on the market. Difficulties arose also as the result of the lack of organizational consistency, something that was not provided by the plan, actually this was the result of the absence of management oriented planning.

Another problem arose – in spite of many measures undertaken, particularly in respect of the production of construction materials – in the field of investment (fixed capital formation) activities. Partly because of organizational havoc caused by the lack of planning, and partly because of overestimations of the performance capacities of the enterprises engaged in a project's implementation (also caused by the project's cost underestimation)<sup>27</sup>.

Finally the one-sided, biased industrial development resulted in important disproportions between different lines of production. This prompted many stronger enterprises to engage in self-sufficiency (technical autarky) with disregard to the economic consequences – important cost-price increases and considerable losses in enterprises' economic effectiveness and in some cases even profitability – if changes were not assisted by budgetary subsidies. This led also to important under-utilization of the so-created productive capacities and became a major factor of the economic crisis in 1978 and the following recession.

In spite of all these rather obvious – and avoidable – shortcomings, an impressive basis for further industrial development was created, although it was in need of prompt corrective action to remedy the deficiencies referred to.

On the other hand, as a result of the deliberately chosen policy of labour undervaluation, the real level of workers' incomes stagnated and in some cases even declined, causing serious social stress.

The above described deficiencies were observed and noted. They were critically discussed in October 1953 (at the IXth Plenary meeting of the Central Committee of the Polish United Workers' Party). The new industrialization programme was discussed at the IIInd Party Congress in March 1954. This Programme covered a five-year period of time (1954-1958). It introduced changes in, *inter alia*, agricultural policy and an increase of investment outlays in this sector, extension of the housing programme, some extension of the wage-goods producing industries

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<sup>27</sup>These difficulties were caused by two factors: (i) inflationary processes (the existence of which was never admitted officially), and (ii) rapidly increasing disorders in labour remuneration, and thus growing havoc in time-setting techniques and discipline.

and several other changes in the industrial structure, although at this time the lesson was not learned. Thus after the socio-political crisis in Poznań (June 1956) in October 1956 further changes were introduced in this Programme. However, conceptually there was nothing new. One may say that the years 1954-1958 were a "stop-over" in the forced industrialization process. The bureaucracy was forced to stop for a while, *inter alia*, to accumulate new means – this time not at the expense of the working masses. It was also necessary to regain the lost balance, reduce or liquidate some tensions in the system caused by the completely disbalanced development (85 per cent of total fixed capital formation in 1950-1953 was spent on heavy industries which started producing something only in 1954 and later).

Without going into details, the said Programme was informally adopted as a temporal substitute for a proper formalized plan which was prepared and enacted in July 1957 and came to be called the "First Five-year Economic Development Plan". This plan provided for some more balanced industrialization programme and particularly for an increase in real wages and salaries by 30 per cent compared with the 1955 level. For the first time some effort was made to introduce some changes into the industrial output structure considering its economic effectiveness; the development pace of the machine building industries was accelerated (highest in respect of the average expected output growth rates).

It is important to note that an increase of agricultural production by 25 per cent (during the plan period) was planned. This was very much the result of the Gomulka's agricultural policy pressure which, i.a. withdrew from the collectivization policy – which was, admittedly illegally, nevertheless compulsorily implemented in the early 50's; the damage was considerable and lasting so until now it has been difficult to recover the confidence of the peasants; they do not trust neither the Party nor the Government.

However, Gomulka's relaxed (thaw) policy did not last for long and somewhere between 1958 and 1960 it was, in a practical sense, largely forgotten. This should be understood as follows. There was no change in the officially declared policy, although there were many changes in its practical implementation, *inter alia*, in the countryside where the individual farmer was again faced with discrimination, and subject to illegal practices of extortion by the territorial, and particularly fiscal administration. The overzealous opportunists and corrupt elements were operating together and the higher administrative echelons tolerated such activities as politically desirable (?). Of course, similar treatment was provided

for craftsmen, and more generally for all private initiative in spite of the declared "green light" for them. Could such features have been incidental? After all, they were systematic and practiced on a large scale, and thus the only possible conclusions are: (i) these dichotomic policies were systemic, and/or (ii) the bureaucracy had grown strong enough and thus able to practice its own policy, disregarding the centrally declared one. Most probably both conclusions are true, although the first may be the natural face-saving consequence of the tacit acceptance of a situation which could not be altered – because the bureaucracy had already become unmanageable.

Toward the end of 1958, and more particularly in 1960, the situation in the Polish economy was somehow mended and a more creative look into its future development was possible.

However, before this could be done one had to look into its methodical and technical instrumentation, which would make it possible to plan correctly, i. e. with some chance of successful implementation and, first of all, for achievement of the objectives<sup>28</sup> sought. And this applies, i. a. to planning – or as was the case in Poland – preparation of plans without planning. This important difference was never understood by the "planners" with an economic background, particularly one based on vulgarized Marxist economics and some selectively biased critics of bourgeois (neo-classic) economics – which was largely misunderstood<sup>29</sup>. Moreover, all the economic thinking at this time was heavily veiled by econometrics, which for some thirty years of the post-war period caused a complete stagnation of economic thought.

The Six-year Plan ended in a miserable way although latter the mass media tried to expose its fundamental and irreversible merits in spite of how expensive it was for society at large. Of course, this period should be considered in its full complexity including the devastating impact of so-called "politics"<sup>30</sup>. The price paid by the society for the achieved progress was very high indeed.

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<sup>28</sup>As already mentioned above, the completion of a task or a group of tasks does not necessarily result in the achievement of the objective; many trivial and sophisticated examples from practical experience may be quoted to support this opinion.

<sup>29</sup>Unfortunately such was the knowledge pumped in the post-war period into young people who thought that they were studying economics.

<sup>30</sup>A more thorough analysis demonstrates that there was not much of the true ideology – "there was only so much socialism as needed for a red banner" (See: W. Sokorski in "Odrodzenie" 2.07.1988), however, there were strong and well articulated and protected particular interests which left us with a fantastically developed and the worst possible kind of bureaucracy which has completely petrified Polish public administration.

Its architect - H. Minc - resigned (in 1954) as chairman of the State Economic Planning Commission, and (in 1956) his membership of the Party's Political Bureau, and also from his other functions (first Deputy Prime Minister and Chairman of the Economic Committee of Ministers Council) and retired (he was seriously ill). Prior to his resignation he offered a self-critical statement to the VIIIth Plenary Conference of the Party's Central Committee, i.a. dealing with the errors committed in the preparation of the Six-year Plan, as well as his opinion about the current situation and future prospects.

The author of the present study had the opportunity to co-operate directly with H. Minc for a couple of years and believes that the morale and resistance of this man was broken down by the so-called "political" pressures exerted upon him after he tried to defend Gomulka in 1948. When it was clear that Gomulka's position was untenable in the prevailing conditions he changed his orientation. The failure of the Six-year Plan was a personal, professional, and political failure caused primarily by his political weakness which did not enable him to be in full command of the economy; he paid dearly for his change of orientation and disloyalty to Gomulka. However, he was the most able economist of the time in Poland, although he did not understand fully enough the problems of organization and management; his weakness lay in his overambitious character: he was not ready to share Gomulka's fate. However, when he stepped down, there was nobody else of his mental caliber.

Thus after 1956 some changes took place in planning. On the formal side, the place of the State Economic Planning Commission was taken by a new body: the Planning Commission (Komisja Planowania) attached to the Council of Ministers (enacted 15th November 1956). Its competences were restricted to planning, although it was also to serve as a research and consultative body: no direct right of decision-making was granted either to the Commission or to its chairman. So it was theoretically, in practice however many problems were decided by or in the Commission.

In 1957 the Economic Committee of the Council of Ministers (discontinued in 1950) was reenacted under the chairmanship of the Prime Minister (ex officio). The idea based on the Six-year Plan experience was to depersonalize the management of the economy and entrust it to a collective body - of course, a bureaucratic solution: full dilution of responsibility (which became collective). This committee was expected to coordinate the functioning of the nation's economy, to establish rules relevant in this respect, and to analyse reports about the economic situ-

ation of the State. The Committee acted on the demand of the Council of Ministers; its resolutions were binding for the State's economic administration.

Some changes were introduced into the methods and procedures used by the "central planner's" office. Besides, some changes were made in respect of the scope of planning activities. These changes should be regarded as the results of the criticism expressed after the shortcomings of the Six-year Plan were identified.

First, and certainly of importance, was the extension and deepening of "social planning"; a group of specialized departments was organized. Still at that time the notion of the **social system** - of the social aspects - as a group of features characterizing a social system - as well as the necessity for integrated planning which takes into consideration the complexity of the social system, were virtually unknown. Nevertheless, proper consideration of vital social problems were extremely important, i.a., as factors which were responsible for the failure of the Six-year Plan.

A second problem, which was extremely important for many reasons, was the integration of "spatial" with economic-cum-social planning which was postulated by the Polish Urbanists' Society (*Towarzystwo Urbanistów Polskich*)<sup>31</sup> in its resolution addressed to the Planning Commission. More particularly there were two postulates, namely:

(i) the necessity for long term future planning - because only such planning could properly describe the ongoing system's structural changes as well as the changes in this structure's organization; and

(ii) the necessity of considering the system's behaviour within the spatial-temporal context, in line with Einstein's relativity theory (in other words - to give proper consideration to the teleological features of the system's behaviour).

The years 1956-1961 have been important in respect of the development of urban and regional planning and were crowned by the enactment by the Sejm (in January 1961) of a law which set objectives and tasks for "spatial planning" and located it within the planning complex at the central and regional levels. This legislation introduced, i.a. an extremely important distinction between the concepts of the general and detailed location - extremely important conceptually although later completely misunderstood even among the professionals (this may be regarded as the measure of their bureaucratization).

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<sup>31</sup>The resolution of the conference held in June 1956.



Nevertheless the impact of these changes on planning methods was very limited – being rather only a token made for show-off purposes. In reality, no relevant improvements were introduced.

As has been mentioned above, the professional organizations postulated the introduction of prospective planning which, so far, had never been seriously considered. The pressures were significant and it was felt that such planning was really necessary. Thus it was decided to work out a perspective plan for 15 years (1961-1975). This task was entrusted to M. Kalecki who organized a team of selected professionals to prepare the necessary study. The resulting plan was presented in 1958<sup>32</sup>.

However, this was already 1958, and the political conditions which had favoured progressive changes in 1956 had evolved again in a negative direction. Thus in 1958 the interest in the perspective plan was rather limited. The accumulated experience, analytical data, and information were left to “die a natural death”. Later on many times it was proposed to compare the expectations of this plan with the actual performance of the national economy for years 1961-1975. However, so far, this proposal has not materialized although it could have yielded several interesting observations.

Meanwhile, the first Five-year Plan (1956-1960) was implemented – by and large successfully. Again, industrial output grew most rapidly (59 per cent compared with 1955) and the chemical and the machine building industries were most successful. Agriculture did not achieve its targets in spite of a good start (1956-1958) with the new agricultural policy; the 1959 drought caused a serious set back – it was too late to recover in 1960; thus instead of a 25 per cent only a 20 per cent increase in production was achieved (compared with 1955). Real wages and salaries, planned to increase by 30 per cent were only 21 per cent higher than the 1955 level. and the setback in agriculture was the main cause of this shortcoming although the situation was partially rescued by foreign borrowing.

The 1956-1958 Gomułka's thaw was over and the development concepts turned back to the well known early 50's type of policy – the bureaucracy demonstrated a complete inability to learn from errors and experience. Growth for growth's sake – disregarding the social cost – became again the “golden calf”. The second Five-year Plan (1961-1965) was in preparation, and – as always – late: it was enacted in February 1961.

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<sup>32</sup> See: Kalecki, M., *Plan perspektywiczny na lata 1961-1975*, in: Kalecki, M., *Dzieła*, Vol. 3, Socializm, P.W.E., Warszawa, pp. 226-252.

Conceptually this plan was based on acceleration of growth of primary industries with particularly fast development, of course, of the heavy industries (again chemical and machine building), and expansion of the fuel and power generating as well as of the raw materials supplying industries. Industrial output was to grow by 52 per cent (compared with 1960). Agricultural production was expected to grow by 22 per cent. This was the first time that it was understood that modern agriculture is capital-intensive, and the plan insisted on the intensification and mechanization of agriculture and thus provided the means for increased fixed capital formation in this sector (by 53 per cent compared with 1960). Although the plan assumed the task of creating working places for the fast growing labour force, the plan tried to achieve output growth through increased labour productivity, technical progress, and increased foreign trade, in commodities other than coal and raw materials. For the first time, although very shyly, discussion on the relative merits of extensive versus intensive growth started. However, this was not reflected in the planned development of the output structure – which remained solidly extensive. Preference was for easiness, for certainty – in a typically bureaucratic manner.

As the risk was forbidden, there was also no stimulation to undertake anything more difficult, which required, i.a. higher qualifications, better materials etc. – there was no motivation. And the punishment for lack of success in any risky undertaking could be severe

As usually the plan was in numerical terms accomplished – the country got more coal, more steel, more tons,... but less agricultural output<sup>33</sup>, less industrial consumer products, and lower than planned rises in real incomes (real wages increased by 8 per cent during the five years – and it was planned to increase them by 22 per cent); more people were employed and the productivity objectives were not achieved. The relative undervaluation of labour was deepening. Moreover, this was the last five-year period in which investment in housing was growing faster than in industry – later, to the present day, it has lagged behind.

Looking upon this period of time from a distance it becomes clear that the Polish economy could not find among those who satisfied the requirements of the bureaucratic class, as defined by the “nomenklatura”,

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<sup>33</sup> Usually explained by poor climatic conditions. However, this poor and discriminated agriculture was underinvested, undersupplied, and thus highly vulnerable to all climatic vagaries. And, of course, its planning was always deficient – and this deficiency was growing with the development of bureaucracy which was flourishing, i.a. in the so-called “planning”.

anybody who could assume leadership in positive terms. This position had been vacant from 1948, when H. Minc's backbone was broken, and there was no candidate in sight. No one from among the bureaucrats – who were still fighting among themselves – were eligible for this position, just as there was no candidate for the ministry of finance. And all of them together were absolutely deaf to any criticism coming, very shyly, from the country<sup>34</sup> and from abroad. The situation was slowly becoming hopeless. And the ferment was growing, not only in Poland. Only elsewhere, people were thinking, for example in Hungary. In Poland thinking in certain areas, particularly those relevant to the society, was forbidden by the bureaucracy. And the bureaucracy was conceptually unprepared to consider any change and, worst, did not understand, that changes were unavoidable.

And thus the third Five-year Plan (1966-1970) provided for the further development of the fuel and raw materials base, particularly the completion of the already started gigantic investment in coal, sulphur and copper (which absorbed the major part of accumulation and implementation capacities). However, there were some novelties. Some preferences were granted to agriculture: investment in the manufacture of the means of production for agriculture – particularly chemical fertilizers. This was related to some efforts which were made towards the modernization of the structure of industrial output – real preferences were granted to the chemical industries as well as to the machine building industries trying to induce these latter to manufacture something more modern, of higher quality, and exportable to Western markets, i. a., to improve the balance of payments position. However, what was new in it was not enough to change the situation. Efforts to restructure industrial output and make it economically effective, to change the development of the economy from extensive to intensive were efficiently quenched by the bureaucracy, which believed in the “nihil novi” doctrine, and the egocentric and shortsighted Silesian coal and steel lobby.

As usual, the first two-three years were implemented apparently successfully. The first three years were exceptionally good in agriculture.

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<sup>34</sup>This criticism was, of course, disguised – otherwise the censorship would not let it be published – however, perfectly legible for intelligent people with a sense of humour. W. Kula, one of the members of the Polish top intelligentsia writing on developing countries criticized the econometric methods of planning (their mentality) and pointed out that the econometricians are incapable of introducing into their models such important coefficients as “the coefficient of human patience” and “the coefficient of human propensity to revolt” (Kula, W. *Towards a typology of economic systems*, in: *Essays on planning and Economic Development*, P.W.N., W-wa 1968, p. 16) – the message was clear!

Projects started in the past five-year period were completed and started to produce. However, the last two years were very bad in agriculture, and no clear reasons can be found, nor was any official explanation offered: the harvest was bad causing a decline in output, but this time there were no complaints about climatic conditions. However, the system of pensions imposed on farmers, only apparently humanitarian (very low pensions) and providing for compulsory implementation if the land was badly farmed because of the old age of farmers – did not stimulate the rural population, which again felt endangered and oppressed by the bureaucracy. Much of the land so taken remained untilled or poorly utilized and this alone was enough to cause a decline in production. However, there was always the tendency towards a “bull in the china shop” policy in respect of the individual farmers on the basis of which discrimination, fiscal abuses, and lawlessness developed – and agriculture was in this respect highly vulnerable.

However, in the 60's a new phenomenon started to develop and was caused by factors which even today are not understood by the supposedly leading authorities. Namely, the baseless and arbitrarily set and inconsistently manipulated price “system” started visibly to go astray – to scatter in unpredictable directions.

The problem was perceived relatively early, although the authorities rejected its validity and importance. Later in 1970 they had to resort to price increases to harness the market imbalances caused by the shortage of food, particularly meat, supplies and high inflow of money – proving again that they did not understand the basic rules of economics.

The market first came into existence when two human beings bartered one thing for another. Of course, since then the market has developed: barter trade was replaced by commercial exchanges, and money was apparently invented by the Phoenicians to facilitate market operations and some other economic activities; its existence cannot be either imposed or discontinued by a decree – only bureaucrats would believe in such a miracle. And now some leaders of the country, Party, and economy did believe in that. However, as only the leaders, and in a bureaucratic society, only some time bear the responsibility, this belief cost the jobs only of two leaders in 1970 – the prime minister and the Party first secretary (if we do not count the workers who were killed). And in spite of all the rulings of the VIth Party Congress late in 1971 nobody was supposed to learn anything from the lesson given by the reality and the workers to the bureaucracy which was scared half to death. And life went on. Some names changed and some words changed their meaning but the “nihil

novi" continued with spectacular new successes like the super-nonsense of the "Katowice" iron and steel works – for which a couple of present and future generations will pay dearly except for those who are really guilty. And Poland was warned about this economically suicidal venture by her Russian brothers who – this time for sure – wished us well. However, this belonged to the next – the fourth Five-year Plan (1971-1975) enacted by the Sejm in July 1971.

However, by the end of the third Five-year Plan (1966-1970) the leaders thought it possible to overcome the growing difficulties – which were deepened by continued and repeated political, social, and economic errors – by restricting consumption through a price increase for basic commodities, particularly meat. The catastrophic result is well known.

Already at this time the anemic condition of the economy was known. Nevertheless there was either not enough courage to unveil the true causes of this situation or – much more probable – the causes were not properly known or understood. That was caused by the vulgarization of economic knowledge, the primitiveness of the research, and avoidance of any diagnosis of the real state of the system (strictly observed by the bureaucracy) – in simple words: it was caused by ignorance (i.a. it should be pointed out that the obsolescence of the analytical methods used did not allow for any complex considerations – and dealing with the apparently guilty single factors was leading to erroneous conclusions and actions). For example, nobody was aware of what caused chaos in the price system (the neglect of a consistent valuation system, particularly the relative undervaluation of labour).

Personal changes at the top level – both in the Party and the Government<sup>35</sup> – and declared policy changes<sup>36</sup> – of a very demagogic type (aiming at leadership popularity) – based on the concept of activating the economy through increased consumption (also of durable goods) – generated some kind of popular euphoria which lasted some two-three years: time badly needed for cleaning and setting the house in order.

The VIth Party Congress (December 1971) explicitly called for changes in the country's management, planning, and for a reasonable personnel policy (there was a special chapter of the Congress's resolution devoted to these problems). A special commission was called to cope with these problems. However, two years later the problem was

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<sup>35</sup> Delivering power into the hands of the Upper Silesian pressure group.

<sup>36</sup> Important increases in incomes at the cost of deficit financing based on foreign borrowing; incomes were growing faster than labour productivity (with no chance of closing this gap).

abandoned and the commission disbanded with no explanation; neither the VIIth nor the VIIIth Party Congress discussed these problems.

The fourth Five-year Plan (1971-1975) was based on policy concepts discussed by the above mentioned VIth Party Congress, its basic aims: acceleration of economic development combined with accelerated real incomes growth. In this respect there was nothing really new in this plan. However, there was one important novelty: for the first time the expansion of foreign trade relations was highlighted as an important development factor (foreign trade exchanges were expected to grow 57 per cent compared with 1970). In contrast with the past, a new "opening" trend in the economy emerged.

However, the initial successes lead – rather soon – to dizziness and to indiscriminate borrowing and investment in ridiculously giant projects in different line of business<sup>37</sup> with considerable neglect of the development of wage-goods manufacturing capacities as well as of housing and virtually total neglect of the other, "non-productive" spheres of the social system. The most striking feature of the Polish economy in the 70's was its planless development. It is not possible to call it a "planned economy"<sup>38</sup> – this distinction must be earned by the high social and thus also economic effectiveness of the organized system structure created. However, behind this "creativity", a real economic policy developed which in fact concentrated all efforts on the postponement of the already expected crisis<sup>39</sup>. ?? Already late in 1973 the indiscriminate consumption and investment growth could not be continued otherwise than at the cost of net foreign borrowing and thus rapidly growing foreign indebtedness which, of course, combined with borrowing for the development investment in industry mentioned above. The gap between the produced national income growth and the growth of developmental and consumption expenditure assumed the size of a dangerous structural discrepancy. The implemented policy was obviously overoptimistic particularly when proper consideration was given to the inefficiency of the economy caused by its terrifying mismanagement<sup>40</sup>. A closer scrutiny of the situation at

<sup>37</sup>Raw materials, coal, energy, metallurgy, and other non-sophisticated mass-production items; the effort to restructure the output undertaken in the third Five-year Plan was wasted.

<sup>38</sup>It is not enough to indulge bureaucratically in planning procedures without having a sound conceptual basis of objectives of planning.

<sup>39</sup>Some economists consider that in "normal" conditions the crisis would have taken place in 1975; see: Pajestka, J., *Polski kryzys lat 1980-81*, K.i W., Warszawa 1981, p. 50. However, what does "normal" mean? – or more generally what was "normal" at this time in Poland?

<sup>40</sup>Some call this phenomenon the "anarchistic management system"; see: Bożyk, P., *Marzenia i rzeczywistość*, K.i W., Warszawa 1983.

the starting point – i. e. in 1971 – shows that the central reason for the shortcomings experienced in the past decade (of the 60's) was the uncontrollability of the management and thus the social, and implicitly, the economic sub-system. Of course, this is where the big question arises: did the top management understand the situation and its consequences and did they deliberately postpone the crisis – with the sole purpose of staying at the top for a longer period of time? Did they understand that already the moment they came to power in December 1970, they were facing a crisis of the authoritarian methods of ruling? Everything points to the fact that they did intuitively realize that something was going wrong, but they were not ready to accept the truth about the very simple reasons for this, which were far beyond the limits of their comprehension.

And the experts (consultants) which they used did not dare to explain to them the truth about the reality (besides they were selected in such a way as to apologize and not to criticize).

At several consecutive instances when preparing the annual socio-economic plans (from 1971 the “national” plans were called “socio-economic” although this was only a verbal change – not a change in the plan's substance or policy) and later the fifth Five-year Plan, it was proposed to introduce several tasks concerned with improvements in the structure and organization of the management system, and thus in its functioning, as well as in the information system. But every time such proposals were dismissed at the deputy chairman's level of the Planning Commission: the argument being simply that “the proposal is not liked at the ruling level”.

And this is where we have once again to look more closely into what in Poland was called “planning”, which as we have explained above, did not have much in common with the true meaning of the word.

In the 70's, it was found that observation of the main statistical indices of the national economy led to the conclusion that the Polish – and more broadly socialist – development processes could be divided into shorter periods which were characterized by a similar pattern. From this observation it was only one step to the conclusion that socialist economies were also subject to some cyclical phenomena, as the capitalist countries are subject to the trade cycle<sup>41</sup>.

There was much speculation on this subject. However, the explanation is rather a simple one. The cause of these apparently cyclical patterns was the lack of true planning and poor analysis underlying the

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<sup>41</sup> Such a concept was presented by G. Kolodko.

“plans”, in both the medium (five-year plan) and short term (annual plan). The short-term plans were based on medium-term plans as well as on purely quantitative (and thus unavoidably misinterpreted) information about the accomplishments of the preceding period (seen in the context of the medium-term plan). This “assessment” was performed within the framework of a stubborn conviction of the faultlessness of the original plans – of the anticipated deterministic decisions forming the plan’s content.

Any one plan is based on certain assumptions which are characterized by different degrees of probability. And, of course, some – not necessarily those with a high degree of probability – prove true, and, of course, some do not. Moreover, they may prove true at a moment of time other than that assumed in the plan.

Here a comment: planning analysis often assumes that certain events will not happen – if they do happen they may significantly change many assumed probabilities. Experience demonstrates that the planners performing the “follow up” analysis tend to check upon events expected to happen, but often fail to check these which were expected not to happen. Such a well performed check is usually based on forecasting – the closer the expected deadline the more information is available and the more accurate results of the analysis are obtained – in the sense of an increasing degree of positive or negative probability.

Another important aspect, which also applies to the “follow-up”, is the method of evaluation of the plan’s accomplishments. It is well known that most of the “national” plans are measured in value terms; practically they are evaluated by comparing the achieved volume of the national income with the planned volume (of course, in constant terms)<sup>42</sup>. The consequences of such an approach, in the case of any disturbances related to the plan’s implementation, are obvious. So long as the easy tasks are performed, the plan’s implementation – in value terms – progresses smoothly, although when only those more difficult tasks remain to be implemented then the progress so measured declines. However, the non-accomplishment may be – in value terms – a fraction of one per cent of some huge item and thus its impact on the accomplishment of the whole plan may be insignificant (a few tons of pig iron extra may compensate for the loss) – but in physical terms this unaccomplished item remain idle, and represents only frozen capital and thus only losses.

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<sup>42</sup>In Poland the leading figure in the plan was the Net National Income (following the so-called M.P.S. – Material Product Statistics, an accounting method commonly used in socialist countries).



This is, however, only one aspect – and a rather simple one – of the very complex phenomenon represented by a functioning national economy. Many things are performed in sequential order, while others may be otherwise interrelated. At the early stages of the plan's implementation many different tasks may be postponed for many reasons to be performed later. Instead easier tasks are undertaken and thus in value terms the plan may be easily overaccomplished – i. e. in excess of what was fixed, in value terms, in the plan.

Thus at the early stage of the plan's implementation its trajectory expressed in value terms may be followed rather easily or even get ahead of it, and hide the truth about the rapidly diminishing chances of its accomplishment in real terms and in its full complexity. In the case of the "five-year national plan" after two-three years of implementation the difficulties are slowly becoming visible, the delays are growing and becoming more and more difficult to put right and soon may become irreparable.

However, in the Polish central "planning" methodology no "follow up" is foreseen. To be more precise no "planning" as such, i.e. as a continuous planning analysis, exists. The "central planner" is interested virtually only in preparing a draft plan which the Government will present to the Sejm, which will enact it. Moreover, the "central planner" has no information system which will follow the plan's implementation; this, of course, is a much broader problem – Poland has no information system at all and the existing statistical services, with their extremely limited analytical capacity, cannot be regarded as a substitute for an information system adequate for a country-wide social system management. In these conditions, the "central planner" obtains on a regular basis only the information periodically processed by the Central Statistical Office for the Government. Other information may be obtained only incidentally and although usually valuable cannot be counted on to arrive in time. This way the "central planner" may be the last to get the vital information about the state of the system for which he is drafting plans. This is just like the husband who is the last to learn about his wife's infidelity.

Thus, in such conditions, information about the deviation which occurred in plan implementation comes late. Moreover, information is relevant to the deviation as such, but usually says nothing about what has caused it. Experience demonstrates that in most cases which were analysed during the past four decades it was already too late to take a really judicious corrective decision.

There is no need here to go any further into analysis dealing with the functioning of the steering and regulatory system which in Poland did not exist – the “system of plans” (plus the rules and regulations in force) was supposed to be a substitute for it. Analysis shows that not only information about deviation came late. The bureaucracy, since it was not a management system, was not prepared to react – in a cybernetic way – to the signals obtained and thus demonstrated enormous inertia. Being late and taking into consideration this inertia, the steering reactions ought to have been strong – overseeing up to the moment of the system’s visible reactions which in such cases are extremal, calling for a countersteering of similar strength. The result is a zigzag trajectory of the system which usually leads to a break – as the only possible stabilization of the system – followed by fresh start.

Thus after two-three years of apparently smooth and successful implementation of the plan, three-two years of nervous efforts to keep the system on some trajectory, i. e. possibly not very far away from the planned one – was never achieved.

The result of such overaccomplishment, in value terms, of plans were systematically growing stocks of:

- superfluous, poor quality, barely useful semi-products and commodities, and
- a large number and volume (in value terms) of started and not terminated investment projects which meanwhile were becoming technologically obsolete.

It is not necessary to comment on such a state of affairs; the low efficiency and high entropy of a system that was so poorly managed and – implicitly – so badly planned, are obvious. Planning which does not serve the organization of the future activities of the system is no more than a very expensive bureaucratic façade.

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Although poorly managed and badly planned, this system based on almost a slave labour force and, in fact, considerable reserves was, despite its extremely low efficiency, producing and thus its economic basis – productive fixed capital – was growing. However, its structure was purely incidental and reflected the interplay of pressure groups and their particular interests. Moreover, because of the lack of planning, this huge productive apparatus was extremely badly organized – or, rather was not organized at all – and thus inefficient, and its economical effectiveness, if any, was in most of cases very poor. The maniacal tendency

toward gigantism, the complete neglect of external effects or rather complete ignorance about their existence and impact, impudent mystification of "spatial planning", the lack of a management system and thus the lack of a continuous integrated (complex) planning and planning analysis (which includes economic analysis) lay behind these developments, the negative impact of which was magnified by the unbalanced development of the whole social system: its chaotic crippled urbanization and general deficiency of the social and technical infrastructure caused mainly by errors in development policy, lack of planning and economic analysis, and maybe first of all – lack of common sense, intuition, and imagination stifled by the apologetic bureaucracy (assisted by the gerontocratic-cum-apologetic scientific establishment).

Such was the situation when Poland entered the period of what E. Gierek called "repair"<sup>43</sup>. When it began, this was welcomed by many attracted by Gierek's programme as well as by the relaxation of the country's political atmosphere which promised a better future. It should be realized that at the beginning E. Gierek commanded an enormous credit of confidence and popularity in virtually all sections of Polish society. The immediate improvement in the income-price relations which caused rapid growth of consumption substantiated the support which society had granted to the new ruling team. However, there is a big question mark about whether this team was really "new".

Certainly E. Gierek and his team were full of good will and they came proposing a new policy which was attractive for the working masses, although economically it was a risky policy and was not fully analysed, considering all the possible circumstances. However, its particular weakness was related to the very superficial assessment of the state of the system and more specifically of the real causes at the basis of Gomulka's difficulties, and his team's failure to overcome difficulties the origin of which must be sought just at the time when Gomulka objected, protested and was jailed – on the eve of the strictly Stalinist régime in Poland (1949-1956). And although the VIth Party Congress was well aware that the real obstacle to any change and improvement was built into the system, and thus a special resolution was devoted to organization and management problems, which would be decisive if a successful abolition of the bureaucracy was to be achieved, nothing like that happened; as we have said above, two years later the relevant commission was disbanded and its work shelved.

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<sup>43</sup>The counterpart of the Polish "renewal" proclaimed by S. Kania in 1981 and of the U.S.S.R.'s "rebuilding" (perestroika).

However, this was not the only effort made to improve the functioning of the economy. There was no chance of changing anything in respect of the administration – to convert it into a management system; in this respect the bureaucracy was imperturbable and strong enough to dominate the situation. Thus anybody who was trying to change and improve something had to take into account that his proposals would be fought against with all possible means. There is no reason to wonder that what happened came to be called a **lost opportunity**.

It is easy to say so now, although in 1972-73 it was very difficult to put through any reasonable proposal – and this was also true in respect of very high level government and Party officials. It should also be taken into consideration that any effort of this kind would automatically be combatted at all levels of bureaucracy by all means and methods, i.a. by letting the project fall into a trap. E.g. due to credulity – non-specialists were not familiar with prime cost accounting and calculation method in detail and thus believed in its correctness. The reality was different. Prices did not have much in common neither with prime cost or with the market situation and this was the trap into which the so-called WOG project fell.

One of the few proposals which got through, and was subject to an experiment, later extended to a large part of industry. was the so-called WOG<sup>44</sup> system which gave the enterprises considerable freedom, subordinating them only to a set of parameters relating the wages and salaries bills with the output measured in terms of value added; bonuses were related to prime cost reduction and profit maximization. Individual agreements were concluded with enterprises and everything apparently was under control and positively solved. However, once again the abstract and arbitrarily imposed price system, which had nothing in common with prime cost or the market, interfered with economic logic and the whole system collapsed, to the great satisfaction of the bureaucracy.

The profitability of different products differed widely. To have excellent results of the enterprises' activities it was enough to increase the output of highly profitable products and to reduce the output of the less successful. The sellers market permitted such manipulation. Output quickly increased as well as profits and, in some enterprises, wage and salary bills almost doubled, largely contributing to the existing inflationary pressures caused by deficit financing. The bureaucracy discontinued

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<sup>44</sup>WOG – Wielkie Organizacje Gospodarcze (Large Economic Organizations) – corporations relatively large for Polish conditions.

the experiment instead of exploring means and ways to improve the basically sound concept of the system.

Gierek's team, like all the previous teams, was facing problems of management. One of them was that reality very quickly deviated from its planned trajectories. Without a proper management system, which was replaced by a "system of plans", it was practically impossible to react properly to all the signals coming from the system. The only way was to change the plan formally and this could only be done by the Sejm which enacted the plan. In these circumstances the bureaucracy found a way out which could be invented only by itself – a way to legalize that which was illegal – and, as the future proved beyond any doubts, with tragic consequences for the society and its economy. The bureaucracy – of course, the "central planner's" bureaucracy – invented the "open plan", i. e., a plan which after its enactment by the Sejm could be changed whenever necessary in any desired way (without asking the Sejm to change the enacted plan). This way the actual plan very soon ceased to resemble the original which had been enacted by the Sejm. Particularly the investment part of the plan, which quickly multiplied the total expenditure as well as the number and kind of projects. In this way "planning" virtually ceased to exist.

Very rightly, J. Pajestka wrote that the direct cause of the socio-political conflicts which took place in post-war Poland was a threatening of the population's living standards. There was a "conflict between the development mission of the ruling authorities and the drive to and the consumption aspirations of the population"<sup>45</sup>. And this "development mission was rather a desire of the ruling elite than a historical necessity"<sup>46</sup>. However, to realize this desire, instead of improving the efficiency of the economy, extensive factors – fixed capital formation and employment increase – were used. In such a case society should declare its readiness to make sacrifices; such readiness existed, although only during a short period of time while the results of the accepted austerity were expected to be expressed in an improvement of living standards. Such an approach worked for some time, and this period was later prolonged through foreign borrowing. However, as this period of time still did not result in satisfactory increases in national income the ruling team in 1976 was looking for resources through price increases aimed at a reduction in the population's income – which resulted in an immediate protest from the working class. And this was the moment when Gierek's

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<sup>45</sup> Pajestka, J., *Polski kryzys...*, op. cit. p. 28/29.

<sup>46</sup> *Ibid.*, p. 31.

team's policy collapsed because it did not draw proper conclusions from the situation it had provoked. The ruling authorities were neither ready for, nor understood the necessity of, inducing a dialogue with society and seeking its acceptance for unpopular economic measures. This, however, required a change in the relations between the authorities and society based on democratic premises. Such readiness, however, did not exist on the side of the ruling authorities. Foreign borrowing ceased to be investment-oriented and became balance-of-payments (survival) oriented. The economy was heading towards a catastrophe.

In such a situation, late in 1976<sup>47</sup>, it was necessary to admit publicly the existence of major economic difficulties and to announce a new policy, the so-called "economic manoeuvre" the concept of which was based on:

- an increase in investment outlays in agriculture and agro-allied industries,
- a decrease of overall investment expenditure to the level of 30 per cent of national income,
- an increase in exports to capitalist countries to reduce the balance of payments pressure, and
- an improvement in the economic effectiveness of activities.

This programme, however, did not work, mainly because of the complete lack of discipline within the public administration system as well as the reckless domination of the pressure groups – anarchy came to rule, accelerating the process of economic degeneration. It is absolutely sterile to describe the death throes of the Polish economy which preceded the 1978 critical moment after which output and all other overall indices started to deteriorate and which preceded 1980/81 – the year of socio-political crisis – followed by a deep recession. Chaos ruled, some historical measures were undertaken with no real effect except the increase of chaos. In September 1980 S. Kania replaced E. Gierek – and the Polish "economic miracle" had come to its end.

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Once again the ruling team did not understand the real problems and the consequences arising from errors previously made and never corrected. Burdened by such blindness, Gierek's team had been doomed from the very beginning. Without basic changes in its relations with society, without basic changes in the management system (actually it was necessary to create it) and without changing the style of ruling the country, there was no chance. And there are no excuses for this failure. The

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<sup>47</sup>Vth Plenary Meeting of the Party's Central Committee, December 1976.

causes had been building up during the whole post-war period. The multitude of basically important errors committed was never eradicated: only new errors were added. There are two most pervasive features characterizing the team ruling in this period: ignorance and lack of the courage to acknowledge its deficiencies. *Errare humanum est*. However, the quality of true professionals lies, i.a. in their ability to perceive quickly the erroneousness of their decisions, and their courage to acknowledge them, to correct (or recall) them and try to compensate for the losses incurred. In this respect all the teams which ruled Poland in the post-war time were deficient. Psychologically this is very typical of people who are not professionals and are sufficiently ignorant to be unable to realize their own deficiency. Such people, however, were typical products of the "nomenklatura". Such people produced a situation which J. Pajestka described as the "syndrome of voluntaristic degeneration"<sup>48</sup>. It is characteristic that the people who created such a mechanism (the syndrome) were unable to overthrow it because this would imply a negation of their own previous activities: they lacked courage.

Gierek's team governed Poland for almost ten years (December 1970 - September 1980) and one may say that by and large it continued the stubborn policy of its predecessors which was based on incomprehension or on a refusal to comprehend, the errors which they had committed, compounded by some superficial changes which were conceptually erroneous because of the prevailing conditions which continued.

The legacy of this team from the social and political view-point is well known. It is not within the scope of the present study to describe and analyse it. Although it should be admitted that the mentality of society had, and still has, an enormous impact on its economic sub-system - its condition. Many difficulties encountered in the 80's have been related to the demoralization of the working masses and the marginalization of the intelligentsia.

However, it is important to review what this team or this period of Polish society's struggle for improved living standards - it would be ridiculous to talk about welfare in Polish conditions - did to expand the capacity of the Polish economy. Actually the team engaged the society in a large and extremely ambitious investment programme - which was popularized by the propaganda slogan "We are building a second Poland"; in fact it was planned to double the stock of fixed capital. This programme was, up to a point, based on foreign borrowing, particularly

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<sup>48</sup>Pajestka, J., *Determinanty postępu*, Vol. 2, P.W.E., Warszawa 1979, p. 180; see also: Pajestka, J., *Polski kryzys...* op. cit., pp. 68-70.

from capitalist countries, although it required an enormous effort and a good deal of austerity from Polish society.

Thus the volume of investment was impressive. However, the structure of this incremental fixed capital and the resulting structure both of the productive (economic) sub-system as well as of the whole social system was much less so. The old structural errors of the consecutive previous plans were not only repeated but magnified. Under the guise of expending the potential of the heavy industries, the extractive, raw materials, and energy industries were again forcibly developed. And this time the economy could not bear such a burden any more. All these industries were capital-intensive, and characterized by low profitability (if any) – some of them were not and could not be profitable in Poland at all, and were thus in need of subsidies – and were distinguished by very long gestation periods. Moreover, all these industries were sensitive both in respect of their economies of scale as well as their external effects; and all of them were of gigantic size.

Strangely enough all this was happening at the time when everybody was seriously and reasonably talking about the necessity of shifting Poland's economic development from the extensive to the intensive path. Moreover, it was clear that because of the organizational and technical regression, the labour and capital inputs are utilized only up to 60-70 per cent (if not much less in many cases), and that this percentage was systematically declining.

The Polish economy's output structure was becoming more and more obsolete in the economic sense, and, horrifyingly, this was a result of deliberate policy. And all this was going on at a time when the whole industrialized world was seriously analysing and planning restructuration, including overseas redeployment of ineffective activities, and fighting for economic survival. The "structural obsolescence of output" together with the deficient monetary system was recognized as the main cause of the world-wide recession – which was expected to last into the 90's. Transnationals were manipulating this spectacle and therefore it did not get much publicity; they left the problem of the resultant unemployment to governments.

The necessary knowledge was there. However, the abstract price system deeply immersed in chaos combined with the compulsorily imposed irrational prime cost accounting and calculation methods stood in the way of any reasonable economic analysis, particularly viability analysis of investment projects under consideration. And, moreover, there was no understanding of the problem as such – of the fact that the economic



world was entering a period during which the new international division of labour would be fixed for several decades.

Strangely enough knowledge of the problem was not only internal. There was also sensible advice from the U.S.S.R. to import semi-wrought steel inputs from the "Kursk anomaly" new Russian metallurgical giant – together with an invitation to participate in this project.

And in spite of this advice, and of the invitation, and more particularly of the fact that the smelting of pig iron and raw steel could not be viable in Poland, since it required heavy subsidies, the Huta Katowice project was started, and became the crowning feature of Polish economic stupidity. *Nota bene*, this project was "smuggled" into the plan with a ridiculous underestimation of its investment cost and in a location which was ecologically criminal.

*Nota bene*, the eager apologists "responsible" for "spatial planning" at the "central planner's" level and the corresponding science level approved this location which was inserted into the "plan" after it was completed – of course, without any economic analysis including its ecological consequences.

The story of Huta Katowice as a lesson in "white elephant" projects remains to be written – and it should be written. Early in the 70's before anybody had "invented" this project, the iron and steel industry was about to draw up a reasonable plan for modernization and development which considered the restriction of its output to high quality products corresponding to the future demand of an ambitiously developing economy. The idea was to follow the concept of being in quantitative terms (physically) a net importer of steel, while being simultaneously – in value terms – a net exporter of steel (like Austria and Sweden, both countries with marvellous deposits of quality iron ore which was not available in Poland). But thanks to the policy followed, in the 80's Poland is exporting semi-wrought or other low-priced and heavily subsidized steel products and importing the majority of quality steel products required by the economy – and overall is a heavy net importer of steel in value terms. However, the project was gigantic, apparently spectacular (apparently – because technically already obsolete), and easy – both in implementation as well as in exploitation. Billions have been and continue to be spent on it only to increase the volume of subsidies necessary to keep it running. And all this is going on at the time when major iron and steel works in Europe and the U.S.A. are being closed down because they are economically non-viable and ecologically non-acceptable in congested continents like Europe.

Considering the "planner's" practice it should be pointed out that both the shaping of the structure of the economic sub-system as well as its organization<sup>49</sup> was not subordinated to any scientifically acceptable rules but decided under pressure from the Upper-Silesian and heavy industrial pressure group which dominated Gierek's ruling team. This criminal and at the same time ridiculous particularist pressure and decisions resulted in the industrial overcongestion of the Upper Silesian Industrial Region (Górnośląski Okręg Przemysłowy – G.O.P.) which led to ecological catastrophe with all its terrible social consequences (the worst health indices in Poland – including infant mortality, cancer, pulmonary diseases) as well as insurmountable infrastructural and housing problems (in teleological, technical, and economical terms) – that is, problems the solution of which will take decades and burden society with heavy and wasteful expenditure.

Remarks on Polish economic potential as it was "developed" by the end of the 70's will not provide proper and relevant picture without a brief discussion of its other characteristic features which were decisive from the view-point of theoretical productive potential and real output possibilities. The difference between those two terms is important and its implications should be properly understood and realized.

Before starting this discussion it is important to point out that an economic sub-system cannot exist without a direct environment, namely the rest of its social system. Moreover, when considering an economic sub-system it is important to keep continuously in mind that a **society exists together with its economic sub-system**; this sub-system should serve the society and be subordinated to it and its interests. These two facts are of basic importance and any neglect of them may result in such a catastrophe as is being experienced by Poland: both these facts have been neglected.

There is an important complementary interrelationship between an economic sub-system and the rest of the social system which for practical purposes may be described as the settlement sub-system, the one which is directly responsible for adequate satisfaction of the society's needs. To fulfil this purpose, this latter sub-system must be supplied by the economic sub-system with energy in all its different forms. However, to be able to do this the economic sub-system must be supplied with labour.

Of course, there are several important implications arising from the interrelationship of these two subsystems. The most important is that

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<sup>49</sup>I.e. the structure's distribution in respect of the place, time, and function so as to assure its desired behaviour and to minimize the system's entropy.

their structure and organization must fit together (in a jigsaw puzzle way). These two features being interdependent, i. e. organization is shaped in the process of designing the structure – and vice-versa. However, this is only what may be called the first degree of interdependence: the second degree refers to the system's objective function – the fact that the system's structure and its organization must be subordinated to the requirements of the objective function to which *extremum* the system should come as close as possible, while simultaneously minimizing its entropy.

This is where it is so important to point out that such an approach to the solution of the problem – i.e. the establishment of the “optimal” structure “optimally” organized<sup>50</sup> – is possible only when planning analysis considers the whole system in its full complexity – in the context of its environment – i.e. this planning must be integrated. (Of course, the teleological component of the analysis must also be planned, i.e. subject to planning analysis, and not subject to “artistic” intuitive imagination). And, of course, no such analysis was conducted. Nevertheless, projects were promoted and their kind, size, and location fixed after a purely bureaucratic procedure of “adjustments”. All these resulted in a completely incidental structure, and it is impossible to discover any organizational concept in this “assembly”.

However, the 1970's brought one more important – although negative – structural change in the Polish industrial system, namely the pronounced liquidation of medium and small industrial enterprises. Of course, first private industrial enterprises were decimated; this was followed by craft production – all within the “economy for the envious” under a dogmatic ideological cover. This time, therefore, not only privately owned plants but also state-owned plants which had proved too difficult for the bureaucracy to manage were closed down. Some of them were taken over by the key industries losing their autonomy (most of them were later liquidated also in physical terms) and others were simply closed down. In this way in the early 80's only about 12 per cent of Polish industrial enterprises employed less than 100 people: just the reverse of the current restructuring trends in highly developed industrial countries.

Moreover, in all developed industrial countries the last two decades have demonstrated a process which came to be called the “ruralization of industries”: industrial plants, within the process of enterprises' extension and modernization, are leaving urban premises and settling in rural areas.

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<sup>50</sup> Actually in reality it will always be sub-optimal, hence the inverted commas.

Most of the newly built plants employ less than 200 people, seldom more. New plants which employ more than 500 people are becoming exceptions. As most governments have discontinued the practice of subsidizing town budgets, industrial locations in urban premises have become very expensive in virtually all respects, particularly labour, infrastructural services, and estate costs, and plant located in towns has ceased to be competitive. It goes without saying that this new behaviour of industrial enterprises changes the whole conceptual basis of the settlement systems' structures and their organization which, *inter alia*, must be subordinated to the constraint which requires that the towns (urban concentrations) must be economically viable. Nothing like that was considered in the 70's in Poland; moreover, the bureaucracy does not consider such an eventuality either for the present (by the end of the 80's) or for the future (e.g. in the presently considered perspective plan up to the year 2000 or so). The interest vested in nihil novi by the bureaucracy, urban "artists" and the scientific gerontocracy does not permit any changes – and the society will pay the price.

The size-structure of the industrial sub-system which is in contrast with modern requirements and trends had important negative consequences for the Polish economy. This structure lacked something what may be called – to borrow a term from biology – connective tissue. The whole structure lost its indispensable flexibility. Co-operation between small and large enterprises – the very basis of industrial specialization and technical progress – ceased to exist. And anybody with a minimum of experience – although imagination will suffice – understands that co-operation between the large – in socialist countries usually monopolistic – enterprises is not on principle but for purely practical reasons unthinkable. And this is what happened. The large, financially strong (that means having access to investment money – i.e. being well situated in one of the pressure groups) enterprises converted themselves into autarchical giants working on a "do it yourself" basis. Costs jumped and quality fell, and delivery times multiplied.

Of course, this poses a question: what was all this nonsense for? The answer is simple:

(i) bureaucratic envy hidden behind dogmatically interpreted ideology;

(ii) the impossibility of managing thousands of small units by means of a central plan through a bureaucratic intermediary.

The resulting wastage and damage were horrific – again maybe not so much in material (most of the liquidated enterprises were technically

obsolete) but in entrepreneurship, knowledge, experience, talent, inventiveness and flexibility.

The problem is still more complex. Developing the state industrial sector based exclusively on giant plants and large complex enterprises, its creators (and this time the Planning Commission should not bear the whole responsibility) – a large part of this new potential was promoted and implemented outside the “plan” or only later introduced into it with a complete disregard for the implications did not consider whether the productive facilities so created would be able to attain their expected outputs in their locations and at the expected time.

Besides, it is well known that the extraordinary extension of the investment plan – far beyond the existing implementation potential (particularly construction enterprises) – has completely disorganized the investment activities at least doubling – or more – the expected completion time of individual projects. Gierek’s team was still expecting the forthcoming “investment harvest” – which never came.

The results are known. In the 80’s productive capacities utilization is at about the 40 per cent level.

At the same time there is an acute shortage of labour in virtually all sectors of the economy, but not evenly over all of the country’s territory. Project designers did not consider the possibility of labour substitution – labour being by far the cheapest means of production and assumed to be in unlimited supply (there was also a popular illusion about the apparent high quality of labour). Errors committed on this “front” were complex and multiple, and their analysis demonstrate all the features of the system’s deficiencies. And, of course, the real system deficiencies were caused by the malfunctioning of the management system, or what in simple terms is called mismanagement. However, the essence of the problem is that there was no management system in Poland; there have been ruling teams, who have collapsed one after another, although preserving continuity by means of the “nomenklatura” and the continuously growing and ubiquitous bureaucracy, which constitutes a new class which has intercepted the ruling hegemony which only apparently belonged to the working class. And it should be realized that the bureaucracy has only one goal – to persist with as few changes as possible (i. e. the “nihil novi” ideology).

The officially continuously declared alliance of workers and peasants served only propaganda purposes; in reality the Party, the Government, and the bureaucracy conducted a more or less veiled discrimination policy against the peasants, weakening their possible opposition against the

bureaucracy. Now, late in the 80's, the workers are starting to understand properly the role of bureaucracy.

Many factors have been involved in the creation of such a nonsensical structure of the Polish social system and its perhaps even worse organization. However, the basic reason is **lack of planning**: of integrated complex planning. Because what was called "planning", and was oriented to the preparation of the so-called "plans", was methodologically burdened with infantilism born from the lack of ability to see the social system in<sup>51</sup> its full complexity.

Instead of a concrete concept of the future Poland there was only a mystical god called "industrialization", albeit very narrowly and naively understood and identified with the creation of heavy industries, combined with virtually total neglect of any other development. Thus there has been "industrialization at any cost" – and with no other purpose than per se.

It may appear paradoxical, however, looking now upon the kind of logic pursued in the past by the ruling teams one comes to the conclusion that they were thinking in purely capitalistic – market economy – terms, namely: that it is enough to create heavy industry – including fuel and energy – and all the other activities, including social infrastructure and services will be induced by the demand so created. . .

The Marxist concept of development calls for a balanced harmonious development of the whole system which, of course, must be fed by its part (sub-system) which may be called "productive" (although most commonly it is termed "economic") which, however, must be balanced (and consistent) not only internally but also balanced with the rest of the social system, including its environment, playing a complementary role toward the given social system as such.

This is obvious because no one country in the world disposes of all necessary natural resources, because the factors of production supply is characterized by different proportions and prices (in an absolute sense), and thus the economic rationale calls for an international division of labour aiming at minimization of overall entropy of the global system through its minimization in each country's system.

The internal structure of the Polish economic sub-system was shaped in a way which did not consider, the specific for Poland, factor proportions and their absolute prices and neglected the internal input-output

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<sup>51</sup>Of course, any one discipline otherwise defines the social system – from its subjective viewpoint which results in a partial picture.

consistency in the context of possible and economically effective foreign exchanges.

Particularly shocking in this partial context was the obvious disproportion between the agricultural sector and the rest of the system (considering the price-building policy and situation existing world-wide – an thus the sector's economic effectiveness, profitability, and hence competitiveness on the foreign markets) which came into existence through discrimination against this sector which deliberately kept it underdeveloped, economically non-viable, etc. etc. and as a result did not release enough labour required for non-agricultural activities, and was unable to supply the nation with food, instead of making it in this respect independent of foreign imports – in self-financing terms – if not a net contributor to national income generation.

The shortage of labour supply is a particularly strange phenomenon which has clearly emerged in the 80's (although it was in existence earlier, but hidden by the bureaucracy). Its origins have been very differentiated all over the country and represented a very complex set of problems which were also largely related to differing regional conditions.

This may be one of the most blatant examples of bureaucratic naivety or ignorance. By the end of the first half of the 70's individual (peasant) agriculture had very clearly demonstrated that it was suffering a shortage of labour (partly because of the continuous migration of youth to non-agricultural sectors, the aging of the agricultural population and partly because of the individual farms obsolescence, apparently caused by different factors, however, all of them being generated and articulated by the continuing discrimination against individual farming expressed in daily practice in different ways). This shortage was real and expressed in different deficiencies in current farming practice including untilled land resulting in a lower agricultural output than the one which could be expected as theoretically possible. Thus when preparing the next five-year plan (1976-1980) the central planner was instructed to "increase employment in the agricultural sector" by a few hundred thousands without saying how this ought to be achieved. At this time employment in agriculture was already declining at an annual rate of some 50 thousand people – thus the forecast made by specialists for 1980 suggested no more than 4400-4500 thousand people employed in this sector. The last population census was taken in 1970 and it was planned thus the employment figures for the following years were estimated only – following these estimations employment in agriculture was estimated to be about 5,500,000 people by 1980. The shock came in 1978 when the census showed employment

in agriculture of less than 4,500,000 (as predicted by the "central planner's" specialists) - some 1 million people were missing (of course, this was politically shocking because it would mean either large unemployment or the existence of large informal sector - otherwise the difference could be explained only by statistical errors - a little bit too large to be accepted as "errors"). The lesson is simple: it is not enough to write down something in the "plan" without providing mechanisms which will guarantee its implementation, however, the bureaucracy believed that anything enacted would materialize by itself - after all the "plan" was regarded as a substitute for the non-existing management system.

It is impossible to go into details here - because a separate study could be written about this complex of errors committed - but only one factor should be mentioned as important and still misunderstood: this factor is the undervaluation of labour in relation to other factors of production. Labour in Poland is by far the cheapest factor of production and thus labour-saving or substitution is formally unprofitable; it does not pay for itself. At the same time the level of the wages and salaries bill is the most tightly controlled index (financial limit) - trespassing against it is heavily penalized and may cause bankruptcy in an enterprise.

On the other hand everybody agrees that labour productivity <sup>52</sup> in Poland is very low when compared with Western countries. Besides, poor organization caused by the lack of a management system, results in a shortage of labour which is caused by exaggerated demand, which is in turn caused by:

- (i) poor organization;
- (ii) labour-intensive project design, because of the cheapness of labour, prevents labour being replaced by capital as completely unprofitable (formally, i. e. following the imposed accounting system).

Again, here, further study in depth would be necessary to say to what extent the two factors share the losses caused by both of them - and these losses have been and continue to be severe.

Some of the new technical and technological ideas have been blown into the Poland of the 70's by technical licenses or know-how purchased

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<sup>52</sup>In Poland no difference is made between labour productivity and efficiency. The same Polish labour when employed in Western countries (even in Polish undertakings) shows an excellent level of efficiency and thus often a superior productivity when compared with Polish conditions. This labour when working in Poland demonstrates also a very high (comparable with that achieved in the West) labour efficiency, but low productivity. This is caused by two factors: lack of satisfactory motivation and very poor organization caused by the lack of properly functioning management system at all levels - a bureaucratic administration will never substitute for a management system.



abroad, often together with the imported equipment. However, these actions have been incidental and not consistently planned – to be based on some complex concept leading the industry in some of the desired directions. Being usually related to imported equipment, these licenses have on the whole been implemented after long delays, often when the purchased technology, or items to be manufactured, were already obsolete and replaced on the world markets by new technologies and new designs. What was to be learned through these arrangements was learned poorly and used too late to be useful as a basis for future development<sup>53</sup>.

The electronic industry was by the end of 70's virtually non-existent, and its production was still at the laboratory stage of development and no clear plans for further lines of development had been drawn up and properly considered. The manufactured motor-vehicles, of foreign design, became obsolete and no competitive new design, either Polish or imported, was in sight<sup>54</sup>. There was no one line of industrial production of any importance which could be regarded as modern – as a Polish specialty, competitive, and leading on foreign markets. The majority of exports were either coal or other raw materials and semi-products or other material-intensive, unsophisticated, low-quality items. By and large this export was not profitable and only seldom really economically effective, but was performed because of obvious balance of payments requirements.

All this, in many ways, applies to the system's structure and organization, constrained by the deficiency of the management system, or rather the lack of a management system which was in itself a product of the bureaucracy which apparently replaced it, although it was not a substitute for it. However, although many factors converged to produce the picture presented, the real original and primary causes still lay in a faulty personnel policy and the multitude of consequences resulting from its implementation during the last forty years.

The above discussion has largely been limited to the extractive and manufacturing industries with some remarks devoted to agriculture because of its particularly difficult situation. However, rampant mismanagement was omnipresent in the whole system although, maybe, not so obviously evident everywhere. Moreover, this discussion has focused on macro-phenomena and central management, apparently overlooking

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<sup>53</sup>License was purchased for the manufactures of some excellent classic mechanical calculating machines; when their manufacture in Poland started the market was readily in the process of becoming flooded by all sorts of electronic calculators.

<sup>54</sup>The "Polones" passenger motor car was obsolete at birth and therefore non competitive.

the mezzo- and micro-levels, particularly the local level and its problems. Local may be both rural and urban, although both have been completely neglected during the post-war period. The enormous potential existing within the local communities was completely disactivated by the bureaucracy – not only in respect of individual farming, which is the most obvious sector of local activities, and enormously important for the whole social system – but also in all possible lines of activities, not only economic but also in all other non-economic lines including the cultural. In this field, the bureaucracy, led by the Ministry of Finance, successfully blocked all initiative by holding back its financing and, on the other hand, by insulating the local communities by an efficient monopolistic institutional barrier composed of territorial administration, the fiscal authorities, and a set of state and para-statal monopolistic enterprises. Thus an enormous potential was kept idle by the bureaucracy which in this way created for itself the desired conditions of “dolce far niente”.

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Toward the end of the 70's the country's economy was already in decline, its statistical, i.e. quantitative “apogeu” was achieved in 1978, although the VIIIth Party Congress (February 1980) hardly noted this fact and no major alterations of Party policy had been envisaged. The ruling team apparently did not realize the gravity of the country's economic situation, just as it was unaware of the growing social tension.

Within the framework of the discussion traditionally preceding the Party Congress, the Chief Technical Organization (N.O.T.) presented to the Party and the Government a document entitled “Syntetyczna prognoza inżynierska N.O.T. na lata 1981-1985” (N.O.T., Comprehensive Engineering Forecast 1981-1985) in which the critical condition of the country's economy was presented within the context of its poor prospects for the next five years. It was a kind of warning presented in very mild terms, although its reception was very negative – one of the deputy prime ministers demanded that the document should be altered and all critical passages removed, proving that he did not understand the calamitous situation of the country.

In September 1980 the Plenary Conference of the Party Central Committee recognized the gravity of the situation and E. Gierek, together with some members of his team, was dismissed. The country was entering a new period in its history – a battle for political, social, and economic reform.

### 3.

## Time of Apparent Reform

Things were going wrong. This became obvious to everybody in the summer of 1980. The gap between supply and demand for wage goods became visible and was growing. The situation was deteriorating rapidly and required immediate and thorough action. However, the depth and the extent of the problem was assessed properly only later. Very few specialists understood its gravity and still fewer its causes. Particularly its social and political factors were poorly understood – and if at all, then rather intuitively – and their impact was largely underestimated.

Output and exports were declining rapidly, the foreign debt was growing fast and the negative balance of payments constrained imports vital for both production and consumption; foreign borrowing became difficult and expensive. There was a sort of vicious circle; the economy was choking. Commodities disappeared from the market, ration cards for basic foodstuffs were introduced, shops were empty. Inflationary pressures were growing rapidly leading to panic and speculation. The need for a thorough reform became obvious. A Party-Governmental Commission for Economic Reform was set up (September 1980; composed of representatives of the Central Administration). However knowledge about the real situation was limited to symptoms.

From the very beginning both the Party and the Government were unwilling to learn about the real causes of the catastrophe, to find out and disclose errors committed and to “take the bull by its horns”. The ruling bureaucracy was unwilling to present a honest and plain – spoken report about the state of the economy. Consecutive versions were rejected first by the Prime Minister and then by the Parliament and in reality it never came into existence. No thorough diagnosis was ever prepared – neither about all that happened before 1980 nor about what has happened later ( up to now). Everybody – the Party, the Government, the bureaucracy – was innocent: no errors had been committed, either deliberately or

accidentally. Such an attitude led to palliative actions: to activities dealing with the symptoms but not with the causes. The Commission was acting slowly, demonstrating both lack of a concept and lack of understanding about the extent, importance, and urgency of the complex problems it was facing.

Social pressure was growing. The one-sided Party-cum-bureaucratic make-up of the Commission was strongly criticized and as a result extended by the VIth Plenary Conference of the Party's Central Committee to include representatives of several non-government organizations and other people regardless of their professional qualifications, although the Commission's composition was still neither representative nor adequate professionally to deal with the relevant problems. Moreover, its method of working was rather peculiar. The Commission was divided into several working groups<sup>1</sup> each dealing with some specific problems. These groups, besides their basic membership, co-opted people "from outside": employees of ministries and other specialized government bodies and scientists. Preparation of concepts and documents was entrusted to representatives of the relevant governmental body and discussed by the working groups at sessions. However, practically everything was dependent upon the leaders of these groups; the arguments and counter-proposals presented by the invited specialists were seldom accepted. Everything was prearranged. Documents were presented and discussed, but were usually sent on to the Commission unamended on the basis of the argument that there was no time to deal with them, since the dead-line was to-morrow, although with a promise that the counter-arguments and proposals would be presented orally during the meeting of the Commission. There, however, they were seldom presented and if so, seldom discussed and only rarely taken into consideration by the Commission's Secretariat which acted arbitrarily. In practice the critically minded members either did not have much that was relevant to say or their arguments were ignored if the Secretariat did not like them. The whole work was manipulated by the Secretariat guided by the forces behind it.

Parallel to this, particularly academics - either individually or organized in informal groups - as well as some organizations, especially professional organizations, produced several more or less complex propositions which they tried to present either publicly or to the Commis-

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<sup>1</sup>Actually 14: (1) organisation of the national economy, (2) planning, (3) economic systems, (4) market organization and functioning, (5) investment, (6) agriculture and food economy, (7) material supply, (8) foreign trade, (9) territorial administration, (10) self-management, functioning, and legal bases of the economy, (11) quality and technical progress, (12) small-scale industries, (13) social services, (14) fuel and energy economy.

sion. However, only token attention was given to them. The Party-Governmental establishment remained omnipotent and infallible.

Early in 1981 (January) the Commission published and presented its proposals for public consultation. This gave rise to a wave of serious criticism and proposals demonstrating an enormous popular interest in the problems as well as concrete propositions for changes and improvements. Some superficial amendments were introduced, although the concept and the main body of the document remained as it had been prepared for presentation to and acceptance by the IXth Extraordinary Party Congress held in July 1981. This document was entitled "Directives for the Economic Reform" and its content was endorsed by the Party Congress and later accepted by the Parliament (25th September 1981). Parallel to this, on the Government's request, the Parliament established the position of minister-plenipotentiary (of the Government) for economic reform nominating to this post Prof. W. Baka, a Party employee who had served as the Secretary to the Commission for Economic Reform.

The above mentioned document is rather long and detailed<sup>2</sup>. It is impossible to analyse it in full, but some of its features and some of its parts should be analysed here because they were relevant for further developments. There are some main features of this document, namely:

- the whole text was narrowly and crudely economic, based on a rather simplified understanding of economics – vulgar in the case of Marxist economics and naive in the case of bourgeois economics; it was the type of dogmatic economic thinking on which the management of the country's economy had been based during the past 30 years; moreover the economy was regarded as an objective per se;

- the whole document completely disregarded the problems of management – in the sense of the management system (completely destroyed and dismantled in the past 30 years), of its structures and their organization, and thus functioning; it appeared that there was a complete lack of understanding of the basic meaning of the system's wording: structure, organization, management, functioning etc.; the best conceived "economic mechanisms" will not work if there is no proper organization of the system and if the management system does not function effectively;

- there are important gaps in the "Directives" among which particularly dangerous are those in the fields of finance, budgetary affairs, monetary, and allied activities, which were left at the discretion of the bureaucrats (in the contemptuous sense of this word) who are the most

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<sup>2</sup>88 pages in print – see: Baka, W. *Polska reforma gospodarcza*, PWE, Warszawa 1983, pp. 109-198

obstinate and ruthless opponents of any reform which might destroy their dominant position of the "state within a state"; further developments have demonstrated how effectively the so created opportunities have been used by the opposition to block the reforms;

• the document lacked complexity, each line of problems was dealt with separately without regard to the multiple relationships either existing or created by the individual implementation of the "Directives".

Strangely enough till the end of 1988 there was a complete lack of understanding – by the Party, the Central Administration, and among economists – that the whole catastrophe of the Polish economy was a result of mismanagement, disorganization, biased personnel policy – the socio-political collapse was a result of the same factors only in other fields of activities were doctrinaire dogmas substituted for common sense or rather served as a shield protecting particular interests against the overall interest of society at large.

As noted above, the lack of proper diagnosis and particularly of careful identification of the causes of the observed negative phenomena obstructed the indispensable complex planning of the reforms' implementation, and i.a. the devising of a proper policy for it.

Some ideas embedded in the concept of the reform were theoretically desirable and attractive, although unrealistic, being premature in the existing conditions particularly at a time when efficient management with clean-cut personal responsibility was necessary. Such was the case with the workers participation in enterprises' management which – besides – from the organizational side was ill-conceived. Where there were clever and efficient managers, they succeeded in subordinating to themselves the employees "self-government", and the whole idea was reduced to a fiction, becoming an instrument in the managers' hands; in all other cases it led promptly to a significant degradation of management quality with all the negative repercussions that this entailed for the enterprise.

This problem is both complex and intricate and has a long post-war history written by the abusive remuneration system which was oriented toward maximization of accumulation combined with a total disregard for justice and economic criteria i.e. the coefficient of the elasticity of substitution of the factors of production. This situation ruined all the motivational aspects of wages and salaries as well as labour discipline. Combined with a total disregard for the economic effectiveness of any activity, it put the managers on labour's side. In such conditions, the introduction of workers' "self-government" was a fiction, although it generated many undesirable conflicts in which anarchic and demagogic ele-

ments started creating trouble sometimes serious, for the management. In August 1980 the workers were not interested in controlling their own management, but the higher echelons of the bureaucratic management system including the Government. To experienced managers, particularly those who had "survived" similar "political" attempts late in the 40's and after 1956, the danger was obvious from the very beginning. Now it became obvious to everybody, although nobody dared to admit that for "political" reasons. Nothing was gained politically but the reform suffered a serious set-back. The concept was, of course, very hypocritical in its style.

The most important weakness of this act regarded the problem of responsibility for the enterprises operation and the economic results of its activities which remained with the manager who was significantly restricted by employees' interference; but the employees were not responsible for the consequences, and the manager, who was deprived of his fundamental right of decision-making, was however, still responsible for the enterprise. Thus the basic rule of the one-person management authority and responsibility was once again broken.

The main argument presented for the introduction of the employees' "self-government" and its participation in the management was that it would represent a safeguard for the *harmonious association of the enterprises and employees interests with overall social objectives of the socialist state and of its economy*<sup>3</sup>. This argument has, however, nothing in common with the economy, organization, management, and even common sense. In the sound enterprise the employees' interest remains in contradiction with the interests of the enterprise's owners - in the case of Poland the owners being all the members of society - and the employees will always give priority to their own interests entering, of course, *inter alia*, into conflict with the trade unions whose role is to protect the employees' interests. Such a scheme can work only when the employees are the sole owners of the enterprise (e.g. in the case of the production cooperative); there, of course, there is no conflict between the owners' and the employees' interests. However, this is not the case with Polish<sup>4</sup> "state enterprises".

Of course, a more detailed analysis of the "Directives" is desirable, although this would imply a separate book on this subject which easily

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<sup>3</sup>Baka, W., *op.cit.*, p. 13

<sup>4</sup>These enterprises being nationalized do not belong to the country's treasury but remain owned by the society. This is often forgotten by the bureaucrats to whom this property was entrusted. The lack of precision and carelessness in such only apparently secondary matters led to many malpractices in the handling of public affairs in Poland

could become a textbook on how an economy should be organized and managed ... and, of course, there are many answers to these questions. This is impossible within the scope of the present study. Thus some clarifications will be given whenever they will be considered necessary to follow the process of the implementation of these "Directives" or, may be more accurately, of the process of reshaping the Polish economy apparently aiming at its reform and revival.

The starting point for further proceedings is the day (25th September 1981) when Sejm accepted the "Directives" and promulgated two fundamentally significant acts: on state enterprises, and on employees' "self-government" in state enterprises. Thus the "reform" was launched. Of course, the majority of people able to understand the sense of the accepted "Directives" and of the enacted laws were all aware of their serious deficiencies, even if what had been gained was better than nothing, or than what had existed before. Much depended on how the "Directives" – and their spirit – would be interpreted by the minister-plenipotentiary and the other bureaucrats.

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Anticipating the acceptance of the "Directives", some preliminary actions were undertaken of which the most important concerned: a) state agricultural farms, and b) state-run small industries for which new economic rules were established of which the most important feature was their commercialization and autonomy, i. e. self-financing, and c) the reduction of the number of branch ministries through their merger (reduction from nine to four units) which was related to a considerable reduction in employment (by around 40 per cent) which was paralleled by changes in the scope and method of operation of the functional ministries (particularly Finance and Labour) as well as that of the Planning Commission. In the former, i. e. a) and b), the changes were successful; the latter c) was, as future practice demonstrated, superficial and the expected improvements were not forthcoming.

Much more important were the new acts already mentioned, about the so-called state enterprises and the employees' "self-government" and its participation in enterprise management. The inconsistencies of the second of the above-mentioned acts have already been explained above; in practice it created an important nuisance leading to unnecessary difficulties and a decline in performance. The first, however, was much more important and, if consistently implemented, could lead to significant improvement in the operation of enterprises. However, the rules of



the act are still far from implementation. The fundamental principles nicknamed the "Three S"<sup>5</sup> in many enterprises still remain a theory – for many reasons, particularly the interference of different governmental bodies (i. a. the personal dependence of the manager who is nominated and whose remuneration is fixed by the minister), the difficulties in provision of inputs (all the most critical are centrally allocated), the financial dependence upon the Ministry of Finance and its agencies, i. a. banks which are managed by this ministry (which is totally disinterested in an enterprise's performance while it pays taxes). Of course, this explanation is highly simplified and the dependence made complex by several interdependencies, i. a. related to complete disorder in price relations. Most of large-size state enterprises are not profitable (with prices being imposed on them – although in many cases profit-inducing prices would be uncompetitive) and thus are subsidized by the budget. With the presently ruling chaos in the price system, including labour remuneration and taxes, it is virtually impossible to determine which of these enterprises could be economically viable in normal market conditions.

However, this act concurred with the overall objectives at which the "Directives" were aiming, only the circumstances sharply restricted its expected impact. These circumstances, however, were only partially caused by the situation. The most restrictive factors came from the inadequate implementation of the "Directives": mainly from the price system, financial and taxation system, and the wage and salaries system. None of them was implemented in accordance either with the "Directives" as such or with their spirit and objectives.

Here it should be pointed out that the opportunities created by this law were completely overlooked by the Government and those responsible for the implementation of the "Economic Reform". They offered the opportunity to introduce changes and arrangements which would certainly be unpopular with society. They would not be necessarily painful or demanding, although their importance and way of working was extremely difficult to understand – or at least to be grasped intuitively by society at large – this applies particularly to the thorough reconstruction of the price system, wages and salaries, and the taxation system – related, of course, to the inevitable significant devaluation of the currency. This opportunity was lost and the delay caused by this negligence was irrecoverable and decisive for the failure of the reform – a fact which

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<sup>5</sup>The "Three S" stand for three major features: *Samodzielność* (self-dependence), *Samorządność* (self-governing), and *Samofinansowanie* (self-financing).

became obvious as early as in 1984. However, more factors and people were involved in this miscarriage.

One should realize that there was a large body of people who were strongly opposed to any reform – economic, and more particularly political – because they understood, very rightly, that a successful reform would signify, for them, the end of their careers – the end of access to power and privileges without any responsibility. This opposition represented an important obstacle because its members controlled all the managerial positions in the country – they belonged to the “nomenklatura” and formed a social class which – riding on the back of the workers and carrying the signboard with the inscription “Socialism” – took the position formerly occupied by the bourgeois class, and dominated the system. Now this class of people was supposed to implement the “reform” against its own interests and resistance was and continues to be biological, intuitive, and runs from the very top of the Party and Government, supported by the political pressure groups, particularly the Silesian one.

In such a situation the only possible approach to reform implementation must first of all aim at the destruction of this opposition, i. e. aim at the thorough restructuring and reorganization of the management system as well as an injection of “new blood” into managerial positions. However, during the IXth and Xth Party Congresses the abolition of the “nomenklatura” was discussed – unfortunately with no results. The main body of the opposition was within the Party itself. Of course, there were leading people within the Party who understood the situation and sincerely opted for the reform and utilized all their influence to mobilize the Party around it. Also the pressure of public opinion, particularly of the workers organized in “Solidarność”, was enormous; tension was on the verge of breaking point. Thus the Party as a whole could not refuse the introduction of the reform, although, simultaneously trying to make it as superficial as possible, and, of course, there was no reason to hurry, particularly when martial law allowed some respite. Of course, good will had to be demonstrated, together with all the difficulties which explained the slow progress.

Strangely enough the so-called “hardnecks”, demonstrating the dangers of the reform, allied themselves with the extreme political opposition – both considering that “the worse the better”.

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Nevertheless the reform was to be implemented following the accepted “Directives”. The difficulties started to develop very soon and were cre-

ated by the package of acts promulgated by Parliament on 26th of February 1982 in spite of the more favourable overall conditions created by the introduction of martial law on 13th of December 1981.

Seven acts were promulgated, namely:

- on socio-economic planning,
- on state statistics,
- on the finances of state enterprises,
- on taxation of socialized economic units,
- banking law,
- on prices,
- on the rights to conduct foreign trade.

All of them were substitutes for an array of old acts and regulations and were important for the implementation of the reform. Again a separate book could be written to analyse them in detail. Their common feature was that they did not solve any of the pregnant problems; all of them were temporizing. Moreover, they included solutions rooted in the past, or simply obsolete, as well as several utterly wrong concepts. They created more harm than of a new order.

As already explained above, in the recent past plans had been supposed to substitute for management. And in this respect nothing was changed. The planning act does not foresee the existence of any management system which it should serve. The first article of this act says i.a. that *the system of socio-economic plans shapes actively the economic development, with the use of the market mechanism*. This sentence does not need any comment for anybody who knows something about management and the role of plans and planning in its functioning. Moreover, the act maintains the old dichotomy between the socio-economic and the so-called "spatial planning" in spite of the widespread criticism of the disintegration of planning following the one-hundred-years-old Marshallian neglect of teleological factors - a neglect which caused important errors in the structure and in the organization of the Polish economy, a fact proven beyond any doubts by a thorough analysis. Of course, behind this dichotomy stood the particular interest of the bureaucratic "spatial establishment" which was a pressure group distinguished by its apologetic verbalism. Thus planning did not change in the way necessary for

either the economic reform or the new economic policy badly needed to achieve a breakthrough. This was finally noticed by the Rakowski's Government (in October 1988) which discontinued the Planning Commission by announcing that a new planning body would be organized with the purpose of guiding the management system and more particularly the Government as such.

Another important act concerned prices. It created a special ministry for prices and established rules for its functioning. From the professional view-point this was maybe the strangest of the acts because it was completely divorced from any either market or price-building theory – to put it simply: it was illogical and demonstrated a complete lack of the relevant knowledge i.e. about the market economy. This error was particularly represented by the introduction of three different kinds of prices governed by different rules. There is no way to optimise the market and the economy while it is subordinated to three different criteria, just as it is impossible to produce equilibrium in the market under these conditions. The act was paralleled by a “price reform” within which the changes of prices for wage-goods were supposed to be balanced by wages and salaries adjustments. This action, obviously not popular in the society, created more havoc than order, because when it was made it bore in mind a budgetary manipulation aimed at the reduction of the amount of subsidies paid out of it to the producers of wage goods. The whole operation had nothing to do with introducing at least some order into the price system which had been disorganized during at least the past thirty years; quite the contrary: the whole operation stimulated inflationary pressures. The problem has already been explained above in the second part of the present study. Its most pervasive and market disequilibrating feature was represented by utterly wrong prices interrelations, particularly among the factors of production including the price for labour as well as the lack of proper remuneration for the elements of the national wealth, i.e the lack or inadequacy of rents to be paid for the use of them. The whole price manipulation lacked a consistent and well-based theoretical-cum-practical approach. This first as well as all the forthcoming “price adjustment” actions oriented exclusively toward budgetary requirements only irritated the population and achieved nothing in the economic sense except inflationary pressures which each time were growing: it all constituted a clumsy temporizing. All these manipulations were severely criticized by the professionals, but without any result. The stubborn, arrogant, and omniscient authorities were com-

pletely immune to any criticism – for them everything that they did was perfect.

There is one more important aspect of the chaos reigning in the price system. As the prices do not reflect the value of the goods or services, and thus their relation to the prices for other goods and services – including labour on both sides (i.e. the selling and the purchasing side) – the scope for factor substitution is limited or simply non-existent. On the other hand all the changes introduced into price system were motivated by the need to reduce the subsidies paid to the apparently unprofitable enterprises, i.a. unprofitable because of the level of prices for the products, among them prices for wage-goods which without changes in wages and salaries could not be increased (the main problem concerned foodstuffs). However, at the very end of the chains of values the undervaluation of labour in relation to the other factors of production always emerges (although fuel and energy as well as iron and steel <sup>6</sup> are among the heavily undervalued commodities). Of course, productions which are either energy-intensive or material-intensive (e.g. shipbuilding) should save on these expensive inputs. However, in most cases the savings because of the low prices are unable to pay for their achievement, which imply expenditure on modernization or other improvements of equipment and may involve other costs. The same is true of technological improvements and modernization of manufactured products, particularly when this concerns improvement in quality: the permissible price increase or labour savings (when there is an acute shortage of labour) do not pay for it. Thus there is a great reluctance to engage the enterprise in such saving or modernization efforts. The phenomenon is well known, although virtually nothing has been done to remedy its negative impact.

From whatever view-point are we looking upon the economy the price problem emerges as a basic one. One specific aspect of this is the price of labour – which is in relative terms extremely undervalued – but these problem will be dealt with separately later.

The acts concerned with the financing and taxation of enterprises were equally important, although maybe even more damaging. The concepts underlying these acts clearly confirmed the functional character of the Ministry of Finance – this “state within a state” – which acted with total disregard for the overall economic problems and the requirements

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<sup>6</sup>Which, of course, in Polish conditions cannot be competitive because of the extraordinary high costs of pig iron (in spite of subsidized fuels and energy) and raw steel. Only sophisticated final products of steel manufactures can bear the high costs of the primary stages, although very few of them are manufactured. All the development effort went into stages which while being spectacular have been utterly ineffective economically.

of the reform, taking care exclusively of its own budgetary problems. For the Ministry of Finance the budget was a substitute for the economy. Of course, it would be ridiculous to disregard budgetary problems and their implications for the whole economy; it is, however, a great mistake to subordinate the whole economy to budgetary affairs.

Here again it is impossible to enter into any more thorough analysis. The relevant multiple problems have developed during the past decades and apply both to the conceptual principles underlying the legislation and regulations. Some of these are of a fundamental nature and many others are technical and operational, but nevertheless also important, and many of them, in spite of the introduction of new acts remain in force.

For example, they – let us call them technical regulations – include important rules on book-keeping practices. Much could be said on this subject, but the most peculiar is the way in which prime cost accounting and calculation are conducted, and their relationship with the balance sheet and the profit-and-loss account. Economic effectiveness and profitability have been disregarded in the past as unimportant. This was reflected in the accounting system. Moreover, nobody – as usual – was interested in showing the real losses incurred by the enterprise. Only the net financial result mattered. Thus the accounting system permitted losses to be spread (like any costs – the inflation of which was in the interest of the enterprise) and camouflaged in the prime costs accounts. This applied particularly to losses incurred through the under-utilization of manufacturing capacities which were hidden in overall costs and spread over all the production costs. In such a way only double book-keeping could disclose the real situation and performance of the enterprise. In the early 50's several intelligent managers practised double book-keeping of this kind for their personal perusal, but as the quality of managers deteriorated these practices were forgotten. Thus in the era of economic reform, when attention ought to be focused on real economic effectiveness, the whole book-keeping system should be altered in order to be capable of providing proper orientation for the management. Nothing like that has happened. The Ministry of Finance introduced only a new category called "justified costs"; however, nothing changed in the way in which they were calculated. Thus the new prime cost category served only the naive, who took them at face value: it is strange that these people considered themselves prominent economists. Clearly they had never been insiders in business practice, nor did they have any idea about book-keeping. Hence no one enterprise had at its disposal any accurate

or really legitimate basis for price formation. Of course, this was all pointed out to the Ministry of Finance which, however, was completely immune to any criticism about conduct of reform.

The complete lack of knowledge about book-keeping practices and techniques among those responsible for reform was demonstrated again later when they were seeking to achieve an appropriate measure of output growth for a proportional shaping of the wage and salary bill. They thought it practicable to conduct book-keeping in prices effective for the "basic" year, parallel with current prices. They could not understand the practical implications of such a concept: the need to recalculate (in basic prices) all the basic documents - i.e. invoices etc. - and to use them for parallel double book-keeping. No further comment is needed here.

Of course, there have been several such problems which have been either newly created or inherited from the past - and the results are easy to guess. All this is largely related to the position taken up by the Ministry of Finance in the past and its specific functionally oriented objectives, among which the maintenance of a ruling position played the central role. Of course, the Ministry of Finance was the last to consider reform of itself; quite the contrary, its efforts were focused on the preservation of its own ruling position in spite of the reform. This ministry never considered how instrumental it was in leading the Polish economy into a catastrophe. Reform should obviously have been initiated through a thorough reform in the field of all the activities which are still the exclusive domain of this ministry. The nickname given to this ministry - "the gravediggers of the Polish economy" - remains valid up to the present, although the truth embedded in it is recognized by only a few experienced economists.

Thus, in such a situation, there is no reason to wonder how it happened that the two so important acts - on financing and taxation - became a major barrier to the implementation of reform.

Again here it is impossible to analyse these acts in depth. Thus, only some selected features will be pointed out.

The first, and particularly important - burdened with heavy consequences adverse to the reform - concern the problems related to the profits of the enterprise's ownership and their taxation. Is the budget to be the master of enterprise? This problem poses a multitude of questions which are difficult to answer because of the completely unorthodox and budget-biased treatment of the problem by the act. And such problems

do not tolerate any simplifications because they are leading to complete conceptual disorder.

All but a few<sup>7</sup> enterprises called state enterprises are owned - following their nationalization - by society, equally by all its members. The net profits accrued through their operation - i.e. profits after taxation - belong to their owners. Of course, they are managed by the State, to which the owners have entrusted them. However, profits cannot be regarded as budgetary revenue. Income tax is paid on gross profit (depreciation deducted<sup>8</sup>), or as the act calls it, on financial results. However, this "income tax" is not only an income tax but also siphons off the profits from the enterprise leaving nothing for the owner. This, of course, leads directly to several conundrums. The first is: what is the interest rate on the enterprise's capital? - a question which cannot be answered, just as it is impossible to say which enterprise is viable, and what are its criteria for viability.

Now the apparent net profits should be disposed of among different funds (like the reserve fund, development fund, technical progress fund, etc.) following the rules in force, and its remaining part may in part be paid as an annual gratification to the enterprise's employees (if they merit it by their performance). If the tax is only real income tax (and not tax + profit) then the remaining money (profits) should be paid to the owners, represented by the State, which should arrange for an authority to manage the relevant enterprises which will also be authorized i.a. to manage the funds so obtained, basically for reinvestment in ventures with the best prospects but also to spend otherwise as decided by the controlling authority i.a. the Government, following the guidelines laid down by the Parliament. The management of this fund may take many different forms, i.a. some money, for example, may be lent to the budget within the framework of public borrowing, not a "gift", however.

The present arrangements do not distinguish between budgetary revenues and society's income from the nationalized enterprises - everything goes into the budget and everything (including investment in commer-

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<sup>7</sup>There are some enterprises which have been historically owned by the treasury; these should be treated separately.

<sup>8</sup>This is another point for discussion because the Ministry of Finance considers a part of the depreciation as its budgetary revenue; another nonsense which may be, by the end of 1988 discontinued. Here, a completely different ruling may be necessary coping with the problem of the blockade of the enterprise's accumulated depreciation fund in cases when the enterprises' liquidation is planned - to prevent reinvestment of these funds into the obsolete enterprise. However, this fund should not be administered either by the Ministry of Finance or by the budget.



cialized enterprises) is paid out of the budget. Moreover, as many such enterprises are for different - sometime, very strange - reasons unprofitable, they are also subsidized from the budget, causing a notorious deficit. All this creates an unbearable situation - financial havoc and anarchy - because as a result nobody is responsible for the proper management of public money and public fixed capital; the budget is never considered in terms of its economic effectiveness and at present most money channelled through the budget has nothing to do with the real scope of activities which should be financed by it.

The present arrangement has more defective features, two of which are particularly important. Firstly, there is no relationship between the enterprise's capital and profits. Secondly, the *de facto* implications of what is called "group ownership" of the enterprises by their employees.

The first feature results from the fact that the enterprises actually have some revenue, although they have no effective profits because the percentage of net (or even gross) profit related to capital is below the interest rate paid for credits to the bank - not to speak of the fact that it is far below the current rate of inflation. Thus in reality they have no profits at all. However, they are taxed on their revenue - that is, on apparent profits - and they pay to the employees their share in "net profits". All this is, of course, a pure nonsense created by the negligence of the Ministry of Finance.

The second feature is for many obvious principal reasons important and is related to the participation in the enterprise's management by the employees "self-government". And as the enterprise does not channel any profits outside, i.e. to the owners - it pays only tax on income - the only profits remitted are these which are paid to the employees. The result is that the employees may rightly consider themselves as the only owners of the enterprises. This creates an important misunderstanding in respect of the relationship between the employees and the rest of the society, the interests of which they may, and do, disregard completely. This situation is particularly awkward in all enterprises which, while being unprofitable, and worse - while being economically ineffective - nevertheless pay to the employees a "share in the profits" when profits do not exist at all. And as several enterprises expressly - under pressure from their omnipotent management - prefer to remain subsidized (this is particularly typical for coal mining) this set-up results in complete disregard of the economic aspects of the enterprises by the employees: this is simply immoral. In real conditions it is very difficult to mobilize the employees to any real effort. Moreover, there are terrible injustices embedded in the system.

The fixed capital per one employee may vary in proportion of 1:50 and so the volume of profits per one employee also varies, or should vary. And this is confirmed by experience: in enterprises with low capital intensity the employees' annual gratuity is low and earned only with great effort. The reverse is true for capital-intensive enterprises.

The second of the above mentioned acts dealt with the taxation of the so-called "socialized" enterprises, i.e. those considered as "state enterprises" and other non-private enterprises; in practice this concerned particularly cooperative enterprises, including several, the largest of them, which in reality were state enterprises camouflaged under the cryptic designation of "cooperatives" which virtually monopolized most of the large sectors of domestic trade, e.g. supply to the agricultural sector and the purchase of agricultural products, as well as several compulsory cooperatives like those for craftsmen; in short all enterprises and other legal persons engaged in economic activities, including all foreign legal persons, as well as those with a 50 or more per cent state-held share in their capital, other than private undertakings.

Apparently the tax system was simple. The act introduced: turnover tax, a tax on labour (on the salary and wage bill), a tax on real estate, and income tax. To these one should add a highly restrictive kind of taxation, namely the payments made to the so-called "Fund for Professional Activisation" (Państwowy Fundusz Aktywizacji Zawodowej - P.F.A.Z.) which was originally intended to restrict the level of the wages and salaries bills and accumulate means for retraining labour and for the support of the unemployed.

It was thought that the reform would quickly release the labour surpluses from industry, which was certainly overcrowded, using extraordinarily cheap labour in excess and with no regard to its cost - an assumption which did not prove to be true - the degree of mismanagement and low levels of mechanization have been underestimated. Besides the reform did not improve anything and the difficulties have not been reduced. Quite the contrary, they increased, and this applies particularly to the difficulties in supply which caused growing irregularities.

Turnover tax does not deviate from the commonly known principles of this type of tax except maybe that in relation to prices and the level of personal income it represented a heavy burden on society.

The tax on the salaries and wages bills was intended to equalize the undervaluation of labour, i.e. was expected to increase the costs of labour to the enterprises. However, as it amounted the only 20. per cent *ad*

*valorem* it represented only a token value in relation with the real relative undervaluation of the price for labour.

Real estate taxation did not consider the location of the estate, and thus it did not play the expected role in improving the spatial organization of the social system and particularly of its economic sub-system.

Significant and highly debatable was the taxation on income. One side of it has already been analysed above, namely that it considered the social profits of enterprises as a part of budgetary revenues - an obvious systemic nonsense and a serious distortion of the principles of financial management. The other side was that the *ad valorem* rate of this tax was sharply progressive and strongly restrictive in respect of an enterprise's motivation to improve the results of its activities. This "progressive" concept of this tax was violently criticized from all sides, but nothing was changed (later, with time, everybody has learned that all the so-called "consultations" were completely fictitious and the authorities were acting arbitrarily). Nevertheless this tax proved so destructive to the economy that it was abandoned after two years and changed for to a simple proportional rate. However, the damage was irreparable.

The last element, the P.F.A.Z., was not considered as a tax although it was collected by the Ministry of Finance. Its purpose has already been explained above; although the funds accumulated in this way have been virtually never utilized (the few exceptions are negligible), its negative impact on enterprises' operations has been heavily damaging without the achievement of the expected results in respect of controlling the volume of the wages and salaries bills - an anti-inflationary measure which was expected to stabilize personal income levels. Of course, it was very naive, to think it possible to control output as such without controlling input: such thinking demonstrates a complete lack of elementary knowledge of cybernetics on the part of the authors of this concept. This quasi-tax, restrictive and punitive, did not play its expected role, but it did represent a heavy burden to the enterprises; some even faced bankruptcy among them, major enterprises like the largest "Lenin" iron and steel works in Nowa Huta. However, in Poland, some have been more equal than others and the former benefitted from their special position to escape the danger in some miraculous way, with no consequences and paying nothing. Those less equal did learn the lesson that it does not pay to be disciplined. When the highest level of governmental administration does not follow consistently the laws they themselves have established then they can hardly expect that the people will obey the laws in letter and in spirit. The old practices have been revived.

Still talking about taxation, another tax was reinstated, namely the equalization tax which is paid by persons who are remunerated for their personal work including salaries and - something entirely new - pensions. This tax is paid on earnings exceeding a certain limit, *ad valorem* with a sharp progression. All that would be logical, except that it was primitive and aimed against the intelligentsia, particularly creative people like academics, writers and other artists, and also inventors (income from patents) and the like, who from time to time may earn considerable amounts of money; at the same time, of course, they certainly render very important services to society. However, workers were excluded, although miners, for example, make much more than most of the above mentioned groups. This tax therefore also serves a demagogic propaganda purpose (the bureaucracy has always hated the intelligentsia; this sentiment has always been rather rare among the workers, except for anarchists, demagogues, and other troublemakers). The tax was harsh and primitive because the ceiling was very low (much lower than the earnings of the miners) and the progression steep. Its antimotivational impact is well known; people refused contracts beyond a certain annual limits because more than 80 per cent taxation would have to be paid on the surplus despite the fact that their standard of living was low. The concept of such a tax is highly typical of the fiscal mentality based on the principle, proposed by the famous Polish writer M. Wańkiewicz, of "disinterested envy" wrapped in pseudo-political egalitarian dogma. Of course, reform was invented by the intelligentsia and promoted by the workers against the bureaucrats. However, the intelligentsia still fought further for as thorough a reform as possible although everything was done to discourage it. Most frustrating was the arrogance of the authorities concerned which rightly concluded that this intelligentsia would not walk out onto the streets to demonstrate.

The act on banking law which reinstated some normal concept of banking and of the structure and working of the banking system was of significance. The banks ceased to be agencies of the Ministry of Finance (although by the end of 1988 they still are, the act being only partly implemented) and were to be considered independent enterprises controlled by the central bank (Narodowy Bank Polski) the Chairman of which was to be nominated by the Parliament (Sejm). Besides, a Council of Banks as a coordinating body was established, chaired by the Chairman of the Central Bank.

Although this act came into force on 1st July 1982 and the Central Bank became independent from the Ministry of Finance this did not

change its operational character and thus the financing of the whole economy remained centralized, and purely bureaucratic in character. Thus, practically, the changes in this field have been insignificant although the act in itself could have been implemented to create a real (and not fictitious) system of banks. Talks are going on but by 1988 not much had happened.

The last of the acts enumerated concerned foreign trade and more particularly defined who could conduct foreign trade activities. These arrangements have been strongly criticized as conservative and for failing to introducing any relevant changes. The problem lies in the biased interpretation of the concept of the "foreign trade state monopoly", as reserved solely for enterprises directly subordinated to the Ministry of Foreign Trade, which in practice restricted its management to a certain group of privileged bureaucrats - a clique, which public opinion, and more particularly industrial state enterprises, considered to be professionally deficient. The new act provided i.a. for the Minister of Foreign Trade to be able to grant concessions to some industrial and other enterprises to conduct foreign trade activities within a narrowly specified scope and following both general rules and rule individually established each time by the minister. Such a stipulation obviously contradicted the basic concept of the reform best defined by the "Three S's" rule. The act only apparently liberalized foreign trade activities - in reality it served to preserve the monopoly of the "foreign trade clique". Again this was a temporary measure.

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Following the opinion of the Minister-plenipotentiary prof. W. Baka these ten acts will *harmonize and ... regulate the principles of the functioning of the economy in the conditions of the economic reform ... This assures consistency between the economic system and the legal system and creates a basis and a guarantee that the law will be observed in economic activities and makes the reform process irreversible*<sup>9</sup>. It is very difficult to share this view.

When preparations for economic reform were begun in the autumn of 1980, it was assumed that its implementation would start from 1st January 1983<sup>10</sup>. Prof. J. Pajestka, then a member of the Party Central Committee, already at that time pointed out dramatically that it was

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<sup>9</sup>Baka, W., op. cit., p. 22.

<sup>10</sup>ibid., p. 22.

doubtful whether so much time would be granted to the reform by society; he was against any delay. The rapidly deteriorating situation in 1981 proved that he was absolutely right. The patience of society was exhausted. Time was running out. Thus the IXth Party Congress decided to start the reform from 1st January 1982. And, because the timely completion of the legislative process was impossible (moreover the legal acts have to be followed by implementation orders and regulations issued either by the Council of Ministers or the relevant ministries etc.) the Council of Ministers issued in November 1981 a decree on "Principles of the operation of state enterprises in 1982" which supposedly anticipated the rules laid down in the acts discussed above.<sup>11</sup>

However, these principles deviated from the acts promulgated later, which in turn deviated from the letter and spirit of the "Directives" and from the overall concept of the reform. This was particularly shocking in respect of the financial and fiscal arrangements. Moreover they deviated from academic knowledge and common sense (planning, prices). This whole set-up was not promising for the future and - this was quite clear - corresponded to the wishes and desires of the different orthodox lobbies and pressure groups as well as of the bureaucratic opposition. It looked as though the reform had started in such a manner as to make its implementation impossible - one could expect that in a way the reform would soon discredit itself. Society would be "cured" and come back to its senses and Stalinism would once again be triumphant. Things, however, had already gone too far. The bureaucracy was unable to keep the economy going in the old style. The economic situation continued to deteriorate. Although some improvement at the cost of easily accessible reserves was achieved, there was no progress toward a breakthrough. The economy was running into a low-level equilibrium trap.

At this point, it is necessary to make one important observation which is pregnant with serious consequences for the future. The situation of the Polish economy and the discussions about its reform have disclosed a catastrophically low level of economic and managerial knowledge among academics regarded, and considered by themselves, as specialists in the relevant fields. These specialists have been, unproductively, quarrelling among themselves about problems which were largely beyond their capacities because their knowledge was insufficient to understand them and

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<sup>11</sup>On 30th of December 1981 this rule was amended, subordinating them to the conditions of martial law: employees "self-government" was suspended, some branches of the economy were militarized thus depriving the enterprises of independence, the so-called "operational programmes" were extended to create conditions and to force the enterprises to act in the required way.

to cope with successfully in a complex way. Admittedly the problems were highly complex and without precedent - an enormous volume of most refined knowledge, experience and inventiveness was required to cope with them. Old, experienced, but already superannuated specialists were expounding obsolete classic solutions which were completely inadequate.

However, they were saying enough to impress the younger "specialists" who, because of lack of adequate knowledge were not able to argue with them. Their politically biased, dogmatic knowledge consisted of a vulgarized version of Marxist political economy with some fragmentary and biased ideas about bourgeois economics accumulated through study focused on criticism. This was absolutely helpless when dealing with the rapidly growing, and completely unfamiliar (not only to them) complex problems. And altogether, both old and young had no idea whatsoever about organization and management. Of course, this was a tragic inheritance of the Stalinist - and post-Stalinist - period in science, when not the truth but dogmas were hammered into everybody's heads. The small number of better-educated and intelligent people who were trying to correct inadequate concepts and solutions were kept out of the discussion by people motivated by a combination of false ambitions and hidden opposition against the reform. They were kept away from the mainstream of discussion and discredited in the old Stalinist fashion as an anti-socialist opposition (enemies of the people); a distasteful campaign was organized and conducted against them and the organizations to which they belonged by the most prominent of the régime's journalists and the mass media. However, if they did put forward some pertinent professional questions, these remained unanswered; those responsible for the reform simply refused to answer them. The atmosphere was unpropitious for honest discussions, and the so-called "consultations" were completely fictitious; their results moreover were completely disregarded. For conscious and serious people it became clear that the time for reform had not come, that its inception and implementation depend first of all upon the result of the covert battle going on within the Party between those of its members who were for the reform and those who were against it - and, of course, those who were against it were supported by the whole bureaucracy which had a vested interest in the preservation of the *status quo*. This battle was fought particularly at the upper echelons of the Party, including the top members of the Politbureau and the Government. This battle was fought on part of the opposition (opposed to the reforms) with full determination and by all available means and in

all possible ways – clearly enough they were fighting for their survival. However, they neither understood nor considered that the greatest loser in this battle would be the Polish United Workers Party.

The period of martial law instead of being utilized for intensive implementation of the reform, particularly of the socially unpopular, painful, but nonetheless unavoidable measures, did permit the opposition to bring it to a grinding halt and get away unpunished. History will determine what was done at this time deliberately to harm the reform, and who did it, and what should be regarded as errors committed in the process of its implementation.

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Thus, in formal terms, the reform started. Prof. W. Baka thought that a basic framework for future economic development was created<sup>12</sup>. He considered that the further extension of it should be achieved through:

- filing the gaps in the basic framework; this regarding particularly the promulgation of acts: on national councils (territorial equivalents of Parliament), on cooperatives, on reform and bankruptcy of enterprises, on economic arbitrage, and an anti-monopolistic act;

- further changes in the structure and organization of the economy's management system, as well as the adaptation of its top-centre and of the enterprises' unions to the objectives and principles of the reform;

- systematic analysis of the reform's implementation processes as well as of its impact on society and the economy, aimed at the conclusions necessary to improve the elements of the implemented systems<sup>13</sup>.

It is really astonishing how simple all this appeared to those responsible and how self-confident they were about it. It was very characteristic of this period of time that the Minister-plenipotentiary for the implementation of the reform was much more concerned with economic policy and planning of economic development than with a break-through in the vicious circle which the economy had already entered and with the organization of management of the system, and further improvements in a system which was expected to be self-regulating. And the system did not behave as expected. Actually the "hand-steering" of it which used old commanding-cum-allocation methods and practices did develop more than ever before and the bureaucracy was firmly committed to stick to it.

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<sup>12</sup>Baka, W., op. cit. p. 24.

<sup>13</sup>ibid., p. 24.



It was particularly dangerous that even the old motivations ceased to mobilize either enterprises or people to the efforts that were so impatiently expected by the society. No new motivational mechanisms were introduced and the old were deadened by repressive fiscal arrangements. Organizational and technical progress was brought to a standstill. Regress was omnipresent. The enterprises concentrated on their survival and focused all their attention on employees, often forced to have recourse to methods verging on illegality. Productivity was falling, discipline was deteriorating, neglect was rampant, morale was low and declining. The protracted decline in standards of living was becoming unbearable.

The "Directives" were not sufficiently clear in respect of the remuneration of labour; while something was very unclearly stated about wages, nothing reasonable was explained about salaries. Of course, the subject matter was delicate; however, the terrible disorder that had accrued in this field over the past thirty years or more called for a sweeping reform of the whole remuneration system: the existing one was obsolete, irrational, unjust, deregulated and chronically abused, since it was discretionally applied. This system was very commonly criticized by the workers because of its lack of motivational factors, its disregard of higher qualifications, experience, and diligence, and its "flat" distribution of the funds commonly earned by the workers. Besides the workers saw clearly the nonsense of the low salaries - often lower than the average wages obtained by the workers - paid to foremen and higher ranking technicians and engineers, many of whom were highly appreciated by the workers for their quality; workers have been, and are, very sensitive about the principle "equal pay for equal work". Moreover, the workers were perfectly aware of their very low standard of living even when compared with neighbouring countries, e.g. Czechoslovakia and the G.D.R. - and also aware that they were perfectly capable of doing better than their counterparts in Western Europe, and thus of being paid more; they blamed the enterprises management for their misery, although, demonstrating their misunderstanding of its difficult situation caused by the overall mismanagement. It was this latter situation that they wanted to control - and not the enterprises's management - during negotiations in Gdańsk, Szczecin or Jastrzębie in 1980.

However, the State has a virtually monopsonic situation on the labour market and particularly in the condition of martial law any consistent and, of course, modern, just, rational, and easily-controlled wage and salary system could have been introduced. The market was open, ready to accept a system which would bring order into an area which for years

had been like a cancer - eroding the economic system. Of course, there was the problem of labour undervaluation which had to be coped within the problem of prices. However, at this moment these two problems could be dealt with almost independently, although not separately. At this time, this was not an expensive operation; later this factor became difficult to tackle.

Here, of course, lack of adequate knowledge, experience and proper diagnosis of the situation, together with lack of elementary courage, did play a decisive role - and the bureaucracy was so afraid of the workers (!). Almost four decades of expropriation of much more than plus-value from the workers and farmers could not last unnoticed forever.

However, the problem of labour price undervaluation could not wait and should have been resolved within the framework of the price system adjustment. Of course, to leave such a problem in existing conditions in the "hands" of market forces alone was unthinkable - deviations from equilibrium were much too large and multidimensional. Moreover, the prime cost calculations, because of methodological distortions, were also important, creating additional difficulty.

Nevertheless price regulations were one of the most important actions provided for in the reform implementation which was carried out under the heading of a "prices and incomes policy" of which apparently three variants were considered, although it did not really come to grips with the problem, which was certainly the most difficult of all those planned to be dealt immediately<sup>14</sup>. The variant chosen was never consistently implemented and, as we have noted, was distorted because of its budgetary orientation. Its concept was based on a policy of moderate and controlled inflation (a moderate increase in incomes related to controlled price increases) related to the harsh régime of budgetary savings and a credit policy of "difficult money". Its implementation difficulties were related to the ability to keep inflation at a moderate level and secure effective control of the movement of prices and incomes. One may say immediately that such a process requires perfect planning and an efficient, precisely functioning management system - in 1982, and to the present time, these preconditions remain unfulfilled. As a result, all the intermittent campaigns for price changes had been painful for all and achieved nothing in respect of an improvement in the price system. By

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<sup>14</sup>The discarded variants: (i) improvement of the relations of prices (aiming at price equilibrium) with simultaneous freezing of income (it was discarded on the ground that it would result in important increases in living costs limiting the impact of motivational aspects of incomes), (ii) freezing of both prices and incomes (discarded as unsatisfactory, petrifying the inadequate price relations and maintaining the relementation system - actually this variant lead nowhere).

and large their impact was disastrous. It seems that not only proper planning was lacking, but first of all the objectives of these actions were not constructive in relation to the solution of the problem: their budgetary bias ruined the initiatives. Again here, the lack of proper diagnosis and a primitive approach – highly simplified and divorced from proper critical considerations – were the main reason for the lack of success of the campaigns.

Interestingly enough, the outline of socio-economic policy for the 80's<sup>15</sup> did not mention the "prices and incomes" operations; nor did it foresee any dealing with the basically important problem of wages and salaries, or more broadly, with the price for labour. Roughly three stages were planned:

The first stage (to the end of 1982): breaking down the decline in output, protection of the economically weakest groups of the population from the impact of the recession and securing elementary living conditions for all, particularly in respect of foodstuffs, and securing the functioning of the communal infrastructure;

The second stage (1983-1985) was covered by the Three-year Plan for economic revival which foresaw: the beginning of a deep structural reorientation (nothing of that kind was provided for in the plan) and improvement in the effectiveness of economic activities as well as a re-establishment and coordination of economic equilibrium. It was expected that the increase of output and the better adaptation to social needs would improve all aspect of the standard of living (increase in real incomes, improvement in the market supply, breaking regress in housing construction, breaking degradation in the socio-cultural field and other social services);

The third stage (1986-1990) was one in which the reconstruction of the economic structure should be consolidated and thus the economy would start a process of moderate balanced growth, contributing to an improvement in the quality of life and to a visible improvement in the functioning of the whole economy. As a result the consequences of the recession would be fully surmounted, and the degradation of the natural environment would be stopped in the regions worst affected.

This description of the objectives of socio-economic policy is taken from W. Baka's book<sup>16</sup>. If the first stage (1982) was somehow satisfactorily implemented, the second and third proved to be pure wishful thinking. Although some increase in output materialized and thus the

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<sup>15</sup> Baka, W., op. cit. p. 44.

<sup>16</sup> Baka, W., op. cit. pp. 44,45.

market situation was improved, no other single objective was achieved. Worse, the reform did not progress and thus the plans for the third stage became completely unrealistic. And, of course, the plans for the "third stage", i.e. for the years 1986-1990 were completely altered and hardly optimistic. Again the output growth for the first three-years was expressly planned very low to facilitate the implementation of the reform. This, again, was not achieved and in September 1988 the Government was dismissed by the Parliament, *inter alia*, under heavy pressure from the trade unions (a resolution of the executive committee). How this crisis finally came about will be explained later.

The reason for all these calamities was that the reform dwindled fast in the hands of the bureaucracy and its implementation quickly stagnated. However, meanwhile, and even after when it had been brought to a halt - or, rather, had never been allowed to start properly - propaganda, just like in the 70's, trumpeted about the successes achieved in this field and succeeded in keeping the society and the Parliament quiet for some time. It will remain a subject for both sociological and psychological studies to discover what the bureaucracy, and the opposition within the Party and the Government which patronized it, was thinking when it behaved in this way: how these people could be so naive as to hope to escape the unavoidable reform. And how wrong they were, and how badly they miscalculated their chances, was best proven when the U.S.S.R. headed by its new leader M. Gorbachow started "perestroika", thus pulling the carpet from under the feet of the Polish opposition<sup>17</sup>.

However, when reading the W. Baka's text on socio-economic policy one may find a new striking expression: "egalitarization"<sup>18</sup> considered as a kind of Government action aimed at the protection of economically weak people in a difficult situation. It is further said that *it will be indispensable to improve the income redistribution mechanisms between social groups, and, on the other hand, to create such a system of research*

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<sup>17</sup>To be clear, in Poland there are two extremely different "oppositions". One is the now officially recognized nationalistic, the other one is never mentioned officially and remains apparently hidden although perfectly well known (under the nickname of "hardliners") to the public opinion, hiding within the Party and strongly supported by the bureaucratic class, which is dependent on the "nomenklatura"; it is not formally organized; however it is very strong through its internal personal interrelations and dependency; its adherents still occupy very important positions in the Party, in the Government, and in many other institutions and organizations. Here, we have been talking about this latter.

<sup>18</sup>Baka, W., *op. cit.*, p. 45.

that will enable the identification of those groups of people which are in the most difficult conditions and extend them the necessary help<sup>19</sup>.

All this is perfectly correct and pleasing from the humanitarian viewpoint. However, charitable activities should not be confused with an income distribution policy. Except, of course, for cases when misery is distributed instead of welfare. The Christian poor are and may be dealt with by "Caritas Christiana", a charitable institution of long standing created by the Catholic Church; for poor agnostics and atheists the Party could create an analogous organization (although "Caritas" is not exclusively concerned with Christians, but cares for all the poor whatever their beliefs). The bureaucracy, by definition <sup>20</sup> is and will continue to be unable to identify the poor because this is impossible when applying the rules and regulations which set the criteria. However, the core of the problem is that the Government cannot proclaim any egalitarian policy, since it would be in contradiction with the basic aims of society and of the reform. Justice and equity are the proper concepts for the intended purpose.

Unfortunately this "egalitarian" concept (a Pandora's box concept), which was born outside the working class and was never accepted by true workers, was quickly launched by bureaucratic propaganda, which does not understand the difference between equality and justice; it imputed it to the workers and developed perfidiously with the help of demagogues and anarchists who invented the saying that "everybody has an equal belly". There is no need to point out what an obstacle to the reform was created by the foolish mass media; nonetheless, somebody permitted it, and the censors let it pass. However, such things cannot be regarded as simply foolish - they were in fact deliberate and perfidious.

In this context one has to look upon the whole so-called social policy of the Government (the so-called "caring State"). There are two negative aspects of this policy. The first one is its obvious inefficiency and the terrible wastefulness of public resources associated with. The second is that the whole system is deeply unjust. However, it would take a long time to explain this to the dogmatized pseudo-politicians, although new solutions of the problem are urgently needed because the country's economy cannot afford to pay for the present wastefulness and the population badly needs to be served better, something which could easily be done for less money than today, although naturally, not by bureaucracy which regarded these sectors of the economy as their private "Chasse garde" with

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<sup>19</sup> *ibid.*, p. 45.

<sup>20</sup> See: Gramsci, A., *La giungla Retributiva*, Il Mulino, Bologna 1971.

plenty of plush berths and no responsibility. There are services which could be free, like, for example hospitalization and surgery, several non-routine medical services and those for chronic illnesses, or more broadly coping with calamities which by definition cannot be included in normal family budgets. The cultural services may be subsidized, although not on the producers' side because this is extremely wasteful. Of course, this does not apply to the State's patronage of arts.

A thorough change in the organization and financing of the so-called "social services" (one may have serious doubts about whether housing should be considered as a "social service") should be combined with a reform of the wages and salaries system which, in relation to prices, represents a key package of problems which should have been solved properly before anything else was started. This is not to say that it should be immediately implemented. This observation applies to all of the reform, within which there is a very little possibility for an iterative approach: virtually everything should be cleared before start. This, of course, requires a complex concept: much more than simply a few ideas. Moreover the reform cannot be policy-oriented. Its result must be adaptive and not *vice versa*. Policy is changing but the system remains.

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Although the problem of incomes regulation and thus of the wages and salaries system ubiquitously emerged to magnify most of the other problems considered within the reform, there was a visible reluctance to deal with it. For a short period of time there was even a sub-committee - one of the three sub-committees established within the discussion on the reform between the trade unions federation and the Government - to deal with these problems; but these discussions were quickly (after a couple of meetings) discontinued. The Government preferred to postpone discussion on these problems. It was and until now is not clear why so little attention was given to this problem from the Governmental side.

Meanwhile, however, the ministry of labour and social care was working on this problem and found a willing and professionally suitable partner in the Federation of the Technical and Scientific Association. The idea was to create a consistent countrywide unified system of labour remuneration for all branches of economic activities and combine it with a modern, rational bonus system based on methodically correct time and motion studies (e.g. REFA). This work was, by the end of 1983, already well advanced and nearing completion.

In the past there was no one system. Each branch of industry (corresponding to each trade union - the trade unions have been organized

not as homogeneous professionally but as a replica of the State economy organization - a rather strange concept, but from the State's management view-point certainly practical) has its own system and its tariff. With time different manipulations under the pressure of different lobbies have made these systems inconsistent and incompatible, and strikingly unjust, completely disorganizing the labour market, and demoralizing the workers. Both trade unions and the workers were perfectly conscious of these nonsenses. However, the pressure groups were stronger than the Government and the bureaucracy and this delirious disorder was not only perpetrated but amplified. The apogee of these disorders came with the special wage and salary arrangements for miners who started making at least twice as much money as the best qualified highly productive specialized workers in other sophisticated branches of industry. A miner was making three times more than a university professor.

The system conceived in this way, which being rational, just and honest could be rigorously applied, provided something which had always been lacking in previous systems, namely the *ex ante* control of the volume of the future wage and salary bills - an arrangement which was so particularly important in the situation characterized by inflationary pressures. The system was controllable in advance.

However, for reasons which till today remain unclear and unexplained, with extraordinary speed and without any consultations, the Government presented to Parliament an act on "Plants' Remuneration Systems" following which any one establishment could adopt in its own labour remuneration system. This was a completely incredible concept in the very specific situation in Poland at this time, when the labour price should have been tightly controlled centrally, utilizing the state's monopsonic position on the market. Of course, no capitalist government would control how private enterprises remunerated their labour; but one should not forget how tightly these enterprises are controlled by the really competitive domestic and world market, and the labour price in the developed countries is not undervalued but is controlled by the need to optimise the purchasing power of the population in such a way as to obtain maximum accumulation which is dependent on the volume of sales. In actual Polish conditions, which have been, and are, critical the idea was suicidal, and, of course, the obedient Sejm - a voting machine for government projects - promulgated the act very quickly before any protest could be raised. A colossal blunder was made. The inflationary pressure was substantially accelerated.

This way the possibility of controlling effectively the cost of labour was lost. And, of course, for obvious reasons neither the above described punitive quasi-taxation (P.F.A.Z.) nor its successor (introduced in 1984) differed from the previous system, except that the method of calculation have been unable to stop the accelerating wage hike.

And those responsible for the reforms, together with the Government, were delighted with their performance and were completely immune to criticism and advice. As in the past, their knowledge was superior and incontestable.

In June 1984 the Party called a big conference, intended as a consultation, with the participation of top Government and Party officials, to discuss economic problems, i.e. of the reform. As in many other cases. this "consultation" proved to be a fiction, simply to show off and say, "We did consult". Everything was prearranged, including the conclusions and closing speeches - the discussion did not influence its content. And pretty soon thereafter came the famous resolution (No. 174) of the Council of Ministers which demonstrated again a complete disregard for any professional advice and criticism. The reform received what may be called the coup de grâce, and did not survive it - it was a real deadlock.

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The situation of the market was precarious. Only food supply improved thanks to the efforts of the agricultural sector as well as to favourable weather conditions. Agriculture was the first and the only sector of the economy which achieved and overstepped the output level of 1978. However, the output structure had changed - animal production was still far below its previous level.

Probably the most important factor was the achievement of a positive balance of trade. However, the improvement thus obtained in the situation on the current account of the balance of payments was not sufficient to match the country's obligations arising from its indebtedness - the trade surplus was insufficient for current debt servicing. Thus the foreign debt continued to grow considerably. On the other hand sharp import restrictions constrained importantly the industrial output both for the domestic market and for exports - it slowed down effectively the process of the economy's revival and virtually stopped any modernization and technical progress. The economy's decapitalization process, which had started already in the 70's was significantly accelerated.

In this respect an argument has emerged which clearly discloses the ignorance flourishing among the bureaucrats and their supporters. It



is well known that the development of the Polish extractive and manufacturing industries was never balanced and more often than not was promoted by the ambitions of individuals or groups, resulting in gigantic white elephant projects, the productive capacity of which could never be utilized – mainly because of labour shortages and rampant mismanagement. Moreover, most of these miscarriages were technologically obsolete when completed. Thus, naturally, their productive capacities were never utilized and by the mid 1980's their overall utilization was below 50 per cent<sup>21</sup>. The bureaucrats argued that as the machines were not operated 24 hours a day they were not physically worn – although depreciated – and thus could perform several years more, and therefore should not be regarded as decapitalized. Of course, they did not understand that this equipment had long before become obsolete and thus economically ineffective. Of course, they did not know for example the L. Johansen vintage concept (and of marginal equipment) nor E.S. Phelps “putty-putty, clay-clay” concepts<sup>22</sup>. The decapitalization of the Polish economy is first of all moral – to use K. Marx's expression – and its plant and equipment were obsolete the very day when it was erected and put into operation<sup>23</sup>. On the other hand the structure of the so created economic sub-system was an economic nonsense conceived with a total disregard of its economic implications, for the position of this economy within the international division of labour (both within COMECON and the World economy), for the country's natural potentialities (availability of production factors and their proportions), and for society's development level. This last factor was completely ignored by the ruling bureaucracy: it was something beyond their imagination, fueled by the conviction of their superior knowledge.

Nevertheless the need for structural changes in the economy was recognized and did find its place in the “Directives”. Moreover, later the

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<sup>21</sup> Higher figures result from a manipulation in an attempt to legitimize a shorter than a daily three shifts operation of the plants. This nonsense arises from the lack of knowledge about the fact that intensive exploitation means, for example, looms working a 7200 hours/year (in several Asian countries and in U.S.A. and Canada) this means more than three shifts daily (on average count and working day).

<sup>22</sup> Johansen, L., *Substitution versus Fixed Proportions Coefficient in the Theory of Economic Growth*, *Econometrica*, Vol. 27, No 2, April 1957; Phelps, E.S., *Substitution, Fixed Proportions, Growth, and Distribution*, *International Economic Review*, Vol. 4, 1963. Of course, these concepts emerged from the neo-classic economics and thus have hardly been known in Poland.

<sup>23</sup> This is very typical and may be exemplified by such projects as Huta Katowice which was based on the already classic and obsolete LD concept; its construction began when the Q-BOB technology was already operating on a fully fledged industrial scale in the West. N.B. the whole project in Polish conditions was an economic nonsense.

problem was exposed and emphasized in several official documents, i.a. central plans. However, something was missing, namely: a proper understanding of the problem. It was symptomatic that the process of structural changes in the world economy, the so-called redeployment of industries (an expression disliked by the capitalists), the establishing of a new international division of labour, was - in spite of warnings expressed by specialists - completely neglected. The problem was and is much broader than the output structure as such. Of course, the economy suffered an acute obsolescence of output, and a large share of output was economically ineffective not only because of its maladjustment to the available factors of production - proportions on the supply side and costs. Products, technologies, organization, management was all obsolete and/or malfunctioning - and these factors ought also to be taken into account. Besides the structure of the economic sub-system was heavily biased by overemphasis on economies of scale with complete disregard of externalities as well as of interplant cooperation. Through a peculiar combination of demagogic-cum-dogmatic discrimination against private initiative including craft industries and dislike<sup>24</sup> of small and medium scale enterprises, including all jobbing industrial enterprises, small and middle industries were almost totally destroyed in the 70's; in 1980 less than 12 per cent of industrial enterprises employed under one hundred people. Moreover, the structural problem loomed large beyond the economic sub-system and also affected the settlement sub-system and thus the whole social system. Everything was supposed to grow and become large. Thus one very knowledgeable scientist S. Około-Kułak, said that *in this country also the dwarfs will soon be the tallest in the world*. All these pathological distortions resulted from the lack of proper planning, particularly the lack of "spatial planning" which, controlled by an architectural-cum-geographical pressure group, adopted an apologetic *modus operandi*, completely neglecting the economic and social consequences of their activities which were in any case, to a large extent, only ostensible. This led to a pathological underdevelopment of the settlement system, the distortion of which came to be called "crippled urbanization", the emphasis being focused on large urban agglomerations with complete neglect of other parts of the country, in particular the ru-

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<sup>24</sup>The "nomenklatura" did not supply modest but knowledgeable managers willing to lead small enterprises - all these people were much more ambitious and, besides, a small enterprise did not give them enough room to implement the Peter prescription; see: Peter, L.J., *The Peter Prescription*, 1972.

ral areas<sup>25</sup> and also small towns, as well as of ecological implications. And till the end of 1988 nothing had changed in the style of working of this establishment.

A thorough analysis and diagnosis of the structure of the Polish social system (including all its sub-systems: settlement, economic, infrastructural) and of its organization which will consider all its aspects - particularly the social, ecological and economic - has not yet been carried out. Clearly enough, in such conditions no rational concept of changes in structure and its organization can exist. Besides, there is a complete lack of knowledge about modern transformations of social systems which are underway in developed countries; facts like the process of reurbanization or ruralization of industries remain unknown to the majority of the specialists involved - i.e. those belonging to the pressure group - and thus to those responsible and, of course, are not reflected in the prospective plans currently in preparation. This also contributes to the success of the anti-reform opposition.

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One more important problem, the solution of which was envisaged by the "Directives", namely the reform of the territorial National Councils, was related to the reinstatement of territorial self-government, and has proven to be indigestible for the bureaucracy. A new act in this respect was promulgated in 1983 by the Parliament, although it went only half of the way - its implementation got stuck half way through what was envisaged. The reasons were multiple, all of them either existing or created by the bureaucracy both in the past or currently. The former, which may be called "institutional surrounding" of the territorial administration and territorial societies was structural and organizational, following the extreme centralization of management in the past; although formally in the shape of cooperative organizations they were in fact monopolistic para-statal institutions, still centrally managed in the old style; others which were neither Government agencies nor state enterprises excluded from the "Three S" régime because of their character (transport, communication being the most obvious examples) were prepared to cooperate with territorial self-government - and no necessary adjustments were planned in this respect. The latter applies to the position taken up

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<sup>25</sup> This neglect was largely promoted by discrimination against private agriculture (more than 70 per cent of arable land), the peasant economy and the rural areas which although it was not always the official Party's policy was vigorously and consistently implemented by the fiscal system and lower echelons of the Party.

by the Ministry of Finance in respect to the financing of the territorial administration which was virtually left at its mercy and was kept ridiculously low both in terms of budgetary planning as well as in respect of the current transfers of means originally allocated in the budget. This practically blocked all local initiatives and thus for practical purposes the status of the territorial administration – its self-government aspects being totally neglected – remained unchanged if not worse than before.

It should be pointed out that in this case, Parliament and the Authors of the act (the State Council) should also be blamed for its conservatism (expressed in the non-consideration of “communal ownership” foreseen by the “Directives” – somebody was willing to become “more catholic than the Pope”) as well as for neglecting to provide the necessary safeguards protecting the territorial administration against blatant abuse of the budgetary law by the Ministry of Finance. This, of course, is another example of how the opposition based on the bureaucracy openly interfered with the reform and its implementation.

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The situation was not simple because there was a need for “face saving” operation which could cover-up the failure to conceive the reform and to implement it in spite of the “Directives” (of the IXth Party Congress) as well as the important deviations from the “Directives” which lacked formal acceptance on the part of the Party and the Parliament. The solution was simple. The “first chapter” of the reform was tacitly ended without any critical assessment of its achievements, of its failures, or misdeeds - and the IInd Stage of the Reform was proclaimed by the Xth Party Congress (July 1987).

Its scope was described only in very general terms which were rather political and social than economic and managerial. To be more precise it was said<sup>26</sup> that:

*Everything must be done to ensure that in the most important domains of the (domestic) market and exports, and in the modernization of production and in the improvement of its quality – the tasks planned for the current quinquennium will not only be accomplished but surpassed.*

*The main levers for intensification of the economy's development are:*

- *the passage to the second stage of the reform;*
- *the acceleration of scientific, technical, and organizational progress;*
- *the assurance of full utilization of labour, energy, raw materials, and fixed capital resources;*

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<sup>26</sup>Quoted from the Xth Congress resolution.

- *the strengthening of the export-orientation of the economy;*
- *changes in the structures of national economy;*
- *a universal review of the organization of the economy's and State's structures.*

This short statement was followed by a more detailed description of the above stated main tasks as well as of the improvements envisaged in the State's agricultural policy (which was not included into the six main tasks enumerated above although agriculture should be regarded as a basically important lever of the economy).

Compared with the "Directives" issued by the IXth Party Congress - and which should be regarded as remaining valid - this resolution did not contribute much and quite certainly changed virtually nothing, failing to emphasize the need for a complex approach to the problem which Polish society and its economy was and is facing. Thus, nothing really has happened. And there was no new impulse for reform implementation. One may imagine what an incredible opposition built up against the reform behind the closed doors of the Congress, since its final resolution contained virtually only a token proof that the reform would survive - or rather that it had not been discontinued. Obviously much more fighting and discussion behind closed doors were necessary to revive the idea of reform within the Party and thus among the bureaucracy. And this, of course, requires time, of which Poland's economy was so terribly short: it was rapidly being eroded. Even the most blunt propaganda was unable to hide this reality.

Some kind of break-through was achieved only seven months later during a meeting of the Party's Central Committee. Although still neither a program nor any clear idea about it was available, there was a decision that such program should be prepared and presented to the society for consultation what finally happened in April 1987 - almost ten months after the Xth Party Congress, and after more than three years of virtual deadlock. The "Theses Concerned with the IInd Stage of Economic Reform (proposals for discussion)" were published by the Secretariat of the Commission for Economic Reform.

This document now belongs to the past. Thus it would be out of place to review it in any detail. It did provoke a very heated and thorough discussion, mainly because it satisfied virtually nobody. Again it was not based on any analysis or diagnosis of the errors, not even the most obvious of them; that is, it was based on the experience gathered during the period of time between the IXth and the Xth Party Congresses. This experience was not discussed deeply enough although often the

text came worthy conclusions. Again it was not complex and contained several important gaps. It disclosed a lack of self-criticism or any will to correct errors. Nevertheless it demonstrated progress and thus it represented a basis for discussion. However, it was not very easy to discuss because it is very difficult to expose errors without offending the recipient of the remarks. Particularly in cases where the Authors stick to wrong ideas which have appeared in all the documents from the very beginning, usually talking about things which they did not know well enough to elaborate on them. Still many passages of the document were simply naive and this was most irritating when they concerned basic problems of organization and management, which were obviously the most important for the success of the reform.

The material gathered from the discussion was enormous. Several fully fledged elaborates were presented by first-class experienced groups or individual specialists who represented both organizations and themselves. It was so because many people saw in the revival of the reform a real chance for the country and its society to get out of the impasse in which they were trapped.

However, it was striking that after so many years of impossibility and of virtual standstill, the administration demonstrated an incredible haste which did not permit enough thought to be given to the problem. At the beginning of October 1987 the Government presented to Seym a programme of activities leading to the implementation of the reform which - as usually, was hastily approved virtually without any changes and without much discussion. The programme again did not show any sign that it had noted the conclusions of the conducted consultation. This programme was again prepared with disregard of the public, as expressed by many specialists deeply engaged in the problems, because they thought that their contributions were needed and they were given in the full spirit of the obligation arising from their patriotic attitudes. They have again been frustrated.

Again here it is superfluous to go into details of the programme. However, its specific aspects should be mentioned because they reflect the character of the Authors. The enumerated actions are described in terms of projects of acts and other regulatory formal dispositions which were to be presented to Seym for consideration and enactment, or otherwise promulgated or ordered for implementation. However, this is where the interest of the programme ended - the rest was left to the bureaucracy without stipulating what should be achieved and when. Thus no necessity for management was foreseen.

Seven novelties were announced by the "Theses". The most important concerned problems related to the territorial administration, arranging for it some sort of the "Three S" status granted to the state enterprises. The act on National Councils and the Territorial Self-government was to be thoroughly amended and assisted by another concerned with "communal ownership" as well as by amendments to the relevant taxation-budgetary-cum-financial arrangements. Changes in the laws regarding cooperatives disrupted their compulsory unionization as well as the monopolistic positions of the quasi-cooperatives, breaking the institutional vicious circle controlling the communes and particularly peasant agricultural activities.

Full implementation of the banking law was announced: although enacted on 1982 this had never been implemented except for the creation of the central bank independent from the Ministry of Finance. New acts were announced regarding entrepreneurship, companies and industrial ownership, as well as on foreign capital participation in economic activities in Poland.

However, the main problem, the prices and incomes policy and everything associated with it remained unchanged. The Authors of the programme stubbornly refused to understand the problem in a realistic and scientifically correct way. Thus society was forced to survive another prearranged price "regulation" which produced nothing except accelerated inflation (about 100 per cent i.e. double what was "calculated", although exactly as much as was expected by the critics of the arrangement). The social impact was so strongly negative that it led to a series of strikes which were abated with the help of L. Wałęsa who in this way came back onto the political scene. The trade union federation – the Chairman of which is a member of the Politbureau – demanded the resignation of Z. Messner's cabinet. Mismanagement of the economy and inability to implement the reform was the declared reason. A few days later the Prime Minister announced his resignation together with that of his cabinet to Sejm which accepted it.

However, the Government was not the only one to be accused. The resigning Prime Minister clearly suggested that he was not independent in his decisions and actions, and that he could not do what he and his colleagues considered right in many situations. Parallel to this, during the Congress of the peasants party Z.S.L.<sup>27</sup>, it was clearly explained that despite the existence of the ruling coalition, many important decisions of the Party (Polish United Workers Party) were not consulted either

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<sup>27</sup> Zjednoczone Stronnictwo Ludowe (United Peasants' Party).

with them or with the Democratic Party<sup>28</sup>. This proves that the trial of strength within the Party between the "reformists" and their opposition was still going on. However, there are no doubts that the Government was completely unsuccessful in controlling the bureaucracy which ought to have been subordinated to it.

Thus after seven years of "implementation" the reform had not made any progress and the whole country - not only its economy - was in a shambles, not to mention its significantly increased foreign debt, the looming inflation, and - maybe the worst - its completely frustrated society, and the extremely weakened position of the Party which was losing its authority and popular confidence.

Looking back upon that what happened during the last seven years one has serious difficulties in understanding what is really going on because of the extreme inconsistencies which are easily observable, particularly in respect of the paradoxes which are occurring in personnel management which, of course, reflect the Party's personnel policy - the working of the famous "nomenklatura" - although fundamental changes in it have been officially announced by the Party. Nobody understands how it could happen that people who had obviously failed, and who did not accomplish the tasks entrusted to them, would thereafter be promoted repeatedly almost to the top and are, till now, decisively influential in exactly those matters in which they failed to demonstrate either competence or the necessary abilities.

Was everything that happened in these years serious? Did those who participated in the implementation of the reform consider their tasks seriously or were they only playing out a political comedy? As nothing really was accomplished so far, is it legitimate to consider that everything was a joke, in Italian, scherzo?

Some intelligent people, who were partisans of the reform from the very beginning, represented the view that the fate of the reform depended on the achievement of a break-through among Party members and the abatement of bureaucratic influences. The top Party leaders, particularly General W. Jaruzelski, consistently declared their and the Party's firm commitment and strong intention to carry through the so-called "economic reform" which was expected to extend over all the aspects of socio-political life, being confident that they would succeed in the necessary reorientation of the Party related to the abandonment of the Stalinist philosophy of ruling through terror, with the help of dogma. This proved, however, to be very difficult because of the enormous amount

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<sup>28</sup>Stronnicwo Demokratyczne - S.D.



of vested interest resulting from the Stalinist Party membership, the "nomenklatura", and the fact of belonging to the ruling bureaucracy. The starting of the reform was bound to provoke a trial of strength within the Party. And although the "reformists" were slowly heading toward success this process progressed extremely slowly and was terribly damaging for the economy, for the whole society, and particularly for the Party itself. Even today after the collapse of the Messner's Government - which may be regarded as some sort of success for the "reformists" - it is very difficult to say what chances for the future are. Will this process stagnate further or do we have a real break-through in sight?

After Z. Messner's temporizing cabinet came a new one formed by M.F. Rakowski which came to power in a very complex socio-political situation - one may sense suspense - related to expectations from all parts of society.

This situation took shape only slowly during the past years and is a product of deteriorating conditions and dwindling confidence in the Government and the Party, and particularly because of lack of any clear future for the society and its members. A rather passive pressure was developing within this context: public opinion was slowly but continuously changing, showing increasing anxiety and growing impatience. The focus was on the Party. The society was waiting for it to provide initiative and action. This may be regarded as a paradox considering the weakening confidence in Party's ability to change itself and solve the burning problems. Nevertheless it is a Marxist and socialist Party. The Party is expected to move forward. This may be its last chance to recover, although without the opposition which had come to be hated. The Consultative Council is moving in this direction, as are the two associated parties, together with P.R.O.N. (Patriotyczny Ruch Odrodzenia Narodowego - Patriotic Movement of National Revival), and virtually all other legal organizations.

The initiative was taken by the Minister of Internal Affairs General Cz. Kiszczyk who invited all who care about Poland and its fate to participate unconditionally in a "Round Table" to discuss all the pertinent problems. In its organization he was backed by the Catholic Church which served as a kind of intermediary and moderator, being currently the most potent organization in Poland which enjoys the confidence of almost all Polish people. However, although the participation in the "Round Table" was to be unconditional, in practice some conditions emerged.

Of course, it would be naive to expect that L. Wałęsa's delegalized "Solidarność" would accept participation at the "Round Table" without its recognition by the Party and the Government. "Solidarność" remained underground and its functioning was tolerated by the authorities. The problem boiled down to acceptance of pluralism in public political life featured, *inter alia*, in the existence of more than one country-wide trade union organization, as well as the possibility of the existence of more than one trade union organization in each enterprise (plant or other organizational unit) - arrangements which the relevant law expressly prohibited and thus complicating the legal recognition of "Solidarność" which continued to declare itself to be a trade union organization.

On the other hand there was only one political party in Poland: the Polish United Workers Party, the constitutionally recognized leading political power (the other members of the ruling coalition have been regarded as organizations of a lesser rank and have been for all practical purposes totally subordinated to the leading Party). Thus the acceptance of political pluralism signified the end of the Party's ruling political monopoly and the coming into existence of a legitimate political opposition, with all the consequences that it entails, and this was not an easily acceptable proposition. Nevertheless there was no other way out. Society's integration in a critical situation was at stake.

The problem was discussed by the Xth Plenary Conference of the Party's Central Committee during the two sessions: one - preliminary - held in December 1988, and the second - final - held in January 1989. The second session was dramatic, particularly the part which was conducted behind closed doors. There was an out-and-out fight which i.a. disclosed the enormous size and strength of the opposition against reforms which exists within the Party. Although the issue was formally voted through and pluralism was officially accepted, this does not mean that the opposition ceased to exist or had given up - it was still there and willing to demonstrate that pluralism was leading to anarchy. Thus the danger was still enormous. And this opposition continue to be supported by a very broad bureaucratic base and its new ally, the existing Trade Union Federation - O.P.Z.Z. (Ogólnopolskie Porozumienie Związków Zawodowych) which is losing its monopolistic position.

The acceptance of political pluralism as well as of trade union pluralism paved the way to the "Round Table". Wałęsa's positive reaction was immediate and the "Table" started early in February 1989.

However, all this does not mean that there are no more obstacles ahead of us. We are witnessing a process related to the formation of

the new political opposition which has every chance of being officially recognized and accepted by the society. This process is certainly difficult and protracted; personal ambitions – on both sides – should not be exposed at this time; they may prove that there is a lack of seriousness and of maturity. Of course, this should be regarded as a result of many years of the lack of any true political activity caused by the adoption of a single-party system and a rampant lack of democracy. Nevertheless the “Round Table” has started working and is making progress which will hopefully materialize soon. The key to common understanding is *inter alia* related to the achievement of the state of confidence and it is possible to arrive at this point only through admission of errors and faults committed in the past, including the very recent past, so as to try as fast as possible to correct the errors and limit the losses. One should realize that there are malcontents on both sides - much stronger on the Party-cum-bureaucracy side - who are interested in provoking serious trouble leading to anarchy. The situation is delicate and requires tactful handling.

The new Prime Minister M.F. Rakowski, made his opening statement in apparently realistic terms and although he did not explicitly promise anything – just like Winston Churchill at the beginning of the war – nevertheless the gist of his exposé was promising and raised hopes. The same cannot be said about the composition of his cabinet – not because of the vacant posts – but because he included in it some people who share the responsibility for the failure of the reform.

This statement was followed by the publication (for consultation) of a draft on “Assumptions for a Consolidation Plan of the National Economy” which set the outline of Government policy in the immediate future. This plan is mainly concerned with the next two years, although it also looks forward to 1995. The document states that the Central Committee of the Party at its VIIIth Plenary Session considered it indispensable to consolidate the national economy - for three reasons:

- the growing discontent of the society caused by the heavy burdens of daily life, shortages of many basic goods on the market, high prices, malfunctioning of services, and a progressive degradation of the natural environment;

- the threatened implementation of the Xth Party Congress resolutions in some important areas which are decisive for the people’s living conditions (housing, the market situation, inflation);

- negative appreciation of past economic policy and of the process of economic reform implementation.

These reasons are formulated in moderate language, although in reality the wording is usually strong and critical, and as usual, it does not say anything about the causes.

The immediate (1989-1990) aims of the plan are:

- improvement in supply to the market,
- reversing the negative tendencies in the construction industry,
- slowing down the inflationary processes, and
- an improvement in the functioning of the public administration as well as in the sphere of services.

The long-term objectives (1995) are:<sup>29</sup>

- achievement of full economic equilibrium,
- qualitative improvement in the housing situation, i.a. through better utilization of the available housing stock,
- reduction of inflation (growth of market prices) to 5-6 per cent p.a., a strengthening of the currency, assuming at least a partial convertibility of the Polish zloty,
- bringing to a stop the degradation of the natural environment and thereafter assuring its continuous improvement.

All these objectives are presented in a very synthetic manner and imply the solution of many very important, difficult, and complex problems which have not been detailed in the draft.

Looking upon this document in the context of the Polish past and the more recent reality there are in it many obvious, but nevertheless sensational, propositions which are expounded for the first time in strong and clear terms. However, this document is also not free from utopian-cum-dogmatic concepts, the consideration of which ought to be postponed to a more propitious time and conditions because they are disruptive. This applies particularly to employees "self-government" participation<sup>30</sup> in the management of state enterprises - a problem that has already been critically discussed above.

And parallel to this, the document says nothing concrete about organization and management, particularly about changes in the structure of the management system and in its organization. Some of the structures, particularly the functional structures, contradict any basic rules

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<sup>29</sup>There is an interesting explanation given in this context namely that "the consolidation plan cannot restrict itself only to immediate actions ... it should look to the future. In two years in many areas it is only possible to lay some foundations ...". And what was the Government doing during the last 7 years that it has not left any of the foundations needed for a solution to the basic problems that are enumerated for immediate action?

<sup>30</sup>In reality there is more interference than participation in the management, because the employees are not responsible for the consequences of their actions.

of management system organization and purpose. Without splitting the scope of the activities of the Ministry of Finance among several bodies and a thorough change in the mentality of this ministry's "population" no progress in the economic system is possible. No structure within the management system can give preference to its own objectives, putting them before the social system's objective function. This, of course, is only one example - there are many more management system's problems both structural and organizational; all this remains largely unknown in Poland.

In official texts there is a widespread use of the term "organizational structure" which discloses the ignorance of those who are using it. The system's structure is the set of objects (elements) and their relations. This structure should be organized, i.e. distributed in respect of place, time, and function in such a way as to assure the desired functioning of a given system which assures the achievement of the system's goals formalized as its objective function (i.e. the achievement of the extremum if this function with a minimum of entropy).

No other science has suffered so much under the Stalinist and post-Stalinist rules than the science of organization and management and the sciences on which they are based - systems theory and cybernetics - the bases of modern science. One should realize that the most renowned Polish organization and management specialists are self-educated and throughout their lives have never had an opportunity either to organize anything or to manage anything serious, except maybe their own university chairs, i.e. a couple of assistants if any. Such conditions create a situation very typical for Poland; namely everybody considers himself to be an excellent organizer and perfect manager. Managers are in short supply all over the world, including the U.S.A. The almost complete lack of qualified managers in Poland is well known, they have been replaced by "nomenklatura" people.

Among those who consider themselves qualified - if not the only ones qualified - to organize and manage are economists, who have acquired some kind of monopoly in respect of the reform. However, everything demonstrates - and particularly the seven lost years - their complete lack of any, even basic, qualifications in the field of organization and management - they substitute arrogance for their ignorance.

Such a situation has an understandable impact on all the aspects of the reform and now weakens the content of the consolidation plan - planning is nothing other than organization of future activities; this is a truth which our planners do not understand. An unorganized or

poorly organized effort does not lead to success - rather to wastage and frustration.

The philosophy of the management of the national economy cannot be reduced neither to the problems of ownership and participation in the activities nor to the statement that the State should make fewer decisions, but better and timely. Of course, all this is true, although it is only a small fragment of the management of the national economy.

The problem of the economy's restructuration, and more broadly, that of the whole national system, is an extremely important problem and has been discussed already above. However, no change in approach can be observed in the present "Consolidation Plan" - still the problem is misunderstood and no tangible approach has been developed, and thus nothing could reasonably be planned. However, some practical actions have been undertaken, for example, the closing of the non-viable enterprises<sup>31</sup>.

Once again - and, of course, this is obvious - the plan talks about the core problem of the system, the search for economic equilibrium, and everything associated with it: strengthening of the currency, a new prices and incomes policy (explicitly stated to be "new", although nothing is said about what this new policy will be like), elimination of structural (only?) sources of inflation, changes in the financial and monetary policy. And it is said that all this should be done in the shortest time possible. However, nothing is explained about how all this will be done, and if and how the errors previously committed will be corrected and new avoided. Nothing is said about the budgetary and taxation policy and this is where the most obvious errors have been made in the past.

Quite naturally a true liberalization of the economy is a precondition. But how will the bureaucracy supported by the Party opposition react to it? Up to now, any move in this direction has been immediately and efficiently blocked, mainly by the Ministry of Finance.

Enormously important is the reorganization of central planning, without which no management can function properly. The first step was taken when the Planning Commission was disbanded; the second most important should deal with the Ministry of Finance a stronghold of the anti-reform opposition. Everything in this respect must be changed: the purpose, the scope, the method of planning, the way and style of the planning agency's working - and thus no one person from the now defunct Commission can be admitted to the new agency attached to

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<sup>31</sup> However, to start this action by closing the Stocznia Gdańska shipyard, although economically may be correct, was a serious political mistake.

the newly reinstated K.E.R.M. This will be a very difficult task because the apologetically-minded science did everything possible to prevent any progress toward the elaboration of new methods of planning and plan preparation as an element of managerial activities. The great danger is that this agency will again fall into the hands of people who are ignorant in managerial and organizational affairs.

Of course, all that has been said already implicitly results in the need of a thorough review of the implementation program for the II<sup>nd</sup> stage of the economic reform. This is stated explicitly in the document.

This is roughly all that is said in the document about the strategy which the document identifies with policy which is expected to create conditions auspicious for the functioning of the reformed economic sub-system. However, nothing is said about personnel policy, a key problem. Would the working of "nomenklatura" be continued in areas which are not specifically political in scope, so that not much progress can be expected.

The obstacle is simple and obvious. The Party within its ranks does not have people well enough qualified to fill all the relevant positions, even within the Party's own bureaucracy. Saying so it should be pointed out that the several decades of "nomenklatura" resulted in an acute shortage of really well qualified and talented people with experience in management. It will take years to recuperate and compensate for the damage. And the "nomenklatura" is still unrestrictedly in force, and it is not limited to a few strictly political positions to be shared by the co-ruling parties.

The document rightly points out that the *weakest side of the reformatory processes* concern the restructuring and reorganization of the central administration - one should not overlook that this sphere is strictly related to personnel management and the "nomenklatura" and thus highly petrified by bureaucracy and permeated by opposition against any reform.

Reading this document one should not forget about its preliminary character - it is entitled *Assumptions for a ...*, and thus an unequal (outbalanced) treatment of problems is inherent to it. Therefore any detailed discussion is premature, particularly on obvious gaps which the document displays (part of them inherited from the previous documents concerned with the reform) and which are, in several cases, serious. For example there are erroneous concepts which are still carried, like for example the problems of the structure of the settlement system and of

its organization which imply enormous wastage of resources and a delayed solution of the housing problem.

Of course, it remains to be seen what the final document will be like when presented to Seym. Much depends on how the team working on this text reacts to the public discussion, criticism, and proposals. Would these reactions be in the "new style"? – or should we expect that the "old style", of complete immunity and arrogance, will be continued? This is puzzling.



## 4.

# Time of break

For many years Poland, like the other socialist countries, was living behind the iron curtain – a barrier created by censorship, prohibition of free travel etc. – the purpose of which was to keep its societies away from any contacts with “rotten” capitalism. Things did improve slightly in the 70’s, although, for a real break-through it was necessary to wait till the second half of the 80’s.

Parallel to this, propaganda was at work. It presented the Western world in a distorting mirror. However, the methods used were so crude and so insistent that only those who were willing to do so, believed it. Thus, by and large, its impact, if any, was very limited.

However, this insulation had an important negative impact. Namely, the continuing – and this should be made very clear – impressive progress being made in organization and management, in sciences, in techniques and technologies, in output, in its quality, in living standards, social amenities and services, and in civilization, remained largely unknown or poorly known, and if so than only to a few, mainly those who had only limited opportunities to disseminate these achievements among society at large. Admittedly this progress also had its negative aspects – and propaganda tried to emphasize them, although as we have said, it was so clumsy that only a few believed in it, and thus from this view-point its impacts was also negative or none.

This background had a particular negative impact on academic, and more generally, professional life. The inflow of professional literature was extremely limited, for example, professional periodicals, sharply restricted professional contacts, i. a. because of misplaced savings of foreign exchange. Even that money which was available or possible was poorly utilized because of difficult access to it and a lack of proper and efficient information services. In spite of the said partial opening in the 70’s, the

most critical time came with the recession of the 80's when the expenditure on foreign literature and periodicals was severely cut down, and even that money which was allocated for this purpose could not be spent properly and in time. The inflow of foreign professional information almost ceased.

Thus the image of the Western world and of its achievements was fragmentary, distorted, and biased, if not false. Maybe the most pervasive fact is that many average people came to think of the West as a plentiful El Dorado, completely overlooking the fact that people in the West worked hard and very productively. Organization and management was always a weakness of Polish professionals – the number of the people who were really knowledgeable in this field was after the war insignificant and almost all of them meanwhile died. Even those apparently educated – if, however, for lack of opportunities never trained, and thus devoid of experience – had no idea of modern management and organization. And the progress achieved in this field abroad was maybe most impressive of all, and its impact on social and economic life tremendous.

The economic recession of the 80's had a particularly negative impact on Polish people's imagination about what is modern, what is progressive, what is economically effective, and about how current problems are tackled – imagination about technical progress was simply naive and divorced from its economic aspects, about economic problems simply primitive and obsolete, and about organization and management non-existent. On the other hand everybody is oppressed by current difficulties and concerned with their solution on a day-by-day basis. The rest of the world became veiled behind a huge barrier which is a combination of frustration, a complex of inferiority, lack of knowledge and proper training, helplessness, impotence, and impossibility. Thus this irritating image is dismissed in an act of self-defence.

However, such impressions are widespread also among academics who tend to regard the Western reality as kind of science fiction, so far away from that what is possible for Poland that it is not worthy of notice. There is a lot of frustration in such positions, although they are often combined with blatant laziness leading to conservatism expressed in preference for *nihil novi* and in comfortable dogmatic-cum-apologetic tendencies which are so popular with the still omnipotent bureaucracy. As such a situation has lasted already for several years, the relative regress in several disciplines is terrifying. And this applies to disciplines vital for the reform and the country's future, e.g. management and planning, i.e. the organization of future activities.

This situation is pervasively exemplified by the approach to the problem of restructurization of the national social system and its sub-systems – settlement and economic etc. – and above all of the management system. Everything that was produced in official documents consistently demonstrates complete ignorance, i.a. of the fact that developed countries started the restructuring and reorganization of their systems – whole systems, not only economic sub-systems – already 15-20 years ago, setting up a new international division of labour and are now starting the process of the international adjustment and organization of these national and corporate structures. Several top-class research institutions are continuously working on these problems, even if they are not talking or writing about ... who is first, will win, and therefore all this is largely kept secret. How then should all Polish society understand what “restructuring” means?

However, the society is not so much interested in problems related to the economic reform, and certainly not in this details; only, very simply, it would like to see the end of its misery – the achievement of a breakthrough in the vicious circle in which the country and its economy are trapped. The society is simply fed up with all the blundering, impossibility, incompetence, and impotence which the Government and the Party have demonstrated over the past eight years, which is responsible for the mismanagement which led the country into its present depression. The society is also not ready to discuss now any long-term problems before a new efficient order is created which will substantiate the need for consideration of the future problems related to the development of the system. Such a lack of patience is perfectly justified.

However, the long-term future of the society and its economy must be analysed and discussed now, because many things done today may either facilitate or hamper future development – and such difficulties have just now been witnessed by the economy which was mismanaged in the past and cannot now redress itself; Poland is now paying very dearly for the experience accumulated – for glaring mismanagement caused i.a. by poor, inadequate, and unrealistic “planning” which was useless for the management. Thus it is impossible to avoid proper consideration of the future.

There is, however, a major problem which must somehow be settled before any serious consideration of the future can be undertaken – namely: it must be known, with some reasonable approximation, when this long expected break-through will be achieved and how – because on this depends the state of the Polish economy when it starts out toward

its better future. In 1978 an "interim" period started during which the terribly sick Polish economy should have been cured. Meanwhile different deadlines were named by the relevant authorities and communicated as binding to the Seym. The first was fixed for 1985 <sup>1</sup> (for the then called IInd stage after which the welfare of the population was expected to begin a continuous improvement). Now it is proposed to accomplish more or less the same by 1995 <sup>2</sup>. However, as this deadline is not substantiated by any concrete planning, it remains for us to wait for it, hoping that its content will be convincing. However, as it was argued, this depends not only upon the economic activities, because they depend as such on the achievement of a political break-through both by the Party itself and by the whole socio-political set-up.

However, at present nothing concrete can be said about it. And a guess assessment can neither be considered nor accepted. Let us assume that this plan's assessment is realistic and its authors dispose of well-substantiated arguments which can be proven as correct and acceptable. However, there is still a long way to go.

On the other hand seven years is a quite a long period of time and much could be done during it, provided that the concept is correct, the planning adequate (i.e. proving the feasibility of the concept), that management will rise to the required level, and will be able to overcome all the difficulties including the most important: the neutralization of the opposition-cum-bureaucratic influences which in the past have been the cause of failure.

Still another assessment is necessary, namely about the shape of the economy by 1995, because this will be decisive in respect of the possibilities of considering the future in concrete and realistic terms. Its state is deteriorating continuously. Thus the acceptance of 1995 implies that this economy will at that time still be alive and the society patiently waiting for the first signs of its revival. This is a very risky assumption, although it is the only one acceptable to all who exclude extreme solutions.

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Of course, in seven years many important things may and should happen and if everything goes well – of course, not without difficulties and setbacks <sup>3</sup> – a thorough metamorphosis of the society must occur,

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<sup>1</sup>See: Baka, W., op. cit., p.44

<sup>2</sup>Assumptions for the Consolidation Plan (II- 2 Long-term objectives)

<sup>3</sup>It is important that they should not be veiled by propaganda – quite in the contrary they should be explained together with their causes, and actions undertaken to avoid them or to recover from their consequences.

or at least a strong continuous trend toward this should become visible. Of course all this should start by changes in the Party itself, and then in the management system – Stalinism must be eradicated totally and with it the authoritarian spirit of the “socialist” bureaucracy should vanish. This is an obvious precondition which should be fulfilled at the very beginning of the process.

With these processes progressing, the focus of the society will slowly shift from its currently omnipresent concern with day-by-day difficulties toward more-future oriented problems. One of the important features of these changes should be the development of broader perspectives among the people, arising from a better understanding of the opportunities which the current progress is opening to them.

Here an enormous task confronts the mass media. The Polish people should begin to understand that besides their own country, besides the socialist countries, there is the whole world and many different countries and people, all of them more or less following their own ways and possibilities. Constraints are not always willingly accepted. They are trying to improve their standards of living, their quality of life, and that all this is happening in many different cultural and political settings, including, in most of cases, the premises of capitalism which differs widely not only from country to country but the mode of which has importantly changed during the last two hundred years and more particularly in the XXth century, especially after the Second World War. In this respect it is important to develop – a feature so characteristic in Poland’s history, which has distinguished it so favourably in the past – tolerance. This means that the negative features of anybody’s arrangements should not be overlooked, although there is no need to emphasize them. Quite the contrary, good, positive examples, should be highlighted, each of which may in a way help us either as models or as challenges to be met in our own way but adapted to our culture, opinions, and economic conditions.

Of course, all this means that socialism should be somehow redefined – or rather maybe properly defined considering that we are living at the end of the XXth century in a particular political and economic environment which differs widely from that what was characteristic one hundred years ago – and more particularly by the end of the First World War in the crumbling Russian and German empires. And certainly this new definition should widely differ from the discredited Stalinist “baracks’ socialism”<sup>4</sup>, if it had anything in common with the idea of socialism.

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<sup>4</sup>See: *Kružoje Obozrenije* (Books Review) No 38/1988, – review of the book: M.Kapustin, *On the Past – for the Future*; book in print.

Let the Polish people start to think critically about themselves, to look at what others are doing correctly and well (identifying their errors to avoid them) and gather their experience for their own perusal, while leaving criticism of them to themselves. True socialism will defend itself by its deeds and not by criticism of anything else.

In this context it is particularly important to learn more and in a positive way about how others have been successful – and, of course, the Polish people should stop envying anybody who was or is successful. This is a destructive feature which hampers any progress. The Poles should learn how others have been successful and try to do better than they. This is the question of loyal or disloyal competition; the latter derives from envy. And this concept should underlie the concept of equal treatment of initiatives and performance. Those who are able to compete honestly will survive. And this is where superiority should be demonstrated; of course, within limits to safeguard the interests of the society which should be put first. Of course, one may say that it is not easy to define unambiguously what should be considered as the interests of the society which should be protected. Certainly the society should be protected against monopolistic practices just as much as against antagonistic<sup>5</sup> preferences. Thus quite certainly the interests of the bureaucracy – as of a social class, i.e. of the authoritarian bureaucracy – should not be protected. This should be the main guideline of the personnel policy in the future.

I do not wish to venture into the areas of politology, sociology, and social-psychology, for these are out with the scope of the present study. Thus, above, only certain problems have been noted because they are seen from the management and economic view-point and are considered important for them.

The view-point which the author has tried to elucidate here concerns the release of the society's attention from oppressive thoughts concerned with present-day difficulties and preoccupations – of course, a quite broad spectrum of them – and thus make it free to shift to the subject of future challenges which should urgently be considered, not only by specialists but by society at large. This shift, which should be regarded as one of the aspects of society's transformation, will hopefully occur during the next years, during which the new orientation of thoughts is expected to develop and catch people's attention.

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<sup>5</sup>This may be – to simplify – regarded as those who can be satisfied only at the cost of other members of society.

## 5

# Time to face the future

Polish people are ambitious. They are neither accustomed nor satisfied to rank among the least developed countries in Europe – which is where present statistical figures place them. And quite certainly if the Polish economy is now lagging behind many others, this is not because it is its proper place: Polish society has capacities which make it capable of much more than its current economic performance apparently demonstrates. By all means, however, the problem is not satisfactorily described by statistics which – by the very nature of the currently commonly adopted statistical approaches – are static and do not demonstrate the nation's real potentialities.

Economically Poland is facing two basically important challenges:

(1st) – to recover its economic standing;

(2nd – to join the family of economically developed countries and find its place among them.

And immediately it should be pointed out that these two challenges are interwoven in the sense that actions – and thus things done – in the attempt to recover its economic standing must fit in with the requirements of future development.

One remark, although apparently obvious, must be immediately noted here. Development does not mean economic growth, which is only one of its aspects, and of course, a condition. Development which is a social phenomenon must be fuelled by inputs and these are supplied to the social system by its economy. Thus the society is not subordinated to its economy – we are dealing with a society and its economy, and economy subordinated to the needs of the society, because economic growth alone, per se, does not make much sense except in an ideal capitalist society, the main objective of which is accumulation and capital concentration. In this model, society is regarded instrumentally: it supplies

labour and represents the market for final consumer goods (including consumer durables) <sup>1</sup>.

However, as these two challenges somehow overlap with each other, we have to divide them in another way if we wish to analyse them. For this purpose it may be propitious to use the following classification of economic and economy-related challenges:

1. Obsolescence

1.1 - of the management system's structure, its organization, and functioning;

1.2 - of the structure and organization of the (real) social system, and more particularly:

(a) of the economic sub-system,

(b) of the settlement sub-system <sup>2</sup>

1.3 - of the personnel management and its training;

1.4 - of science.

2. Place within the world economy, and thus:

2.1 - economic effectiveness,

2.2 - competitiveness,

2.3 - output structure.

3. Labour market.

4. Natural resources and energy.

5. Environment and ecology.

It is supposed that within this classification all the challenges which Poland is facing can be identified and discussed.

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Obsolescence is an ubiquitous feature which infests the whole of society and its country. Many of its detailed features have been accumulated historically, while others are of recent origin, emerging either in the post-war period or during the present economic recession over the last ten years and are only in part of economic origin. There are enormous developmental gaps between Poland and the most advanced countries.

And these gaps are continuously growing - not only during the last decade of recession, but also during the whole post-war period. However,

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<sup>1</sup>However, it has been well known for some time that the optimum of the volume of accumulation depends on the volume of effective demand for consumer goods and services. Low purchasing power in society is inconsistent with the optimum of accumulation.

<sup>2</sup>Of course, here the classification depends on the adopted decomposition of the social system - the systems approach allows for any decomposition suitable for the purpose of the analysis conducted.



the existence of a syndrome which combines Polish pride and ambitions, politically stimulated propaganda of success, and widespread ignorance, means that all the Polish people tended to minimize these rapidly growing gaps. Strangely enough even among the intelligentsia the gap reduces itself to some current technical gadgets commonly available in shops abroad about which an average Pole can only dream. And there is a complicating factor. In U.S.S.R. – which for decades was presented by the mass media as an idealized paradise of technique and technology – we now know that there are long-range passenger planes which consume almost double the fuel per mile passenger that comparable contemporary Western passenger planes do. Of course, the U.S.S.R. has some of its own techniques and technologies which are really superior when compared with the West; however, these few like the really extraordinary achievements in science are known only to some top-class specialists in Poland; and when they express their positive opinion in this respect most people do not believe that what they say is true. Of course, this is a rictus from the ridiculous propaganda activities in the past.

This ignorance is now backfiring; the people do not know what material progress has been achieved in the West during the past forty years or how it was brought about. And this does not apply only to new inventions, new products etc. but also – for example – to tremendous savings in fuel and energy as well as in steel, as in transport <sup>3</sup>.

Of course, Poland's obsolescence has different aspects and all the gaps are not equal. In some special lines of the arts, e.g. in musical composition in which Polish composers excel and are among the small group of internationally recognized leaders. However, these are individual achievements, and are restricted to the sphere of arts; they very seldom appear in other branches of human activities particularly in those which are decisive in respect of the quality of life of the Polish people. This is not for lack of talent, because Polish people when working abroad more often than not are performing brilliantly and are credited with outstanding achievements. But similar individual efforts when working in their own country do not lead to similar results. Why not? This is very complex problem which, however, represents the main root of Polish obsolescence. And it is closely related with the above-described envy syndrome. We are not going to analyse this complex sociological-cum-psychological problem, but it is important to realize its damaging existence.

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<sup>3</sup>It should be mentioned here that the transport intensity of Polish national income is several times higher than in the advanced countries, even those which haul raw materials on extra-long distances, e.g. Canada

Although, as we have indicated, we see Poland's problem number one is obsolescence, the above proposed classification is not clear-cut. All other challenges (2-5) although not explicitly included in "obsolescence" are, however, tightly related to it. Poland's relations with the world-wide environment, particularly the market, are poor because of obsolescence. The Polish labour market is virtually non-existent because of the obsolete management system, obsolete organization, obsolete knowledge, and, particularly, ignorance which was replaced by an – in this case – advanced "schizophrenic dogmatism". The Polish approach to natural resources – considered as free goods – and the management of energy, is obsolete, and the same should be said about environmental protection and ecology where Polish science is not so much obsolete as simply in status nascendi.

But behind this obsolescence, anachronistic, inefficient, and ubiquitous problems of organization and management – virtually non-existent in modern sense – are lurking; any one problem which is considered as unsolved or deficiently treated demonstrates that its existence and persistence is a product of bad organization and poor management.

Back in 60's, Western Europe noticed that it was lagging behind the U.S. in technology. There were also complaints about the so called "brain drain" for which the U.S. was blamed. This phenomenon was immediately named the "technological gap" and caused a considerable amount of concern. All this came as a shock to Western Europe which was accustomed to the fact that traditionally it was Europe which delivered new inventions and "know-how" to the U.S. <sup>4</sup>. The situation was considered so serious that it led to official political protests, like the speech delivered by the British Prime Minister Harold Wilson in Strassburg (1966) in which he said i.a. that he feared "*a new industrial slavery through which we in Europe will manufacture only conventional products and will more and more depend on American industry in all that will be advanced technology, for all which will determine the industrial age beginning from 1970-1980*" <sup>5</sup>. The problem was raised again and discussed at N.A.T.O. meetings. And finally this provoked a speech delivered by R. MacNamara in Jackson (1967) who explained that the "technological gap" was a result of the "management gap" – that when European scientists emigrated to the U.S. this was not caused by the superiority of American technology but above all was because America had the most

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<sup>4</sup>In fact during the First World War "know-how" in, for example, modern and sophisticated steel metallurgy (required for the war effort), was supplied to the U.S. by Europe, within the lucrative orders for armaments placed by European countries in the U.S.

<sup>5</sup>Free translation from French, after: Servan-Schreiber, J.-J. *Le défi Américain*. Denoël, Paris 1967, pp. 90-91.

modern methods of team-work – of management. *God is a democrat ; he distributed intellectual capacity more or less equally within the whole world. However, he expect obviously that we will efficiently organize this resource given to us by heaven and this is a management problem. In the final account, management is the most creative of all arts. This is art of arts; because this is the art of organizing talents.* And here J.-J. Servan-Schreiber asks: *What is the basic role of management? - to know how the changes should be faced intelligently. Management is the way in which social, economic, technological, and political, and all human changes may be rationally organized and spread all over the society* <sup>6</sup>. And all that happened more than twenty years ago, at a time when Western Europe noticed that a gap between it and the U.S. was growing. And at this time there was already a large gap between Western Europe and Poland, a gap which was barely realized by the few who had the chance to travel abroad and were intelligent enough to realize the existence of it. It was much more difficult to talk about it when back in Poland.

Today the situation has become more complex. Japan – the so-called “Third Big” (power) has overtaken Europe and is nearing the U.S. in technology and design, in some cases maybe even surpassing it. By the same time and in spite of many efforts, Europe is moving forward slowly mainly because of its back-wardness in management. And, of course, Poland is lagging far behind Western Europe – again, above all, because of its complete neglect of management and organization.

However, maybe worst of all is the fact that neither Polish society, nor those responsible in Poland – i.e. the Party and the Government – as well as the Polish scientific establishment realize either the importance or the size of the problem of management. Poland has fallen back so far behind the leading countries that it has lost them from sight.

This astounding ignorance of the problem was clearly exposed during the last eight years of the simulated efforts to “implement” the so-called “economic reform”. There was a complete lack of understanding that this “reform” relied above all on perfect functioning of the management system, that no one of the so called “economic mechanisms” could work in vacuum, and more particularly in a hostile environment. In other words: the “reform” if it were to be successful – should be started by real and thorough changes in the structure and in the organization of the management system including changes in personnel policy. Of course, something like that required – as a precondition – changes in the Party. They are obviously necessary, but so far, i.e. till the end of 1988, nothing indicates

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<sup>6</sup>J.-J. Servan-Schreiber, op. cit. p. 91.

that such changes have taken place or may do so or even that they are progressing and are well advanced.

To be effective, these changes in the structure and organization of the state's management system must be paralleled by a consistent action conducted with consequence which will eliminate from the management system all the remnants of the authoritative bureaucracy, a product of the "nomenklatura" in respect of all positions which are not of purely political scope and kind. However, even in such cases those nominated "on political spoils" often should be for example elected members of parliament, i.e. having passed successfully a trial of popular confidence.

Thus the first and immediate challenge which Poland is facing is to make thorough changes in its management system - changes which will open for its economy the way toward the future.

However, this is only the minimum indispensable at the very beginning - just enough to start the implementation of the reform. This is the minimum required for survival. But this is hardly any beginning, considering the challenges which Poland is facing in this field.

How can this problem be coped with? It is not easy to answer this question. However, one might propose for thorough consideration - including discussion with some top specialists invited from abroad - the following conceptual sequence:

1st - it is necessary to develop an awareness that the knowledge about modern organization and management is virtually non-existent within the society, this is above all true of the bureaucracy, but also of the scientific establishment; and only a few specialists have the required theoretical knowledge, while, however, they have no experience whatsoever;

2nd - teaching of the basics of organization and management should be introduced, just like computer science, in secondary and vocational schools of all types;

3rd - all clerical and supervisory<sup>7</sup> staff currently employed in the state's management system should be trained in the basics of organization and management; the accumulation of this knowledge must be certificated by a recognized educational authority (and after, for example 31.12.1993, only those having such certificates should be employed in the state's management system as well as in the para-statal institutions).

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<sup>7</sup>This concerns classification of "white-collars" into: clerical, supervisory, advisory, and executive staff covering all the people employed in the state's management system (besides the division of them into the so-called "non-exempt" and "exempt" personnel). Such division does not exist in Poland.

Nothing, in this respect, can be imposed on enterprises; their managers - if they are professionals - will certainly impose similar requirements as well as provide the necessary training.

Already, the implementation of the above mentioned three steps would cause serious difficulties because of the almost complete lack of teaching personnel. One should realize that in the relevant field the quality of teaching plays an enormous role - it requires a quite specific style of teaching, which can be developed only on the basis of proper personal experience of the teacher, not so much in teaching as in the subject being taught. There is an acute shortage of such people (moreover, willing to teach) in Poland; thus it will be necessary to train the people for that purpose, and so again there is the question - who will do it?

Thus the further steps to meet these challenges look very difficult and thus will cost a lot of money and stretch over a considerable period of time. Thinking about this, one realizes what terrible damage was inflicted on our nation by the Stalinist and post-Stalinist authoritarian bureaucratic régime in Poland.

In this respect it should be pointed out that Western Europe although in an incomparably better situation than Poland, has also considerable difficulties in closing the glaring gap which exists between itself and the U.S. To train high-ranking executive managerial cadre a special training centre was established by E.E.C. business people in Fontainebleau (in 1959), the I.N.S.E.A.D. (Institut Européen d'Administration des Affaires - European Institute of Business Administration) - open to people with master's degrees at the age of 27-28 years<sup>8</sup> (i.e. after at least 2 to 5 years of employment); the normal training takes two years<sup>9</sup>. The institute is perfectly international, its teaching staff of more than 50 specialists comes from 16 countries (among them from Japan) - 80 per cent of teaching is in English language, the rest in French<sup>10</sup>. All the students live (compulsorily) on the campus (single rooms), leading, in practice, a very secluded life. The costs are very high and are covered either by employers or by the students who usually receive a bank loan for that purpose.

Still today in Europe there are very few such facilities. This one has been roughly described as an example to give the reader some idea of

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<sup>8</sup>280 students are accepted annually, selected from 6000 applicants.

<sup>9</sup>However, the Institute conducts different retraining, refreshment, and upgrading short-term courses (3-7 weeks) attended annually by 1600 persons.

<sup>10</sup>Admittedly there are difficulties in attracting top-class American specialists on permanent contract (half a year, or full year) even to Paris. Thus they are available mainly as visiting professors coming to Paris for a few days from time to time.

what is really required. In the U.S. there is an enormous market for such people and thus there are many such educational institutions (which compete among themselves) many of them related to universities; several of them are renowned and famous around the world, and it is very difficult to gain admittance to them (even top-class people must wait a couple of years for a vacancy). Thus it will be extremely difficult to organize such a school in Poland – of course, with courses at the appropriate level. Thus there is no other way out but to provide funds and means for study abroad. And as the admittance possibilities in Europe are almost non-existent, the only way is to send people to the U.S.

However, there is then the problem of finding people who have a master's degree (corresponding to M.B.A.), who are fluent in English and have the specified 2-5 years of practical employment experience in an efficient enterprise. This will be particularly difficult – at present one may expect that a well educated student will be demoralized when working in most enterprises where the bureaucrats will teach him how to make a career in another way – the one traditional in post-war Poland.

It seems that, while waiting for an opportunity to solve this problem properly, interim steps should be taken in two directions: one – at university level schools (departments of business administration) and secondly, through special courses which will prepare people currently employed (in either the state management system or in business) for regular training abroad.

Both solutions will be difficult to implement because of the virtual lack (or extreme shortage <sup>11</sup>) of teaching personnel and the lack of candidates with fluent English who could successfully participate in the sophisticated American training arrangements <sup>12</sup>.

There is one more difficulty which is related to post-war personnel management methods and style: the complete lack of performance assessments as the basic method of personnel evaluation. Thus it will be very difficult to identify candidates eligible for training. This difficulty will be magnified by the fact that most of the best people are no longer on the files, having sought survival and prospects in better paid work (although not always along the lines of their personal professional qualifications) free from political vigilance. This alone demonstrates how many problems subject to challenges are interlocked (personnel management is a

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<sup>11</sup>These who have the theoretical knowledge have no experience and those who have it are already old and their knowledge is largely obsolete.

<sup>12</sup>For this reasons both solutions require a fluent command of English.

separate item in our classification of challenges and will be discussed below).

Of course, all these will be temporary solutions, although they will last for a relatively long time necessary to build up our own school of organization and management – and this may require some 3 - 5 decades at least, even if everything goes well and smoothly.

All this deals with the preparation of cadres which will in turn completely restructure and reorganize the whole state management system and – and this will be easier to achieve – a thorough reorganization of the management of all enterprises. However, these are two questions which must be discussed – to an extent – separately. In saying this, it is also important to signal that we should deal parallel with the information system, on whose efficiency depends the effectiveness of the management system – there is no information system in Poland (and the statistical services cannot substitute for it, being only a small part of such a system).

This will require the removal of many obstacles, legal acts and regulations which served the centralized Stalinist model of authoritarian bureaucracy as an enforcement and protection – to substitute for its lack of genuine authority. Certain acts, of course, should be thoroughly altered. This applies both to important major conceptual regulations, as well as to those which are no less important from a functional viewpoint, but are of more technical character. The former may be exemplified by the present taxation system (in which the profits from nationalized economic activities vanish), and the latter by the accounting and book-keeping system which at present serve to distort the basic information about the working of the enterprise and thus about the functioning of the economy.

Of course, it should be realized that the bureaucracy will do everything possible to hamper the implementation of these and similar changes – and this should be taken into account.

It is impossible to go here into detail although one should appreciate the very limited accessibility of the relevant current literature on the subject to the Polish people – here we are dealing with a double obstacle: the lack of import of such literature and the linguistic barrier. Nevertheless the scope of the relevant problems is enormous and the existing information gap looms large and will not be quickly mended<sup>13</sup>.

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<sup>13</sup> Lot of books could be translated, although resources are limited: shortage of foreign exchange available to the Polish editors to pay for rights and misdirected competition among the

Concluding these very superficial remarks about the key problem of the economy, which at the same time is the most important challenge which Poland is facing, it should be recalled that the whole social system hinges on the effectiveness of the state's management system: its economic effectiveness, and the welfare of the society.

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The existence of structural problems was already recognized by the Party and Government at the very beginning of the economic reform, i.e. in 1981, and was thus mentioned in the "Directives". However, if the existence of this problem was recognized, the same was not true in respect of its extent, content, and implications. The problem cannot be reduced to the output structure - which will be discussed separately below as inherently related to the problems of Poland's participation in the international division of labour and thus its ability to export - to compete successfully on the world market. Thus, although it is important, it does not solve the problem of the effectiveness of the Polish economy, and more broadly of Polish society's welfare - it participates only in its solution.

Although the problem of the process of restructuration - which started late in the 60's or early in the 70's (depending on the country) and which is in many countries well advanced - is known all around the world, strangely enough it has been very seldom an explicit subject of professional literature. People who have been interested in the problem know well enough, however informally, about many exhaustive studies on the subject which have never been published; whole scientific institutes have been working on it, or have even been organized for that purpose, although nothing has ever leaked out about the results obtained (commercial secrets are far more important than military ones and thus kept better). And the process is still on the move apparently unobserved by the mass media or by the professional periodicals. The explanation is rather simple.

Somewhere in the 60's the post-war market situation (including the "Korean boom") was dissipating and although the world market was still a sellers' market, it was clear - for those with foresight - that it was not going to last for long; changes were to be expected soon. Thus there was a need for a new policy governing the world-wide distribution of

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"affiliated" translators most of whom are - in their own opinion - also potential authors of the Polish "original" texts



productive activities – the 1950's policy of discrimination against developing countries and the cold war, which never worked properly, became untenable. Moreover, it was observed that more and more productions in developed countries were becoming economically ineffective, i.e. their profitability could be maintained only through their market protection and/or subsidies. Analysis demonstrated that a large share of domestically manufactured products would not compete on their own domestic markets with imported goods (even in spite of protective barriers) coming from less developed countries.

The 60's and the 70's witnessed a rapid increase in the market protection by developed countries (thus worsening the developing countries' difficulties); both custom duties and subsidies (also tax holidays) for endangered products were rising. Of course, at the expense of society, inflationary pressures increased – in some more vulnerable countries catastrophically – leading to world-wide recession and unemployment. However, these features of recession were never exposed; it was much easier and politically more convenient to blame OPEC for the increase in crude oil prices - a bull's-eye hit very unpleasant for the Western capitalists.

The fact that a large share of output in developed countries became economically ineffective was caused by output structural maladjustment to the country's specific production factors supply proportions and thus their prices. Here one may laugh. It was in the 50's that the developed countries renowned economists were explaining to the developing countries that they should not aspire to develop manufacturing industries for economic reasons and recommended them to restrict their economic activities to agriculture and extractive industries, and the same theoretical reasons were given – factor proportions<sup>14</sup>, of course, inversely applied.

However, the developed countries, trying to monopolize industrial production, themselves ran into difficulties and could no longer maintain their own discriminatory policy. They concluded that their economies were suffering from “structural obsolescence of output” and needed to “redeploy” a large part of their output to developing countries where the factor proportions were more propitious for the redeployed productions. Of course, the developed countries and their big corporations, as the policy setting lobbies, committed a major error and were late in its recognitions, preferring not to talk about it. All this was, of course, related to the obsolescence of the structure and the organization of the world-wide

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<sup>14</sup> See the discussion between the Chicago School and MIT in the 50's and 60's; for example: Eckaus, R.S., *The Factor-Proportions Problems in Underdeveloped Areas*, *The American Economic Review*, September 1955.

capitalist system which was traditionally based on national sub-systems – something which became completely anachronistic particularly after the Second World War. The remedy came with the transnational corporations – first called “multinationals” – which have completely changed the whole working of the capitalist system, changing above all its organization and also, although to a lesser extent, structure. Things began to move late in the 60’s when Business International started organizing its famous “Round Tables” – maybe the largest market research project in history conducted on a world-wide scale. However, its results were never known beyond Business International members.

It is interesting that what resulted from such research fitted perfectly with the famous “Leontief’s Paradox” which even for most professional economists was not completely clear or understandable. Now – i.e. somewhere in the 70’s – it became clear that the U.S. had an absolute advantage in skill-intensive and science-intensive activities and obviously not in capital intensive mass productions – the capital being a substitute for skills. Productions characterized by large demand for unskilled and semiskilled labour are ostensibly unprofitable in developed countries where they cannot be economically effective.

The problem was signalled in Poland a couple of times in the 70’s in professional periodicals. But there was no reaction from the economic policy-making lobbies and Governmental circles which were too busy developing the Polish economy in the opposite direction from that indicated by factor proportions analysis <sup>15</sup>. “Gigantomania” was in full swing at the expense of present and future generations of Poles.

In this way the global reorganization <sup>16</sup> of productive structures started some twenty years ago and will probably be completed in the middle of the 90’s. Of course, the changes in structures’ organization and of structures itself are a continuous process. This process was stopped because of war and was not reactivated after it by those who thought that they governed the world economy. In this way, some 20 years were lost and caused the recession with all its costs incurred by society and business.

The 1960’s should be regarded as an important period of time in the development of economic thought, for example, under the pressure of rapidly developing systems’ theory and systems approach – which

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<sup>15</sup>Of course, such analysis could not be properly performed because of extreme distortions in the price system; knowing this, virtually nobody ventured into such a sterile occupation.

<sup>16</sup>It is much more reorganization than restructuring – “redeployment” means shifting a structure from one to another location; structure’s organization is understood as its distribution in respect of place, time, and function.

revolutionized i.a. organization and management sciences - and brought another novel conclusion about the structure and organization of the settlement system. Most probably somebody with a little intelligence put forward the question: "Why can't urban centres pay for themselves?" - a very reasonable question, leading to very important considerations and conclusions which were not liked by some important pressure groups.

It was well known that the development and maintenance costs of a settlement unit grow with its size, measured in terms of its population number, in a nonlinear way. It also became known that there is some optimal size of the settlement unit at which these costs are minimized. Nevertheless, towns were either developed beyond this optimal size and were heavily subsidized by budgetary means or remained underdeveloped and neglected, characterized by sub-standard living conditions, the worst of all possibilities. The subsidizing of towns is of recent origin. It started only in the second half of the XIX century and its concept was related to income redistribution i.a. to the benefit of town dwellers, but particularly with the purpose of channelling the plus-value collected in the process of taxation all over the country from the central budget to private accumulation with the purpose of maximizing it and, incidentally, creating a monopsonic labour market in towns characterized by permanent labour surplus and thus marginal labour cost. Of course, in practice this "system" subsidized the entrepreneurs operating in towns.

However, with "overspill" of towns, the costs of their expansion and maintenance per capita increased far beyond the benefits accruing to the entrepreneurs and in practice the subsidies paid for large-scale development - to satisfy the philosophy of "gigantomania" of the urbanistic-cum-architectural mafia which cooperated with the political establishment, seeking spectacular "achievements" at the cost of all the taxpayers and the misery of living in slums. Something like this was possible only because the urban planners have never been interested in the social costs of their "monuments" which they designed as their own.

Studies conducted after the Second World War clearly demonstrates that there is no reason to subsidize town and additionally, through them, the business operating in them. This is why the U.S. Federal Government ceased to subsidize towns and started a chain reaction which went through all judicious and economically sensitive governments.

Parallel to this, with the rapid industrial development on one hand and the ridiculous extension of towns on the other, living conditions in them deteriorated rapidly, thus being a process which could not effectively be slowed down because of the enormous costs involved as well as

technical obstacles. Large towns were doomed. The process of "counter-urbanization", i.e. of people's flight from towns, started and quickly converted itself into a complex process called "reurbanization"<sup>17</sup>. Thus an important process of changes in the settlement system's structure and its organization was started.

However, there is a third important phenomenon which began to be considered seriously - the so called "external effects". Here again the systems approach made it possible to come to grips with the problem which, for virtually one hundred years had escaped proper and quantitative treatment. It has been positively proven that the external effects which may be highly positive for small and medium scale units tend to become negative with the growing scale of the undertaking and may completely outweigh the so called "economies of scale" resulting in effective diseconomies of scale. It is obvious that the externalities are both positively and negatively magnified by the urbanized environment.

Industry very quickly realized that it had become much too expensive for it to stay in towns, and much cheaper to go to rural areas away from towns becoming as small as possible<sup>18</sup>. This latter feature also became extremely important from the viewpoint of inter-industrial cooperation, related to advanced specialization. The extraordinary progress in communications, particularly the "telematique" (in French), permitted an important territorial dispersion of cooperating plants. And thus for some 15-20 years the process of industrial "ruralization" has been progressing rapidly. The process has been combined with the decline in the number of traditionally large vertically and horizontally integrated plants which have become obsolete, uncompetitive mammoths which have been closed down one after another. Here maybe the most striking restructuring is underway in the U.S. steel industry which is changing its orientation towards high quality products manufactured by small units (very small in terms of traditional U.S. patterns) and shifting toward satisfying the U.S. demand for common qualities by imports, the prices of which cannot be matched by the U.S. domestic production in spite of considerable customs' protection (again - factor proportions).

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<sup>17</sup>Parallel to continued spatial concentration of people causing i.a. the liquidation (or conversion) of villages; population in large towns is declining to the benefit of small and medium towns below 150,000 inhabitants; this phenomenon was best presented by T.Falk who utilized the excellent Swedish statistical data.

<sup>18</sup>The enormous progress achieved in the miniaturization of industrial technological processes together with the development of miniprocessors and thus automatization have largely contributed to this basic change in the external appearance of an industrial plant.

All this should be regarded as a rather superficial treatment of the problem of "restructuring", which goes far beyond the changes in the output structure and concerns not only changes in productive structures and their organization - implying change in the size of the industrial productive units <sup>19</sup> - but also important changes in the structure and organization of the whole social system. Changes in the structure of the social system and in this structure's organization require far-sighted and fully integrated planning. Such planning does not exist in Poland and elsewhere is only in the early stages of development. This delay was caused deliberately by the spatial-cum-urban planning establishment because its attention was always focused on its subjective biased mafia-like interests and simulated social preoccupations which cannot be considered without thorough economic analysis which was completely neglected, if not hated. In Poland, there is a very small group of knowledgeable people who understand the problem, but they are outside the scientific establishment and its ally the bureaucratic establishment. Thus the situation is difficult.

It was particularly difficult because the "planning" establishment, dominated by the omniscient economists, simulated only a token degree of interest in other aspects of the social system. They were not interested in important factors active in the social system such as social, ecological, technological, and above all organizational and managerial considerations. In all that means that they were not interested in any kind of integrated planning - they preferring to stick to their petty monopoly and continue to consider any plans as a substitute for management activities.

In a few years the global economic system will look very different from today. The world market will be divided among those who have been early, or not too late, for the departing train and who participated, along with the transnationals, in the international (global) division of labour - of labour volume which is rapidly contracting because of the pressing organizational and technical progress which is under way. It seems that in this respect the Poland of today is playing a game of blindman's buff. There is a specific confusion which combines the lack of problem perception with ignorance and forwardness.

Coming back to the very particular problem of the industrial output structure it should be pointed out that there are several difficulties which hamper the finding of a proper solution - preventing a start being

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<sup>19</sup>Which is particularly important for Poland - as has been explained already above - because its economic system has lost its connective tissue and thus has lost its cooperative abilities.

made on its proper analysis and consideration. It will be appropriate to enumerate at least three of them:

1st – the complete lack of economic analysis and the temporary impossibility of starting and developing it because of the total inadequacy of the price system which is completely divorced from any value proportions <sup>20</sup>, moreover because of the accounting methods now in force which completely distort any analysis;

2nd – lack of comparative economic effectiveness analysis, the absence of which, together with irresponsible manipulations with the centrally established accumulation volumes (distorted from real values by a faulty income tax system) have led to a completely wrong intuitive sense of profitability and economic effectiveness (there are some productions which are completely ineffective, although still developed because of intuitive conviction about their effectiveness). Subsidies and tax deductions, bonuses, etc. particularly those granted to fuels and energy as well as the lack of royalties on primary resources create complete havoc in the whole price system already otherwise present through labour undervaluation – making any economic analysis impossible;

3rd – lack of knowledge about actual transaction prices, about their difference with nominal prices and more generally, the price system on world markets as well as the arbitrary exchange rates for foreign currencies, hampers any comparative analysis. It must be pointed out that such analysis must be extended into the future – at least for the period of time during which production facilities may be fully depreciated – because all the relations under consideration are changing with time. Production which is economically effective today may become completely ineffective within a few years.

But full guidelines for analysis would require a separate book. Here it is only possible to point out the existence of the problem. It may be considered that the problems described above may require a couple of specialized academic institutes, while in Poland there is no one concerning themselves with the problem, in spite of its obvious topicality.

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It would be trivial to declare here that in reality any problem, when analysed properly, boils down to the right choice of people who will solve it efficiently. Man is at the centre of the social system's objective function

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<sup>20</sup>This is particularly important in respect of the price for labour the undervaluation of which invalidate any analysis and may be leading toward completely erroneous decisions.

as a purpose as well as a causative factor. It is this latter quality which is of interest to us at this instance.

During the last forty years Poland went through a period of "misinterpreted democracy" - a period of "equals and those more equal" - in which everybody, except for those "more equal" was supposed to follow the command, "Level down!". Parallel to this those "more equal" adopted, from the Stalinist régime, the system of the "nomenklatura" which secured for them exclusive access to power, privileges, and freedom from responsibility. All managerial, and most of the supervisory positions were controlled by the "nomenklatura" which seldom included nonpartisans and if so, then those who could be easily informally but effectively controlled.

The war decimated the Polish intelligentsia and the Polish managing cadre. The few who survived started well, but were soon shunted onto a side-track because they were considered dangerous to the Stalinist régime. Unqualified but "trusted" people have been governing and managing the country and its economy for forty years. Their position is well protected by the "nomenklatura" the stronghold of the Party's conservative wing and the ruling authoritarian bureaucracy. In spite of several conferences, held at the Party's Central Committee level, and all solemn declaration, nothing, so far, has changed in the Party's, and thus the Government's personnel policy. And, of course, such changes are indispensable if any progress is to be achieved in Poland. Let us hope that the "nomenklatura" <sup>21</sup> which contradicts democracy will soon be abolished. For the purpose of further debate we must assume, that there is no more "nomenklatura" but a modern system of personnel management.

Before starting any discussion it is worthwhile recalling that in the 1973 a Polish team visited the U.S. to study "(high ranking) personnel management: theory and practice". This study was arranged by the Y.M.C.A. Center for International Management Studies (CIMS - New York, N.Y.) within the framework of cooperation with the Polish Scientific Society for Organization and Management - T.N.O.i K. The team was composed of two active members of the Society who led the team of 8 members, all of them specializing in personnel management in Poland, among them one deputy chief of the Government (Party) Personnel Office, two scientists, two industrial general managers, and others employed in the State personnel services. The delegation stayed four weeks visit-

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<sup>21</sup> As explained above it may apply to only few selected important positions in public administration which are specifically political in scope. Just like the nominations "on spoils" in the U.S.

ing the U.S. Civil Service Commission, the U.S. Department of Labour, the National Commission on Productivity, many important corporations (among them: the General Electric Company, E.I. Du Pont de Nemours and Company, Hercules Inc., U.S. Steel Corporation), and several universities etc. with the focus on (high ranking) personnel management and training. These were four weeks of hard and very interesting work. Evaluating the trip and its conclusions in Warsaw it was said: "All this is really wonderful, but it cannot be utilized in our personnel management system"<sup>22</sup>. This was fifteen years ago and the lesson described was totally forgotten long ago. And nothing has changed. The enterprises' personnel managers are only apparently subordinated to their enterprises' general managers; in practice their reports are submitted to an independent separate functional personnel management system controlled at the top level of the Party which escapes the controlling capacity not only of the enterprises' managers but also the Government, including the Prime Minister. Thus the most important basic rule of management system organization – of one person's authority and responsibility (unity of management) is infringed.

All that has been said above is elementary and trivial and it is a pure waste of time to discuss such basic errors in the concept of the management system. The fact that the "nomenklatura" principles – intended to protect a certain group of privileged people, in fact, the authoritarian bureaucracy – is witnessing that the point of "critical mass" within the Party still remains to be achieved before the inception and implementation of true reform is possible in Poland. Post-Stalinist and bureaucratic resistance is still too strong and hampers the so badly needed progress. Its strength was openly disclosed during the second part of the Xth Plenary Conference of the Party Central Committee (January 1989). Although this conference's conclusion was positive – the acceptance of the principle of pluralism – this does not mean that the resistance of this group has been broken. Although the situation has considerably improved and the way to the "Round Table" was paved, the post-Stalinist-cum-bureaucratic resistance is still present and active and very far from being neutralized. This may be seen during the discussion at the "Round Table" – the representatives of the so called "Coalition" still demonstrate their inability to adjust themselves to the new line of Party policy – which expresses itself in the refusal to discuss errors committed in the

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<sup>22</sup>i.e. – "nomenklatura" where there is no room for such concepts as "equal employment", "affirmative action programming", "career planning", "performance assessment" and other democratic arrangements.



past, both distant and recent, with the intention of correcting them (a reflection of former infallibility and the reluctance to admit errors for fear of responsibility – disclosing the deeply bureaucratic mentality).

In this respect there is no need to explain the problem to society and particularly to young people – it is a veritable apple of discord, the abolition of which is considered as a touchstone of the Party's good will – so many times solemnly declared – to go forward and reform the Party, the country, the society, and the human relations within them. Naturally, however, this is only a precondition which must be fulfilled before future challenges can be faced.

Man remained the most precious, the most vulnerable, the most difficult to manage, and the most primary factor decisive for society's, and more broadly, humanity's survival and progress. And this is why the proper management of men is so difficult and is such a delicate affair. Moreover, the requirements which the society imposes on its members are continuously expanding and the accumulation of them becomes more and more difficult. Talents are the most scarce factor and thus they are particularly precious – it is very difficult to consider consistently equality when the values of individuals, who are members of society, are very different from the viewpoint of society's interests. Of course, theoretically the problem is automatically resolved when humanity attains the stage of communism; however, for the time being this idea remains utopian because of human unpreparedness to practice it. However, we have to try to bridge the gap between ideological and utopian thinking, between current reality and the desired future.

Personnel management problems as well as the related problems of professional training of managers, supervisors, and everyone else who in any way participates in the management processes or in human qualities upgrading the processes have been in recent decades so importantly developed that they represent a separate discipline (multidisciplinary in its scope) of organization and management sciences. Training of people in these fields has become a branch of business and, has become a problem of some concern to major business organizations. It is enough to review – for example – the activities of the "Conference Board"<sup>23</sup> to assess the importance attached to these problems by business people.

This is an enormous area of highly advanced and scientifically based activities which serves the identification of people's potential, develop-

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<sup>23</sup>The Conference Board, New York, N.Y. - a non-profit making research institution founded (in 1916) by the leaders of American industry to provide objective and sound information on economic trends and management practices.

ment of their capabilities, and the best utilization of them to the benefit of society, and business. There is no such system in Poland, and there are – for the time being – no people in Poland who would be able to build such a system and to operate it; from the very bottom up to the top. It should be pointed out here that Poland's difficulties with the educational system – one may say, a crisis of this system – are closely related with the discussed problems which since they were neglected did not contribute to its solution ... and in this way the crisis may continue because there is a lack of proper recognition about the social objectives of the educational system – the lack of structural and organizational considerations is obvious.

A library of books could be – and has been – written on this subject, the scope of which is enormous. The following outline of a book which would be relevant can be proposed:

- (1) Personnel management function: role, organization, and training for the function;
- (2) Personnel policy - scope and development;
- (3) Selection and placement: testing, interviewing, upgrading, transfers;
- (4) Manpower planning and appraisal, career planning, performance assessment;
- (5) Training and development: management development, employee training and retraining;
- (6) Organization development: team building, behavioural sciences application;
- (7) Human resource systems: computer applications, automated records, skill inventories, etc.;
- (8) Motivation and incentives: pay systems and practices, incentives systems;
- (9) Employee relations, dealing with conflicts;
- (10) Communications;
- (11) Safety and accident prevention;
- (12) Governmental activities and programs;
- (13) New trends, issues, and techniques.

American experience demonstrates what an extremely high quality of people and skills is required for proper personnel management. And there is the other side – the quality of management – which is a product of excellent personnel management.

The American methods which have been developed, of course, for Americans, were virtually all of European origin. Thus American meth-

ods are by and large workable in Europe although they are in need of some adjustments. Still not enough is known about the Japanese methods which are widely different from the American although these were their starting point – manifold changes and adaptations have been necessary to make these methods applicable to Japanese cultural traditions, customs, mentality, and character although there was also the need to adapt them to modern scientific and technical requirements.

Poland should face this challenge with full awareness that the nation is full of talents which have never been identified and thus never developed, and that many others have been neglected or discriminated against – all at a terrible social cost and causing lasting damage, particularly in people's mentality, i.e. the ubiquitous frustration and popular lack of belief that Polish society is able to get itself out of the troubles into which it was manipulated by the ignorant and perfidious authoritarian bureaucracy. However, to do so, all the available talents should be put to work and be properly utilized. A single frustrated man causes the decline in the effectiveness of society's activities, and low effectiveness of this kind, caused by frustration, is now visible. The Polish economy is virtually stagnant, and the biased personnel management and its discriminatory policies (together with the deadly dangerous performance of fiscal authorities) are responsible for their frustration.

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Stalinism and the authoritarian bureaucracy sterilized academic research. They withdrew its freedom to search for truth; its basic foundations were destroyed. Academics were considered to be dangerous for the régime and thus were discriminated against and often prosecuted. There was one exception – the military establishment and the related sciences. However, they developed mostly in closed and inaccessible premises and their mainly indirect impact on science sensu largo as well as on the society and its economy was limited. There have been prohibited sciences, prohibited theories, and areas considered dangerous to study because their results could be regarded as notorious "revisionism" i.e. actions oriented toward the abolition of the régime. Thus, for example, only physical geography was practised and its landscape was, for the sake of security, uninhabited. All the social sciences were biased and deeply distorted. The natural sciences subordinated to political considerations or simply to personal ambitions and political careers like the famous case of T.D. Lysenko, the author of nonsensical theories which had a heavily damaging impact on the agriculture of U.S.S.R. However, before

this became obvious he also destroyed several scientists in other socialist countries, Poland included.

Science became organized and managed by bureaucrats led by people concerned with their own political career who fought their scientific opponents: the scientific career could only be in second place.

Reason and truth were not valued, they were features of "revisionism". Any scientist who did not conform to the established opinions was considered "revisionist", attacked on political ground and often prosecuted by security services. In such conditions, science either stopped being creative and became a "duplicating science", or went underground. However this latter way was seldom feasible or possible. The stream of scientific information from the West contracted and became highly selective; access to it was restricted maybe not so much formally as physically, and much incoming information was accessible only to privileged persons. Many sciences were simply stagnating or worse, became distorted, erroneous, and full of gaps in knowledge.

All this was, of course, reflected in the scope of academic teaching which did not change in spite of its continuous progress. Much more effort went into the criticism and belittling of Western achievements than into their propagation (if any). In this way the knowledge acquired by a graduate each year became more and more obsolete and full of different gaps.

And this is where the tragedy begins, because the scientists who are now active started their scientific life with a distorted, and incomplete knowledge, full of prejudices, in which many of them belived. Moreover, science became tightly subordinated and dependent on bureaucracy. New types of scientist came into existence: a scientist-apologist who lauded the achievements of bureaucracy and scientist-bureaucrat whose career depended on his political achievements. Science managers of this type have been, and are, active in controlling science through the flow of financial resources which in this respect was a valuable ally of the ministry of finance, and by issuing rules, drafting acts, etc., managing the Polish Academy of Sciences and their most important specialized bodies, controlling nominations etc.

The economic situation of science in general and of the universities in particular became dramatic - they are being slowly strangled. Their buildings were worn and obsolete, hardly suitable for university purposes at the end of the XXth century, much too small to accomodate the students and the academic personnel. The equipment, as well as the number of books and scientific equipment, is not only worn but completely obso-

lete (fit only for a museum). Science is decapitalized in the sense of both human and fixed capital. It should really be a cause for wonder how in these conditions, science is still able to perform and have some valuable original achievements.

The most difficult of today's problem in science is its "manpower" structure, which is flooded either by old ex-scientists (it is not their fault that when they retire they are going to die from hunger) – whose behaviour is highly damaging for science although practical for the bureaucracy – or by apologist-cum- bureaucrat pseudo-scientists who dominate the science and in controlling its reproduce themselves, thus petrifying the structure. In this way the situation is becoming pathological.

In spite of political changes – in 70's and in the 80's (although this latter period has been accompanied by several restrictions in academic freedom) there still has been no scientific discussion. There was no criticism – science became a mutual admiration society. This is the heritage of the time when any criticism could seriously harm another person by branding something non-conformist and thus "revisionist". Now this has become dangerous for the most prominent scientist-apologists, and thus tacit acceptance of such a style of relations is continued.

There is therefore an enormous danger that Polish science will remain in this vicious circle of stagnation requested by the present scientific establishment as the only way for survival. This is dramatically similar to the situation of the bureaucracy which nurses its ideal of "nihil novi". However, if this is natural for the bureaucracy – which by definition is socially negative – it contradicts the social mission of science.

Thus the obsolescence of the science is another important challenge for Poland.

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However, the most direct and imminent challenge which the Polish economy is facing concerns its survival. Its situation should be considered in relative terms, i.e. compared with the world market situation; and thus its present stagnation, already lasting ten years, is, in fact, a regress which tends to petrify itself and may get worse.

By 1978 the Polish economy had come to a crisis – of a very specific type, a crisis of inefficiency – when it became unable to provide inputs for itself. Thus nothing remained to satisfy the effective consumption demand of the society. The situation remained similar to an engine which has enough power to drive itself, but produces no energy for any other purpose: its efficiency is zero and its entropy equals one.

Now Poland should produce enough not only to run its productive apparatus, and satisfy the growing effective demand of its population, but also enough to repay its foreign and domestic debt <sup>24</sup>.

This poses three challenges for the economy:

- to become economically effective,
- to become competitive in the world market,
- to change its structure and organization so as to make it both: effective and competitive.

One may observe that being effective it must also be competitive. However, this is not so because there may not be enough demand for something that may be produced in an economically effective way; thus economic effectiveness is a necessary condition, but not a sufficient one.

The notion of "profitability" is much better known among non-professionals than the concept of "economic effectiveness" which is confusing and ill-defined – and very often misunderstood even by professional economists. We will not go here into all the theoretical divagations concerning this latter notion. Two things, however, are important: (i) that the economic effectiveness is a ratio – output is related to input; (ii) that the output – or rather its social effects – are measured as "output effectively used".

There is no standard definition of this notion. The point is that we are not interested in production as such but only in satisfaction of needs (or in economic terms – of the effective demand) thus the analysis must include the teleological (and thus accessibility i.a. transport) parameters as well as the related users' expenditure. This changes the cost structure and changes the criteria of the production scale in relation to the market. This clears the idea, but cannot be regarded as a full definition and explanation of a very complex problem.

However, the notion of "profitability" is also often confused in Poland because the profits are not related to capital, but only to the prime cost (or sales price) which is one of the results of the ridiculous income tax principle now used in Poland, in which there is no distinction between the categories of income, profit, tax, and capital, as well as the categories of income and profit falsified by inadequate methods of accounting and book-keeping. After all one should realize and appreciate that Polish people over the last forty years have been systematically unlearning economics and thanks to the efforts of the ministry of finance this process

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<sup>24</sup>Apparently this is an unknown category in Poland; however, the budget should repay all the money which it has expropriated and appropriated absorbing all the financial institutions which should now be reestablished if the Polish economy is to function normally in the future.

has been very effective. Most Poles have become economically sterilized. And this is why it is today so difficult to convince them about the necessity of thinking in economic categories – and this difficulty was magnified by all errors committed by the ministry of finance – and for that matter also by the authorities responsible for the “economic reform” which have never been admitted or, corrected.

Although all these remarks are true and serve to explain how Poland could arrive at such a degree of economic amnesia, they only partially point to what should be done to change the situation. Of course, economic thinking should be reintroduced into the life of the Polish people. This, however, is not an easy task because any teaching of economics, without its introduction into the daily life, will be futile. Thus it is necessary to start from the opposite end and explain to the people its economic sense.

One of the important errors committed in the first and second stage of the reform was the lack of proper explanations of the real sense of the implemented measures, including relevant analysis and calculations (have they been made?) – the society was requested to believe in the infallibility of the reform authorities, i.e. the bureaucracy. Experience demonstrated how the society had been cheated, e.g. by “price changes” which have proven to be purely budgetary manipulation which contributed nothing to progress in the “reform”.

However, it will be a long time before the economy will achieve a situation when economic effectiveness could be explained and illustrated by real cases. There are so many necessary conditions to be fulfilled that it is impossible to wait for them, postponing the actions leading toward the ubiquity of the economic effectiveness.

Of course, apparent economic effectiveness can be achieved and measured easily in conditions where there is no competition and thus the price for a given product is not controlled. This is why such effectiveness is considered apparent: it is achieved, in the final reckoning, at society's expense. We are not interested in such apparent effectiveness or in such profitability – only products which are competitive on the export markets or both domestic and foreign markets, and where the rule is observed that the domestic and the export price are equal<sup>25</sup> can be effective. Thus one may say that effectiveness and competition are inseparable if they are to have any economic sense.

The Polish economy of today is highly monopolized through many arrangements, among them several of a purely bureaucratic type like,

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<sup>25</sup>In this respect the regulations provided by the Canada – U.S. Free Trade Agreement (initiated in December 1987) may be considered as copious.

for example, monopolistic positions on the market granted to distribution enterprises (which being the sole distributor become also the sole buyer – because the producer was not permitted to sell given products to anybody else). However, many monopolistic situations have been created by the hierarchical organization of branches of industry, and the compulsory membership of enterprises in union or other exclusive organizations. The notion of “gigantomania” apparently justified by economics of scale failed to give proper consideration to the negative external effects of such mammoth plants.

As has been said, the major difficulty related with the efficiency problem is the price “system” which exists in Poland. There is little chance that it may be improved because of the refusal to consider the relative undervaluation of labour, proper wages and salaries, a unified tariff system or a proper system of incentives i.e. the method of labour remuneration. The worst thing is that they do not understand that their erroneous decisions provided the economy with an extremely potent inflationary device.

To measure economic efficiency correctly, “system” must be precise and sensitive and must correctly reflect the value relations<sup>26</sup>, otherwise it may cause serious errors in the measurement of economic effectiveness and lead to wrong conclusions, the consequence of which may last for a long period of time.

All this is so important because this measurement method should produce perfectly comparable results in respect of all goods and services on the market<sup>27</sup>. This comparability should be regarded as particularly important, i.e. because the export prices should be (i) competitive and (ii) guarantee the economic effectiveness of the product.

It should be pointed out that a continuous analysis of products’ economic effectiveness and competitiveness on both domestic and foreign markets is indispensable in the process of maintenance of the national economy’s effectiveness. It looks as though it will be difficult to care properly for these problems without having a special scientific institute to cope with them on a continuous basis.

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<sup>26</sup>Here we should recall the necessity of introducing a proper system of royalties on all natural resources, the environment, and all other types of rents related with the use of the component of national wealth. In Poland there are today extractive industries which are apparently profitable only because they do not pay royalties on extracted materials

<sup>27</sup>This requires also that all special duties – like e.g. the excise duty on alcoholic beverages – must be very clearly fixed and known to all the parties involved, so as to enable a fully separate treatment of their proceeds.



Considering the problem of this continuous analysis it is important to realize the necessity of being dynamic as well international. Establishing, for example, a manufacturing facility, one should know for how many years it will be competitive in its markets, both domestic and foreign. This implies continuous studies concerned with the situation in the markets – which change continuously – and particularly the gathering information about the actions of existing and potential competitors<sup>28</sup>.

Not much can be done in respect of finding Poland's proper place within the world economy without a perfectly and continuously functioning system of effectiveness and competitiveness assessment as mentioned above. Still what was said above concerns only one side of the problem – exports and very one-sidedly considered.

Relations with the world market are exchange relations. If a country has a foreign trade surplus its size may in absolute terms be very large (e.g. Japan); however, this is never true in relative terms, i.e. in relation to the total volume of exchange.

In theory and in the long-run, world trade must balance. Of course, the reality is different and, strangely, the wealthiest country in the world – the U.S. – is also the largest debtor to the rest of the world (as well as to its own society). There are also many other debtors in the world and there is very little chance that they will repay their debts. However, this is another matter which does not fall within the scope of the present study. Poland is, of course, one of these debtors and its debt appears enormous in relation to its foreign trade volume. Without multiplying the volume of Polish foreign trade there is no chance of repaying this debt or servicing it without borrowing and thus letting the debt grow further. In this respect, during the last ten years nothing has happened. The debt continues to grow and Poland is unable to service it by the surplus of its foreign trade.

However, if the foreign trade is to expand, then it is necessary to multiply exports. For that purpose additional economically effective and competitive output should be provided. The above arguments show that the trade surplus cannot be large relative to the volume of trade. There must be an important increase of both exports and imports (rough calculations suggest that they should multiply at least six to ten times). In other words, there is a need to multiply both exports and imports and thus,

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<sup>28</sup>Several Western and Northern European countries established such scientific institutions early in the 70's which specialized in such types of investigations (both commercialized and non-commercialized, i.e. state financed), however their existence and the results of their activities were considered confidential.

significantly reduce the share of domestic output which has to satisfy domestic demand. This should be made very clear because it is seldom understood in Poland. The concept of self-sufficiency (virtual autarky) which through so many years blocked its development should be completely abandoned. Of course, it cannot lead us to the policy of the 70's which increased imports by foreign borrowing: this is suicidal when the management system is unable to guarantee enough profits on the borrowed money at the right time, i.e. in time to service and repay the debt. There is an important conclusion to be drawn from the above discussion. There is a need to select not only what should be produced by the country but comparatively more economically effective than the domestic output for which they substitute. And this requires a very broad extension of the above analysis.

Changes in the output structure must be achieved through precise co-operation between production and foreign trade: but a very different one from that which was practiced during the last forty years. If it is possible to import something more cheaply than it is manufactured in the country - than this product (service) should be imported and the domestic production either discontinued or modernized in such a way as to become more effective than the import: i.e. all the economically inefficient, and non-competitive operations should be discontinued in Poland and replaced by imports, with a corresponding volume of exports being provided to pay for these up to 40 per cent of the volume of items currently produced domestically will have to be abandoned almost immediately and replaced by imports.

Such an extent of changes in the output structure will require important outlays (on fixed capital) and thus a considerable time for its smooth implementation, as well as perfect planning of the whole operation. And Poland is already almost twenty years late with starting this process of restructuring.

Thorough changes in the output structure will give the Polish economy plenty of opportunities to change its whole apparatus of production in all sectors, agriculture, industry ect., as well as the settlement system, thus enabling its far-ranging reorganization together with a thorough change in its distribution.

However, when discussing the problem of the output structure we have to ask in which direction these changes should go.

It is very difficult to answer this question - even tentatively - without any analysis. But there is no analysis at present not will there be for some time to come.

In such conditions, there remains only one possibility: an intelligent guess based on experience and observation of actions taken by other countries in similar situations. As there is no time to lose, this is the only possibility for starting the urgently needed restructuring and reorganization of the Polish economic sub-system, and parallel to this – as far as possible – of the settlement system aiming at its better economic, and social, effectiveness.

Anything what is economically ineffective – and such is the Polish settlement system as a whole and each of its units – is by definition also socially ineffective. And nowadays the urban units must be economically viable – as an indispensable condition.

To apply this “intelligent guess” it is necessary to construct some very rough characteristics of possible supply of productive factors, their quality, and proportions – these characteristics will represent a framework within which the economic effectiveness in Poland may be forthcoming.

In spite of many opinions to the contrary, Poland is not so well endowed in natural resources which could represent a special attraction by the end of the XXth century. There is practically no oil and the very few deposits of earthgas are of poor quality (high nitrogen content) and in very modest quantity. There is an abundance of hard coal, but very little of it is coking coal of rather poor quality. Most of it has a relatively high content of sulphur and ash. Its use is expensive because of the need for costly environmental protection devices. Although reserves are considerable coal's future is not encouraging both from the technical as well as the economic view-point, although technical progress in this field cannot be excluded. The other important source of energy – lignite – should last for some time, although its reserves are limited and its extraction causes enormous environmental damage. As a result its further development should be abandoned. For some time to come coal will remain the main source of power. However, there is a need to shift to more modern sources of energy. Moreover, Poland's hydropotential is negligible. Therefore cheap power is not available, and power does not represent factor of production which could give any direction of output structure development. It must be power-saving.

There is no iron ore in Poland. Polish copper ore are of low content; the apparent profitability of its exploitation rests on the by-production of silver and the fact that the enterprises do not pay any royalties, and indulge in highly selective extraction of only the “better” ore, leaving the lower content ore underground. In fifty years – or so – from now all the

available ore could be very effectively and profitably exploited and the prices could be much higher. However, by then the "better" ore will no longer be there, and the other no longer accessible – thus to all practical purposes, there will be no more copper. Everything that is happening now with copper in Poland is a typically wasteful and shortsighted exploitation of natural resources in the pursuit of hard currencies. Besides, there is still some zinc, of which there would be enough for many years, but it is being exploited mainly for export (for many years this export was based on imported concentrates). Aluminium is in short supply and based on imported alumina; the industry is highly underdeveloped although there exists an interesting raw material base, the Turoszów loams. However, some foreign and domestic underground forces have prevented its development as well as that of Poland's original alumina technology (S.Bretsznajder). In view of the high power costs and power shortage it is difficult to recommend the development of such a power-intensive industry in Poland: it certainly could not be competitive on international markets.

There are not many other resources of real interest except for native sulphur which is maybe the only natural resource which can be exported profitably and in an economically effective way. The apparently abundant timber supply is notoriously overexploited and everything else is rather insignificant.

There are also several important shortages which cannot be resolved by imports, of which the most important is water which is in short supply in most parts of the country.

Neither the fuels, nor power and the other natural resources create any specific basis for structural orientation of output.

This situation seriously limits opportunities for primary development of raw-material transformation processes in all these cases, where extra-economic – i.e. above all technical – circumstances (e.g. transport difficulties) do not make them unavoidable.

The most obvious case concerns iron and steel. The early transformation stages (ore – pig iron – raw steel – billets etc.) and the manufacture of common iron and steel products cannot be economically viable in Poland. Only high quality costly and sophisticated end products may be of interest – as economically effective and profitable – and these are successfully manufactured by relatively small units usually based on scrap.

Incidentally this is just the opposite of the development launched in the early 70's which materialized in the "white elephant" project of Huta Katowice to the detriment of the whole steel industry in Poland.

There are several other early transformation stage industries in Poland, the economic effectiveness (viability) of which require thorough revision – mainly the chemical industries (e.g. soda and PCV as a complex) but also others like pulp – because their parameters look dubious.

Besides, there will always be the problem of the manufacturing industries which are based on imported inputs, and their costs represent a very large share of the price of the final products – sometimes well over 50 per cent, e.g. the cotton industries. They have ceased to be economically effective in most of the developed countries in spite of the most advanced technology, virtually perfect organization and management, as well as an extremely high degree of fixed capital utilization (looms working 7200 hours p.a.). Only some very high quality sophisticated products (up to 20 per cent of the overall output value of these industries) may be considered economically effective in such circumstances (at present, i.e. in the 80's). This is why they are in decline, which has only been slowed down by state protection, aimed at reducing unemployment. There is no reason to consider these industries as representing Poland's future; they are doomed in Poland as well as elsewhere. (Particularly when considering the quality of their products which is presented to the domestic market).

The other, and most valuable factor of production, given by nature and history, is labour. At present compared with demand, labour in Poland is in short supply. However, if its productive and consumption patterns were not so obsolete, i.e., if they were properly adapted to conditions, and managed well enough, than labour is abundant and Poland, like other European developed countries, would have to cope with an unemployment problem and its manifold consequences. This problem will unavoidably emerge in due course and it is important to be ready to cope with it; but not in ridiculously "mechanical" way by supporting the unemployed from budgetary or other sources – in a charitable fashion; an acceptable way out must be found.

It is very difficult to draw up proper characteristics of this labour force because true data and information, in this respect, are not available. The problem concerns particularly the true level of this labour force's professional qualifications. The lack of true data stems from the following facts:

(i) labour undervaluation (in relation to other factors of production), reflected most directly in the basic hourly wages fixed by the tariffs for different levels of qualifications, has meant that supervisory personnel (moved by sympathy, pity, and under demagogic pressures) have tended

to assign everybody to the highest levels provided by the classification, with virtually nobody left in the lowest categories. This has produced a completely false formal impression of a very high average level of qualifications;

(ii) the lack of any performance assessment methods and formalized qualification tests has led to a completely discrete and subjective evaluation of quality of individual workers – census evidence shows all of them above average, with most of them at a high level. No one was ever assigned to the lower levels;

(iii) a very poor level of vocational training: obsolete methods of teaching and training as well as obsolete equipment, and obsolete curricula.

Political propaganda has continuously praised the working class for their exceptional abilities and, parallel to this, has tended to discriminate against the intelligentsia, not to mention the peasants-farmers, who are tacitly considered an enemies od socialism and not as an ally of the (industrial) workers. All this has produced a highly distorted picture making any assessment very difficult. Moreover, such highly valuable personal features as diligence, reliability, responsibility, honesty, or firmness, have been completely neglected by the personnel management system – the workers' subjectivity was neglected. Thus current opinions, which are obviously manipulated, are very misleading.

Here it is important to point out that there is an enormous difference between older and younger workers. It is a pity that the first post-war generation is now growing old and retiring because it used to exercise an extremely positive influence on younger people who had been more vulnerable to the destructive demagogic propaganda which had a strongly negative impact on its morale, particularly on those apparently immaterial features of character mentioned above like diligence, reliability, responsibility, honesty, fairness. They have become much more materialistic than the older generations, and they do not believe in anything, particularly in any ideas. Nevertheless it would be utterly wrong to consider these generations as lost. Of course, they are alienated and thus frustrated, tending towards passivity rather than aggression, but they are still susceptible to attractive realistic nad purposeful objectives and will believe in efficient and effective management. This, of course, is a belief based on intimate knowledge of the problem – it assumes that it may not be too late (although this is a risky assumption after eight years of reckless playing with time).

This, then, is a labour force which, although not very well qualified, is nevertheless ambitious, and one which could be mobilized both for performance and for learning, provided that it is subordinated to an intelligent and professional management and that there is no more misleading and demagogic propaganda playing on pseudo-political arguments and surrealistic promises, aiming at the creation of imagined social conflicts and, more generally, at stupefying the worker. Well organized, well provided, and well managed, they are capable of performing extraordinarily well in respect of both quality and productivity.

However, workers also not represent the whole labour force, which should be structured correspondingly to the demand imposed by the production programme or, in other words, the output structure. Workers cannot do much without a management system – and this is a very specific and highly qualified personnel, i.e. managerial, executive, and supervisory – or without the technical cadre, on the quality of which depends what and how can be produced, i.e. invention, design, technology, quality, and a long list of modern technical activities, crowned by research which determine the quality and dependability as well as the cost of the product, and altogether its economic effectiveness and its competitiveness.

The Polish intelligentsia was always full of gifted individuals. However, as a rule, they always faced many difficulties and only a few of them (very often abroad) were able to develop properly and create a socially productive and impressive career. The main obstacle was poor organization and lack of proper management, i.a. particularly lack of proper personnel management. However, there was another very important obstacle, unfortunately specifically Polish: envy which mobilizes many in preventing or in destroying somebody else's success. This distasteful mentality is, reflected also in the taxation system and more particularly in the "equalization" tax, from which workers are exempted, and which is therefore paid mainly by the creative intelligentsia <sup>29</sup>. The Polish bureaucracy cannot itself imagine that somebody could be successful and be rewarded for it, i.e. not only exempted from any taxation but moreover additionally rewarded by a hefty premium. So far, all efforts to organize some incentives, some system for stimulating those who contribute to organizational and technical progress, demonstrating initiative and

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<sup>29</sup>Of this type is also the "supertax" which is applied discretionally (the amount to be paid is also fixed discretionally) to anybody who is suspected of having a larger income than declared – no proof is needed and, on the other hand, it is impossible to prove the injustice (a hangover of the Stalin era, not guilt but innocence is to be proven by the defendant).

entrepreneurship, have failed because of the negative approach of the ministry of finance, and by countermeasures developed to block any progressive reforms.

For example regulations which granted equal treatment to all entrepreneurs, i.a. fiscal treatment, state, private, cooperative, etc.; however, the fiscal authorities did not like these arrangements and introduced a tax to be paid by the state enterprises on contracts with the private subcontractors – an arrangement which, of course, discriminated against these private enterprises in contradiction to the rules about equal treatment. However, analysing this case one should point to the fact that one error – stubbornly followed – causes other errors (the ridiculously nonsensical manner in which the government tries to control the wage and salary bills); such is the origin of this tax.

However, problems of this kind should cease to emerge with the establishment of a proper management system, staffed by properly selected people, i.e. by a proper personnel management system following a proper personnel policy. In this way possibilities for the dynamic development of individuals and team building will be created and people will be properly motivated. Promises will not suffice here, real changes must take place.

This personnel, at present, is composed of people with different qualifications amassed during their professional education. The young have theoretical knowledge recently accumulated but no experience whatsoever: such are higher education courses and such is their reception and treatment when starting employment (there is no method of introducing young professionals into their jobs), and the older have more experience, but they have forgotten their theoretical knowledge long ago, because of lack of opportunities to use it. Refresher courses, upgrading, retraining etc. are unknown terms in Poland. Moreover, young people do not know how to work, and the older ones have already become bureaucrats. However, their potential is enormous. This was proven by sending people abroad to work (contracts requiring activities "on site" abroad) and more particularly after 1980 by the people, almost exclusively young professionals, who have migrated (most of them illegally) abroad and have been employed in their professional line of work: they have proved that in a well-organized framework and under properly functioning management system they perform extremely well. They do things which cannot be introduced and done in Poland, e.g. designing and building large (countrywide) computerized data processing and data banking systems for managerial purposes (the author knows of cases of excellent performance by such a small group of independent young people working on a contract



which they won by a tendering procedure - they left Poland in 1981 or later, they are well-to-do people today).

However, their knowledge is to some extent obsolete and must be extended and refreshed, which is feasible through a continuous professional education system for post-graduate practitioners. However, this should be complemented by systematic travelling abroad and personal contacts with both people and institutions.

These technical cadres may therefore be relatively easily brought up to a good international level. There remains one important thing to be done: to provide adequate salaries. Because through all the 80's the average salary of an engineer with a master's degree has been equal to about 80-90 per cent of an average worker's salary. The petty bureaucrats well understood that the workers might go out onto the streets, but that technicians would do so only eventually and only after the workers.

Labour will never be cheap in Poland again. If at present it is undervalued and thus apparently cheap, the other part of its remuneration granted in the shape of social services to a large extent free or heavily subsidized is extremely expensive because it is so terribly mismanaged. In this way the actual state expenditure on labour already makes it quite expensive. But this is not all because one has to consider the very low productivity of labour caused by the inadequacy of its equipment and its rampant mismanagement. All this will change, except for the income policy errors made in the past. It will be possible to reduce the working time of the miners, something which must be done in order to reintroduce a kind of human relations which will differ from slavery. However, it will be impossible to reduce their incomes and the income gap between the miners and the rest of the society is untenable; it is simply scandalous because it has nothing to do with any concept of equity.

Labour may never be so cheap again but its price may be competitive at a certain advanced level of skills as long as it is well managed and equipped.

What does all this mean for the structure of output? This time the answer seems to be rather simple. This structure must be material-, power-saving and skills-intensive. The consequences of this assessment are obvious - a complete restructuring of the Polish economy and its industry (including agriculture which must become labour-saving), a complete restructuring of the labour force, and a change in the technical-cum-economic mentality, i.a. a complete retreat from "gigantomania" and from the ideas of mass production, the consequences of which will burden the Polish economy for many years.

Many will have serious difficulties in adopting this new industrial-cum-economic mentality of "small is beautiful"<sup>30</sup>, and that it will, in future, be much cheaper than the gigantic structures of the past. Not the global but the local will become most important. A resource-conserving society, since it must minimize the movement of people and goods, will naturally be small and will be a modern tools-using society which will allow for the dismemberment of large bureaucratic structures, allowing production to occur in small units. If people are to discover the principle of quality for themselves, they are likely to do so in small groups. But above and beyond this, small scale organization is needed to reduce alienation and to allow people to autonomously come to grips with rapid change. Here we travel the problems of a restructuring output. However, we are clear that the restructurization of society has now become unavoidable. To allow adequate personal development of the individual means finding a scale of organization between the isolated individual and the collective society. This may be called "local" – in terms of territorial administration although these terms still remain ill-defined.

It may be important to use the present opportunity to explain to the technicians who – from a purely technical view-point – are deeply impressed by giant mass-production units with automatic devices substituting successfully for human skills and doing better than people on the assembly chain. The concept was born in the U.S. early in the XXth century and it was related to the phenomenon of labour shortage, particularly of skilled labour, which was hampering the dynamic development of American industries. Labour needed to be and was imported – at that time mainly from poverty-stricken European areas. However, these immigrants were largely illiterate, did not speak English, and were seldom in possession of any industrially useful skills – and there was neither the time nor the means to train and educate them. The only way to use this labour productively was to subdivide any operation into the simplest elementary acts, which could be easily learned by anybody, and to replace each (or most) skilled workers by several people substituting for them and their skills. However, there was a problem: who should move? Should the manufactured object – move from one man to the other, or should the people move and the object remain stationary? Of course, in almost all cases, the object should move, i.a. because the first application of the concept was for assembly purposes (shoes) and this requires a continuous supply of many parts, which would be difficult to organize

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<sup>30</sup>However, not the regressive ideology of E.F. Schumacher and his propositions like "intermediate technology".

with a stationary object. In this way the assembly belt or chain came to existence and for a long time was the basic solution which organized mass production. The rest of the story is well known with all of its variants, alterations, and adaptations to different conditions and more particularly, in response to the humanization of work, i.e. its psychological requirements.

Thus, by and large, mass production requires unskilled and semi-skilled (in-job training) workers and does not fit in with factor proportions (and their quality) in developed countries where unskilled workers are available only "from imports" and are therefore fairly expensive, used only when domestic workers refuse to work and prefer to accept unemployment benefits.

This, of course, excludes mass production from developed countries and the world of today is witnessing the redeployment of all mass production to developing countries, including the production of sophisticated items: for example more than 80 per cent of chips are now manufactured in developing countries. Only some of the most sophisticated and newly designed of them are manufactured in the U.S. and Japan. This applies also for example to all the so-called consumer durables of which the last to be redeployed will be those which are voluminous (spacious) like motor cars and refrigerators because of the difficulties related to their transport (thus it is better to transport them as CKD, shifting the final assembly close to the effective markets and assembly them using robots). One should realize the impact of the market size on the organization of industrial activities (organization seen as the distribution of industrial activities in respect of place, time, and function).

It looks as though the case of Polish manufacturing industries will be focused around machine-building - also electrical machinery and apparatus - of an investment goods type which will be manufactured individually or in small series, often of unique design, in small flexible specialized production units - a Hi-Tech world. Competitiveness will be assured by quick responses to new problems. Of course, foreign trade will no longer be organized following the geographical directions (a ridiculous formula of the past) but should try to monopolize world markets for certain highly specialized and sophisticated types of products. This requires entrepreneurship, initiative, flexibility, i.e. the complete opposite of bureaucracy. This does not mean, however, that this formidable complex of activities will not require coordination and planning - one should recall the Japan's ITI which is at the core of its economic success, as witness to the fact that an enterprising state does not need to be bureaucratic.

And this is all that could be said now about Poland's future output structure using the method of the "intelligent guess"; the challenge is enormous.

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For eight years now Polish people have been discussing the problem of "economic equilibrium" or rather how to achieve it: it is considered as a kind of philosophers' stone which will resolve all the problems of the Polish economy. It looks as though the lack of such "equilibrium" is regarded as the cause of Poland's economic difficulties and not a result of the proper functioning of the economic sub-system. However, in reality the reinstatement of the dynamic system's equilibrium is the result, and not the precondition, of its proper functioning. Moreover, certain disequilibria, resulting from contradictions inherent to any complex, in this dynamic system are the social system's propulsive-developmental forces. It seems that many people see the whole problem upside down.

Any sober observer might ask a very simple question: "What does economic equilibrium mean?" - and "What will it do for Poland's economy?" These are on the face of it stupid questions because the ongoing discussion demonstrates that many different things are regarded as "economic equilibrium" and most of them have not got much to do with the highly abstract concept of the "economic (general) equilibrium". Moreover this discussion demonstrates very clearly that each of its participants has had something else in mind, and that it is not at all certain whether they correctly understand the meaning and the real sense of the "equilibrium" that is sought after.

Everybody knows that closed systems do not exist: following the second principle of thermodynamics, such systems cannot exist. Thus when we consider an open economic subsystem of the social system a question arises: where is the "border" between the economic subsystem and the rest of the social system which in turn is also an open system, i.e. related with the global social system and thus dependent on it?

What then do we have in mind when we say "economic equilibrium" - of what - of the economic subsystem? This is, however, highly improbable because it does not make sense; therefore tacitly we are assuming the given social system as a whole, the Polish national social system. Then what does "equilibrium" mean in such a system? It may have its economic aspects, although being a complex phenomenon it has as many aspects as there are observers looking upon it with an "aspect-oriented" i.e. biased mind. If so, then what we have in mind is the homeostatic

equilibrium of the social system which has its economic aspect. But these aspects are related to others and cannot be explained as such. And this is true because the Polish crisis has been a complex social phenomenon interlocked with many other aspects, which are really socially much more important, and any biased – economic for example – view of the problem must immediately lead to incorrect conclusions. And this is exactly what happened in 1980 and has lasted to the present - and for that matter also happened in 1956, 1970, 1976, ...

Other participants in the discussion are more precise – and, of course, more economically biased. They explain that they have market equilibrium in mind. This is again an abstract concept which most often boils down to the notion of the “effective demand - supply” equilibrium in its worse edition - i.e. the static one. Moreover, they immediately tend to compartmentalize this market, dividing it into several parts, considering them separately as independent components each achieving a static “equilibrium” at different moments over a considerable period of time. This is a striking example of the application of the Cartesian paradigm which have been formally permissible forty years ago for lack of any other but was never correct because the market is a complex phenomenon in which all relations are interdependent as in the law of communicating vessels. Moreover, the problem cannot be considered as static.

Of course, such considerations lead nowhere and the whole approach must be altered because a complex and dynamic approach is necessary and unavoidable and thus the only possibility – at least at present – is to use the systems’ approach and paradigm whether we like it or not, although, of course, we should try to understand it. and this is one of the cases when the obsolescence of our science is so difficult to overcome, because the few who do know and understand it have no partners to discuss it with and are therefore simply discriminated against in the old, well- tried, authoritarian bureaucratic manner.

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At present there is no labour market in Poland. The labour supply shortage amounts apparently to some 5 per cent, but this figure should be considered as artificial and says nothing. The market is completely vitiated by inconsistent regulations which do not regulate anything, but rather create anomalies. Nobody knows anything even remotely reliable about the informal sector (estimated to share some 10-15 per cent of statistical employment). Nobody knows the extent of fictitious employment, double employment and other abuses of the relevant rules. Years of

demagogic propaganda, of declared conflictless development, and other derivatives of utopian ideology have resulted in a chaos, lack of discipline, enormous labour rotation – virtually in anarchy.

The complete lack of logic and consistency in employer- labour relations regulations, caused by the bureaucracy's deadly fear of the workers, resulted in complete deregulation of relationships and in a pronounced development of absenteeism and rotation – in paedocracy, false democracy, lack of discipline and a general decline in productivity.<sup>31</sup> All these negative phenomena are tolerated by the ruling bureaucracy, first because of the official myth of the leading role of the working class, and secondly because the worker is deprived of responsibility. Polish miners have become an aristocracy against which the Party would find it difficult to introduce sanctions; this was very clearly proven by strikes in 1988.

The trade unions are currently monopolized by statute by one trade unions federation which, because of mistaken policy, has become an extension of the Party apparatus.<sup>32</sup> Thus their actions have a secondary significance although they did present to Sejm in September 1988 a motion demanding the dismissal of the Prime Minister Z. Messner and his cabinet (this being decided, the Prime Minister presented a preemptive motion announcing his and his government's resignation – six years too late) for which they were lauded in the country. However, in this respect, good will cannot compensate for an abnormal situation: being related to the ruling Party, and therefore the Government, the Trade Unions cannot play their role properly, i.e. be in opposition to the largest employer in the country. This is another important factor which makes the existence of the labour market impossible.

The reform of the Polish economy requires the existence of a normal labour market and of normal trade unions which are by definition opposed to the employers and thus – in the case of Poland – to the ruling establishment i.e. the Party and the Government. Any other set-up is artificial and cannot last for long, nor do any good.

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<sup>31</sup> A notion unknown in Poland were labour efficiency is confused with labour productivity; actually the labour efficiency in Poland is in many cases very high, although mismanagement causes its effective low productivity.

<sup>32</sup> A proverb talks about an "elephant in a china store" – this is just the way the Party acted in electing the Chairman of the trade union federation as a member of the Politbureau – his political career and reputation have been ruined together with the apparent independence of the Federation.

Much already has been said above about the husbandry of natural resources and thus also about the problems of energy which was so wastefully managed in the past. There was a popular saying in Poland criticizing the official propaganda but also energy husbandry: "The Polish economy is so weak because all the steam goes into the whistle".

Natural resource mismanagement in Poland is above all caused by the fact that they have been and are free - anybody may waste them and escape unpunished. Air and water may be polluted, forests may be overexploited or straightforwardly destroyed, metallic ores wastefully exploited, soil misused, the environment damaged etc., and for decades nobody will care about it. Only in recent years have some, still rather token, actions been apparently undertaken, although, economically the environmental losses are by far larger than the penalties exacted for breaking the extremely liberal regulations.

Unavoidably any society is living at the expense of its natural environment which, including the sun, is its only source of energy in whatever form it is drawn. Some natural resources are renewable if they are properly treated, although many are not and must last for as long as is required to discover substitutes for them.

The task is enormous. The first stage is to stop the process of progressive degradation of the environment. Poland has in the past contracted an enormous debt in relation to its natural environment. It will not be easy to repay it. Damage represents a good many times as much as the costs saved in the past. Thus the repair of this damage will burden the economy for many years to come.

Thus it is highly appropriate that these problems were given a high profile in the Consolidation Plan's draft. Let us hope that this will be reflected in the plan finally accepted.

## 6.

# Time for some explanations

*The real problem is to design an organization that can cope with the amount of uncertainty that is inherent in its situation.*

*B.J.Loasby<sup>1</sup>*

Somebody once said that Europe has no idea of where it is going but that it is going there fast and seems to be entering the future backwards. This is also valid for Poland, where the reason for this state of affairs is anxiety about the future. Anxiety about the unknown which is at the roots of the present crisis in Polish society, which has come to understand that it is impossible to continue to live as it has over the last four decades and that thorough changes are unavoidable.

Certainly, Poland in the 1980s has reached a turning point; however, if almost everybody was convinced about the necessity for change, virtually nobody has any clear idea about the new direction which should be taken by society and its economy. Moreover, already from the very beginning, any effort to steer towards progress was immediately and effectively blocked by the opposition concentrated within the authoritarian bureaucracy which was ruling the country.

The Polish society today has already become tired and frustrated by the reckless blockade of the so-called "economic reform" and the extremely slow progress in the acceptance of the fact that the Polish crisis is not economic as such, but social and political, and has erupted at the moment of economic weakness to which the decades of mismanagement have led it.

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<sup>1</sup>Loasby, B.J., *Economics of Information and Knowledge*, Pinguin 1971, p. 312.



However, parallel to the social and political crisis, the existence of which was only recently recognized by the ruling Party, the Polish economy went through a serious economic recession which, in spite of all the propaganda efforts, has been developing for ten years now, virtually unattended. Although the ruling authorities were apparently very busy drafting and implementing the so-called "economic reform", nothing decisive was really done to prevent the continuous deterioration of the country's economic subsystem.

Leaving aside all the social and political problems which are out of the scope of the present study, it is important to be clear about the fact that Poland's economy is fatally ill and that the syndrome causing its illness still remains neither properly recognized nor assessed. Still there is no acceptable official diagnosis and the ruling authoritarian bureaucracy is doing its best to prevent any analysis which may yield such a correct diagnosis. Of course, behind it looms the fear of responsibility for errors committed in the past and in the last eight years.

Simultaneously, the Polish society is, as we have said above, anxious about its future which – for lack of diagnosis and the complete sterility of the so-called "perspective plan" prepared by the bureaucrats for purely formal purposes – is veiled and remains uncertain. This situation is best reflected in the continuing flight abroad of talented young people who do not see any future for themselves in the country. They consider the Stalinist "system" which is still ruling in Poland as unchangeable – they do not believe in the success of the "reform". In these conditions, the attention of Polish people is focused on the present internal trial of strength which is going on within the Party and which hopefully will be lost by the bureaucrats and the Stalinist faction within the Party. An important step toward this objective was made by the Xth Plenary Conference of the Central Committee of the Polish United Workers Party – the acceptance of political pluralism opened the doors to the "Round Table" arrangements. Everybody wants to believe that this Stalinist opposition will cease to dominate the country, the society, and its economy – and thus its future.

However, as R. Jungk said "the future is decided today", it is important to be aware about the consequences of our assessment of the challenges which our society and its economy are facing. This book is devoted to these problems. It starts with an account of what happened to the economy up to the end of the 70's: how Poland's management system was destroyed and replaced by authoritarian bureaucracy and how this bureaucracy led the system's economy to catastrophe. It anal-

yses what happened during the last eight years when the Polish people witnessed how the authorities simulated their preoccupations with the inception and the implementation of the so-called "economic reform". And it says where the economy now stands - at the end of the 1988: what challenges it is facing and what the chances are for coping with them successfully.

This book attempts to be easily readable for everybody, and therefore avoids dwelling in detail on the economic problems, although much misunderstanding in this field derives from the superficial and unprofessional treatment of problems which are important and relevant requiring far more careful attention. However, too often these important economic problems are dealt with in an amateurish rather than in a truly professional way - which requires both proper theoretical knowledge and experience, and these qualities are more than often lacking. And this is why there is so much distrust and uncertainty among the Polish people.

It may appear that all that has been said above looks pessimistic. This may be true, because we have excluded a priori miracles which the Polish people expect to happen. But by the end of the XXth century there is no room for miracles - Poland can only rely on luck. However, the proper utilization of "luck" requires an attentive, flexible, and highly competent management which cannot be expected very soon in Poland and certainly will not materialize in some miraculous way. Hard work alone - much publicized now - although very necessary, will not provoke a miracle, particularly if it is going to be mismanaged, as it has been up to now.

It should be realized that Poland survives a tragedy which came about after more than thirty years of apparently spectacular continuous successes with only a few transient set-backs, the importance of which has been dwarfed by the official propaganda. Instead of learning lessons at each of these opportunities, all of them have been belittled and very soon forgotten. And all this was just the expression of an ill-founded optimism.

There is a saying that a pessimist is also an optimist, but an optimist who is better informed. Thus it is much better to be a pessimist - i.e. actually an optimist who is better informed than all the other optimists. Too many times Polish society, and particularly the Polish working class, which was only apparently the ruling class, has been cheated - particularly in the last eight years of "reforms" - and now nothing can be promised because people have ceased to believe anything and the coun-

try's authorities cannot afford any more failure. Thus there is no room for open optimism.

However, it would be ridiculous to undertake such an enterprise as the writing of this book if the author did not believe that the battle could be won, i.e. that Poland could truly and effectively drive toward the prosperity and welfare of its society in a truly free and truly democratic society. Of course, it can. However, the task is difficult and, at this calamitous stage, no more errors are permissible.

This conclusion has obvious consequences, namely that all the errors committed in the past should be identified and cleared; their consequences are lasting and many of them still exercise negative effects on Polish society and its economy - e.g. labour remuneration or the tax "systems". No systematic search for the errors has so far been started. This is one of the reasons why this book may appear pessimistic. However, learning from errors is one of the best methods to avoid them in the future, and the providing of such a possibility looks optimistic.

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Now, when this book is about to be printed, the "Round Table" is slowly taking shape. For the time being, its work has been divided among several "Sub-tables" dealing with particular problems. The progress, however, is slow. It seems that the reason for this is that, so far, no solution to the complex, mainly political, problems has been found and thus the detailed problems which should be considered within this framework cannot be correctly settled. In such a situation there is the danger that these "Sub-tables" may get entangled with many problems which cannot be solved separately because they are part of a complex to which there can be only an integrated solution. Nevertheless, these "Sub-tables" are making progress toward identification of the elements of this complex core of interdependent problems which should be solved by the "Round Table" itself.

Of course, and this should not be forgotten, the "Round Table" may reach an agreement - which most probably will be some sort of compromise (any other type of agreement, while desirable, cannot realistically be expected). The opposition<sup>2</sup> is too strong and the forces of progress

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<sup>2</sup>Strangely enough the Party-cum-Government so-called "coalition" regards the progress-seeking L. Wałęsa and his "Solidarność" as opposition, whereas public opinion, i.e. the society at large, regards the internal - intra-Party - opposition against the reforms and its supporting bureaucracy as the opposition against democracy and progress - how relative certain expressions may be sometimes.

are realistic. However, these settlements should then take the form of legal acts and be promulgated in a constitutionally acceptable way – thus they have to be voted on by the Sejm which, in view of the absolute majority of the “coalition”, is – for practical purposes – a “voting machine” steered by the Party. Of course, things may change in some unexpected way, and in the desired direction.

However, what is disturbing is the fact that very little progress has been achieved by the “Sub-table” dealing with economic and social problems where the “coalition” refused to discuss the errors committed in the past, particularly in the last eight years, and thus to correct them, or at least eliminate them, and instead became entangled with the wages and salaries indexation system intended to protect the wage- and salary-earner against inflation and make adjustments automatic – avoiding discrete actions which are presently plaguing economic life.

There is nothing new in the indexation concept, but it is hardly applicable in a country with an annual inflation rate above 60 per cent. Such a rate is in itself proof that the whole economic system is out of control and that the methods used so far for controlling it have been inadequate. On the other hand the whole labour remuneration “system” (in reality – lack of any “system”) is in a state of complete chaos and any officially set indexation “system” will certify all existing non-senses and deficiencies – particularly the relative undervaluation of labour (very differentiated in a completely chaotic way), inequitable income redistribution (i.e. completely divorced from the social value of the work performed), a complete lack of motivational factors etc. – making an already difficult situation worse than ever. In the present condition there is no reasonably acceptable indexation “system” possible; there is no other way out but to introduce first a country-wide tariff, with a consistent and rigorous remuneration system, and only then a suitable indexation procedure. Any further chaotic dealing with labour remuneration, not to mention decisions aiming to discredit of the economic reform like the one taken in January 1984 which introduced the so-called “plant labour remuneration system” – a suicidal decision – and created a situation virtually without any reasonable way out, will negatively interfere with the “economic reform” further blocking the possibility of conceiving any acceptable solution to the prices and incomes problem.

Nevertheless, the key problems which are to be solved by the “Round Table” are of a political order. And their solution will be decisive for the kind of solutions applicable to other problems. And this is why all Poles focus their attention on the “Round Table”. Any of its successes

will help to reintegrate Polish society and give it a new inspiration for the challenges of the future.

It is virtually impossible to foretell the future in such conditions as these which prevail today in Poland. A break-through, however, may come unexpectedly any day and open completely new opportunities to embark on a new policy which will widely differ from anything what happened in the past almost fifty years. However, one is perfectly clear whatever situation may emerge and whatever direction will lead Poland out of the present misery it will be in need for proper management based on imaginative and realistic planning.

All of us are feeling that such break-through is possible and imminent and that a highly demanding time is ahead of us when all our capabilities and capacities, courage and caution as well as patience and endurance will be required. Let us get ready.

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This is a book based on personal recollections, analyses, reflections, impressions, and opinions of the author and may in many ways differ from opinions widely held by people somehow related to the facts described as well as other people who rather seldom realized what is going on around them, but willy-nilly have been obliged to bear the consequences. The author's view-point is, of course, professionally biased - his approach and opinions are managerial and tend to look after solutions feasible in given conditions when they cannot be altered favourably. The author does not try to convince anybody, however, he asks everybody to consider neutrally his arguments.

This book was inspired and made possible by the restless spirit of the indefatigable efforts of Professor Antoni Kukliński; I hope he will accept my thanks for all what he has done in this respect. The author would like also to express his gratitude to Professor Andrzej Bartnicki and Professor Jan Szczepański who have the patience to read the first draft of this book and have offered many valuable remarks, comments, and suggestions which were helpful in improving it. The author is also indebted to Mrs. Jadwiga Kobuszewska and the editorial staff of the series "Regional Development - Local Development - Territorial Self-government".

Warsaw, February 1989

## About the Author

Stanisław M. Komorowski was born in 1917 in Paris and came to Poland with his parents in 1922. His education started early and was guided by his father, an important industrial figure, and was oriented toward the development of managerial abilities and skills. In 1935-1939 he studied metallurgy at the Mining Academy in Cracow where he took his M.Sc. degree.

In 1939 he started working in industry. During the war, he managed a steel foundry in the well-known rolling stock factory Lilpop, Rau and Loewenstein, in Warsaw, and was a member of the Polish underground "Home Army" (A.K.), i.e. preparing the organization of Polish post-war industrial activities, particularly in the recovered Western territories.

In 1945 he was first a member of the Operation Group in Upper Silesia and then of the Operation Group in Lower Silesia as Chief of Staff and Plenipotentiary of the Economic Committee of the Council of Ministers (Komitet Ekonomiczny Rady Ministrów) becoming later the manager (first temporary, then technical and finally general) of the largest Polish rolling stock factory, PAFAWAG (former Linke Hofmann Werke A.G.) in Wrocław. In 1948 he became the first general manager of the passenger motor-car factory FSO in Warsaw and started its construction. Dismissed in 1949, he became head of the organization department of the countrywide motor vehicles repair organization, and in 1950 started to work as chief specialist and general designer with a plant designing and consulting engineering organization PROZAMET in Warsaw. In 1956 he started his relationship with the foreign trade enterprise CEKOP, dealing with turn key complete plant deliveries, working in market research and as a negotiator in the Middle East, particularly in Turkey, later in India and South-East Asia, and finally with responsibility for the whole African market.

In 1964 he joined the Secretariat of the UN Economic Commission for Africa in Addis Ababa where he worked in the Industry Division, being responsible for common market research as Economic Affairs Officer (P-V) and later as Principal Officer (D-I) and deputy director in the Planning and Research Division. In 1969 he took his Ph.D. in economics at Warsaw University.

He quit UN ECA early in 1972 and joined the Prospective Planning Department of the Planning Commission attached to the Council of Ministers in Warsaw as Chief Specialist.

In 1978 he took his habilitation (a post-doctoral degree) and joined Warsaw University where he is now professor in the Institute of Space Economy, teaching systems theory and cybernetics, organization and management, planning, and location theory (spatial organization of social systems) and leading different research programmes (in the field of systems organization and management).

Durning his professional life he travelled widely all over the world, and served as a visiting professor at many universities; and he supervised several doctoral dissertations.

In his industrial years he published two books: *Metallurgy for Foundrymen* (in two volumes)<sup>1</sup>, and *Cleaning and Fettling of Castings*<sup>2</sup> and many articles on technical problems as well as those dealing with foreign trade in industrial equipment. He lead several research programmes when in the UN, the results of which have been published as Secretariate papers. Back in Poland, he published many papers, articles etc., including four books: *Spatial Organization of Socio-economic Development* (1978), *The Geneva Programme* (1979 and in 1982 in English by UN CRD Nagoya, Japan) *Spatial Organization of the Polish Economy* (1981)<sup>3</sup>, *Scenario as a Method of Diagnosis and Prognosis* (1988)<sup>4</sup>.

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<sup>1</sup>Państwowe Wydawnictwo Techniczne, Warsaw, 1955

<sup>2</sup>Państwowe Wydawnictwo Techniczne, Warsaw, 1959

<sup>3</sup>Biuletyn KPZK (Bulletin of the Committee of the Space Economy of the Polish Academy of Sciences, Nos:98/1978, 103/1979, 117/1981 - respectively

<sup>4</sup>University of Warsaw, *Roswój regionalny - Roswój lokalny - Samorząd terytorialny (Regional Development - Local Development - Territorial Self-government)*, No 12/1988,





