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ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2420

POLAND: GOVERNMENT REPORT ON  
PROGRESS OF ECONOMIC REFORM

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CONTENTS

Warsaw RZECZPOSPOLITA in English No 12-13, 21 Apr 83, Supplement pp 5-12

[Three part article: "Report on the Implementation and Consequences of Economic Reform" by the government Plenipotentiary Minister for Economic Affairs]

[Text]

Part 1

After one year of implementing the economic reform, public opinion takes great interest in how successful this was. This is understandable, especially in view of expectations that were, and still are, attached to the reform. This is understandable in view of Poland's adverse experiences with similar undertakings in the past. The public is vaguely suspicious of this design and wonders if perhaps "this time, once more" the whole bid will not go beyond the phase of intentions only. This skepticism is fueled by basically mistaken and biased views ranging from questions such as "Haven't we adopted too high a rate of reform for our economy?" through to nonchalant dismissals in the style of "There is really no reform in Poland at all." This report is not designed to critically analyze such opinions, but to furnish a comprehensive review of the reform's implementations and effects.

This comprehensive assessment requires several criteria to be employed simultaneously. These include: accordance of the reform's provisions with the "Lines of Economic Reform" approved by the 9th Extraordinary PZPR Congress and, subsequently, adopted by the Sejm; the reform's adequacy to Poland's actual economic and sociopolitical conditions in 1982; the reform's possible effects on Poland's current economic development and on overall economic efficiency; public reception of the reform's new provisions and the extent of social support they are getting.

These criteria may be applied with constant awareness of whether actual economic practice up to now has been:

- a. confirming the reform's overall validity, and, if not, on which points, and how to offset such incongruences;
- b. verifying positively or negatively concrete provisions and mechanisms in individual economic areas;
- c. showing the reform's mode of implementation to be efficacious enough to secure its consistency and comprehensiveness.

Answers to these questions are expected by society, enterprise managements and authorities.

The report follows this pattern: its first part presents a comprehensive characteristics of reform implementation with special emphasis on conditions existing at the time of its take-off and on how these conditions affected subsequent actions. Part two presents the progress made so far in implementing the reform's fundamental tenets. This assessment is based on the fundamental programmatic document called "Lines of Economic Reform." The point was to see if the reform is indeed implemented in keeping with the guidelines adopted by the 9th PZPR Congress and the Sejm, what deviations from this general line there are, what justifies them, and in which points there are delays, deformations, or bottlenecks. Part three is a tentative assessment of the actual effect the new institutional provisions and economic mechanisms had on efforts to overcome the economic crisis and to attain the fixed socio-economic targets.

The report concludes with suggestions of ways to strengthen and deepen the adopted reform line on the one hand, and, in view of practical experiences and studies, to introduce any indispensable corrections, supplementary provisions or changes into existing provisions on the other, so as to make sure that the reform's implementation should more efficiently serve the ends that motivated its introduction.

Opinions contained in the report reflect remarks and assessments submitted by enterprise managements, Sejm Commissions, the Supreme Chamber of Control [NIK], research institutions, as well as opinions published in the media. In part fulfillment of the principle of public control over the reform's implementation, the report's draft version was discussed by the Commission for Economic Reform. This commission's suggestions were included in a subsequent draft submitted to the Council of Ministers. On March 18, the Council of Ministers assessed the reform's implementation and its effects to date, and endorsed the report. In keeping with earlier decisions, a detailed blueprint for putting into effect the report's suggestions has been drawn up, and endorsed.

Government's Plenipotentiary Minister  
for Economic Reform

Warsaw, April 6, 1983

## Part One

### A Concise Assessment of the Reform's Implementation in 1982

1. Guided by the 9th PZPR Extraordinary Congress, and in compliance with the Sejm's decision of September, 1981, the government of the Polish People's Republic began to implement a comprehensive economic reform on January 1, 1982. [This had been preceded by introducing new economic rules for state-owned farms and small-industry enterprises on July 1, 1981] A reconstruction of the national economy's mode of functioning which would outbid in scope and depth all previous system transformations was thus undertaken. The economic reform took off under extremely hard economic, sociopolitical, and technical-organizational conditions. This restrained, and continues to restrain, the effectiveness of changes now afoot, and creates various threats to the reform implementation process itself. However, while fully realizing these constraints, the government resolved not to defer starting the reform. Profound institutional and economic changes in the system at the time became an urgent necessity of vital significance for both society and the state. Effects achieved in 1982 fully confirmed that despite the highly unpropitious factors dominating the economy in that year, the decision to start the reform was right. The reform furnished a foundation for organizing national economy along new principles, touched off a consolidation of Poland's productive forces, helped slow down their decline and, subsequently, start a gradual restoration of society's productive activeness.

#### A. Conditions at Take-Off

2. The mode of introducing the reform in 1982 was to be adjusted to constraints of economic, sociopolitical, and technical-organizational nature. While this did not affect the reform's overall bearing, it encumbered its dynamics, and especially its harmonious implementation. Greatest progress in implementation was made in the manufacturing industries, in maritime economy and foreign trade, in state-owned farms, and in small industry. The power-generating and mining industries worked according to specific principles following from these sectors' specific technical-economic characteristics. Many unsolved problems remain in the transport and communications sector. A great many difficulties were encountered in implementing the reform in domestic trade and in the area of material supplies. This was called forth primarily by deep imbalances both in consumer-goods markets and in the area of material and component supplies. Little progress in reform implementation was made in the building sector, as well as in individual areas of social services. This uneven progress of the reform strongly hampers observance of the principle of comprehensive reconstruction of the economy's mode of functioning. Therefore, in 1983, wherever they are lagging behind, rates of progress in reform implementation must be brought forward to match with others.

3. The acute economic crisis, which manifests itself in heavy output and real-income slumps, the deep economic disequilibrium, [especially the advancing disintegration of economic ties], drastic import cuts, the payments balance's collapse and reinforced by restrictions and sanctions by the

United States and other capitalist countries--all these economic factors extremely hampered the reform rules' implementation. In some segments of the economy, it was and still is impossible to apply normal sell-and-buy rules or to utilize economic mechanisms. Central allocation of materials and components as well as consumer goods rationing had to be resorted to.

However, it should be recalled that this necessity to apply central allocation during a transitory period was envisaged in the "Lines" [Thesis 111] as well as in laws instituting the reform. Shortage problems were to be solved in such a way as to permit their earliest possible elimination, and to furnish conditions for introducing economic mechanisms, taking advantage of all possibilities for a gradual curbing of central allocation, and to prevent this temporary consumer goods rationing from growing into a revival of the traditional command/rationing system. In practice, this goal proved hard to achieve. The "operational programs," for instance, corresponded to directives contained in the "Lines." Practically, though, their 1982 implementation diverged from plan in many points. Though the traditional central-allocative mechanism was not restored, the operational programs project suffered deformations and delays, which can only in part be explained by objective causes.

4. The economic reform is being implemented under extremely adverse economic conditions, which include a deep slide in society's living standards. As stressed in a report on the first half-year of reform implementation, this gives rise to a public feeling that declining living standards are a price for the reform, whereas in reality the crisis is to blame. However, this misconception regarding causes of declining living standards persists, calling forth charges such as that the reform allegedly deprived society of its wealth and social benefits on behalf of some remote and vague ends, and thus is directed against the working people.

There is a general feeling that cost to be paid for the crisis is not distributed evenly on all social groups, which generates the belief that the reform, which just lays bare the crisis in its consequences, is directed against the working class and other employee groups. Part of the blame for this goes to inconsistent policies with regard to the private sector, which clearly keep swaying between the basically right line of backing private craftsmen and petty private producers and putting up barriers to easy fortunes by some population groups as well as to profiteering and social parasitism. Should this dilemma be resolved, the whole matter might be much easier to push.

5. Social attitudes toward the reform kept evolving throughout 1982. Nonetheless, understanding of the reform's overall meaning and of the necessity for a transitory period with all consequences to this is still poor. Many people tend to blame the reform for all everyday hardships, mostly in the form of charges that the reform has not yet offset these hardships or, conversely, that it generates them by, say, price increases or reinforcing income differentials. Society tends to judge the reform in short terms

primarily by consumer goods shortages. This misrepresentation of the reform is widely used by foreign subversive centres and falls on relatively receptive ground, especially since it accords with a demagogic picture of a reform that would allegedly "improve the nation's living standards right away." There are also purportedly "scientific" analyses, which usually falsely attribute various targets or ends to it which it does not pursue. For example, such analyses imply the reform is allegedly geared to basing the economy entirely on market mechanisms, that it leads to commercializing culture, science, education and other areas of social services, that it prevents the state from conducting social policies, that it may deteriorate work-safety standards, and such like. These charges are welcome material to foreign subversive propaganda centres.

6. Against this background, Poland's propaganda should focus on showing to Polish society the real truth about causes of deteriorating living standards and about difficulties connected with distributing the cost of crisis, to present a convincing picture of the role the reform has to fulfill in overcoming the crisis and strengthening social justice, and to explain the necessity of gradual elimination of barriers. This must be done in proper language and form of expression. So far, this has not been done, though in the "Lines" already it was stressed that "Society should not delude itself that, with the economic reform, especially with the moment of its inception, all difficulties will automatically disappear.

The reform's implementation will back economic policy, which is designed to lift Poland out of its crisis, and simultaneously will create conditions for raising economic efficiency. However, society must realize that Poland has a long and hard road to go before the reform can become fully effective. Economic restructuring is bound to incur social costs, and these must be borne now; its effects will emerge but gradually, with its advancing implementation. However, abandoning the reform, or even its incomplete implementation, would incur much higher costs for society, which might result in tragical consequences. Moreover, the reform's implementation may unleash problems that cannot be predicted today, and their solution may necessitate extra efforts on the part of authorities, enterprises, and the population.

7. One social group that gave strong backing to the reform was the most active enterprise managements, as well as some self-management bodies. This was the first group to realize what new possibilities for action the reform is opening. Factory crews began getting persuaded to the reform toward the end of 1982 wherever pay hikes were motivationally justified. This propitious tendency was partly enervated by a mistaken presentation of the government's anti-inflation program, due to which, despite evidence to the contrary, the implication was made that the reform was boosting inflation. [This problem is discussed in Part III.]

8. Public understanding for the reform's essence and goals has a clear effect on socioeconomic policy, and directly affects the economy's practical functioning. This is particularly significant at the present stage of reform implementation, when two powerful opposite factors are at play.

On the one hand, the new mechanism of the economy's functioning must urgently be introduced in order to consistently enforce economic behavior by means of economic instruments; this is a precondition for restoring equilibrium and starting profit-making production and exports, and for improving economic efficiency. On the other hand, social considerations and public pressure generate a need for protecting society against too abrupt an impact of the crisis effects by the new mechanism, which tends to slow down the reform and prolongs the period of restoring equilibrium. This contradiction is bound to affect many spheres of the reform, primarily the motivational system, employment policy, and pricing.

However, this contradiction can, and should, be resolved by strict coordination of social policies with economic policies on the grounds of the reform.

9. One fundamental factor among conditions for the reform is the political and economic leadership's will and determination to put the reform through, as well as the PZPR's unprecedented commitment to this cause. It is to be recalled that shortly before 1982 the reform became a subject of tough political struggle, which made some opinion segments very skeptical about the economic system's reconstruction. Martial law restored elementary discipline as indispensable for the reform to take off. On the other hand, however, martial law rigors, in particular militarization of some economic areas and suspension of self-management bodies, necessarily delayed full introduction of employee self-management, and partly--with various degrees in different economic sectors--curbed enterprise autonomy. Further, it slowed down the economic management system's restructuring, and reinforced managers' dependence on founding bodies [usually ministries and voivodship offices]. During the whole year, though, these delays were consistently being curbed and eliminated. Most of them no longer existed early in 1983.

#### B. The Organization of Introduction Process

11. Until the end of the first half of 1981, the work on the reform proceeded mainly within the Commission for Economic Reform, the Secretariat of the Commission and specially appointed subject groups and editing teams. In step with the progress of legislative work and implementing procedures, the need arose to introduce appropriate organizational solutions making it possible to cope with numerous tasks connected with the preparation and introduction of changes. In July 1981 the Sejm appointed a government plenipotentiary for economic reform who was put in charge of coordinating the process of introduction of the reform.

In August 1981 the Chairman of the Council of Ministers called up ministerial, voivodship and factory teams to deal with problems of the reform. This means that cells whose main aim was to take up and implement projects related to the reform were set up in all the basic administrative units of the economy.

Besides, a group of 106 enterprises were selected as consultants; they represented all the basic branches of economy. The inclusion of the consulting enterprises in the central-level legislative and implementing works essentially

enriched the reformatory activities; they submitted their opinions and remarks as well as proposals of concrete solutions, whether of a general or a detailed character. These enterprises became the target of particularly watchful monitoring of the changes occurring as a result of reformatory undertakings. This ensured a steady flow of information on the reactions to the new solutions.

12. The basic difference between the present reform and earlier reform attempts consists in the fact that this one was based on the preparation of new legislation. The year 1982 witnessed very prolific legislative activity. One of the big accomplishments was the introduction of all the basic acts envisaged in the act on state-owned enterprises. The legislative process continues. A new cooperative law was enacted in the second half of that year, but some important acts relating to the implementation of the reform have not been passed yet, however the work on them is well advanced [for example, the laws on rehabilitation of ailing enterprises and on bankruptcy]. Likewise, the process of issuing implementing regulations to the new laws was under way, as was a review of the acts issued at ministry level.

Due to the processes relating to the creation of the new legislation, the nullification of earlier acts or introduction of amendments thereto and the gradual introduction of new regulations, the year 1982 as a whole was a period of gradual changes. In these circumstances it was not possible to ensure the full stability of the solutions applied or to supply enterprises in advance with information about the conditions of their operation.

13. The year 1982 can be regarded as a year of struggle for the observance of the new law. This was a particularly difficult task, given the tensions, difficulties and the need for fast and efficient actions, especially in view of the fact that the degree of preparation [of managerial staff of enterprises] to act according to the new rules could not be very high. There was also a lack of methodological solutions facilitating activities compatible with the spirit of the reform. In these circumstances, the tendency to reach out for "old" methods of management should not be surprising. In order to counteract such tendencies, the chairman of the Council of Ministers ordered a review of the conformability of the adopted decisions with the new rules. This decision put up a barrier and nipped the revival of old habits in the bud. Nonetheless, it proved impossible to ensure full concordance of the detailed regulations with the principles of the reform.

This concerns, for example, the Council of Ministers resolution 186 of August 1982 on additional financial incentives for employees, which was designed to accelerate production growth but had built-in snags and as a result it contributed in a large measure to the excessive remuneration of production growth and a weakening of productivity-oriented incentives. Inconsistencies also occurred in some implementing regulations issued by ministers. One reason for that was the fact that a sizeable part [about one-third] of earlier ministerial regulations has not been nullified yet. Departures from the new laws also occurred in the process of establishing new organizational structures [producers' associations], their functions and methods of activity.

14. The revamping of the organizational structure of economy was one of the important tasks in the process of introducing the reform. Consolidated branch ministries started operating in July 1981. There were no subsequent changes of an organizational character at the central level of management in 1982. Meanwhile, work went on on the adjusting of the functions of the central management bodies to the new principles of managing the economy.

A valid part of the reconstruction of organizational structures was the transfer of the powers of founding bodies from some ministries to voivodship offices. This concerned in particular building enterprises, farming construction and land amelioration enterprises and some other units. These moves produced some positive results despite difficulties resulting from the lack of spatial complementarity of many material factors and delays in legal regulation.

A very important trend in 1982 was connected with the elimination of "zjednoczenia" [industry boards, an intermediate administrative link between ministry and enterprise--ed. note]. At the beginning of the year, for an interim period, ministers appointed their plenipotentiaries in charge of individual branches of production, to take over the duties of the disbanded zjednoczenia. In the first months of the year, the offices of plenipotentiaries played a positive role; nevertheless they were criticized as vestiges of the bureaucratic structures. In the second quarter of the year, the process of setting up associations of enterprises was set in train and a gradual elimination of the offices of minister's plenipotentiaries followed.

15. In step with the progress of the reform implementation and in particular in the second quarter of 1982, the need became increasingly transparent to create a more developed system of monitoring, analyses and evaluations of the course of reform implementation and the effects of the operation of reform mechanisms. This was directly connected with the scope of implementing work and the transition to the stage of including the new mechanisms to the practice of the operation of enterprises.

In July 1982, such a system of analyses and evaluation of the functioning of reform mechanisms was instituted on the strength of the Council of Ministers Regulation No 151. In the second half of 1982, a comprehensive report was prepared, summing up the results of the first half of the year. The assessments and conclusions arising therefrom were used in the system's modifications introduced in 1983.

16. An important line of 1982 works was training activity and campaigns aimed at spreading the knowledge of the reform among society. A great help was provided in this respect by party authorities of various levels, which, while implementing the resolutions of the 6th, 8th and 10th PZPR CC plenary meetings, played an important role in inspiring actions connected with the implementation of the reform and its popularization among factory crews. Scientific and technical associations, staff training centers run by various ministries and especially the Institute for the Organization, Management and Professional

Advancement were very active in providing the relevant training. The training activity focused on the managerial staff of the basic economic and administrative units.

Also embraced by the program were senior officials of economic ministries and central-level offices. All in all, 70,000 people received the training. A test of the knowledge of the reform taken in January 1983 embraced directors and deputy directors of ministry departments, advisors to the prime minister, deputy prime ministers and ministers, chiefs of ministry sections and senior specialists, 2,914 people in all. Ninety-nine point 3 percent of all people in the above mentioned posts took the test.

The media [radio and television] helped to popularize the principles of the reform. Regular programs were started dealing exclusively with this subject. The papers and periodicals have also given a lot of space to the reform. TRYBUNA LUDU and ZYCIE GOSPODARCZE, along with RZECZPOSPOLITA, have been doing especially much to spread the knowledge of the reform. The latter has been publishing all the legislative acts relating to the reform.

Every two weeks, RZECZPOSPOLITA prints a supplement under the title REFORMA GOSPODARCZA, dealing exclusively with problems of preparation and introduction of systemic changes. The supplement is published by RZECZPOSPOLITA together with the Office of the Government Plenipotentiary for Economic Reform. The journalists' cooperative Omnipress has been publishing a news sheet called CZAS REFORMY [The Time of Reform] which has been used especially by factories. In 1982, a number of books on the subject also appeared. The Panstwowe Wydawnictwo Ekonomiczne publishers have been especially active in this domain, having started a series of books on the reform in which it presents the substantial effects of work of the Commission for Reform as well as legislative acts dealing with individual areas of economy.

Despite the implementation of a broad program of popularization of the reform, both the depth of knowledge of its aims and of its principles among factory crews are still unsatisfactory. This hampers in a significant way the winning over of broad social support for and getting people involved in the implementation of the reform.

### C. The Functioning of New Principles

17. During both conceptual work on reform and its implementation, it was agreed that changes in the functioning of the economy cannot be treated otherwise than as a process, shaped by past experience and the present and future economic conditions.

Proceeding from this principle, and taking into account the complicated and difficult economic and social conditions in which the reform was launched, it was assumed in the basic document--Lines of Economic Reform adopted by the 9th Congress of the PZPR--that transition solutions would have to be applied over two or three years. During that period, enterprises were to adapt themselves to new principles. At the same time, some "departures" from target model were allowed, in order to "cushion" the impact of particularly adverse factors, such as:

- severe shortage of many raw materials and intermediates;
- limited access to foreign exchange needed for production-supply import, caused by dramatic deterioration in the country's balance-of-payments situation;
- great differences in enterprises' economic and financial situation;
- shortage of state-budget means needed to provide enterprises with funds and to liquidate old debts;
- disproportions in price structure and deep market disequilibrium that could not be improved by a single-stroke price operation;
- monopolization of production and inefficient functioning of the market.

In order to alleviate the adverse impact of these developments, a number of transitional solutions were introduced:

- rationing and compulsory intermediation in trade in basic raw and intermediate materials;
- rationing of consumer goods;
- a relatively wide flow of budgetary subsidies to enterprises;
- provision of minimum means for enterprises' own funds from inventory revaluation [while sticking to the principle that bank credit is the principal source of financing enterprises' current operations/;
- steep income-tax progression, partially narrowing the differences in enterprises' financial situation which appeared at the start-up and which were induced by changing economic conditions;
- steep progression in taxing the increase in average wage [in an enterprise] for the National Redeployment Fund [FAZ]; together with steep income-tax progression it counter-acted the danger of excessive wage increase which would thwart the restoration of market equilibrium;
- alleviation of self-financing rigors by the banking system.

To some degree, these solutions were equalizing the changes of individual enterprises, thus stabilizing their operating conditions. At the same time, however, they blunted the motivational edge of the basic solutions of reform.

Because some enterprises were unable to self-finance as a result of production-supply difficulties [which led to limitation or even suspension of production], the Council of Ministers' Economic Committee, on March 18, 1982, adopted Decision 17 concerning changes in the range and structure of production. The

document laid down the procedures to be employed in such situation, including the possibility of dissolving the enterprise in question. According to information supplied by GUS [Central Statistical Office], and NBP [National Bank of Poland], these procedures were very seldom made use of.

This was because the endangered enterprises usually managed to obtain a bank credit or a state-budget subsidy. This had the effect of weakening the planned actions.

18. Economic solutions introduced in 1982 were in compliance with the major goals of reform. They were aimed at socialization and upgrading of central planning and at enterprise autonomy, self-financing and self-management. The implementation of each of these principles should be studied separately, against the background of overall economic situation.

19. The goal of consolidating the strategic role of central planning was served by the law on socioeconomic planning, passed in February 1982. It defined the scope and functions of central planning, as well as pointing to methods with which the processes of central planning should be socialized. It should be emphasized that the central plan includes, as its integral part, the list of tools for the implementation of individual plan targets. Steps were taken to ensure the compliance of plan-implementation tools with the principles and mechanism of reform. This is a major novelty in the practice of central planning.

20. The planning law permits special powers of rationing production supplies and foreign exchange to be exercised in the transition period. The solutions adopted in this area are sometimes misinterpreted--especially in journalism--as limitation of reform, or even a retreat from its principles. In reality, the solutions which draw on the limitation of the freedom of trade in clearly defined, short-supply raw and intermediate materials have been of temporary nature from the beginning. They are necessary in order to meet the elementary social needs in the conditions of drastic production-supply shortages. The rationing principle involved the selection of priority-production areas which were granted preferential access to supplies. The priority areas were defined with the help of 14 operational programs whose principles had nothing in common with the maintenance of command-type planning.

In practice, however, the system of operational programs was not fully efficient in 1982.

First, this was because of the late introduction of the solutions in question, and secondly, there was a strong pressure from enterprises for inclusion into the priority areas, which had the effect of excessively expanding these areas. As a result, there appeared complications with ensuring real access to short-supply raw and intermediate materials, and there was a partial retreat to a rationing system based on hierarchic structure of management. These negative experiences were taken account of when solutions for 1983 were being worked out. The area covered by operational programs was substantially reduced. The so-called government orders were introduced as an

instrument of attracting enterprises to production considered by the government the most important from either social or economic point of view. It should be emphasized that the government orders are executed under freely-concluded contracts with enterprises.

21. Enterprise autonomy was guaranteed in the September 1981 law on state enterprise. It is understood as the abandonment of administrative commands, and is connected with the changed character and role of central planning. It should be emphasized that--contrary to opinions which are still prevalent in some quarters--the market mechanism is not supposed to be the basic mechanism of economic reform.

It is planned that the market mechanism will be used in order to better adjust production to social needs, to improve efficiency of the productive potential, and to stimulate motivation to entrepreneurial behavior, while at the same time retaining the dominant, strategic role of central planning in economic management. The goal of reform is to provide conditions for enterprises to release initiative in choosing their production programs, embarking on new ventures, reducing costs and going by economic [rather than administrative] motives in current and long-term decision making. Such conditions were created, but that does not mean that all enterprises made equal use of them. This depended on a number of factors, such as managerial activeness, confidence in new solutions, relations within enterprises, worker attitudes, and finally the availability of production supplies, including imported ones.

A very important role among these factors was played in 1982 by confidence in the durability of introduced solutions. It must be admitted that all changes in economic principles made throughout the year--such as the stabilization tax, or alterations in FAZ [wage] taxation, especially the Council of Ministers Resolution 186--had the effect of undermining the sense of certainty and confidence, thus diminishing the efficiency of new solutions.

22. The principle of enterprise self-financing was carried out in a large measure, but it also posed many problems. An important role in shaping the conditions for enterprise operations was played by banks' credit policy. The new credit rules, introduced on April 1982, were tantamount to a major change in banks' operating principles.

As a result, in the first period, a substantial proportion of enterprises [around 700] found themselves endangered by the new crediting procedures. These were the enterprises which, for various reasons, found self-financing difficult. Because of the specific character of 1982 situation, the causes of this were much diversified. Thus the aim was not to liquidate the endangered enterprises as soon as possible, but rather to analyze the real causes of the difficulties and to define measures to be taken in each case. In consequence, the goal was to identify enterprises whose self-financing troubles stem from inefficiency. In each case, the endangered enterprises were pressed to produce rehabilitation programs. But this pressure was not exerted consistently. Requirements were liberalized and financial pressure was abandoned.

Pro-efficiency effects of self-financing were undermined by some enterprises using the pricing principles to maximize their own advantages at the expense of society at large, and passing on the consequences of mismanagement and capacity underutilization [to consumers in the form of] higher prices. There appeared tendencies to pursue monopolistic practices. This is particularly true of construction enterprises, which reported a spectacular improvement in financial performance, coupled with a simultaneous under-fulfillment of targets in physical terms. Eighteen enterprises were named for liquidation in 1982. But mention is also due to positive cases, where enterprise rehabilitation programs brought about quick organizational changes, permitting more efficient operations.

23. Worker self-management was suspended upon the imposition of martial law, but later, starting from August 1982, it was gradually resumed, whenever conditions allowed. It was only in the latter half of 1982 that the resumption process gathered momentum. Formally, it resulted at the end of the year in the resumption of nearly all worker councils in enterprises where they had been elected before the imposition of martial law. From the formal point of view, worker self-management is operating in most enterprises. But in reality, there are many examples of passive self-management. This development is understandable against the background of sociopolitical situation developing in 1982. But it should be noted that, with the passage of time, self-management bodies began to assume the strategic functions of organs co-running the enterprise.

24. Despite a host of objective difficulties and shortcomings at the conceptual, legislative and implementing stages, the functioning of new economic mechanisms in 1982 should be assessed as positive. Because of the much diversified situation concerning production supplies, employment, the state of productive potential and activeness of managerial cadre, these mechanisms were functioning differently from industry to industry, and from factory to factory. But generally, welcome transformations can be seen. Activeness and initiative of enterprise managers was on the rise, and economic [rather than administrative] motives were drawn upon in decision making. In large measure, this had the effect of speeding up enterprises' adaptation to difficult economic conditions, and rationalizing their operations. Regression was checked, and tendencies to grow emerged in the economy.

However, not all subsystems of the general economic mechanism proved their worth in practice in the same degree. These aspects are dealt with in greater detail in Part II of this report.

In some cases [tax system, or contributions to the FAZ National Redeployment Fund [wage taxation]], the need for modification was seen from the beginning. Criticism which these solutions encountered is understandable from the enterprise stand-point. But when they were designed, the following factors had to be taken into account: diversified start-up conditions in enterprises [hence, the progression in income tax], expectations [false, as it turned out] concerning the danger of unemployment, and the deep production-supply shortages making it hard to link wages with production growth [omission of this factor would mean drastic wage cuts in many enterprises suffering from limited availability of production supplies]. All these factors influenced the structure of FAZ contributions.

In other cases [credit system, subsidies], consistency in enforcing the financial rigors was lacking. In still other instances [enterprise wage system], delays in central regulation were often coupled [although there were numerous positive examples, too] with inertia on the part of many enterprises and inability to work out factory pay systems adjusted to concrete operating conditions.

The greatest transformations are taking place in the price area. This is a problem of key importance for the correct functioning of the overall economic mechanism. Despite numerous flaws in the functioning of the price system, the 1982 experiences include many encouraging elements. But all the consequences should be carefully analyzed and proper conclusions should be drawn. The instruments used in export promotion met with general acceptance, but in this field, too, some improvements would be in order.

25. The enterprises' assessment of new principles of functioning of the national economy is diversified.

Polls taken by the Bureau of the Government Plenipotentiary Minister for Economic Reform among 100 enterprises, and concerning the degree of autonomy, produced the following results in respect to various spheres of enterprise activities:

Table 1

	Affirmative answers [%]
Planning	76
Employment and wages	94
Pricing	61
Foreign trade	62
Relations with the founding body [usually a ministry or a voivodship office]	88

According to questionnaires taken by the Consultative Economic Council [134 enterprises responded by February 20, 1983], the following features were attributed to the mechanisms of reform: stimulation to higher production, by 77 percent of enterprises; reduction of inventories, by 72 percent of enterprises; more economic use of producer goods, by 72 percent of enterprises; and increase in labor productivity, by 86 percent of enterprises. Lesser impact of reform was noted in the fields of output structure [57 percent], innovation [57 percent], quality improvement [50 percent] and energy and raw-material saving [41 percent]. Nearly 50 percent of enterprises are of the opinion that opportunities for production growth are limited, mostly by physical factors.

26. The key question is whether the changes in the economic system in 1982 contributed to: a. stimulation of production activities, b. improvement in economic efficiency, and c. restoration of economic equilibrium.

The only answer is: yes, but not to such a degree as was feasible.

#### Stimulation to Higher Production

In 1982, adverse trends were reversed in all fields. This was a combined result of a number of factors, the most important of which were: restoration of elementary order and discipline following the imposition of martial law; raw-material and technical assistance from the Soviet Union; quick restoration of coal and electricity output [as already mentioned, the coal industry was operating according to specific principles which, judging by results, proved efficient]. With the passage of time, the principles and mechanisms of reform were also making themselves felt in processing industry--especially in the latter half of the year. They left the greatest imprint on the small producer sector, the first to operate according to reformed principles [it was the only branch of the economy to report production growth in both 1981 and 1982]. It is assessed that enterprise autonomy was a major factor helping to overcome the consequences of deep production-supply collapse, especially as regards imported supplies. Welcome transformations were seen in agriculture, especially in the operations of some state farms. As expected, changes were made in the structure of production. As compared with the previous season, almost 10 percent more was sown to grain last fall. Cash crop plantations were much expanded and livestock production was healthily adjusting itself to domestic feed resources. There were also favorable changes in the maritime economy and in foreign trade.

#### Economic Efficiency

It is still too early to pass authoritative judgments in this respect. Efficiency will not be improved overnight, or in a month or two. It would be difficult, in so short a period, to change the structure of production, rationalize employment, and make substantial economies of raw materials.

It is a welcome development that the national economy extricated itself from the absurdities of the past [for example, in 1981, the socialized enterprises as a whole reported the combined deficit of some zl 170 billion]. Elementary conditions were thus created for the functioning of the mechanisms of reform, and in particular for the introduction of economic calculus at enterprise level, which ceased to be a proposal and became a real basis for decision making processes.

This is a good harbinger for the future, as there can be no efficient management without economic calculus.

Statistical data for 1982 do not offer an unequivocal answer. They reveal a steeper drop in net production as compared with sold production [which would indicate a deterioration in efficiency], but at the same time the growth-rate in the supplies of many raw and intermediate materials was much lower than production dynamics [which, in turn, would rather point to improvement in efficiency]. Labor productivity increased [indicating higher efficiency] but simultaneously the employment structure at enterprises deteriorated [as expressed by lower share of workers directly involved in production]. These conflicting tendencies show how difficult it is to assess the processes taking place in the economy.

It is true that more than 70 percent of enterprises questioned by the Consultative Economic Council said that the mechanisms of reform stimulated higher labor productivity, more economic use of producer goods and reduction of inventories, but on the other hand one can hardly overlook the circumstances which in 1982 blunted the pro-efficiency mechanisms. This is particularly true of inflationary processes and the absence of sufficiently firm financial rigors in respect to enterprises. The resulting situation of "easy money" was not conducive to efforts for better utilization of productive factors in many segments of the economy, especially in the construction industry. The pro-efficiency impact of reform was also blunted by some systemic solutions [especially FAZ taxation of average wage and the income tax system], some measures taken throughout the year [for example, the Council of Ministers' Resolution 186 of August 1982], "loopholes" in the reform [for example, the absence of an implementing order on warranted costs as the basis for regulated prices, and an implementing order on unwarranted costs as a factor increasing the base for income tax], as well as weakness in the implementation stage [insufficient countermeasures against price increased by some enterprises enjoying monopolistic position].

From the angle of economic equilibrium, the new principles positively influenced the country's balance of trade. Good results in this field are connected primarily with the system of export-revenue allowances. It would be much more difficult to identify the impact of reform on the monetary/consumer-market situation. Changes in retail prices were no doubt an act of great importance for the curing of the market. But the impact of basic mechanisms of reform is hard to assess since there appeared complicating factors. The introduced instruments provided a high barrier against excessive increase in wages, but it appeared too efficient in view of the justified pressure [for higher wages] induced by the increasing costs of living. As a result, the restrictions on quick pay rises were alleviated in the latter half of the year--in the form of various sorts of rebates in FAZ taxation.

An analysis of situation in many enterprises shows that in practice there is no junction between the principles of enterprise autonomy and self-financing on the one hand, and the inflationary tendencies on the other. On the contrary, it is conceivable that the applied mechanisms and instruments can be so arranged as to prod enterprises to actions restoring and consolidating the monetary/consumer-market equilibrium.

#### D. Systemic Modifications for 1983

27. This year more favorable conditions have emerged for making the systemic solutions more aggressive in stimulating bigger production, better management and improving the quality of products, as well as for making the economic situation of enterprises more dependent on the efficiency of their operations and ability to adjust to the changing economic conditions.

Starting from these premises, the government introduced modifications to the system of rules and controls influencing the operation of enterprises in 1983.

The changes were designed above all to:

1. enhance state control of pricing processes, counteract unjustified price hikes, and introduce mechanisms enforcing cuts in production costs;
2. strengthen incentives to enterprises and their employees to boost output and increase labor productivity, make better use of machinery and equipment, conserve materials, improve the quality of products and introduce technical innovations;
3. streamline and improve the system of materials supplies to enterprises, which should be done in a manner fully corresponding to the goals of economic policies and the principles of economic reform.

The main directions of the proposed changes were first outlined during a session of the Commission for Economic Reform held on September 22, 1982. They were contained in the Report on the implementation of reform and its effects during the first half of 1982. On September 27, the Council of Ministers approved the directions of amendments and modifications to the system and ordered further consultations on them. The Council of Ministers authorized the Government Presidium to take a final decision on the matter.

The proposed modifications were the subject of an opinion poll taken in the enterprises which serve as consultants to economic planners on matters connected with the reform. The proposals were also submitted for evaluation to the Consultative Economic Council. They were extensively discussed in PZPR forums, within professional and social organizations and scientific and technical associations.

Of particularly big importance for the final crystallization of the concept of systemic modifications was the course of the 10th plenary meeting of the PZPR Central Committee, and above all the discussions held in the forum of the plenum's working team analyzing the economic reform.

With due regard for the findings and conclusions of all these discussions, the Government Presidium passed final decisions on the 1983 systemic modification on November 15, 1983.

28. While characterizing the modifications, one should emphasize the fact that the majority of them had been programmed and announced already at the start of the reform. More than that, their introduction was made indispensable with the adoption of a package of Sejm laws of February 1982. This applies to such legal regulations which concern:

- a. principles of fixing regulated prices,
- b. warranted costs,
- c. unwarranted costs and losses, and
- d. income-tax rebates.

This fact must be stressed also because it is not unlikely that the regulations in question, and particularly those under points b. and c., will be tendentiously and erroneously presented as restricting the reform. The one modification which deserves to be termed a substantial departure from the previously adopted assumptions is the change in the rules of computing enterprise contributions to the National Redeployment Fund [FAZ].

29. Here is a concise list of the modifications:

1. The range of application of regulated prices were widened to include some groups of chemical, textile, metal and agricultural semi-products.
2. Countermeasures were introduced to curb the glaringly high profits attained by some enterprises. In addition, state and cooperative enterprises were obligated to notify each increase in their regulated and contractual [free] prices to the regional offices.
3. Changes were introduced to the rules of fixing regulated prices. The changes should bring more rigor to cost calculation in enterprises and encourage cost cutting. As before, regulated prices are fixed by producers basing on their cost calculation. The calculation must be submitted for examination to buyers who have been given the right of rejecting it and referring the case to a regional price office.
4. In order to encourage cost cutting, a principle was introduced according to which low-cost producers have the right to increase their prices by a half of the difference between the price charged by the most expensive producer [who must have at least a ten percent share in the volume of domestic output of the product in question] and their own price calculated according to the binding rules. This solution is expected to secure a greater flow of money to the more efficient producers.
5. The concept of warranted costs was introduced to serve as the basis for fixing regulated prices and "evaluating" contractual [free] prices.

30. Important changes were introduced to the rules governing the computation of payments by enterprises to the National Redeployment Fund [FAZ]. Payments are no longer linked to the growth in average wages paid out by a given producer. Instead, they are tied to the growth in the overall wage fund. Together with the adoption of production growth as the basis for defining the amount of wages exempt from deductions for FAZ, strong incentives were thus created to rationalize employment and differentiate wages according to differing labor productivity. Since both growth in output and growth in labor productivity and better use of machinery and materials are of importance to the economy, the volume of net sold production was chosen as the basic yardstick. The adopted solution will continue to be analyzed and checked.

31. The modified systemic regulations define the basic conditions of enterprise operations in 1983, but they are not the only determinants in this respect. The other data indispensable for drawing economic plans by enterprises were fixed by the Council of Ministers in the Central Annual Plan for 1983. The plan includes provisions concerning the rate of exchange, changes in prices for fuels, energy, raw materials and freight rates, the principles of supplying enterprises with materials and foreign exchange, the rates of the sales tax, contributions to the Centralized Fund of Technical Progress, terms of extending credits and preferential credit treatment, etc.

32. It must be stressed that the modifications are concordant with the main line of reform. Their introduction is in no sense a departure from the course set by the 9th PZPR Congress, whose implementation was started on January 1 last year. On the contrary, it consolidates and strengthens the principles of reform by introducing additional factors which close the loopholes in the new system of economic management and control. Moreover, the modifications make the new economic mechanism more aggressive in stimulating rationalization of production and economic progress. Thus the present important stage in the process of implementing the reform is equally determined by the reform's target solutions and by the experience accumulated during 1982.

33. The modifications introduced so far have met with a positive appraisal of enterprises. The replies given by the consulted enterprises to questions contained in a questionnaire circulated by the Government Plenipotentiary Minister for Economic Reform and pertaining to the systemic modifications in 1983 show that close to 90 percent of the enterprises evaluate the modifications as concordant with their expectations. Some 80 percent of the polled enterprises expressed the belief that the changes will contribute to improving their economic results.

The generally favorable assessment of the changes find confirmation in the results of an opinion survey carried out by the Consultative Economic Council. According to the enterprises surveyed, the changes will have a impact on: growth in labor productivity [82 percent of replies], stimulating bigger output [80 percent], economies in the wage fund [75 percent], enhancing the influences of wages on labor productivity [74 percent], reductions in overstaffing [67 percent], saving of energy [54 percent], better use of machinery and equipment [54 percent], and improving the quality of products [53 percent].

By contrast, the same enterprises do not expect the changes introduced this year to have any major impact on: changes in production programs of enterprises [74 percent], application of technological innovations in production [69 percent], reduction of imports [64 percent], rationalization of investment outlays [60 percent], and reduction of unnecessary inventories of production materials and parts [50 percent].

#### E. Conditions for the Effectiveness of Reform

34. Basing on the evaluation of reform implementation to date and the list of obstacles and difficulties encountered in its course, it is possible to name the fundamental conditions which must be fulfilled if the new economic mechanisms are to prove effective. The following conditions seem to be the principal ones:

- congruity of current economic and social decisions with the new legal and institutional systems and the systemic solutions introduced as part of the reform,

- control over inflationary processes, coupled with the balancing of the consumer market through increased production and proper incomes and prices policies,

- reconstruction of the central bodies of economic management, concerning their functions, principles of activity and instruments they employ,

- effectiveness of the new economic mechanisms under conditions of the transitional period, as well as their adjustment to a gradual departure from the transitional arrangements, especially to limiting the scope of rationing and central distribution of goods and materials,

- a genuinely disciplined management, based on winning a broader social understanding for and approval of reform.

35. The congruity of economic and social policies with the systemic solutions constitutes the fundamental condition for the effectiveness of both the solutions and the policies in question.

The congruity means, on the one hand, that the principles, mechanisms and tools of the reform must be compatible with the basic aims of social and economic policies defined in the adopted strategy of economic development, and, on the other, that current economic decisions must enhance the functioning of systemic solutions as well as drawing on the rules, mechanisms and tools introduced by the reform.

Securing this congruity of policies and reform runs into numerous barriers during the reform's initial period. It is hard to secure full consistency of decisions in a period marked by enormous pressure of current needs coupled with shortages of many goods, problems with employment and with the condition

of fixed capital assets. The pressure exerted by these problems and factors, as well as the old habits of decision-makers accustomed to administrative methods, often lead to actions which are incompatible with, or even contradict, the general line of changes. However, success in securing this congruity would be the ultimate proof of political determination [of the authorities] to consistently implement the new economic system as well as the best way of demonstrating the authorities' credibility and of overcoming social distrust.

The sound basis for achieving the congruity has been provided by the incipient practice of defining--in the National Socioeconomic Plans and the Central Annual Plans--the ways of applying various tools of reform to pursue developmental goals.

Particular attention must be paid to securing congruity with the reform of sectional measures implemented by various links of state and economic administration.

36. One of the basic conditions determining the effective functioning of the mechanisms of economic reform is restoring equilibrium to the consumer market. The present deep imbalance in that market makes it impossible to apply economic calculus correctly, to attain a normalization of behavior of enterprise managers and crews of enterprises employees, or to enforce a correct system of incentives to work. The protracted imbalance favors a consolidation of the black market, speculation and profiteering, produces social discontent and a sense of helplessness on the part of the authorities, as well as leading to a degeneration of the entire economic system. That is why the introduction of the reform must be combined with a gradual restoration of equilibrium.

Growth in production and consumer market supplies is, and must be, the basis of curing the situation. However, this growth cannot be very rapid, and it must be accompanied by the application of other measures promoting equilibrium. The crucial problem in this respect has been the policies of influencing the movement of prices and incomes. Due to its past experience, Polish society is very sensitive to price raises, which makes it very difficult to take and implement the correct pricing decisions. If one heeded the wishes of the public, one would have to strive for a price freeze.

However, a price freeze would not result in restoring market equilibrium, but would require broadening of the scope of rationing, imposing a freeze on wages and burdening the state budget with growing subsidies to prices. A wage freeze, in turn, would preclude consistent implementation of the new motivation systems, while growth in production necessary to restore market balance is greatly dependent on activating incentive schemes and wage systems envisaged by the reform.

The most important task of incomes policy in the context of the reform is to create a mechanism which would effectively enforce the principle of "to each according to the quantity and quality of his work." All the

alternative variants of policy would either lead to slowing down production [in the case of deflationary policies] or to disrupting the correlation between incomes and work done [in the case of inflationary policies].

37. For the new economic mechanisms to prove effective it is necessary to further restructure the functioning of the central bodies of economic administration. The process of restructuring these bodies, started in 1981, is still under way but progress is slow. It became necessary to bring changes in this domain into line with headway made in other domains of reform. The ministries overseeing individual industrial sectors have found themselves in an awkward position of enterprises founding bodies, deprived of their former powers of issuing directives and distributing production inputs and, at the same time, obligated to perform various functions of overseeing, coordination and rendering assistance to enterprises. A more precise definition of the way of functioning of these ministries under the new systemic conditions becomes indispensable. This requires, on the one hand, conceptual work drawing on the directions of changes mapped out in the basic documents introducing the reform and, on the other, greater firmness of action in adjusting the functions and methods of operation of these ministries to the conditions shaped up by the reform.

The problem of restructuring the central bodies of economic administration is not limited to the question of sectoral ministries, overseeing individual branches of industry. It applies to the entire structure of central economic management. The process of transformations of this structure has not advanced far enough to produce a structure capable of competent economic management at national level.

Still lacking is a comprehensive conception of think-tank bodies, which is partly attributable to the conditions of the transitional period which creates a demand for specific and short-term decisions. This makes reforming the national level institutions difficult and serves as a justification for the perpetuation of structures which no longer match the new principles and mechanisms of economic activity.

38. The effectiveness of reform depends on the quality of new systemic solutions, on their compatibility with current economic and social conditions. A distinction must be made between new principles of economic activity and specific tools designed to promote the implementation of these principles. This distinction is crucial for solving the immensely complex question connected with the introduction of new mechanisms, i.e., for reconciling permanency and flexibility in new solutions. In the long run, the aim of the reform is to make economic calculus the basis of economic activity throughout all levels of economic management.

The new mechanisms must be closely watched and analyzed for their long-term effects.

It should be remembered that frequent changes in the introduced mechanisms--especially those made at intervals shorter than one year--usually have the effect of deteriorating the efficiency of the system and as such should be

avoided as a means of alleviating current, sectoral tensions in economic processes. In particular, they make adverse impact on the decisions and attitudes of enterprise managers and worker self-management bodies, arousing a sense of uncertainty and provoking self-defense measures. Reduction of uncertainty about enterprise environment is a major condition for the new mechanisms to catch on. The goal should not only be stabilization of the introduced solutions but also advance publication of proposed corrections and modifications.

39. The most basic condition for the effectiveness of new solutions is the creation of conducive social attitudes. This is the most difficult problem. Social attitudes in Poland are now shaped in large measure by the past. Polish society and--in the greatest degree--the young generation were hit by the crisis precisely at a time when material aspirations were growing rapidly. The steep decline in real incomes brought about frustration, apathy and distrust in the authorities.

One left-over from the previous period is the undermining of social discipline and work ethics which now should be restored. If this restoration is to be effective, it should not be exclusively in the nature of external enforcement, but rather should draw on stimulation of pro-reform attitudes among society. When convinced about improvement in their situation, people will be more eager to forgo adverse attitudes and will be better motivated to efficient work.

Of great importance in this respect is the personnel policy, and especially the manner in which necessary changes in employment structure and its rationalization are effected.

Economic reform is based on the concept of releasing creative activeness of the working people. And the creative activeness will hardly be released in a period of confusion and laxity. Besides, societal attitudes to reform are marked by distrust and disillusion--a result of inordinate expectations about an automatic working of the reform that accompanied its preparatory stage.

But the economic reform, its goals and principles, are nothing else than a chance. For this chance to be tapped, radical transformations are needed in the consciousness of social groups and individuals.

This is particularly true of the attitudes towards the state's role in the system of economic management, the attitudes to work and workplace, and the understanding of the notion of social justice. Constant work is needed on a system of influencing society and individuals, the system which would promote new, more active, entrepreneurial attitudes. The speed with which such attitudes are getting the upper hand will determine not only the pace of restructuring the state, society and the economy, but also the reform's success itself.

[zs, zn, jh, pg]

## Part 2

### Systemic Principles and Basic Mechanisms of the Reform Theory and Practice

#### A. Central Planning and General Economic Management Bodies

1. In keeping with the Lines of Economic Reform, the new mechanism of national economy relies on:

--reinforcing the central plan's strategic role and effectiveness, and providing for broad public control in its construction and implementation supervision;

--furnishing conditions for enterprises' autonomy, self-financing and self-management;

--utilizing economic instruments in economic policy as a basis for central control of enterprise activity to be oriented to, and in keeping with, overall social interests.

Significant progress was made in each of these three domains. However, due to objective constraints [material shortages] and conceptual insufficiency [incomplete legislative provisions], as well as due to delays in formal settlement of affairs, rates of progress in each of these domains differed remarkably.

2. The principal instrument for socioeconomic development policies in the reformed economy is the central plan, which defines top development goals and operating conditions for economic organizations. Enterprise and local plans are coordinated with the central plan by means of economic instruments and through information ties, while hierarchical subordination of these plans to the central plan is abandoned.

The new planning system's fundamental characteristic is that the process of plan construction and control of its implementation has been socialized. This manifests itself in: observing the principle of supremacy of social goals in planning, guaranteeing representative and self-management bodies' participation in drawing up plans and controlling their implementation, and informing the public on central and local draft plans. Considerable importance is attached to integrating physical and financial planning.

These fundamental provisions of the system's reform found their manifestation in the parliamentary law on socioeconomic planning the Sejm adopted on February 26, 1982. This law authorizes the Council of Ministers to apply rationing of raw materials, components and foreign exchange, as well as to draw up a national socioeconomic plan for a period of less than five years.

3. The reform's implementation began with there being no five-year plan at hand, which in turn could not be drawn up because of the very unstable socioeconomic situation and the very high uncertainty about its further

development. Thus, throughout 1982, there was no clear long-term concept for structural transformations. Consequently, no definite set of economic regulators could be developed and implemented early last year for channeling the behavior of economic organizations over any longer period.

During the former half of 1982, central nationwide economic management relied on quarterly plans. In the latter half, a half-year plan was implemented. Top targets of these quarterly plans and of the half-year plan were set in operational programs.

One important way of influencing the yearly plan's fulfillment by central economic authorities was the application of indirect instruments. A basic set of such instruments was specified in the Council of Ministers' Regulation No 243 of November 30, 1981, concerning activities of state-owned enterprises in 1982, and, subsequently in the February 26, 1982 parliamentary laws. In the course of the year, these instruments were supplemented by new solutions, both long-term ones [tax rebates on account of exports], and temporary ones [stabilization tax, Regulation No 186, etc.]. However, economic instruments were applied to fulfill planned socioeconomic targets more widely than planned.

Despite abandonment of the plan's hierarchical structure, the new rules for central nationwide economic management laid down in the Lines were implemented to a limited extent.

4. Apart from the operational mode of economic management, one major line of work at the central level was drawing up a 1983 draft plan, as well as a draft plan for 1983-85. Experiences gained in 1982 were taken advantage of in the Central Annual Plan the Council of Ministers endorsed on November 26, 1982, and in the Sejm-endorsed finance plans. Drawing up plans for periods shorter than one year was abandoned, operational programs were reduced in range, and a government orders system was established. Much broader application was given to reform-introduced indirect instruments to fulfill planned targets.

Mid-year in 1982, the government submitted its draft plan for 1983-85 to the Sejm. This draft was--also for the first time ever--published and submitted to public consultation. Work on this plan's final version is now in its final phase.

5. For the central level to exercise its function of nationwide economic management required, and continues to require, significant changes in its organization and functions. Many state administration bodies were left with their competences and methods of activity unchanged. Changes introduced in 1981 in preparation for the upcoming reform consisted essentially in reducing the number of what are called sectoral ministries. No new mode of managing economic areas entrusted to them has yet been established. Work on legislative provisions for the central level's organization and methods of action is proceeding too slowly. In particular, this applies to the distinction between functions and tools of action following from the reform on the

one hand, and temporary provisions imposed by the economic crisis. In result, ministries occasionally manifest their lack of confidence in their ability to manage affairs under conditions of reform. This is connected with adaptation difficulties and with the application of new methods of influencing enterprises.

Against this background, too, ministries tend to rely too much on administrative methods of influencing economic behavior where economic instruments should already be applied. Ministries find it hard to overcome the deeply entrenched long-standing habit of issuing individual and norm-setting acts without clear legislative authorization. In result, some decisions do not correlate with the reform's legal system; occasionally, this may lead to distorting a law's intent. Smooth exercise of their functions is made harder for sectoral ministries by the circumstance that their cooperation with what are termed functional ministries is not accurately defined.

6. A new systemic formulation of functions, tasks and competences of central state-administration functional bodies, especially of the Council of Ministers' Planning Commission, proved to be a problem hard to solve. This Commission, as well as functional and sectoral ministries, have all important functions to fulfill under reform-introduced conditions, and each such function must be clearly defined. In 1982, new laws and the Council of Ministers' regulations defined tasks, competences, and detailed scopes of activities only for the finance minister and the minister for prices.

Work on laws and implementing regulations adapting functions of central state administration bodies to the reform's provisions must urgently be completed. There are no legislative provisions for: adapting the structure and functions of economic arbitrary [courts] to the reform's provisions, organizing the management of environmental protection and water economy, spacial planning, building, administration, scientific research and technological progress, science and higher education. A program of improving internal organization structures of ministries should be drawn up and put into effect. So should an analogous program for curbing employment at central economic management bodies.

7. In 1982, aggregate employment in the merged sectoral ministries was cut by some 35 percent. This signifies a considerable reduction in administrative personnel. However, state administration bodies increasingly often keep coming up with demands to raise employment.

This problem must be resolved in a comprehensive manner, and adopted rules must be consistently observed. Unless this is done, old administrative patterns will revive, and the central administration will keep inflating.

#### B. Enterprise Self-Dependence and Self-Financing

8. Realizing the principle of enterprise autonomy, as it is defined in the Lines of Economic Reform, is based on the law on state-owned enterprises the Sejm adopted on September 25, 1981.

This law authorized the Council of Ministers to supplement the law's provisions, which the Council of Ministers did by way of implementing regulations on:

- scope of the law's application to enterprises subordinated to Ministers of: National Defense, Finance, and Justice, to enterprises working for defense industries and in the area of public utilities;
- conditions for, and mode of, creating joint enterprises; merging, dividing, and liquidating enterprises;
- rules for keeping a register of state-owned enterprises;
- rules for competitions for managerial posts;
- rules for selling fixed assets to non-socialized enterprises;
- a list of enterprises of fundamental significance to the economy whose directors are appointed and recalled by enterprise founding bodies;
- rules, procedures, and dates for abolishing industry boards [zjednoczenia].

One year after it began to be implemented, the enterprise autonomy principle can be said to have been implemented in most areas of the economy. Numerous polls carried out in 1982, and consultative meetings with managerial staff at enterprises suggest that this autonomy principle started manifesting itself earliest, and fullest, in the sphere of planning. Except for a few cases, enterprises started to rely for information in drawing up their plans not on centrally imposed directives and targets, but switched over to contracts signed with suppliers and buyers, demand estimates, material supply forecasts, labor market forecasts, systemic provisions in force, etc. Despite high degrees of uncertainty, these new procedures and greater autonomy made enterprise plans more realistic.

Endowing enterprises with self-dependence in planning entailed changes in the role of sectoral ministries. A new type of ties between enterprises and these ministries as founding bodies began to establish itself. So did new information ties with the National Bank of Poland [NBP], with the functional ministries, and their local agencies.

The continuing rationing of short-supply raw materials and components as well as foreign exchange, which is enforced by the Polish economy's current difficulties, is the strongest constraint on enterprise autonomy.

9. Practical implementation of the autonomy principle strongly boosted enterprise responsiveness to changes under way in the economy enabling them to undertake early adaptive initiatives and actions, such as starting new kinds of production, partial changes in supply sources, starting import-substituting production, expanding production for exports, etc. These actions helped cushion the impact of drastic cuts in production material supplies, especially of imports from capitalist countries.

Questionnaires and control studies suggest that a vast majority of enterprises made use of their autonomic prerogatives in a reasonable manner, without infringing on overall social interests. However, some enterprises did abuse their competences, especially in pricing and wage policies.

While this practice was marginal, its negative effects called forth strong repercussion among the public. The modified systemic provisions adopted for 1983 and severe controls should help gradually eliminate such practices.

10. In addition to autonomy and self-management, the self-financing principle, which means that enterprises are to finance their spending from their own revenue, is one tier of the reformed economic system.

The enterprise self-financing rules defined in the Lines found their reflection in the legislation passed from January 1, 1982, onwards.

At the time the reform was started, enterprises were in an extremely difficult financial situation. In the latter half of 1981, enterprise finances collapsed, with costs exceeding revenue from sales by 177 billion zloty. Most enterprises had very small own funds in turnover, while others were in the red. In addition, enterprises were charged with high investment credit repayments, and had a lot of their assets frozen in investment projects under way. To furnish at least elementary preconditions for enterprise activity, the Council of Ministers [Regulation No 243 of November 30, 1981] introduced the rule that enterprises are authorized to create their own funds worth up to 30 percent of their inventories. Assets for supplementing their own funds in turnover were to be gained by revaluing their inventories. In result of these regulations, some enterprises supplemented their own funds in turnover up to 90 percent. However, it proved impossible to equalize conditions at take-off for all enterprises, or their comparable financial situations, as had been planned. Proportions of own funds in financing inventories varied strongly from branch to branch and from sector to sector. Table 1 presents these proportions of own funds as on December 31, 1982.

In 1982, socialized enterprises recorded a total of revenue-over-costs surplus of z1 1,339 billion [578.7 in the former, and 760.3 in the latter half of the year].

After compensatory settlements with the state budget, profits recorded by socialized enterprises turned out to have reached z1 1,506.6 billion, while losses amounted to z1 172.8 billion.

Return rates, or the ratios of financial effect to processing cost, socialized enterprises recorded in 1982 were highly differentiated, ranging from 8.9 percent in rail transports through 251.6 percent in pipeline transports. Return rates averaged economy-wide 37.2 percent, and industry-wide 47.8 percent. Some z1 892.2 billion in enterprise profits went to the state budget, of which z1 756.6 billion was taken in income taxes, z1 82.5 billion in stabilization taxes, and z1 53.7 billion in National Redeployment Fund [FAZ] contributions.

Table 1. Enterprise Own Funds in Turnover, as on December 31, 1982

Socialized enterprises	Own funds in turnover [billion zloty]	Proportion of own funds in financing inventories [%]
Total	769.8	30.8
of which:		
Industry	383.9	27.7
of which:		
coal	- 8.5	x
engineering	55.3	30.2
chemical	33.3	32.3
clothing	12.5	34.7
food	58.8	21.4
Building	56.9	21.4
Transport and communications	39.8	37.1

After income and stabilization tax deductions, enterprises had at their disposal zl 668.1 billion; enterprises in the industry sector claimed zl 272.4 billion of this sum. In the industry sector, the profit after [income and stabilization] tax to cost was 5.1 percent, and that to gross productive capital [as on December 31, 1981] some 11 percent.

This means that, from the standpoint of enterprise development needs, net profits recorded in the industry sector were anything but excessive, especially in view of the circumstance that fixed assets were not submitted to revaluation.

11. Profit distribution structure at enterprises is not known at this point. For 1982, enterprises booked FAZ contributions amounting to a total of zl 53.7 billion, or 8 percent after tax profits [in the industry sector this figure was zl 28.2 billion, or 10.4 percent]. A January 1983 questionnaire circulated among enterprises showed some 20 percent of disposable profits went for employee participation funds. Considering their write-offs for reserve funds, it can be said that an estimated 60 percent of disposable profits, or some 400 billion zloty, will go to enterprise development funds.

12. To judge its performance in 1982, one can say the self-financing rule radically improved the state's financial situation.

One factor that significantly affects the self-financing rule is the continuing wide range of budgetary grants which amounted last year to zl 833 billion [including budgetary subsidies of zl 600 billion]. During three quarters of 1982, more than 80 percent of all socialized enterprises [in the industry sector, even 90 percent] recorded positive financial accumulation. Considering the financial situation of enterprises late in 1981, as well as their

deep operational deficits, it should be stressed that restoring correct financial relations was impossible unless enterprises raise general price levels significantly.

Under the specific conditions of economic activity in 1982, this was in fact the only right way to restore elementary financial relations economy-wide. Viewed from this angle, last year was a transitory interval to furnish pre-conditions for a full-swing implementation of the self-financing rule in connection with economic efficiency starting 1983.

### C. Employee Self-Management at Enterprises

13. As a fundamental reform tenet, and a significant factor of socialist democracy, the self-management principle found expression in the first two laws concerning the reform, the law of September 25, 1981, on state-owned enterprises, and that on employee self-management bodies. These laws take account of all fundamental rules following from Theses 6-62 of the Lines, except for self-management bodies' right to create unions "with a view to representing their interests outside."

On account of the special character of some enterprises, the September 25, 1981, law curbed the scope of "self-management in public-utility enterprises, in state-owned enterprises subordinated to the National Defense Minister, the Finance Minister, and the Justice Minister [operating at penitentiary institutions], and in enterprises carrying out exclusively, or partly tasks for national defense or state security, as well as in enterprises that operate entirely, or partly, abroad. Self-management body statutes in these enterprises shall be endorsed by the founding body."

In fulfillment of Article 49 of the law on employee self-management, the Council of Ministers issued a regulation to delimit the scope of this law's provisions in application to these state-owned enterprises. Except for the Council of Ministers regulation on the application of the law on employee self-management bodies at enterprises operating entirely, or partly, abroad, which was published on February 1, 1983, all other pertinent regulations took effect early in 1982.

14. The process of adapting the existing forms of self-management to the law's provisions and of putting self-management into practice was halted on the strength of Article 16 of the decree on martial law. Suspension of self-management bodies for the time of martial law was confirmed by the Council of Ministers in a regulation of December 30, 1981 [Dziennik Ustaw No 12, 189]. Simultaneously, this regulation suspended legal protection of self-management body members provided for in Article 6§1 of the law on employee self-management bodies. Moreover, this regulation stipulated that, with conditions in individual enterprises permitting, self-management bodies should be allowed to resume activities even in the period of martial law. Pertinent decisions were to be made by authorized ministers, who were later empowered by the Council of Ministers' regulation of July 19, 1982, to lift "suspension of activities of employee self-management bodies at any given enterprise."

At first, self-management bodies did not participate in, or contribute to, actions connected with implementing the reform or putting to effect regulations concerning self-management or joining associations. In the initial phase, the process of lifting suspension of self-management bodies was being hampered by difficulties. This was due, above all, to: 1. the excessively formalized procedure of considering pertinent applications to founding bodies; 2. reluctance of enterprise directors to convey applications for lifting the suspended self-management bodies; 3. the lack of genuine atmosphere for motivating the workforce to actively participate in management.

It was only in the fourth quarter of last year that decision-making regarding the lifting of suspended self-management bodies intensified. In result, by December 31, 1982, self-management bodies suspension was lifted in 3,620 out of the 6,580 enterprises at which such bodies might operate. Suspension of martial law on December 31, 1982, created possibilities for employee self-management bodies to resume activities at enterprises to which the September 25, 1981 laws do apply.

The process of resuming activities by self-management bodies is actually slower than the number of decisions by founding bodies to this effect might imply.

15. In recognition of the need to resume activities by employee self-management bodies at enterprises, on initiatives of the Sejm's Commission for Employee Self-Management and the government's plenipotentiary for economic reform, concrete organizational steps were taken to disseminate knowledge of the reform's rules among self-management body representatives as well as comprehensive counseling actions for the benefit of self-management bodies at enterprises. These include special seminars for worker council members conducted in cooperation with the Organization and Management Scientific Society (TNOiK). At TNOiK's Warsaw branch alone, representatives of more than 800 enterprises attended such seminars.

Consultative centers for self-management bodies were established at all voivodship [Sejm] deputy caucuses. Current counseling is conducted by the Office of the Government's Plenipotentiary for Economic Reform for representatives of self-management bodies and enterprise managements as well as people from ministries. In cooperation with the PZPR CC's Economic Department, and in coordination with representatives of ministries, a procedure for speeding up resumption of work by self-management bodies at enterprises was worked out. Counseling on self-management activities is systematically published in the daily RZECZPOSPOLITA.

#### D. Associations of State-Owned Enterprises

16. The Lines of Economic Reform provided for agreements enterprises wanting to join voluntarily into associations for the pursuit of common goals may conclude. Such agreements must first be endorsed by self-management bodies.

Pertinent provisions concerning associations in the law on state-owned enterprises and in the Council of Ministers' regulation on this law's implementation are in keeping with the Lines.

Associations were to be created with a view to start a process of modernizing the economic structure by making rigid branch structures more flexible and permitting creation of various functional structures well adapted to actual needs.

Mandatory and voluntary enterprise associations began to emerge rapidly mid-year in 1982. In this process, different tendencies in creating and functioning of associations appeared, including tendencies at variance with the reform's overall guidelines.

17. Since the process of creating association structures at central and local levels is very volatile, it is hard at this moment to define the present stage of this process with any accuracy. Particularly unclear is the situation in agriculture and in the building sector.

Information gathered so far suggests that, approximately, by the end of 1982, 184 associations were established at the central, and 62 at the local levels.

Analysis of this process in four basic industrial branches may illustrate progress made in it. As on December 31, 1982, of the 1,897 enterprises controlled by the ministries of mining and energy, chemical and light industries, metallurgy and machine-building, and forestry and timber industry, 1,764 (or 93 percent) belonged to associations; 507 (or 26.7 percent) of these belonged to the 29 mandatory associations, while 1,257 (or 66.3) belonged to 60 voluntary associations. The remaining 133 (or 7 percent) enterprises stayed outside all associations.

18. Mandatory associations were created in national economy's strategic areas. These include above all: extraction and processing of basic raw materials, power generation, the means of transportation industry, motor transports, defense production, production and distribution of building materials, producer goods for farmers, processing and storage of agricultural produce, and the pharmaceutical industry.

These are branch associations, and, as analyses indicate, they tend to take over some functions of former "industry boards." The same studies further disclose that positions of mandatory association directors are strengthened by the fact that some competences of founding bodies are delegated to them.

19. At mid-year in 1982, first voluntary associations began to emerge. Like mandatory ones, voluntary associations largely restore the former industry boards' scope of competences. Associations "breaking" the rule that only enterprises in one branch may join into groupings were much slower to emerge. Procedures for founding voluntary association differed. Generally, they were created on initiatives of individual branch managements. However, in some cases, associations were also created under pressure from staff of former industry boards. In such cases, enterprise directors decided to join

associations mainly in fear of being discriminated against in production material supplies. Since self-management bodies were suspended, associations were created without self-management's endorsement.

In a few cases, enterprises joined two or more associations. As follows from statutes, an association's main purpose is to integrate member enterprises and to protect their economic and social interests.

Statutory obligations of associations differ in character. Main functions recurring in all statutes include:

- initiating development of associated enterprises and representing them to central state administration bodies;
- coordinating some kinds of activity, including investment, exports, and imports;
- coordinating rationing of centrally allocated materials.

In some cases, association statutes also provide for functions and tasks infringing enterprise self-dependence as well as overall social interests, such as agreements on dividing markets or price policy, curbing freedom of enterprises to pull out of voluntary enterprises, delegating some enterprise competences to the level of association board of director.

The continuing rationing of raw materials, components and currencies is the chief cause of adverse tendencies in the functioning of both mandatory and voluntary associations, as this enables associations to take over control of producer goods supplies to enterprises.

According to information gathered so far, average employment at mandatory associations on December 31, 1982, was 52 persons. In 106 inspected voluntary associations, employment totaled 3,496 persons, or 33 per association.

Employment figures for association offices are estimated to reach some 40 percent of corresponding figures in former industry boards. However, a dangerous tendency of the part of associations' clerical staff to grow is visible. This tendency is reinforced, among others, from the excessively expanded statutory functions of associations.

At this moment, no comprehensive assessment of their efficiency is possible, because they have been operating for too short a time. There is widespread public anxiety that associations might take advantage of their organizational form to liquidate intermediate management levels. So, to prevent any possible deformations, associations will have to be submitted to close observation and analysis.

#### E. Local Bodies' Functional Evolution

20. The local economic system's starting-point was the implementing resolution on expanding competences of local authorities and state administration bodies the Council of Ministers and the Council of State made still in November, 1980. These expanded competences were to furnish organizational and institutional conditions for implementing the reform.

This regulation's implementation proceeded very slowly. For instance, by October 15, 1981, regional authorities in two voivodships only [Siedlce, Sieradz] took over control of building enterprises operating on their territories. By that time, too, planning and management systems in transports and domestic trade underwent no change at all.

Changes proceeded more quickly after November 26, 1981, when the Council of Ministers' Chairman sent a letter to all ministers and heads of central and voivodship offices, calling for immediate action to speed up fulfillment of tasks following from this regulation.

21. Eventually, local administration bodies took over control of general-building and agricultural building enterprises and state-owned farm-servicing enterprises.

As on December 31, 1982, local administration bodies took over:

- 182 general-building enterprises,
- 53 agricultural building enterprises,
- 490 state-owned farms,
- 167 farming combines,
- 80 land amelioration enterprises, and
- 86 technical farm-service enterprises.

As former industry boards had been abolished, local administration bodies became founding bodies for these enterprises.

22. On a suggestion from the Administration, Local Economy and Environment Protection Minister, on February 12, 1982, the Council of Ministers passed regulation 41/82, which granted voivods and city-voivodship presidents extra jobs to handle new tasks [50 percent of redundancies after former industry boards], but also authorized voivods [presidents] either to create new boards or to reinforce existing branch departments of voivodship offices or local administration offices for the purpose of supervising enterprises.

As a result, the following were created:

- 31 voivodship building boards,
- 19 voivodship municipal service and housing boards,
- 1 voivodship agricultural board.

In the remaining voivodships, new tasks are fulfilled by departments of voivodship offices.

23. The regulation's provisions concerning the trade structure were not put into effect. On the strength of a Council of Ministers' decision of May 10, 1982, voivods and city-voivodship presidents assessed the organization and functioning of retail trade, and started creating state-owned retail trade enterprises as well as catering enterprises and bakeries. At founding, all these enterprises took over premises and installations from [Consumer Cooperative Holding] Spolem. The Lodz city president decided to found a State Marketplace Enterprise, which will take over tasks previously fulfilled by Spolem.

24. Implementation of the regulation's other provisions proceeded at varying rates. Some will be realized after their legislative enactment; for instance, local administration bodies may be established only after the law on People's Councils has taken effect. Some provisions have become outdated after new, more general legislative provisions took effect; this is what happened with comprehensive socioeconomic planning after the law on socioeconomic planning was passed on February 26, 1982. While it accelerated the process of delegating competences to local administrative bodies, this process clearly was not buttressed by appropriately expanded means for action for these bodies. This was particularly detrimental in the building sector, which is reflected in the fact that projects realized at regulated prices tend to lag behind schedule [as less lucrative to enterprises]. It can be said that the abolished central target allocation system has not yet been effectively superseded in local enterprises by the new indirect control system.

25. How self-dependent local economic management bodies will be depends on what set of financial instruments they will have at disposal. These include permanent and productive revenue sources for People's Councils as a basis for economic activity, which will grant them freedom of decision on allocating or otherwise utilizing their revenue. As the law on People's Councils and local self-government is still outstanding, this rule, which was adopted as Thesis 23 of the Lines, could not be fully realized yet. This issue was partly solved by linking People's Councils' revenue up with financing local economies in the 1983 budget law.

People's Councils' own incomes still account for a mere 42.8 percent of local budgets. The remaining 57.2 percent is supplied in subsidies from the central budget; this amount is composed of what are called [People's Councils'] shares in the budget [33.2 percent], target-tied subsidies [20 percent] and compensatory subsidies [the remaining 4 percent]. This specific incomes structure guarantees no permanent tie-up between financing local economic activities and

definite tax revenue. Moreover, budgetary subsidies hardly encourage People's Councils to seek ways to boost their own incomes or improve economic efficiency.

26. A further crucial step in reform implementation was taking up work on a new law on People's Councils and local self-government.

A series of drafts of this law prepared by a commission the Council of State specially appointed for this purpose were submitted to discussion and evaluation by many occupational groups and by the Commission for Economic Reform. On September 28, 1982, the Council of State Chairman submitted this draft law to the Sejm.

Parallely with work on the law on People's Councils and local self-government, work is in progress on a draft law on spatial planning, which is to replace an analogous law of 1961. This is a responsibility of the Administration, Local Economy and Environment Protection Ministry. Proposed draft versions, as well as their individual provisions, were discussed by interested communities, among others, by the State Council for Space Economy and the Polish City-Planners' Society.

Since this draft was criticized, the Polish City-Planners' Society came up with a so-called social draft law. Differences between the Ministry and the Society include the following:

- territorial extent of space-economic plans [whether to base them on administrative or on functional territorial divisions],

- types of space-economic plans and their modes of linkage with socio-economic plans,

- procedures for drawing up and approving space-economic plans. The Administration, Local Economy and Environment Protection Ministry is expected to submit this draft law in the second quarter this year.

27. The Sejm-approved package of laws on the reform has multiple implications for local administration bodies. This is true in particular of the law on state-owned enterprises and of that on socioeconomic planning. Their point is to furnish economic mechanisms ensuring correct relations between central and local plans and between local and enterprise plans. No such instruments have yet been devised. A first attempt in this direction is made in the 1983 Central Yearly Plan; it includes income tax allowances for rapidly paying off investment projects implemented for environmental protection or for starting production of building materials from local raw materials, and for costs of running schools and boarding schools. The range of proposed instruments is thus very narrow, and so has to be expanded.

28. The law on socioeconomic planning in force from July 1, 1982, introduces significant changes into the local planning system. In particular, it raises local authorities' self-dependence. One of this law's articles reads, for instance, that "the voivodship socioeconomic plan's scope and substance are specified by the voivodship People's Council in accordance with this

voivodship's needs." This raises the question of how to ensure accordance between voivodship and central plans, and, analogously, between town or commune and voivodship plans. It can generally be said that so far little has been done to put the law's overall principles and goals in practice, or more precisely, to provide an adequate method for their implementation.

This is a very urgent matter, because soon, after the Sejm has endorsed the [1983-85] National Socioeconomic Plan, local state administration bodies will have to start drawing up local plans.

As the law on socioeconomic planning fails to name the body authorized to determine procedures and methods for drawing up these plans, one of the Commission for Economic Reform's working teams came up with the initiative to prepare a draft "general scope" for voivodship plans. This draft will soon be submitted to voivodship authorities.

#### F. The Functioning of Pricing Mechanisms

20. According to the Lines, the price control by state bodies--in the form of setting official prices, laying down pricing principles for other price categories, and influencing supply and demand--is one of the main tools of indirect control over enterprises.

The target solutions planned in this field include: setting prices at a level determined by the interplay of supply and demand, linking domestic prices of raw and intermediate materials to international prices, imparting to prices the character of external parameters for enterprises, and substantially cutting the subsidies. Also, a conception of measures to be taken in the pricing area in the transition period was adopted. It called for: 1. reforming the production supply prices, at the beginning of 1982; 2. reforming, still in 1981, the retail prices [to be coupled with pay compensations] with a view to substantially pruning the inflationary gap and changing the pattern of prices. [In case new prices were in conflict with the pricing principles enforced on producers, the latter would either be allowed to increase prices or would be granted subsidies]; 3. closely linking the level of [state] procurement prices for farm produce to changes in production-supply and retail prices, thus guaranteeing the profitability of farm operations and a just income distribution between the farm and non-farm population.

The assumptions formulated in the Lines were in large measure taken account of in the legal regulations adopted in the price area [the price law of February 26, 1982, together with implementing regulations]. One major departure from these assumptions consists in confining the proposed link between domestic producer-good prices and hard-currency prices to the group of basic raw and intermediate materials alone.

A deep reform of production-supply and retail prices was made in the first quarter of 1982, covering price increases as well as changes in the price system and pricing principles. It has the following objectives: 1. laying down the groundwork for correct economic calculus at the enterprise level

and in the economy as a whole; 2. restoring tendencies towards market equilibrium; 3. scoring a tangible improvement in the price-to-cost ratio; 4. reducing budgetary subsidies.

30. The reform of producer-good prices began with the increase in prices of basic raw and intermediate materials, introduced on January 1, 1982. Throughout the first half of the year, and especially in its first quarter, the regulated and contractual [deregulated] price of manufacturing-industry articles were adjusting to the new level of production costs. Starting from the second quarter, the price movement was gradually "quieting down," as reflected in Table 2.

Table 2. Dynamics of Prices in the Group of Industrial Articles

Period	Dynamics
March 1982/December 1981	206.2
June 1982/March 1982	101.2
September 1982/June 1982	103.1
December 1982/September 1982	100.0

Source: Central Statistical Office [GUS] data.

As a result of the reform of production-supply prices, the general price index for industrial articles increased 225.2 percent last year. In individual industries, price increases were much diversified, as illustrated by the following table:

Table 3. Price Indices for Industrial Articles, Breakdown by industry [%]

Specification	1981 = 100
A. Raw material industries	
Coal	343.7
Fuels	341.8
Construction materials	311.9
Energy	289.1
Steel	276.1
B. Manufacturing industries	
Electric and electronics	195.3
Precision	170.7
Textile	170.5
Garments	146.8

Source: Central Statistical Office [GUS] data.

Table 4. Deviation of Hard-Currency Prices From Official Prices

Specification	Domestic intra-industry price = 100	
	1st half of 1982	Jan. 1, 1983
Imported raw and intermediate materials		
1. Crude oil	154.3	118.6
2. Iron ore	315.3	254.5
3. Phosphate rock	142.3	96.1
4. Natural rubber	103.5	93.8
5. Pulp	160.2	129.8
6. Cotton	148.5	89.2
7. Wool	156.9	81.2
8. Raw cattle hides	175.9	99.2
9. Chemical fibres	134.5	84.9
Exported raw and intermediate materials		
1. Coal	180.4	170.3
2. Copper	115.7	94.5
3. Sulfur	179.2	177.2
4. Coniferous timber	84.4	79.5

Source: "An Assessment of the Implementation and Consequences of Reform in the Price Area," a study of the Price Board.

32. Simultaneously, a reform of retail prices was carried out. Its principal goal was to provide conditions for the restoration of consumer-market equilibrium and to tangibly improve the relation between prices of foodstuffs and industrial articles. Official prices of food, fuel, energy and tobacco, alcohol, tea, coffee, etc., were raised, and at the same time regulated and contractual prices were on the rise, reflecting production-cost increases induced by changes in the production-supply prices.

Following the price changes, the value of retail sales of goods by socialized units increased throughout 1982 by z1 1,380 billion (after adjusting for changes in the volume of sales). As broken down into major product groups this increase is illustrated by the following table:

The changes in retail prices resulted in:

1. tangibly improving the ratios of prices to production costs and of retail food prices to state procurement prices for farm produce. (It is true that production of basic foodstuffs was not made profitable; but the scope of subsidies was reduced substantially. While in 1981, food subsidies totaled z1 390 billion at year-end prices, or 150 percent of the sales value of subsidized foodstuffs, the corresponding last year's figures were z1 200 billion and 30 percent); 2. making food relatively more expensive, as compared with

Table 5. Consequences of Price Rises

Consequences of increase in the prices of:	(approx., in billion zl)
goods sold mostly at official prices	854
of which:	
food	556
alcoholic drinks	194
non-consumer goods	104
non-food consumer goods sold mostly at regulated and contractual prices	528

Source: Own estimates on the basis of GUS data.

industrial articles (Food prices rose 138 percent last year, while non-food articles increased 85 percent); 3. "quieting down" the consumer market, lessening shopping drudgery, and shortening the shopping lines. (This was primarily connected with the introduction of rationing. But these welcome developments were also seen in markets not covered by rationing, for example, milk).

The reform of retail prices provided conditions for the restoration of global economic equilibrium. Of major importance in absorbing the population's excessive purchasing power was increase in the contractual and regulated prices of industrial articles.

33. As part of reform, three categories of prices--official, regulated, and contractual--were introduced. The structure of trade value by price category differs from one market to another. Throughout 1982, it changed towards greater share of official and regulated prices. [see Table 6)

34. The official prices, set by bodies of state administration, were imposed on a relatively short list of goods and services, but these items represent a great share as far as the value of both producer- and consumer-good supplies is concerned.

The relatively high degree of stability was an advantage of official prices (in most cases they changed only once in 1982). On the other hand, these prices often did not suit the existing economic conditions.

In the field of price which are set on the basis of foreign trade prices, there was a wide gap between the official prices and transaction prices [international prices expressed in zlotys at the official exchange rate] since early 1982. This gap was narrowed, especially in the group of imported goods, as a result of the January 1, 1983 increase in prices of some basic raw and intermediate materials. This provides conditions for making the calculation of production efficiency more objective.

Prices of basic raw and intermediate materials increased much higher than prices of processed goods. This rendered profitable the capital and modernization projects aimed at fuel and energy economies. But signs of enterprises embarking on such projects were not yet observed in 1982.

The combined results of the reform of production supply prices, according to Price Office estimates, totaled z1 2.7 trillion--up from the expected level of z1 2.3 trillion.

The impact on retail prices proved higher than planned, too. The results in that area are estimated by the Price Office at z1 740 billion, as against the expected z1 470-580 billion. But it should be stressed that the retail-price rise [by 100.2 percent] was much lower than the corresponding increase for all industrial items [125.2 percent].

31. The production-supply price reform reached its objectives only partially. As its result, the ratio of prices to costs improved greatly. While in 1981, as part of several years' long process, production was unprofitable almost generally, the new prices of 1982 ensured enterprise profitability [with some exceptions], thus providing conditions for the observance of the self-financing principle. It was not possible to render profitable the production of basic foodstuffs, coal, fertilizers and the transportation, municipal and housing services.

The main goal of the production-supply price reform--to provide conditions for correct economic calculus at the enterprise level, by linking prices of basic raw and intermediate materials to hard-currency prices--was not reached in full. This was because of the difference between the exchange rate used in pricing production supplies [50 z1/\$] and the rate introduced into foreign trade settlements on January 1, 1982 [80 z1/\$]. In the period between the preparation of the price reform and its launching, a quite substantial depreciation of the zloty took place, and it was not possible to change the basis of the price reform or to keep a uniform exchange rate at a lower level. So there appeared a gap between the domestic production-supply prices of basic raw and intermediate materials and their actual transaction prices [i.e., international prices expressed in zlotys at the official rate of exchange], constituting a major obstacle to the introduction of reformed mechanisms.

In this connection, further corrections in intra-industry prices of basic raw and intermediate materials became a matter of necessity. They were made partially in the latter half of 1982 [hides, wool, cotton, chemical fibres, and copper] and, on a broader scale, on January 1, 1983. The changes were aimed at: 1. starting--as part of an attempt to base domestic prices on international ones--with the intra-industry prices of those raw materials which, in large measure, are imported from hard-currency markets; 2. eliminating subsidies to raw-material imports from socialist countries; 3. limiting unprofitable production of domestic raw materials.

As a result of these changes, the domestic intra-industry prices get much closer to the transaction prices, as shown in the next table.

Table 6. The Share of Individual Price Categories in Goods Trade (%)

Specification	1st quarter 1981	December 31, 1982
1	2	3
Retail market		
--official prices	35	45
--regulated prices	15	15
--contractual prices	50	40
Production-supply market		
--official prices	20	32
--regulated prices	5	8
--contractual prices	75	60
State procurement prices of farm produce		
--official prices	65	72
--regulated prices	--	--
--contractual prices	35	28

Source: The same as in Table 4

Production of some goods which are traded at official prices must be subsidized when these prices are below the cost of production. It is true that such subsidies are allowed under the present systemic solutions, but there are also disquieting instances of paying enterprise-linked subsidies [for example, subsidies paid to the enterprise to cover its overall deficit rather than stimulate some kinds of preferred production] and of expanding, at the association level, the system of compensatory accounts [subsidies and surcharges connected with the difference between the exchange rate applied in foreign trade settlements and the rate used for the pricing of imported raw and intermediate materials], which has the effect of separating the producer from market conditions.

35. The regulated prices are set by enterprises in accordance with principles laid down by the state-administration bodies. At the beginning of last year, they were introduced to a relatively limited extent. But the pressure of the public, concerned by the high increase in prices, led to a substantial broadening of the scope of regulated prices for consumer goods. This scope was not extended last year in respect to producer goods.

The 1982 experience shows that the regulated prices, which are formed according to the cost-plus formula, do not create pressure for cost reduction. On the contrary, they stimulated producers to increase costs, which was tantamount to higher profit [added to processing costs as their fixed percentage]. For these reasons, a number of modifications were introduced to principles governing the formation of regulated prices in 1983. They include

preferential treatment for the "cheapest" producers, the possibility of basing regulated prices of transaction prices recorded in exports to hard-currency markets, and the introduction of the category of warranted costs.

These modifications, however, do not totally eliminate the major shortcomings of regulated prices. They are still neither equilibrium prices nor external parameters for producers. However, because of the need to put in order the prices in some links of the co-production chain, the scope of regulated prices was extended as of January 1, 1983, to cover many production-supply items.

36. The category of contractual prices, set independently by producers, is of special importance for the introduction of new systemic solutions. In principle, these prices should reflect the market conditions, and the interplay of demand and supply. But in reality, they now much resemble the regulated prices, since market relations were usually not taken into account in their formation. They are based on production costs and a profit margin desired by the producer, which usually is higher than profit realized on regulated prices. The restricting factors, which prevented enterprises from increasing contractual prices to the equilibrium level, included primarily the income tax mechanism and, to a lesser degree, the social and administrative pressure.

37. The 1982 price increases are usually associated by society with enterprises' pricing "arbitrariness." But the real cause of these increases was the change in official prices of basic production supplies. The increase in contractual prices came as its consequence, adjusting the value of output to the new value of raw material inputs. This opinion is corroborated by an analysis of price movements in successive months of 1982. Price increases were particularly intensive in the first quarter of the year, reflecting the producers' adjustment to the new, higher level of production-supply prices. Starting from the second quarter, the price movements showed a clear tendency to quiet down. This is illustrated by Table No 7.

Prices of non-food articles, which were mostly contractual and regulated prices, showed a relatively high degree of stability, starting from May 1982.

It should be stressed that this price stability took place in spite of substantial changes in enterprises' operating conditions, increasing their financial burden [higher contributions to ZUS pension scheme, as of July 1, 1982; higher real-estate tax; introduction of the stabilization tax].

As stated by the Price Office, correctness of pricing principles was controlled in 1982 in more than 1,600 units of key industries and small businesses.

In more than 540 units, various kinds of incorrect cost/price calculations were revealed. In all, some 6,000 prices were questioned, including more than 2,000 regulated prices.

Table 7. Price Dynamics for Consumer Goods and Services

Month	Prices of consumer goods and services in general	of which:		
		food	non- food	services
previous month = 100				
January	107.9	105.0	114.5	111.0
February	135.1	174.1	127.2	115.2
March	105.7	104.1	111.6	102.8
April	103.8	103.2	105.9	105.5
May	102.2	104.9	100.2	102.0
June	100.9	100.7	100.8	103.7
July	103.9	101.5	100.8	102.0
August	99.2	96.5	101.0	101.8
September	100.4	98.8	101.8	101.2
October	101.8	101.8	102.6	102.1
November	100.9	101.8	100.6	100.5
December	100.8	102.0	100.1	100.5

Source: The same as in Table 5 plus GUS information.

The extension of the list of goods marketed at regulated prices and the inspections checking their correctness contributed in many cases to the lowering of these prices. The combined results of these decreases are estimated at zł 4.5 billion per year.

38. It can be stated that the 1982 reform of production-supply and retail prices and of related pricing principles largely contributed to the elimination shortcomings of the previous price system, thus meeting part of its objectives. But it did not solve all the problems. The principal shortcomings of the present system can be described as follows:

- for their most part, the prices are not set at the equilibrium level,
- a large proportion of official prices is lower than either the corresponding production costs [which necessitates subsidies] or the transaction prices [which distorts economic calculus],
- the regulated and contractual prices do not function as parameters external to producers, while the official prices are as a rule poor-quality parameters [incorrectly informing the buyers as to the social expenditure of labor].

These shortcomings could not be eliminated already in 1982 because of the objective obstacles, coming as a result of deep economic disequilibrium at the start-up of reform. This state of affairs rendered impossible the full introduction of new systemic solution in the pricing area.

## G. The Principles and Operation of the Tax System

40. The tax system, as defined in the law on taxation of socialized economic units, was based on the progressive income tax [paid from profit], price-forming sales tax, as well as the wage and real-estate taxes, counted as part of operating costs. Also paid last year was the stabilization tax, introduced by the [annual] budget law and paid by enterprises from profit left after deducting income-tax payments.

41. The principal role in the new tax system is played by the income tax. In a situation when fixed assets are not yet revalued and when, consequently, it is not possible to use the category of profit rate, the income-tax progression was linked to the return rate [rentownosc], calculated as a ratio of profit to processing costs [for example, all enterprise costs less costs of materials and non-durable goods, energy and outside processing]. Progression ranged last year from 0 to 90 percent of profit for return rates exceeding 30 percent.

The income tax last year was a subject of controversy and criticism, especially on the part of enterprise managers. It was pointed out that, with the highly diversified share of processing costs in enterprise total costs [koszty własne], the rate of return, which provides the base for tax computation, is a chancy indicator, affecting in particular the enterprises with low share of processing costs. Another has to do with the fact that most enterprises found themselves in the highest return-rate bracket, where 90 percent of profit increase is transferred to the state budget. This was attacked as a disincentive to large-scale production or to improvement in efficiency. The scope of this development, as exemplified by state-industry enterprises, is shown below:

Table 8.

The share of enterprises with return rate of more than 30% in:	%
--the number of enterprises	75.0
--sales	79.5
--financial performance	85.5
--income tax	92.7

Source: Information on the Implementation of Major Socioeconomic Tasks in January 1983, GUS.

But on the other hand, the steep income-tax progression played two essential functions in 1982.

First, it discouraged enterprises from excessive price increases. From this point of view, the income tax was functioning properly, as an instrument restricting inflationary processes in the economy.

Secondly, the high income-tax progression contributed in large measure to equalizing the ratios of after-tax profit to enterprise costs in sectoral breakdown, as illustrated by Table 9.

Table 9.

Industry	Ratios %/			
	Return rate to enterprise costs	Return rate to processing costs	Income tax to profit	After-tax profit to enterprise costs
Fuels	14.3	124.4	77.9	3.1
Chemicals	19.9	71.7	68.0	6.4
Textile	18.9	56.0	66.4	6.4
Food processing	9.3	55.7	64.6	3.3
Coal	12.8	16.8	33.4	8.5
Fine Ceramics	15.8	28.0	50.3	7.9
Industrial construction	15.5	27.5	52.0	7.5
Specialist construction	16.3	27.3	54.4	7.4

Source: The same as in Table 8.

42. Throughout 1982, tax rebates were granted--both individually /by the finance minister in response to substantiated applications by enterprises/ and generally /for export and defense production/. Income-tax rebates granted last year approached z1 38 billion /according to an estimate by the finance ministry/, including export-related rebates of z1 17 billion.

43. The income tax became last year the main source of state budget's fiscal revenues much exceeding the plan targets /z1 738 billion as against the planned figure of z1 417 billion/.

In response to numerous demands and in accordance with earlier announcements, the solutions for this year provide for substantial alleviation of the tax progression in the return-rate range of 30-50 percent and for tax rebates granted on account of channelling profits for development or other socially warranted purposes. These solutions should strengthen the motivational role of the income tax.

44. In line with the provisions of the law on taxation of socialized economic units, the sales tax is to be finally collected according to unified tariffs--10 percent for goods and 5 percent for services.

In the transition period, however, the finance minister was authorized to diversify the rates of sales tax and, starting from January 1, 1983, to change them within a given year. This solution--even though truncating the stability of the "rules of the game" from the stand-point of enterprises--is necessary, in view of the existing consumer-market situation and the necessity to counter-act high enterprise profits not linked to efficiency.

The power to impose differentiated sales tax rates was not fully exercised last year. This principle was supposed to help attain equilibrium prices /especially in "higher order" goods/ and channel the consequent advantages to the budget. But in practice, other tendencies were developing last year--for example, cuts in sales tax on cars, color TV sets, etc., with prices set below the equilibrium level.

There is a broad group of products where contractual prices are allowed but where they actually do not match the equilibrium-price level /for example, carpets, washing machines, radio equipment, etc./. At the same time, the sales tax is not used in accordance with its destination, and its fiscal functions are not drawn upon.

According to the Finance Ministry, the chances of making a broader use of the sales tax were limited in 1982 by: 1. the scope retail-price changes, induced by increase in production supply prices, 2. the relatively long list of standing products, exempt from the tax, 3. the small number and value of luxury goods, taxed at a higher rate.

As a result, the budgetary revenues on account of sales tax were lower than planned /zl 617 billion as against the target of zl 655 billion/.

According to the Finance Ministry, the main reason of this was lower-than-planned taxation on consumer goods /fabrics, household appliances, radios, TV sets, cars/. The structure of the sales tax shows concentration in two industries--spirits/yeast and refinery--which contribute 51.7 percent sales-tax revenues to the budget.

It should be stressed that the role of the sales tax and related budgetary revenues were increasing throughout 1982. While in the first half of the year, the average budgetary revenues of account of sales tax represented zl 44 billion a month, the corresponding figures for the third and fourth quarters of 1982 were zl 57 billion and zl 67 billion. Globally, the fourth quarter brought 31.4 percent of yearly revenues. This tendency continued in January 1983, when sales tax revenues amounted to zl 78.7 billion.

45. On the strength of the budget law, a lump-sum stabilization tax was introduced in 1982--paid by enterprises from profits after income tax. It was severely criticized by enterprise managers, since it constituted a major change in enterprise operating principles decreed at the beginning of 1982. The reason why the tax was introduced was the exceptionally difficult financial situation of the state. From that point of view, the stabilization tax greatly contributed to the reduction of budgetary deficit.

46. Taxes on wages and real estates, providing an important source of budgetary revenues, are designed to rationalize enterprise costs in the long run. At present, however, because of the persisting disequilibrium, they are virtually confined to fiscal functions. Besides, the function of stimulating manpower-cost reduction is not supported by the low share of manpower costs in enterprises total costs /12 percent in industry/.

47. The combined budgetary revenues received from taxes last year were much higher than the figure put in the budget law for 1982 and than the figure expected during preparatory work for this year's budget law. Higher revenues made possible substantial cuts in the budgetary deficit, as shown in Table 10.

Table 10. Budgetary Revenues on Account of Incomes in 1982

Tax	Budget law figure /billion zl/	Actual figure /initial estimate in billion zl/	3 to 2 / % /
Income tax	417.3	738.8	177.0
Sales tax	655.5	617.3	94.2
Wage tax	200.6	201.8	100.6
Real estate tax	36.0	34.7	96.4
Stabilization tax	100.0	88.4	88.4
Total	1,409.4	1,680.9	119.3
Share of taxes in budgetary revenues %/	58.7	71.4	--
Budgetary deficit	-154.7	-- 81.2	52.5

Source: "The Estimate of Budgetary Revenues and Expenditures for 1983-85," an appendix to the Sejm bill on the National Socio-Economic Plan for 1983-85, compiled by the Ministry of Finance.

48. Summing up the impact of the tax system on stimulation of economic activities and improvement in efficiency was much reduced last year. In large measure, this was caused by the design of the tax /income tax/ and the way it was applied /sales tax/.

In particular, the sales tax was not used as a tool of enforcing equilibrium prices on enterprises and of intercepting the consequent benefits to the budget /especially in respect to higher order goods/.

The linkage between the level of income tax and the return rate /calculated in relation to processing costs/ had the effect of differentiating at random the scope of tax burden.

The steep income-tax progression weakened the interest in a rapid growth in production, especially through higher productivity and capacity utilization. On the other hand, this progression hampered the tendencies to increase prices as well as limiting the advantages taken by enterprises on account of price rises.

With a view to consolidating the motivational function of income tax, the sales tax should be consistently applied as a means of attaining equilibrium prices. With limited room for maneuver in the pricing area, enterprises

would be provided with harsher financing conditions. If the motivational function of the income tax is to be strengthened, the linear tax-computation methods should be introduced, thus guaranteeing the enterprises a stable level of benefits on account of improvement in productivity and production growth. At the same time, because of the requirements of tight-money financing, the income tax should be relatively high. The high tax would also enhance enterprise sensitivity to the system of tax rebates and the system of unwarranted losses and costs, introduced in 1983. The sales tax should began playing more active role already in 1983, while the passage to a linear income tax should start in 1984.

A separate problem has to do with tying the local budgets to the performance of enterprises operating in a given region. Under the present system, the local authorities draw no benefits from improved efficiency of key enterprises [operating in their respective regions], even if they themselves influence the enterprises' operating conditions. It would also be purposeful to hook up the budgets of all enterprises acting in a given region.

#### H. The New Role of Banks and Credit

49. Bank credit is a category of basic importance for the correct functioning of systemic solutions introduced as part of reform. The Lines of Economic Reform, while describing the bank credit as an important instrument of influencing enterprise behavior, defined the functions and new operating principles of the banking system. It was agreed that the position, set-up and operating methods of the banking system should be subordinated to the objectives of economic reform. This was to be attained through: 1. separating the banking system from the Finance Ministry, 2. basing the relations between banks and self-financing enterprises on the contractual basis, 3. increasing the central bank's influence on the economic policies of the state, especially as far as consumer-market and balance-of-payments equilibria are concerned. On the strength of Sejm laws--on banking procedures, on the statute of the National Bank of Poland [NBP], and on socioeconomic planning--the banking system was thoroughly transformed, in accordance with the provisions of the Lines.

50. The principles of crediting enterprise operations and the banks' monetary/credit policy for 1982 were laid down in the following legal acts:

--the Council of Ministers' Regulation 16 of January 20, 1982, concerning the general principles of banks crediting,

--the Council of Ministers' Regulation 263 of December 11, 1981, concerning the credit plan for 1982,

--decision 17 of the Council of Ministers' Economic Committee, dated March 13, 1982 and concerning changes in the pattern of production in 1982,

--other regulations connected directly or indirectly with the financing and crediting of economic operations.

With its main function of enforcing the principle of enterprise self-financing, the credit system is assuming a pivotal importance under the new solutions. It should shape the correct proportions of development, influence the allocation and redistribution of resources in accordance with socioeconomic objectives set in national plans, and--its most important role--to stimulate efficiency. Under the now-introduced system, the bank credit will cease to be an automatic tool of financing, being transformed into its supplementary source, accessible only to those complying with the self-financing principles. As such, credit plays an auxiliary function in respect to current operations and development needs, in accordance with the provisions of economic plans.

51. Bank crediting and the monetary/credit policy were aimed in 1982 at the following goals: 1. enforcing all enterprises into observing the principle of full self-financing, as well as eliminating enterprises that do not meet these requirements, 2. reducing the scope of real-investment commitments and increasing the concentration of real-investment means, 3. reducing the scope of credit supply to limits set in the credit plan and justified by the scope of economic activities and funds deposited in bank accounts.

These goals were to be attained through the following measures: 1. refusal to extend further credits and withdrawal of the already-granted ones in respect to enterprises with insufficient credit worthiness, 2. withdrawal of investment credits, granted to finance enterprise projects with completion dates after 1982, 3. the use of the size of credits as a means of enforcing the greatest possible share of enterprises' own funds /from profit and development fund/ in financing the current and long-term requirements.

In 1982, the above-mentioned goals were implemented in a diversified manner.

52. In the first quarter of 1982, the basic economic and organizational conditions for the introduction of new crediting principles were not met. Because of such factors as the price reform (then underway), revaluation of inventories, delays in decisions on the scope and level of budgetary subsidies, etc., enterprises were unable to compile credible and realistic plans concerning their operations, costs and financial performance, which means they were unable to define their demand for bank credit necessary to run current operations. Financing in the first quarter was thus based on enterprises' own funds and ad hoc credits, extended without the guarantee of repayment /for lack of legal grounds/.

As a result, the introduction of new crediting procedures enforcing the self-financing principle, was started in the second quarter of 1982.

Guarantee of credit repayment became the main criterion applied in crediting. With this in view, the banks, starting from the second quarter, began to analyze enterprise applications for credit in 1982 and to carry out negotiations with enterprises. Positive rate of return on current operations in 1982 was adopted as the minimum criterion of credit worthiness /with credibility of production-supply and sale plans being taken into account/. The analysis of more than 23,000 credit applications showed that the

economic and financial situation of an overwhelming proportion of enterprises, as well as forecasts till the end of 1982, warranted the granting of normal operational credit.

However, because of the uncertainty as to the final production-supply situation in the second half of 1982, and not-always-realistic data on enterprise costs borne in the first half, and especially the first quarter of the year, many enterprises received credits for periods not extending till the year-end, and on terms linking further crediting to the financial performance of the first half of the year and to confirmed access to production supplies.

According to bank estimates, the total of 687 enterprises, including 402 enterprises covered by central plan and 285 enterprises covered by local plans, had insufficient credit worthiness. This group included 116 industrial enterprises, 320 construction enterprises, and 112 transport enterprises.

According to information supplied by the National Bank of Poland [NBP], credit refusals broke down into the following pattern /by ministry/:

Construction and Construction Materials	196
Administration, Local Economy and Environmental Protection	129
Agriculture and the Food Complex	54
Transport	54
Metallurgy and Engineering	34
Chemical and Light Industries	28
Mining and Energy	16
--other	176

The main reasons behind the banks' refusals to credit included the following:

1. Poor financial performance in the first half of 1982, not guaranteeing self-financing of further operations, 2. capacity underutilization and troubles with sales, 3. unrealistic nature of physical and financial plans for 1982, submitted to banks.

These three reasons overlapped in most enterprises. As a result, in the first stage of negotiations, even enterprises authorized to charge contractual prices could not prove--or even state with some degree of probability--that they would score positive financial performance in 1982.

In the course of further negotiations, with the participation of founding bodies [usually ministries or voivodship offices], most of the "endangered" enterprises /550/ got assurances of further crediting, including 200 enterprises which achieved this after having their rehabilitation programs accepted by the banks.

At the same time, 112 enterprises and cooperatives with insufficient credit worthiness lost access to credit--despite negotiations with bank branches, going on for three quarters of 1982, despite attempts at preparing rehabilitation programs, and despite efforts to receive budgetary subsidies or

other non-credit sources of finance. In respect to these units, banks withdrew credits and demanded immediate repayment of liabilities. Out of this number, 25 enterprises repaid credits from the received budgetary subsidies or other sources /for example, centralized co-op funds/. While not drawing new credits, they are now financing their operations from current revenues.

The remaining 87 units did not repay overdue credits totaling z1 5.0 billion.

Both the units which repaid credits but which have uncertain financial situation and the units which did not repay overdue credits are potential candidates for the imposition of rehabilitation procedures or for liquidation, as stipulated in the [now prepared] bill on enterprise rehabilitation and default.

53. Banks' negative assessments of enterprises' credit worthiness met in some cases with protests and charges about the alleged violation of the autonomy principle. These were supported by the stance taken by some founding bodies and other organs of state administration, trying to postpone the banking rigors, and pressing banks to finance enterprises with insufficient credit worthiness. This had the effect of weakening the role of the new credit system and its impact on efficiency improvement in 1982.

54. As for the investment credits, the banks withdrew credits previously granted to finance enterprise projects, with the exception of projects scheduled for completion in 1982 and those projects planned for completion in 1983 which were connected with the production of food, farm equipment, chemicals or feed mixes, fuel and energy savings or export production.

Applying the above-mentioned criteria, the banks withdrew credits granted previously for the financing of 230 projects of the estimated value of z1 160 billion. Part of these projects is now mothballed, while other projects are financed exclusively from the investors' own funds. This made possible the reduction of credit payments of the order of z1 30 billion throughout the year.

Credits granted economic units increased by z1 483 billion in 1982, or some z1 400 billion below the credit plan figure. Of this, operating credits were lower by z1 242 billion--and investment credits by z1 170 billion.

Among the factors responsible for so great a reduction in the level of bank credit, mention is due to: 1. much higher-than-planned financial accumulation in enterprises /by z1 500 billion/, 2. lower-than-planned results of inventory revaluation, 3. lower-than-planned investment expenditures /by z1 75 billion/.

55. The assessment of credit system performance in enforcing economic efficiency is difficult, for a number of reasons.

First, the ease with which credit worthiness can be attained in conditions of disequilibrium does not stimulate efficiency-boosting measures.

Secondly, the high degree of market monopolization and the deep market disequilibrium provide conditions for domination by the producer.

Thirdly, the excessive scope of various kinds of subsidies--central, ministerial, local, and co-operative--has the effect of protecting the existence of inefficient enterprises.

Fourthly, central-administration bodies, when preparing economic decisions, often ignore the credit plan, treating it as an internal banking document rather than a major document for planning the state's financial equilibrium.

With all these anti-efficiency factors, the experience of 1982 indicates that the credit system alone, without support from economic policies, will not have any greater impact on improving economic efficiency. The only thing this system can do is to enforce the principle of enterprise self-financing /through credit refusals/, which indeed was taking place.

56. An overwhelming majority of enterprises reported positive rates of return in 1982. But it should be admitted that, for reasons mentioned above, the credit system did not contribute in satisfactory degree to improvement in efficiency. As indicated by questionnaires taken throughout the year, most enterprises had no problems with getting a bank credit.

Characteristically, more than 90 percent of enterprises say they face no difficulties in contacts with banks. This is not necessarily a praise for the latter. The banking system thus proved its inability to pursue a tight-money policy. But such a policy is difficult in a situation where in other spheres the money can be obtained easily /market, prices, budget, subsidies, etc./.

57. As a result of 1982 experiences, a number of major modifications were made in the existing credit system and new solutions were introduced in credit policy. In consequence, 1. enterprises credit worthiness will be assessed in respect to a longer period than before, and the planned methods of attaining it will be taken into account, 2. the share of credits in financing constant current requirements will be reduced, 3. additional credit will be granted only those economic units which, in real terms, increase production and improve economic efficiency, 4. credit for new projects will be severely restricted, and 5. the amount of credit and interest rate will be connected with economic/production preferences and disincentives.

At the same time, in order to consolidate financial stability of well run enterprises, long term, low-interest operating credit will be granted them.

But it should be emphasized that the tight-money policy is connected primarily with the dynamics of restoring the state's financial situation--and not only with the tightening of credit terms.

The maintenance, for the second year running, of unbalanced budget, coupled with the magnitude of subsidies /exceeding all acceptable limits/, makes it difficult for the credit system to improve economic efficiency.

58. When assessing the effectiveness of credit system operations in 1982 and their concordance with the goal of reform defined in the Lines, it should be stated that the implementation of the goals was incomplete and that the influence of the banks upon the economy was insufficient.

The absence of Sejm laws on the so-called enterprise rehabilitation action and default procedures constituted a major loophole in the legal system of reform, making it difficult for banks to operate efficiently.

#### I. Wage Mechanisms

59. In accordance with Lines of Economic Reform, the elaboration and introduction of a motivational system that would act from without (upon economic decisions taken by enterprises) and from within (upon employees, stimulating them to higher labor productivity) has been considered the basic task facing the reform.

This goal was to be attained through:

- (1) abandoning the system of "central distribution" of wage funds,
- (2) linking the level of wages and their increase to economic performance of enterprises,
- (3) permitting wage differentials among employees of various enterprises, in accordance with the economic results.

It was agreed that central control over individual wages should be limited to determining general wage scales, principles of grading, basic wage proportions, minimum and maximum wages in occupational breakdown, principles of setting work norms and compensating for increase in costs of living. Other problems connected with wage formation, in line with the adopted solutions, were left to enterprise management, trade unions, and worker self-management--to be chosen by them and negotiated among them.

These lines of reconstructing the systemic solutions in the field of motivation were taken into account in the legal framework of reform.

In accordance with the law of finance management in socialized enterprises, the latter determine the amount of wage funds on their own--with the available

financial resources and in accordance with their operating requirements. Such a solution provides basic conditions for the reconstruction of previous pay principles towards imparting the motivational function to wages. But it should be emphasized that progress in the creation of internal motivational systems in enterprises depends primarily on the impact of external motivational systems.

An external motivational system based on the principle of economic coercion can work efficiently only if the self-financing principle is consistently observed. In designing its mechanisms, the observance of the self-financing principle was taken for granted. When coupled with the production-supply shortages it was to result in employment surpluses. In practice, however, these assumptions were not observed.

To begin with, enterprises had relatively easy access to budgetary and credit resources.

Secondly, the production-supply system, based on the rationing of basic raw and intermediate materials, guaranteed their availability, to a varying degree, for virtually all enterprises.

Thirdly, there were not infrequent cases of non-systemic measures aimed at the protection of inefficient enterprises.

These factors, coupled with the general economic and financial disequilibrium, persisting throughout the year, exerted adverse impact on the efficiency of the external motivational system in influencing the enterprises. In many cases (for example, construction) the influence of this system was eliminated by administration decisions.

60. The principles of taxation for the National Redeployment Fund (FAZ) initially provided for the exemption of up to 3 percent increase in average cost-forming wages /the other part of wages, in the form of bonuses and awards, is financed from enterprises profits/ and of up to 5 percent wage increases on account of employment cuts. The base wage was to reflect the consequences of wage increases announced centrally in 1981 and of increase in the value of allowances in kind granted various occupational groups (on account of changes in official prices). In addition, bonuses and awards, paid from profit for distribution, were to be exempted from FAZ taxation--up to the equivalent of 7 percent of average wage in 1981. Throughout the year, the FAZ system was being alleviated.

Some wage components (for example, increase in wages on account of overtime Saturday work and third-shift work) were excluded from the tax base, and increase in average wage on account of production growth in the second half of the year was pronounced exempt from taxation, as were bonuses and awards paid on account of export production.

The edge of the motivational system, elaborated and introduced as part of reform, was much blunted by solutions introduced under the Council of Ministers' Regulation 186/82. Under its provisions, exemptions from FAZ taxation could be applied to 0.5 percent wage increase (in yearly terms) corresponding to 1 percent production growth in the second half of the year. This co-efficient could be increased by enterprise founding bodies up to 0.8.

According to information supplied by five major economic ministries--with the exception of the Ministry of Construction and Construction Materials--the increased coefficients were applied in 1,105 enterprises or 37.9 percent of enterprises overseen by these ministries.

Also, a rebate in FAZ taxation was introduced in respect to profit-financed bonuses paid on account of export (Council of Ministers Regulation 182/81). Thanks to all these solutions, enterprises were able to raise wages to a greater degree than initially expected (when parameters of the system were being designed). Contributions to FAZ totaled z1 53 billion, or 35 percent of the figure estimated by the Finance Ministry at the beginning of 1982.

The external motivational system was weakened in 1982 as a result of two factors:

- (1) inconsistency in observing the self-financing principle,
- (2) wide scope of rebates and exempts in FAZ taxation.

This had an adverse influence on the reconstruction of internal motivational systems in enterprises. When the impact of reformed mechanisms was blunted, the effects of economic coercion were much reduced.

61. In June 1982, the Council of Ministers adopted Regulation 135 concerning the adjustment of some wage principles in socialized enterprises to the requirements of economic reform.

Most enterprises used their new powers--to shape their own pay systems and wage scales within the limits of mandatory minimum and maximum wage rates--in a correct way. It was by no means easy, the more so as the declining real incomes made it difficult to elaborate and enforce efficient motivational systems. Last years were a period in which wages were losing their motivational functions. As a result of central pay policy, there emerged a glaring chasm between labor remuneration and the quantity and quality of work done. To make up for these losses, consistent, patient, and long-term measures are needed.

62. The persisting weaknesses of the internal motivational systems in enterprises are determined primarily by the wage system and principles of wage formation that developed in the previous periods. [The wage system] is overexpanded and unclear, hampering--and often preventing--the creation of internal motivational systems linking wages to the effects of work. This state of affairs is further aggravated by the incongruence between many

provisions of labor law and the principles of economic reform. Next to these objective constraints, which are usually outside the control of enterprises, there also emerged subjective barriers--primarily the passive attitude of many enterprise managers, waiting for instructions on wage systems from the upper level of management. Despite all these unfavorable developments, the process of creating internal motivational systems did start in the second half of 1982. There are many examples of enterprises which on their own are actively overcoming the barriers in this field.

63. Questionnaire returns indicate that enterprises, in using their new powers, focused on elaborating and introducing new wage scales and new rules concerning bonus and award payment. In most cases, changes in the pay systems are aimed at altering the wage proportions in favor of workers directly involved in production. It seems that equally great opportunities for higher labor productivity on the enterprise scale are offered by motivating employees of auxiliary and technical back-up services.

However, the reconstruction of enterprises' internal motivational systems was limited, because it was done within the framework of the existing provisions of the labor code, collective labor bargains, and wagegrading principles.

Besides, as shown by the results of questionnaires, the maximum rates of basic wages, set by the Council of Ministers in its Regulation 135/82, are too low for many enterprises, hampering improvement in their internal wage structures. According to initial assumptions, all these problems were to be solved by a wage reform, scheduled for 1982. A relevant draft document was published by the Ministry of Labor, Wages and Social Affairs, under the title "To Whom, How Much, and in Return for What?"

Discussion on the draft was longer than expected, showing a whole spectrum of opinions--from firm support for the proposed changes, to partial and total questioning of their rationale. In these circumstances, considering the fact that an overall wage reform would necessitate invalidation of some labor-code and collective-bargain provisions, it was decided that such a reform should be postponed until conditions emerge for obtaining approval from trade unions.

#### J. Tools of Export Promotion

64. Last year saw the beginning of implementation of a system of management and control of foreign trade operations which is designed to encourage enterprises to develop profitable exports and makes it possible for them to take advantage of the international division of labor in order to rationalize their operations. The system of control and management of foreign trade is made up of legal regulations and economic mechanisms which serve to:

a. adjust the Polish economy to the situation prevailing in foreign environment in order to objectivize enterprise operating conditions and introduce economic calculus based on financial settlements in zlotys /instead of the former system of settlement in foreign currencies/.

This aim is being served first of all by price and exchange-rate policies as well as the system of foreign-trade settlements;

b. stimulate the growth of exports and their profitability, rationalize imports, and improve the organization of foreign trade. These aims are being pursued through regulations, of which the most important are the following: export revenue allowances, rebates on income tax and payments to the national redeployment fund /FAZ/, exemptions of import duties and sales tax, provision of foreign exchange funds to non-exporting producers, licenses to producers to conduct foreign trade operations in their own name, and, lastly, formation of limited liability foreign trade companies.

Because of the exceptionally difficult payments situation of Poland and the need to considerably cut on foreign spending, it has proved indispensable to introduce additional regulations for a transitional period. They include central distribution of foreign exchange funds, compensatory accounts for foreign trade operations, and bonuses paid out by the Ministry of Foreign Trade.

65. In order to create conditions for the development of a profitable foreign trade it is necessary to introduce a parametric system of domestic prices [meaning that prices would correctly and truly inform producers and consumers of the relative scarcity of products--ed. note].

This is especially important as far as the prices of imported basic producer goods are concerned. It is true that the latest reform of production-supply prices resulted in narrowing the gap between the domestic prices of basic raw and intermediate materials and the prices paid or obtained for them in foreign trade operations.

However, the reform failed to fully solve this problem. On the other hand, the gap between the two kinds of prices has been further narrowed as a result of changes in the domestic prices for basic means of production introduced later. Starting with 1983, official prices for the basic raw and intermediate materials imported from capitalist countries have been very close to the transactional [for example, foreign market] prices of 1982. Thus it is fair to say that conditions have emerged for basing economic calculus on actual financial settlements, which in turn makes it possible to introduce economic tools stimulating export profitability and concordant with the philosophy and assumptions of economic reform.

The principle has been adopted according to which the rate of exchange of the zloty must be fixed at a level guaranteeing profitability to 75 to 85 percent of total Polish exports. At the beginning of 1982, the Chairman of National Bank of Poland [NBP] announced the following exchanges rates: 68 zlotys to the transferable rouble and 80 zlotys to the U.S. dollar. Owing to changes occurring in the international money markets, the exchange rate vis-a-vis the U.S. dollar was repeatedly raised [for example, zloty was devalued] to reach 86 zloty at the end of 1982.

Throughout the year, the share of profitable exports in total exports declined, mainly owing to the picking up of foreign sales of the manufacturing industries. The bulk of unprofitable exports fall within the categories of agricultural and food exports on the one hand, and industrially-produced consumer goods exports on the other. The causes responsible for this situation are manifold.

The main reason is the growth in production costs coupled with efforts by all producers, subcontractors and traders to secure high profit margins for themselves. Another reason is the fall in product quality standards which finds reflection in the growing number of complaints from buyers and returns of shipments on the ground of inadequate product quality. These trends should be checked by, among other things, the introduction of measures designed to stimulate export profitability.

66. Stimulating export profitability by economic means requires that contractual [deregulated] prices based on transaction [foreign market] prices be applied on a broader scale in settlements between producers and foreign trade organizations. It is true that the foreign trade agencies received recommendations from the Ministry of Foreign Trade to apply transaction prices as the basis for their contractual prices [in settlements with domestic producers] and that, with the introduction of tax rebates, these prices began to have a direct impact on the producers, but nevertheless the present state of affairs cannot be deemed satisfactory. Another matter which requires examination is whether it is advisable, and to what extent, to apply official prices to export settlements. Official prices have been fixed on 27 percent of merchandise sold abroad.

67. The economic reform relies on economic mechanisms, instead of "directives," to stimulate exports. These mechanisms feature both zloty and foreign-exchange incentives. The system of export revenue allowances was introduced by the Council of Ministers' Regulation 243 in the first half of 1982. It was extended and improved by the Council of Ministers' Regulation 134, and has been fully operational since the second half of last year. The scheme empowers enterprises to retain a part of convertible-currency revenues earned from exports and spend them according to their needs, as well as put them at the disposal of other economic units which have been helping their exports. The foreign exchange accumulated in this way can be spent on imports of materials, parts and components and, when this is required by the expansion of production capacity, machinery and capital equipment. By the end of last year the system of export-revenue allowances was expanded to include the option of depositing the accumulated foreign-currency funds in interest-carrying long term bank accounts.

68. During 1982, the total of 1,328 enterprises were granted the right to export-revenue allowances. Bank Handlowy SA opened 397 individual and collective accounts in this connection and the sum total of all allowances reached \$358.3 million, or 6.4 percent of the value of Polish exports to capitalist countries. \$122.1 million /for example, 34.1 percent of available funds were actually spent on imports. The average rate of an allowance was 19 percent. The authorities are of the opinion that so far the enterprises have made a proper and correct use of the foreign exchange funds made available to them via the system.

The money in question was spent on imports of engineering and chemical products /56.2 percent and 36.6 percent of total expenditure, respectively/. Only rarely did the enterprises avail themselves of the opportunity to transfer the right to spend these funds to subcontractors and other suppliers. Transfers among export-revenue account holders totalled \$16.6 million, while those to subcontractors reached \$3.2 million. Of that latter sum, only \$0.3 million was eventually spent on imports.

The fact itself would hardly be any reason for concern had it not been accompanied by strong pressures on economic ministries aimed at 'extorting' foreign-currency appropriations to finance imports of parts and components.

69. The second in importance stimulator of exports has been the system of remissions of income tax and payments to FAZ national redeployment fund. The system was introduced by the Council of Ministers' Regulation 182, starting with the second half of last year. Its validity and operation were extended into 1983. The following regulations have been employed within this scheme:

(a) an income-tax rebate linked to the value of foreign sales, which amounts to 3 percent of the value of exports expressed in transaction prices plus 20 percent of the value of improvement in exports over last year's figures /also expressed in transaction prices/. The 20 percent component of the rebate is linked solely to the exports destined for the USSR and hard-currency markets. The rebate is a strong incentive to boosting foreign sales and is especially rewarding to those exporters who manage to increase prices obtained in foreign markets. In general, this scheme does not cover products which are the subject of central distribution and central input-output balancing.

(b) a rebate in FAZ contributions, applied in respect to bonuses paid from the employee participation fund. The amount of bonuses free from FAZ taxation is increased by the equivalent of 20 percent of export-related income-tax rebate.

It is hard to assess what was the contribution of these rebates to the growth of Polish exports in the second half of last year /the increase was 27.3 percent compared with the first half of 1982 and 27 percent in comparison with the second half of 1981/.

They certainly had some significance and can be expected to bring effects in the longer term, especially if they are made more powerful and used as incentives to higher profitability of exports.

70. Improvements introduced to the organization of foreign trade in Poland have been aimed at making the links between various enterprises involved in foreign trade operations more flexible. Similar flexibility has been sought with regard to the structure of institutions and enterprises subordinated to the Ministry of Foreign Trade. Another aim has been to consolidate the strategic functions performed by the ministry. These aims were pursued during 1982 through, above all, granting licenses to producers to conduct foreign trade operations in their own name, and setting up limited liability partnerships on the basis of former state foreign-trade enterprises.

The legal basis for granting the licenses has been the Sejm law on the licenses to conduct foreign trade operations of 26 February 1982. The Ministry of Foreign Trade received 251 applications for licenses, of which 130 were filed by individuals. Among the big firms granted licenses are URSUS tractor factory, Rafamet works of machine tools, ZUP industrial equipment works of Nysa, FAMPA factory of paper making machinery, Predom-Polar works of washing machines and refrigerators, Polska Zegluga Morska /Polish Steamship Company/, PEKAES /international road transport carrier/, and 9 building enterprises.

Licenses covering exports of technical innovations, software and know-how were granted to 8 universities and research centres, including the Warsaw Technical University and the Academy of Mining and Metallurgy of Cracow. Thirty-four legal entities and individuals were refused licenses, while the rest of the applications are being studied. The short time which has elapsed since granting the licenses makes it impossible to analyze their impact on the growth of export and improvement of its profitability.

Limited liability commercial partnerships have been set up mostly in those manufacturing industries which have a large number of independent producers of identical or similar goods. Ten partnerships have been formed to date, with 709 partners, in addition to the State Treasury. Work is in progress on transforming twelve more foreign trade agencies into limited liability companies.

The limited liability companies are expected to integrate producers and foreign traders organizationally, as well as creating economic ties between them. After deducting (linear) profit, company tax is divided among stock holders, with the dividends enhancing the producers' net profit. As a result, producers and traders are jointly interested in reducing the costs of production and commercial costs and in maximizing hard currency prices. The State Treasury stock is supplied so as to guarantee the concordance of company operations with the interests of the national economy as a whole.

#### K. The Functioning of the Consumer Goods Market

71. The reform of the domestic market in 1982 did not go as far as the society expected. Despite many efforts, the essential problems of the domestic market were not solved although in many cases they were certainly alleviated. The unsatisfactory assessment of the degree of introduction of the reform in this domain results from the following considerations:

- a. the insufficient supply of many essential consumer goods;
- b. the too weak position of the customer on the market;
- c. the insufficient influence of economic instruments--prices, tax rebates, etc.--on the producers' switch towards the production of consumer goods and on the restoration of market equilibrium;

- d. the deterioration of the functioning of the system of contracts;
- e. the lack of sufficient coordination of current central-level decisions regarding the domestic consumer goods market.

72. The persisting state of deep market inequilibrium has made it necessary to resort to administrative control of retail sales (for example, rationing). Such action, while inevitable, is incompatible with the principles of the reform as it perpetuates the operation of the order-and-quota system. The broadening of the scope of various forms of rationing, for example sale against special coupons or through a lottery, does not help the restoration of the due role of the market and should not be allowed to take place. On the contrary, it is necessary to undertake efforts to limit the scope of rationing of consumer goods.

The present methods of channelled sale deprive the products distributed in such way of the attributes of merchandise; instead they become something of the kind of welfare handouts or cause the emergence of "forced demand." This is a dangerous tendency, both from the point of view of balancing the market and of motivation of productivity growth as well as of tying an individual's income to his input of labor. This state of affairs perpetuates the "give-it-to-me" approach of a considerable part of Polish society.

73. The severe shortages of many goods, the shopping nightmare and inaccessibility of many goods, combined with a deterioration of quality of goods and services made it impossible to strengthen the position of the consumer.

The consumer organizations which have been operating for some time have not managed to attain any significant progress in the observance of the consumers' needs on the market, settling of warranty claims, etc., although they can boast having solved a number of matters, especially on a local scale.

It appears to be necessary to make intense efforts to strengthen the position of the consumer on the market, both through legislative undertakings and through practical respect for his position as a partner. It is indispensable and urgent to improve the system of settling customers' complaints.

74. The limited operation of the system of contracts had a negative effect on the proper functioning of the market; this was because of the lack of equilibrium on the market. Last year it was not possible to create a consumer's market as most of the markets are still the producers' markets. Indeed, in some cases the producers' position has actually been strengthened. This is confirmed by the practices employed by producers, who impose their terms, concerning the volume, selection or price, on the purchasers. Often producers do not observe the contracts signed with their distributors while many factories (notably in the knitwear, undergarments, or hosiery industries) refused to conclude contracts with retailers altogether.

There was a slackening of the supply discipline and it is quite difficult to force the manufacturers to observe quality requirements. This must be considered a very disadvantageous state of affairs and one that calls for indispensable actions to restore the proper meaning to trade contracts.

Therefore one of the most urgent tasks in the reconstruction of the principles of operation of the market would seem to be the restoration of the role of the contractual system with the view to ensure stricter discipline, mandatory damages for the failure to deliver, and possible preferences for specified kinds of contracts (for example, government orders).

#### L. Turnover in Raw and Intermediate Materials

75. The systemic solutions adopted within the economic reform clearly define the ultimate organizational structure of turnover in production supplies and its principles. This was expressed in the "Lines of Economic Reform" in which it was decided to:

- to depart from the traditional directives in domestic turnover in production supplies,

- to base supply processes in national economy on "horizontal" production and supply arrangements executed on the basis of goods-for-money contacts,

- to apply no ministry-imposed limits on the market for producer goods,

- to base the steering of production-supplies distribution processes on the use of economic instruments and general norms /prices, markups, commission, taxes, subsidies, legal norms governing contractual relations, etc.,

- to change basically the role and purpose of balance-sheets of raw materials; these will cease to be a tool of distribution and become a basis for steering supply processes through economic instruments.

With the deep inequilibrium in production supplies in mind, the "Lines of Economic Reform" admitted the possibility of an interim retention of central distribution of materials /for 2-3 years/, while emphasizing the indispensability of the profound change of methods and principles. These changes concern:

- the curbing of assigning of specific amounts of materials at the central level,

- the move from assigning materials to producers to assigning them to definite products,

- entrusting the defining of specific lines of distribution to organizations dealing with production supplies turnover,

- alloting supplies for longer periods of time.

The interim solutions regarding the supplies of raw and intermediate materials were contained in Council of Ministers Regulations No 243 and 278 of 1981. At the same time, the law on socioeconomic planning of February 26, 1981 provided for the discontinuation of rationing of raw and intermediate materials and end products must take place by the end of 1983 at the latest.

76. While evaluating the implementation of the reform provisions in materials economy, it is necessary to emphasize the drastic decline in the flow of materials and equipment, both from Polish sources and imported ones.

According to the figures of the Office for Materials Economy, the supplies of the 42 basic raw and intermediate materials for Polish industry stood at 80-85 percent of the 1980 level in 1982. The import of production supplies from payments zone II in 1982 amounted to less than a half of the 1980 level.

77. The process of introduction of the new principles of material and technical supplies was characterized by differing intensity in the first and second half of the year. The first-half results amounted in practice to:

--acquainting the people concerned with the binding regulations pertaining to this domain;

--the introduction of a new supply system in such lines as tyres, car batteries, rubber, phosphates and apatites;

--the appointment of supervisory groups at organizations acting as mandatory intermediaries in turnover.

The relatively narrow scope of the introduction of the new supply system in the first half of 1982 was due to the fact that most of the materials needed in that period had been distributed back in 1981 under the previously binding principles, for example, by ministries, and the division was done by the *zjednoczenia*, which operated until mid-1982.

The advance period required in placing orders and issuing allocations was responsible for the fact that a mixed system of distributing production supplies was in force in the first half of 1982.

However, such mixed forms also persisted in the second half of the year. As a result, the reformed system of supply still had to rely on some basic principles in the second half of 1982, namely:

1. the introduction of free contractual turnover,
2. the introduction of a new type of distribution and mandatory intermediation by turnover agencies in some domains,

3. the elimination /outside small-scale manufacturing and defense industry/ of vertical distribution in all branches of national economy and its replacement with horizontal connections /between enterprises and materials turnover units/,

4. the socialization of the process of distribution by transferring appropriate powers pertaining to distribution to supervisory units and Voivodship Materials Economy Teams,

5. the imposition of financial penalties for the failure to observe the principle of compulsory participation of turnover units in the distribution of materials,

6. the introduction of definite supply priorities,

7. the authorization of the minister for materials economy, to coordinate the whole of activities in the supplies domain in the national economy.

78. The central balance-sheets of materials for 1982, in view of the low level of certainty on the credit side /production, imports/, did not constitute a sufficient basis for steering supply processes, although their new role was gradually taking shape. They were no longer a tool of distribution of materials but they still could not sufficiently fulfill the role of instruments of balancing demand and supply.

In conditions of deep inequilibrium, the selection of priority aims was indispensable for the emergence from economic crisis. This was also reflected in the solutions applied to production supplies.

The production targets specified in government operational programs were partially implemented. However, as there were too many of them and they were too broad, not all the materials necessary for their implementation could be secured.

This system of preferences did not pass the test for a number of reasons:

1. the assumptions of the operational programs lacked definite recommendations regarding the method of implementing them,

2. the excessive number and scope of the operational programs made it possible for practically all economic units to benefit from participating in their execution,

3. the sum total of demand for materials registered under the operational programs often by far surpassed the possibilities of securing domestic and imported deliveries of the materials,

4. there was an excessive growth of bureaucracy, related to the necessity of handling the paperwork connected with operational programs.

During the year it was necessary to review and revise the principles of implementation of operational programs, their scope and methods of ensuring adequate material supplies. The problem was dealt with by decision No 30 of the Economic Committee of the Council of Ministers of May 5, 1982.

The scope of priorities in access to raw materials was vastly enlarged and surpassed the area of operational programs. Additional decisions of the government economic commission accorded priority treatment to a dozen or so other areas, such as forestry, housing construction, local production of building materials. Such a broad scope of preferences made it difficult to satisfy in full the demand for materials required for the implementation of the plan targets.

79. In 1982 the attention of the central level of management was focused on direct instruments. Materials were distributed at the central level, fuels and energy were rationed, and there was a monopoly of turnover in materials. The mode of distribution was fundamentally changed but the process of change in this domain was slow /out of the 21 units authorized to distribute materials, 11 did not employ the new principles until the third or fourth quarter of the year/. There was still a strong tendency to preserve the materials-distributing powers of economic ministries. The scope of rationing embraced 16 groups of elementary materials which accounted for about 25-30 percent of all supplies of materials in industry. It should also be noted that the rations were awarded for short period of time, mainly for three-month periods, and that the mode of rationing was quite complicated and differed from one area to another; as a result, it was the target of sharp criticism on the part of customers.

The lack of emergency reserves of materials, the lower imports and failure to fulfill earlier production plans resulted in actual supplies being lower than the awarded rations, which, in the opinion of the customers, determined the negative assessment of the whole system of rationing. The exclusive right to turnover in materials awarded to selected units was, after all, supposed to streamline the system of central-level of allocation of materials.

However, the exclusive right to handle the turnover in materials strengthened the monopolistic position of the middlemen and producers and put the organizations enjoying monopoly rights in relation to materials turnover a convenient or in many cases an unchallenged position on the market.

80. Economic instruments of controlling material supply processes were used only to a limited extent in 1982. The main problem in 1982 was to be able to buy materials at all rather than the price that had to be paid for them or the shortage of funds. There were no sufficient forms and methods of complex influence of economic reform mechanisms on both the domain of controlling the flow of materials so as to secure the elimination of bottlenecks in the national economy and on the domain of motivations leading to a growth of supply of scarce materials and goods.

The relatively broad scope of contractual /deregulated/ prices for raw materials had its positive as well as negative effects. In view of the pronounced shortage of raw and partly processed materials, some of them were transferred to the regulated-prices category as of January 1, 1983.

Neither was the system of markups used on a broader scale in steering supply processes. The high level of these markups made it possible for turnover organizations to record high profits, a lion's share of which was, however, transferred to the state in the form of income tax.

81. The system of contracts which, according to the assumptions of the reform, was to govern supply process as the basic regulating instrument between suppliers and customers, has not operated properly so far, mainly because of the fact that in view of the supply uncertainties and assured sales, the suppliers avoided committing themselves by means of entering long-term contracts; in fact they often refused to confirm even short-term orders.

Besides, the contracts between suppliers and customers for raw materials that were concluded in the end, were based on the Council of Ministers Regulation No 192 of August 3, 1973 [as printed], whose provisions did not for the most part suit the solutions contained in the reform and occasionally even contradicted them. The obstacles were only removed with the adoption of Regulation 207 of August 27, 1982 on contractual relations between socialized enterprises. The regulations governing contracts then stopped to be obligatory and assumed the character of instructions instead.

An intensive process of changes embraced the structure of the supply organizations. These were exemplified by:

1. the elimination of the intermediate level of management, for example, the boards of many distribution centers; this process has been basically completed,
2. the formation of associations of enterprises which rendered services to its members,
3. the establishment--in several cases--of independent enterprises on the basis of the disbanded boards, centers and zjednoczenia.

Some negative phenomena were observed in the organization of the supply apparatus, which may adversely affect the future course of the implementation of the reform, notably:

1. a part of materials turnover enterprises were incorporated into obligatory associations of manufacturers, which definitely strengthens the monopolistic position of suppliers on the supply market,
2. most of the materials turnover agencies remained within the sphere of influence of sectoral ministries,

3. so far, the associations of materials turnover enterprises and especially the ones which enjoy a monopolistic position lack the ability to make independent assessments of the customers' demand for materials and apply outdated forms of maintaining contacts with their customers.

It should also be noted that most of the associations perceive as their basic task the handling of material supplies and especially joint representations [to superior authorities] in the case of material shortages, or voicing reservations about allotment of materials, etc. It appears that problems connected with material supplies were the main reason why enterprises were so eager to form these associations.

82. The supervisory boards at units exercising mandatory intermediation in turnover were not always able to act in accordance with the principles of the new system of supply or adopt unbiased decisions. Representatives of economic ministries, including heads of such teams, and representatives of the enterprises concerned, often looked after their own interests first, as they were also customers for the materials they were in charge of distributing themselves.

On many occasions these teams managed, however, to resist the pressures from ministries and other groups and undertook actions to find the possibilities of increasing the supply of materials and, from this point of view, provided a good example of social supervision of the rationing process.

Similarly, it is possible to make varying evaluations of the voivodship materials economy teams which act as supervisors with regard to local distributing units. In many instances, these teams actively joined in the process of allotting materials, while in other cases merely waited for regional turnover institutions to come forth with their initiatives.

83. In the entirety of supply processes, the position of the customer was characterized so far by the highest degree of uncertainty, both as regards the volume of allocations, their infallibility, or degree of execution. The small customers were particularly disadvantaged, their needs were met to a differing extent, even in enterprises enjoying priority treatment /in most cases, the supplies were unsatisfactory/.

According to the customers, the efficiency of the materials turnover enterprises is low, hence the emergence of secondary turnover in supplies, which in many instances is the last resort for a manufacturer wishing to reach the adopted production targets. As for the binding system of rationing, the opinion is divided, with at least a half of all enterprises taking a positive view of it while only one-fourth dismiss it. Most of the customers are against the broadening of the scope of mandatory intermediation which constitutes a barrier to direct contacts with the suppliers.

The lack of final figures on inventories makes it impossible to analyze and assess their influence on the efficiency of supply processes. Nevertheless, it can be stated that:

--the stocks of many materials /especially coal/ were replenished,

--there were pronounced disparities and lack of complementarity of stocks; on the one hand, this hampered the course of supply processes and on the other resulted in a generally high level of inventories,

--the overall amount of inventories, in terms of value, compared to the rate of consumption of materials, is high; the reform mechanisms have not had a direct influence on this state of affairs.

It should be stated that the process of introducing the new principles of functioning of the structures handling production supplies last year was determined by the extremely difficult situation with regard to the supply of elementary raw and intermediate materials. This made it necessary to resort to interim solutions based on rationing and mandatory intermediation; in many cases the scope of the above was unnecessarily broad.

The widespread introduction of "horizontal" relations in the domain of supplies was hampered by the existence of the old command-and-ration structures in the turnover in raw materials. It is indispensable to rebuild these structures in order to streamline the introduction of the reform in this area.

### Part Three

#### The Impact of the Mechanisms of Reform Upon the Economy in 1982

1. It is not feasible to determine the cause-effect relationship between the introduction of the mechanisms and principles of reform on the one hand and the course of economic processes in 1982 on the other. There is no analytical method enabling an unequivocal identification of consequences of reform from among various factors influencing the economy. This is primarily true of the year 1982 when the country's economic situation was shaped by a host of external and internal factors, among them:

1. the consequences of the crisis and decisions taken prior to 1982,
2. disciplining and mobilizing impact of the rigors of martial law,
3. quick increase in coal production, coupled with improving situation in the power industry,
4. adverse impact of restriction and limitations imposed by capitalist countries,
5. positive influence of Soviet assistance, and reorientation towards closer economic cooperation with socialist countries,

6. many measures and decisions taken in 1982 at various levels of economic activity and contravening the principles of reform (incidentally, such decisions not always bore negative consequences).

As a result, one can only attempt in this part to present a tendency towards change in real economic processes and to determine how the mechanisms of reform helped attain socioeconomic goals and where they proved of no importance (or even detrimental) to progress. And it should be kept in mind that it is often very difficult to differentiate between the weakness of a discussed mechanism and indiscipline at the implementing stage. This is a most difficult problem for assessment.

The task is all the more risky and complicated as it is only in the second half of the year that any impact of reform on the economy can be detected. The first half of 1982 was a period of preparatory work, transmission of information, and creation of a formal framework for operations according to new principles. Half a year is too short a period to formulate authoritative assessments. At best, these can only be hypotheses and approximations concerning the fundamental question: how has the reform proved itself in practice and what has it brought about to the economy and society?

#### A. Production, Employment and Labor Productivity

2. As far as industrial production is concerned, a gradual yet systematic improvement has been taking place throughout 1982. Welcome changes in this respect are well illustrated by comparing last year's data with corresponding figures for 1981:

- 1) an 11 percent drop in the first quarter,
- 2) a 4 percent drop in the second quarter,
- 3) a 1 percent growth in the third quarter,
- 4) a 7 percent growth in the fourth quarter.

This favorable trend continued in the first two months of 1983--industry's sold production in January-February 1983 rose 15 percent on the corresponding 1982 figure--and it was the manufacturing industries rather than mining that contributed most to the growth. It should also be stressed that last February output rose in all industries, with the exception of animal feed.

Dynamics of industrial output, employment and labor productivity in individual months of 1982 are illustrated in Table 1.

Two stages can be discerned in 1982: one of slowing down the regression /January through July/, and one of gradual increase in production /the latter half of the year/.

Table 1. Decline /Increase/ as Compared With the Same Month of the Previous Year /%/

Month	Industrial output	Employment	Labor productivity
Jan-Dec 1982	- 2	- 5.2	+ 4.0
January	- 14	- 4.6	- 9.6
February	- 11	- 4.8	- 6.2
March	- 6	- 5.0	- 1.5
April	- 6	- 5.7	- 0.7
May	- 3	- 5.6	+ 3.1
June	- 3	- 5.8	+ 3.2
July	- 4	- 5.9	+ 2.4
August	+ 2	- 5.6	+ 7.1
September	+ 4	- 5.5	+10.0
October	+ 5	- 4.9	+10.0
November	+ 8	- 4.7	+14.0
December	+ 12	- 4.4	+16.0

Source: GUS /Central Statistical Office/ data.

Owing to the reversal of downward trends, the decline in industrial output /as compared with 1981/ was reduced down to 2 percent. This relatively favorable course of production processes in industry was possible thanks to smooth work--since the beginning of the year--of the mining and power industries. As compared with 1981, mining output represented 111.0 percent, while the figure for manufacturing industry was 97.0 percent.

A decisive impact on the dynamics of industrial output was exerted in 1982 by the availability of production supplies, especially imported ones. Despite an improvement in the second half of the year, production-supply imports dropped in 1982 by 8.4 percent, including a 22.4 percent decrease in imports from hard-currency markets. To a limited extent, this can be offset by domestic deliveries and shipments from socialist countries.

Considering these unfavorable production-supply conditions, the 3-percent drop in manufacturing output in 1982 indicates that mechanisms of better utilization of short-supply raw and intermediate materials were set in motion. Without such mechanisms, the drop in production would have been much steeper. It seems reasonable to say that the principles of economic reform, and especially enterprise autonomy, were among factors contributing to better utilization of raw and intermediate materials.

3. Total employment in socialized industry decreased throughout the year by 243,500 persons, or 5.2 percent /6.2 percent in manufacturing industry/.

Lower employment was recorded in all industries with the exception of coal and energy, where it rose more than 4 percent. One factor influencing the situation was the Council of Ministers' order of July 17, 1981, concerning the retirement of employees of socialized enterprises.

Between August 1, 1981 and December 31, 1982, the total of 623,800 applications for early retirement were registered, of which 238,100 were made in 1982.

In all, 535,100 persons were granted early retirement. /According to estimates by the Ministry of Labor, Wages, and Social Affairs, the real decline in employment on this account is in the range of 200,000-300,000 persons./ In principle, directors did not resort to provisions authorizing them to reject an application on account of production requirements. This rapid outflow of long-service employees resulted in many enterprises in the shortage of skilled labor force. This is particularly true of workers doing the most difficult and strenuous jobs, who are most difficult to replace.

An analysis of 1982 developments in the field of employment, and especially in the labor market /see Table 2/, dispels fears that enterprise autonomy might bring about pressure for employment cuts. To some extent, the great shortage of labor was caused by the design of FAZ taxation of average-wage increase /together with the above-mentioned decision permitting early retirement/.

Table 2. Labor Market Situation in 1982

Month	<u>Vacancies</u> /add 000/	<u>Job</u> <u>seekers</u>	Number of vacancies per job seeker
January	126	36	3.5
February	140	42	3.3
March	176	37	4.8
April	232	27	8.6
May	254	22	11.5
June	280	20	14.0
July	307	19	16.2
August	271	18	15.1
September	282	16	17.6
October	280	13	21.5
November	277	11	25.2
December	248	9	27.6

Source: GUS data.

Higher demand for labor, signalled by enterprises, was not always determined by real production processes.

It was often a result of the "employment game" with which enterprises tried to reduce their FAZ contributions to the minimum. Such a behavior was made possible by the alleviation of financial rigors throughout the year and by relatively easy access to financial resources.

4. Labor productivity increased in 1982 by 4 percent--a result of lower employment as compared with 1981 /by 5 percent, throughout the year/, and a systematic monthly growth in production.

Increase in labor productivity, as broken down by industry, is illustrated by Table 3.

Table 3. Dynamics of Labor Productivity and Employment

Specification	1982	
	Labor productivity dynamics	Employment dynamics
	1980 = 100	
Socialized industry	104	94.8
--mining	107	103.5
--manufacturing	104	93.8
Precision	113	96.6
Fine ceramics	111	93.0
Paper	110	95.2
Coal	109	104.8
Machinery	108	94.4
Garments	108	93.5
Leather	107	92.9
Nonferrous metals	107	95.8
Means of transport	106	92.6
Construction materials	106	95.5
Glassware	106	95.0

Source: GUS data.

In assessing the 1982 developments in the field of labor productivity, it should be stated that substantial progress was started in the second half of the year.

With a view to consolidating this tendency, the mechanisms of reform were modified. Increase in total amount of wages [in an enterprise] replaced the average wage as the base for FAZ taxation, and the wage fund was linked to production performance. This should provide an encouragement to rational employment /and especially its improved structure/ and to higher productivity.

5. According to the GUS communique on the country's socioeconomic situation in 1982, national income produced outside agriculture dropped 8 percent from the 1981 level. Industry's net production [produkcja ozywa] fell 6 percent, while sold production decreased by only 2 percent. This shows that the downward trend in economic efficiency continued throughout the year /if the ratio of net to global production is taken as the criterion/.

As assessed by GUS, the steeper drop in net production, as compared with sold production, was caused by the following factors:

- higher amount of depreciation charges,
- relatively high consumption of energy,
- relative stability of some elements of material costs,
- intersectoral changes in the structure of production, leading to higher share of production with high material content,
- increased material content in some product groups, caused by substitution of imported raw materials and semi-processed products with domestic materials of usually lower quality and lower technical/economic parameters.

The scope of available statistical data for 1982 does not permit a thorough analysis of this subject.

But it should be stressed that there were many factors last year which did not help improve efficiency, calculated as material and energy content in production.

First, the operational-program priorities were set from the point of view of physical requirements of the economy. Efficiency criteria were not taken into account. But such an approach was necessitated by constraints imposed by the crisis situation and by the need to counteract further drop in production.

Secondly, the supplies of fuel, energy, raw and intermediate materials were in many cases uncomplementary, mostly because of limited imports from hard-currency markets. The adapting measures, such as development of import-replacing production, or use of domestic substitutes, helped attenuate the negative consequences of production-supply decline. But on the other hand, undertakings of this kind are usually marked /especially in initial periods/ by lower efficiency.

Thirdly, the increase in fixed-asset value /by 2 percent in constant prices/ was independent of the physical drop in production.

The situation in the field of economic efficiency /and especially the use of fuel, energy, raw and intermediate materials/ is both a consequence and a major manifestation of the critical state of the economy.

According to an assessment of the Polish Committee for Standardization, Measures and Quality, the reform, in so short a period, could not induce a drop in the consumption of raw materials, energy and fuels.

6. The impact of reform mechanisms upon economic efficiency was much reduced by such factors as:

- the continuing state of economic disequilibrium,
- the interim solutions, including the wide scope of producer-good rationing and sizeable number of operational programs.

Also, the new crediting principles--which should provide the basic element of the efficiency-stimulating system--began to be observed only in the second half of last year. This meant that the working of the external motivational system--enforcing enterprises to improvement in economic efficiency--was much reduced.

And finally it should be stressed that last year was first of all a period of restoring the basic relationships in the economy, and not a year of tangible advances in economic efficiency.

In order to consolidate the efficiency-promoting systemic solutions, some modifications were designed for 1983. In particular, the ceiling [of wage increase] from FAZ taxation was linked to increase in net production. These modifications should contribute to improving economic efficiency at enterprises. But this will depend on the degree to which these solutions are supported by economic policy, imposing the so-called harsh constraints on enterprise operating conditions. Without this support, one can hardly expect any improvement in economic efficiency.

#### B. Foreign Trade

The objective of economic reform in foreign trade is to provide conditions promoting exchange with foreign partners and enhancing the country's contribution to international division of labor. The reform was started here in an extremely difficult situation, marked by huge foreign debt and absence of new credit openings, coupled with low level of exports and high import content in industrial production. These developments are accompanied by home-market disequilibrium, which makes it impossible to force [producers] to take care of the client and his requirements concerning product quality and price. The external conditions were additionally complicated by world-wide recession and by economic sanctions applied by the United States against Poland.

In these circumstances, it is not possible to introduce target solutions of reform by means of single-stroke operation. It should rather be spread in time, leading gradually to a situation when Poland attains trade surplus at a correct level of capacity utilization, and when it is possible to modernize and expand productive potential--thanks, in part, to foreign shipments. For this to be attained, efficient exports should be developed and imports rationalized.

At the early stage of reform /1982-83/, it became necessary to apply--next to regulation of systemic nature--some interim solutions, aimed at quick reversal of downward export trends and attainment of trade surplus with hard-currency markets. The goal was to obtain as much foreign exchange as possible for import necessary to stimulate production and provide conditions for debt rescheduling.

In other words, foreign trade was assigned the role of a major locomotive for economic growth and for the process of overcoming the crisis.

7. It is against the background of these goals and constraints that one should assess the functioning of economic reform in foreign trade in 1982. As for exports, the steep decline in deliveries in the first months--caused by shortage of imported supplies, pricing difficulties connected with the reform of production supply prices, and limited opportunities for contacting with foreign partners--was followed by systematic improvement, marked by substantial increases in export deliveries in the second half of the year. The value of exports in 1982 totaled z1 951.2 billion, up 12.5 percent from the 1981 figure. This was a result of a 0.2 percent drop in the first half of the year and a 24.9 percent growth in the latter half. Increase was reported in exports to both payments areas--20.7 percent [inconvertible currencies] and 5.5 percent [convertible currencies].

The major factor influencing export growth were coal deliveries, totaling 28.5 million tons, or 88 percent more than a year ago. Sales of copper and semi-finished copper products amounted to 186,000 tons /a 21 percent increase/ and sulfur shipments totaled 3,973,000 tons /a 4.1 percent increase/. But there was a drop in export deliveries of metallurgical products /4.8 percent/ and silver /6.8 percent/. Growth in manufacturing exports was slower. Engineering industry products [including machinery, cars, ships and other means of transport, precision, metal, electric and electronic products] rose 9 percent and chemicals rose 5.6 percent, but in the group of light industry products, the figure was 4.8 percent down from the previous year /a result of more than 20 percent drop in exports to hard-currency markets and a 10.2 percent rise in sales to socialist partners/.

8. Deliveries to CEMA /Comecon/ countries were determined by inter-government agreements, with enterprises being informed about the resulting obligations. There was no need of resorting to command-type powers, granted enterprise establishing bodies [ministries, voivodship offices] under Article 54 of the law on state enterprises.

But often proper conditions had to be provided--mainly by ensuring profitability of production and by supplying foreign exchange for necessary imports--in order to enable enterprises to meet Poland's obligations.

Exports to hard-currency markets were based on enterprises' own plans. The exceptions were centrally rationed and balanced raw and intermediate materials which could be exported by enterprises upon permission from a relevant agency.

As a rule, no other export restrictions /bans, quotas/ were applied. Exports were stimulated primarily by way of access to foreign exchange under the system of export-revenue allowances--assessed as one of the best solutions introduced as part of economic reform. In the second half of 1982, another instrument of export stimulation was provided in the form of income- and FAZ-tax rebates on worker bonuses paid from enterprise profits.

9. Because of the dramatic fall in the available hard currency funds, foreign exchange rationing had to be resorted to on a wide scale in the transition period--and in the first half of 1982 it was applied generally. Centrally rationed were foreign-exchange resources earmarked for the purchase of basic raw and intermediate materials and for the implementation of operational programs. Such a device made it possible for the state to channel the available means into the implementation of basic socioeconomic goals.

Despite the extremely difficult conditions, a process was started of influencing cuts in foreign content through economic instruments. The system of export-revenue allowances encourages enterprises not only to launch and develop exports but also to spend foreign exchange resources frugally. It released a strong tendency towards creating hard-currency reserves, as illustrated by the fact that in 1982 enterprises spent only one-third of hard-currency funds earned by this way, earmarking the remaining two-thirds for future needs.

As a result of these measures, last year saw further substantial reduction of imports from hard-currency markets.

It was partly offset by increased deliveries of production supplies (at the cost of capital equipment) from the USSR and other socialist countries.

The value of 1982 imports totaled z1868.9 billion, down 9.8 percent from 1981--a combined result of a 1.9 percent increase in purchases from socialist countries and a 22.1 percent drop in purchases from hard-currency markets.

Trade surplus of z1 82.3 billion was produced in 1982, as against z1 117 billion deficit in the previous year. The deficit with payments zone one (nonconvertible currencies of socialist countries) decreased from z1 110 billion in 1981 to z1 39.3 billion in 1982. In hard-currency trade, the 1981 deficit of z1 8 billion was transformed into a surplus of z1 121.6 billion in 1982.

The attainment of a high trade surplus with payments zone two (hard currencies) met with positive reception on the part of foreign creditors and trading partners who closely watch the reform and progress in its implementation. In particular, the mechanisms of reform are studied by an international steering committee of [creditor] banks whose experts, when visiting Poland and discussing debt rescheduling, are devoting much attention to reform.

10. Summing up, despite the highly complex situation that continued in foreign trade last year, it can be stated that the mechanisms of reform contributed to improving the situation in 1982. The downward trend in exports was reversed, their development was stimulated, and imports were scaled down permitting proper trade surplus. These goals were pursued by means of both traditional instruments, allowed temporarily under Sejm laws, and regulations and mechanisms introduced as part of reform. The weak point was insufficient attention devoted to efficiency. With a view to obtaining the greatest possible amount of hard-currency revenues, many low-efficiency exports were tolerated, and the system of compensatory accounts was widely used in foreign trade. Such a policy must not be continued in future. Mechanisms and instruments stimulating both higher exports and greater efficiency, as well as squeezing the least efficient enterprises out of foreign trade, should be developed and consolidated.

#### C. Consumer-Market/Monetary Situation

11. Twice during 1982, the economic mechanisms of reform were criticized as fueling inflation.

At the early stage of implementation, the reform was blamed for price increases. In numerous articles and public statements, especially in the first half of 1982, it was claimed that reform was depriving society of its wealth and social benefits. Opponents of this line of reasoning argued that the drop in society's living standards was the price of the crisis--not of economic reform--and that equally high (if not higher) price increases would have had to be announced if no changes in the economic system had been introduced.

Towards the end of 1982, another charge was leveled. The mechanisms of economic reform, it was maintained, fueled wage-push inflation while failing to stimulate production growth and restoring monetary/consumer-market equilibrium.

In analyzing the changes in the monetary/consumer-market situation in 1982, the following issues should be discussed:

--trends in the population's real incomes,

--the degree to which the home market was balanced at the beginning and at the end of 1982,

--identification of the sources of population-income growth,

--remuneration for increased labor productivity.

12. Last year witnessed the greatest fall in the population's real incomes in Poland's post-war history (19 percent). In the first quarter of 1982, real wages of employees of socialized enterprises were 25.2 percent below the corresponding 1981 level, and in the next quarters the respective decreases were: 30.0 percent, 29.5 percent and 16.6 percent. (This calculation does

not fully reflect the real phenomena and processes. It should be correct if the market were in equilibrium in 1981. But as is known there was no market equilibrium in 1981, and even though prices were not substantially increased the real level of consumption did drop, because of the deep consumer-good shortages. Low prices were maintained but stores were supplied insufficiently--the result of a substantial fall in production which, in the final analysis, determines consumption.) In year-to-year terms, despite the rapid growth in nominal wages, the real wages dropped 24.7 percent, and this fall would be still greater were it not for wage increases in the fourth quarter of the year.

13. If the degree of market balancing is taken as a criterion, 1982 can be sub-divided into three distinct periods: the first quarter, the second quarter, and the second half of the year. The first quarter was marked by the continuation of adverse trends of 1981. The population's money resources [cash plus savings] increased during that period by z1 158 billion /the result of "old" prices, advance payment of compensation allowances, etc./, which accounted for more than 22 percent of the population's disposable fund. The ratio of consumer-good deliveries to the disposable fund stood at 83.7 percent.

The situation improved in the second quarter, when the population's money resources increased by only z1 41 billion /6.6 percent of the disposable fund/, consumer good deliveries represented the equivalent of 92.0 percent of the disposable fund, and increase in consumer good inventories accounted for more than 77 percent of increase in money resources.

The second half of the year saw a renewed deterioration in these basic indices. Money incomes in that period topped expenditures by z1 193 billion, the ratio of consumer good deliveries to the disposable fund stood at 85 percent, and the ratio of [increase in consumer good inventories to] increase in money resources was 31 percent.

As a result, the unfavourable monetary/consumer-market situation continued to be the case at the end of 1982. There was a tangible excess of demand over supply in most markets, especially in consumer durables.

But it should be stressed that the pace at which adverse tendencies in the field were developing was curbed throughout 1982 /see Table 4/.

It should be noted that last year's increase in consumer-good deliveries /by 1,339 billion, or 90.4 percent/ was higher than the corresponding increase in the population's money incomes, and that inventories increased by z1 163 billion /88 percent/.

The setting in motion of these processes in 1982, and especially systematic increase in the deliveries of goods, should provide a starting point for gradual improvement in the monetary/consumer-market situation.

Table 4. Basic Indices Describing the Monetary/Consumer-Market Situation (%)

Ratios	1980	1981	1982
Increase in the population's money resources to the disposable fund	5.9	14.3	12.0
Year-end level of inventories to the level of money resources	34.2	17.7	24.2
Consumer-good deliveries to money incomes	91.5	74.9	86.3

Source: Author's calculations on the basis of GUS data.

14. The population's money incomes totaled zł 3,402 billion last year--up zł 1,311 billion, or 62.7 percent, on the 1981 figure (also see Table 5).

Table 5. The Amount, Structure and Dynamics of the Increase in the Population's Money Incomes

Specification	Increase		1981 = 100
	zł billion	%	
Money incomes	1,311.1	100.0	162.7
of which:			
--wages	552.5	42.1	145.9
--social benefits	262.7	27.7	236.7
--incomes earned from the sale of farm produce	244.5	18.6	166.0
--earnings of incomes of the non-farm private sector	46.0	3.5	204.7

Source: "Sytuacja pieniezno-rynkowa, 1982" (Monetary/consumer-market situation, 1982), GUS, Warsaw, January 1983.

There were substantial changes in income structure, with the share of wages dropping to 51.6 percent (down from 57.9 percent in 1981) and the proportion of social benefits increasing respectively from 12.4 percent to 18.4 percent. There was also a slight increase (by 0.6 percentage points) in farm incomes. The substantial increase in the share of social benefits reflects an important direction of socioeconomic policy: protection of the economically weakest groups of the population against the consequences of the crisis.

The lowest dynamics among all income components was shown by wages. Nevertheless their increase by 46 percent needs to be commented in the light of systemic solutions binding last year.

15. Under economic reform, deep changes have been made in the principles of wage formation, and all previous [administrative] wage-fund limitations have been abolished. Now enterprises earmark funds for wages on their own--in compliance with the binding wage regulations and labor-law provisions, and according to their own needs and financial capabilities.

At the same time, enterprises are free to set their own principles and criteria for the payment of bonuses and awards. A system of contributions to the National Redeployment Fund [FAZ] was devised as a major regulator, preventing an excessive wage increase.

As shown by the experiences of the [first] three quarters of last year, this was a watertight devise. But for various reasons the system was gradually eroded throughout the year.

Factors responsible for this can be divided into three groups:

1. decisions concerning motivation to higher production and exports, taken in the second half of the year /Council of Ministers' Regulations 182 and 186/;
2. exclusion from tax base of wage increases on account of overtime Saturday work and third-shift work;
3. exemption from taxation of expenses connected with various kinds of employee benefits, as well as /individually permitted/ wage increased /miners, railway employees, etc./.

It should be stressed that all throughout 1982 constant pressure was being exerted to liberalize the FAZ system. Production-linked arguments were usually put forward, and it was claimed that FAZ taxation hampered full capacity utilization.

According to estimates by the Ministry of Labor, Wages and Social Affairs, the "relaxation" [of FAZ regulations]--irrespective of its consequences for "justice" and production--was the main reason behind the accelerated increase in wages, especially late in the year. And the solution which provided the greatest opportunities in this field was the Council of Ministers' Regulation 186 of August 20, 1982, concerning additional stimuli to higher production in socialized enterprises.

Thanks to relatively great freedom in increasing the adjusting co-efficient [linking tax-free wage increase to production growth] from 0.5 up to 0.8 and in choosing the base periods for comparisons--made possible by the said regulation--enterprises were able to circumvent the relatively "rigid" /in their initial wording/ FAZ rules. As assessed by the Ministry of Labor, Wages and Social Affairs, powers vested under the Council of Ministers' regulation 186 in enterprise establishing bodies were taken advantage of in a one-sided manner, and they usually meant right to increase the adjusting co-efficient /without a simultaneous analysis of capabilities for real

production growth/, to increase FAZ-tax rebates, and to allow different periods to be used in comparison whenever the generally bindings procedures proved unfavorable for enterprises. But the establishing bodies did not use their powers to change comparison procedures when it was known that there was no rationale for comparing the first half of the year with the second one. Neither did they draw on their power to divest enterprises of the right to deduct rebates.

As a result, the level of wages topped the figure set in the Central Socio-Economic Play by z1 189 billion. As assessed by the Government Planning Commission, the causes of this included:

--z1 20 billion in wage increases in budget-run institutions, announced after the adoption of the central plan for 1982,

--z1 40 billion worth of wages paid on account of overtime Saturday work and from the output-stimulation fund in mining,

--z1 40-50 billion worth of increase in the value of allowances in kind and their money equivalents,

--z1 80-90 billion worth of wage increase in the production sector, coming as a result of changes in wage rates and FAZ-tax rebates, introduced throughout the year, and of the provisions of tax and finance-management systems.

16. An analysis of trends in remunerating increased labor productivity in 1982 is rendered difficult by the jump-like change in the cost-of-living index, which virtually prevents any comparisons with previous years. But it should be stressed that last year saw a tangible decline in the share of wages in production costs--for example, the ratio of wages to sales value in industry dropped from 16.5 percent in 1981 to 10.9 percent in 1982, that is to the level of the mid-1970s/--and that the 22 percent drop in real wages in industry was accompanied by a 4 percent increase in labor productivity. In the second half of 1982, labor-productivity increases were being paid as follows:

--July saw an increase in labor-productivity remuneration, connected with the seasonal drop in production;

--between August and November, nominal wages and production /in constant prices/ were increasing at similar pace;

--in December, this pattern drastically deteriorated, as a result of accelerated increase in wages.

Last December's rise in wage payments was the result of enterprises taking advantage of many titles to higher pay, such as rebates stemming from [Council of Ministers'] regulations 186 and 182, anticipatory payments from profit, etc.

Towards the end of the year, enterprises were also availing themselves of the opportunity to raise average wages together with a simultaneous contribution to FAZ. Last year's payments to FAZ totaled z1 53.7 billion /of which z1 28.2 billion in industry/, accounting for 8 percent of profit for distribution. One is thus permitted to state that, generally, the enterprises did not abuse their powers concerning profit distributions.

17. Acting on orders from the prime minister, enterprise founding bodies, in cooperation with the banking and financial apparatus, inspected last year a group of enterprises reporting particularly high increase in wages in December. The basic findings of inspectors are reflected in the following conclusions:

1. Enterprises paid increased wages within the framework offered by preferences and rebates in FAZ taxation, and especially by [Council of Ministers'] regulation 186, by preferential treatment for special production, and by regulation 182.

2. In most enterprises, FAZ contributions did not involve a sizeable part of distributed profit. Only a small number of surveyed enterprises made substantial payments to FAZ, thus neglecting their development needs.

3. Year-end wage payments were, in most cases, in the nature of one-time bonuses and awards. Enterprises were thus hedging against excessive wage obligations in 1983. They purposefully withdraw payments till the end of the year--uncertain as to their final performance and afraid of paying high sums to FAZ. This opinion is supported by the substantial drop in individual wages seen in the four major sectors of the national economy in the first months of this year. As compared with December 1982, these wages dropped 26.3 percent in January and 24.5 percent in February.

4. Cases of violating the existing regulations were rare.

18. Summing up, there can be no unequivocal assessment of the impact made on the monetary/consumer-market situation by the solutions of reform. Many processes developing in 1982 and many decisions then taken did not directly stem from the mechanisms of reform although they did influence the monetary/consumer-market situation. And this influence was both positive and negative. One example is the impact made on consumer-market equilibrium by the great surge of social benefit payments and various kinds of central wage regulations. These decisions took little account of the actual supply of goods and services, which reflects a weakness of central management and troubles with counter-acting pressure for wage increase from various social groups.

This tendency must not be continued, as it threatens with eroding the market and hampering the correct functioning of mechanisms of reform.

On the other hand, the assessment is rendered much more difficult by the rebates in FAZ taxation, granted in the course of the year, and especially the rebate decreed under regulation 186 /not corresponding to the principles of reform/. Next to its negative consequences /substantial relaxation of

wage mechanisms/, this modification was no doubt responsible for the dynamization of production.

It should be added that much harm to public consciousness was done by increased wage payments in those enterprises which did not care to link these payments to production performance or to explain this linkage to the workers.

In the light of 1982 experiences, the wage mechanisms must be constantly watched, and a comprehensive, in-depth analysis of all aspects is needed in case new proposals for further modification of this mechanism are put forward.

#### D. Progress in Science and Technology and the Quality of Products

19. The new legal regulations concerning the sphere of science and technology introduced as part of economic reform have widened the scope of financial autonomy of scientific and research institutions, introduced contractual prices to the calculation of costs of research projects, and made it possible for these institutions to retain half of the hard-currency revenues earned in their transactions with customers from capitalist countries.

The rules of financing technical and organizational innovations in enterprises were laid down by the Sejm law on finances of enterprises of February 26, 1982. According to the law, each enterprise is obligated to set up a fund for technical and economic progress which is to serve as an important tool of stimulating innovations. The need for setting up these funds is dictated by the desire to prevent the enterprises from focussing entirely on the current problems of production. Such an encouragement to creating financial conditions for long-term development undertakings was indispensable in the period marked by the start of reform and considerable uncertainty of enterprises as to what the future may bring, especially under conditions of several economic crises.

It may be expected that the fund will prove a useful tool stimulating technological and organizational improvements in enterprises also when the process of restoring economic equilibrium will have advanced further.

20. The reform stipulates that shop-floor improvements should be one of important sources of technological and organizational change in enterprises. To secure the development of this form of technological and organizational progress it was necessary, above all, to issue appropriate regulations both pertaining to the finance of enterprises and defining the rights of innovators.

Many ventures launched by enterprises to gain technological and organizational advantages are included in the production costs. This applies, above all, to financing innovations, for example, the activity of clubs of innovators and inventors, costs of applying inventions in practice, as well as awards and fees for the authors of innovations.

It must be stressed that neither the fees paid out to authors of inventions, technological improvements and designs nor the awards granted them included in the base for FAZ taxation.

21. In a situation characterized by shortage of budget means, an important role in securing adequate financing for research and development centers has been played by the central fund for technological and economic progress. The fund established in 1982, is financed from obligatory contributions by enterprises which transfer half of their own funds for technological and economic progress to the central fund. The central fund is designed to help finance research programs sponsored by ministries. This transitional arrangement, introduced for the years 1982-83 by the law on finance management in socialized enterprises, has become an important factor in carrying out the science and technology policies, as well as securing indispensable means for financing numerous valuable research centers which found themselves in a difficult situation as a result of the crisis and their inability to rapidly adjust to the new conditions.

The year 1982 was marked by a process of selection of research and development centers brought about by organizational and functional transformations under way in the national economy. The dissolution of industry boards /zjednoczenia/ resulted in an entirely new position of those research and development centers which were affiliated to them. Almost 30 such centers, with a staff of 9,000, disappeared in just one year. They were incorporated into major enterprises as part of their R&D departments or alternatively, merged with other research and development establishments.

22. The situation in the field of scientific and technological progress in 1982, similarly to the situation in other areas of social and economic life, was shaped by two concurrent processes:

1. implementation of economic reform,
2. the continuing crisis.

Despite the still incomplete statistics for the last year, it is safe to say that many of the adverse trends characteristic of the sphere of scientific and technological progress which had their roots in the general economic collapse continued during 1982. One such trend was the inclination of enterprises to apply technological innovations mainly for solving relatively minor problems on an ad-hoc basis. Import cuts forced enterprises to take greater interest in material- and energy-saving technological processes. However, they showed far too small an interest in technological innovations resulting in higher output, and more advanced and higher-quality products. Moreover, efforts to implement technological and organizational solutions securing rationalization of employment and better work safety and hygiene were also half-hearted.

One manifestation of continuing unfavorable trends in the field of technological progress was the further decline in the number of reported technological improvements whose authors were employees of enterprises. One factor limiting the technological and organizational progress was the declining availability of scientific, technological and economic information. This decline, noted in recent years, is due to cuts in subscription to foreign science and professional journals.

The crisis in Poland also led to a certain drop in the number of information centers, from 1,330 to 1,230 in 1982. Last year, however, some positive trends emerged, as shown by a gradually growing demand for scientific and technological periodicals and information on patents and standards. The main areas of increased interest were: foreign trade, timber industry and forestry, employment and wages, and welfare questions.

23. The adverse trends referred to under paragraph 22 found reflection in a further drop in employment in R&D centers. The number of employees of all institutions classified under the heading "Science and Technological Progress" fell 18 percent during 1982.

The pattern of research work done in scientific institutions was influenced by the persistent shortage of orders from enterprises. This shortage was especially evident with respect to longer-range undertakings. For example, the share of applied research in total work done by R&D centers operating within the organizational structure of the Ministry of Metallurgy and Engineering Industry fell from 19.7 percent in 1976 to 15.8 percent in 1982, and that of development work--from 56.8 percent to 53.4 percent, with a simultaneous increase in the proportion of material production and services not involving research work from 19.3 percent in 1976 to 27.8 percent last year.

24. The appraisal of the application of scientific, technological and organizational progress by enterprises during the first year of the economic reform is less than satisfactory. Last year was marked by a considerable uncertainty about future conditions of economic activity which prevented many enterprises from engaging in any long-term projects.

On the other hand, the continuing deep gulf between general demand and supply, in favor of the former, made it possible for many enterprises to score good financial results without any substantial reliance on technological improvements.

Somewhat stronger incentives for implementing scientific and technological progress into production were created by the decisions on prices and cost-accounting of late 1982. This is true of such decisions as those on the rules of fixing regulated prices, the rules of calculating warranted costs, and the introduction of the categories of unwarranted costs and losses. Income-tax rebates should also be expected to serve this purpose.

The methods of financing research work and research institutions during 1983 were laid down by the Council of Ministers' regulation 282 of December 30, 1982. The document upheld the majority of solutions applied in 1982. The only substantial departure from earlier roles concerns the principles of creating special funds financed from the production effects of applied innovations. In accordance with suggestions from many research centers, it was decided that the funds would be created on the basis of contracts signed between research centers and the enterprises which availed themselves of research results. The enterprises would complete their payments to the funds in three years.

Problems with implementing the effects of scientific and technological progress in enterprises--a result of the economic crisis--are only a short-term aspect of the questions under discussion here. It must be stressed that trends have already been noticed, both in individual enterprises and whole industries /like machine-tool manufacture, for instance/, suggesting that solutions of reform, reinforced additionally by the modifications introduced in 1983 /tax rebates, unjustified costs and losses, to name just two/, created a system of rules which makes it possible for progress in science and technology to play the role of a major mechanism of economic development.

25. For many years now, the quality of a wide range of goods, services, and buildings has been low and not in line with public expectations. This low standard of quality stems from both technological reasons and market imbalance.

It has proved impossible to influence the quality of products by means of legal regulations enacted in recent years.

The passing of the Sejm law on quality of goods, services and buildings in 1979, as well as the issuing of a number of lower-rank legal acts linked to the law did not contribute in any meaningful way to improving the quality of products.

The unfavorable trends gained additional momentum at the beginning of the 1980s owing to the onset of a severe social and economic crisis.

It is very difficult to back up these opinions with statistics, as the usually reliable indices lose their credibility in conditions of a severe shortage of consumer goods in the market /this is the case with, for instance, the number of returns and complaints on account of inadequate quality/. What can be stated, however, is that the number of products bearing the "Q" and "I" marks /for superior and high quality, respectively/ went down from 30,483 in 1980 to 26,929 in 1981, for example, by 11.7 percent.

26. The assumptions of the economic reform provide for indirect economic tools to be applied for quality control. The tools would motivate enterprises, both management and workers, by means of incentives, among other things. The basis for quality evaluation should be provided by national standards issued by state standardization agencies and defining the essential quality and

functional requirements to be met by goods, services and buildings. Any departures from these requirements should result in economic penalties being levied on producers.

The requirements to be met by producers who are responsible for the quality of products were listed in the Sejm law on socioeconomic planning of 26 February 1982. The law obligated all state-owned and cooperative economic units to observe the quality and functional requirements set by the national standards when drawing up their economic plans.

The Sejm law on prices of 26 February 1982, also contains provisions which stimulate quality improvements. The law says that official prices for any product must be differentiated according to quality levels. The same law obligates the seller /producer/ to cut his price in case the quality of his product turns out to be below that accepted as standard when setting the price.

A number of interrelated adverse economic factors at work during the first year of implementation of economic reform were responsible for the fact that the economic tools designed to stimulate enterprises to improve the quality of products proved largely ineffective. There were many examples of a further deterioration of the quality of products.

27. Although complete statistics for 1982 are still not available, it is safe to say already now that a number of unfavorable trends in the field of product quality persisted during the last year. For instance, the number of products bearing superior and high quality marks went down by 4.326, or 16.1 percent, in the first half-year of 1982. An important cause of poor quality of many goods which, moreover, could not be eliminated by producers, were problems with supplies of materials which forced numerous producers to resort to inferior quality substitutes and reclaimed or recycled materials and parts. According to data supplied by the Polish Committee for Standardization, Measures and Quality Control, z1 19.4 billion worth of materials which did not meet the requirements contained in national standards were nevertheless approved for sale during the first six months of 1982. That total included z1 9.7 billion worth of food industry products, z1 2.7 billion worth of chemicals, z1 1.3 billion worth of goods manufactured by the industries producing means of transport, and z1 1.2 billion worth of metal goods.

28. The systemic modifications introduced as of January 1, 1983 contain solutions which are expected to exert a more powerful impact on quality improvements. They include, among other things, application of tax rebates and preferences in setting regulated prices coupled to quality improvement and passing on the costs of low product quality to manufacturers, by including those costs into a wider category of unwarranted costs which are not exempt from income tax. It must be stressed, however, that the impact of these new systemic solutions will largely depend on whether the present distribution of economic power between producers /sellers/ and buyers is changed. If the present disparity and dominance of producers continues, measures taken to improve the quality of products will run into major obstacles.

## E. Occupational Safety

29. As far as compliance of working conditions with relevant standards and regulations is concerned, a regression has been observed for many years. In varying degrees, this regression has affected all sectors of the national economy. Its manifestations include:

- limiting or cutting back on modernization projects aimed at improving occupational safety and hygiene,
- limiting the production of equipment necessary for eliminating occupational hazards and drudgery,
- lower discipline in observing work safety rules.

On the one hand, this state of affairs is a consequence of the crisis, but on the other, the financial principles of the past provided insufficient motivation to improvement in working conditions. Not infrequently, the poor state of work safety and hygiene at many enterprises was caused by negligence on the part of the management. No convincing data would substantiate a claim that there was a marked improvement in this deplorable state of affairs in 1982, but there are many indications that the regression was halted. Positive marks are due to operational programs connected with the production of safety equipment. One major obstacle in pressing enterprise management for better safety and hygiene conditions was the suspension of trade union activities.

30. With a view to preparing an action program in the field of work safety and hygiene, the minister of labor, wages and social affairs appointed an interministerial team. The team compiled a report on work safety in the conditions of economic reform. The following systemic solutions were adopted:

- income-tax rebate on account of investment projects connected with occupational safety and hygiene /30 percent of project costs/,
- income-tax rebate on account of year-on-year increase in sales /in comparable prices/ of safety equipment,
- damages and penalties for failure to comply with safety and hygiene regulations are considered unwarranted losses /when income tax is computed/,
- production and supply of personal-protection devices are covered by an operational program,
- some kinds of wage expenditures connected with work protection are exempt from FAZ taxation.

Also, enterprises with particularly difficult safety-and-hygiene conditions can be exempt from contributing part of depreciation allowances to the budget, and budgetary subsidies can be granted those enterprises where health hazards are greatest and where own means /despite preferential treatment/ prove insufficient. These solutions are expected to result in improved occupational safety.

31. In future, it is planned that:

--preferential credit treatment will be accorded the enterprises which improve their safety-and-hygiene conditions or which develop production of related equipment,

--selected kinds of safety equipment and personal protection devices will be covered by government orders,

--wage systems will include stimuli to projects improving working conditions and to compliance with safety-and-hygiene rules,

--founding bodies' powers to control and oversee safety-and-hygiene matters in enterprises will be increased.

These solutions are going to consolidate the system of influencing improvement in working conditions at enterprises.

#### F. Elements of Projection Concerning Economic Performance of Consulted Enterprises in 1983

32. Presented below, in a synthetic form, are prospects for enterprise operations in 1983, based on a questionnaire taken among 83 enterprises with the status of reform consultants. It may be worth recalling that the findings of previous questionnaires were proved in practice (for example, the trends in wages in January 1983, as against December 1982).

33. All enterprises either elaborated plans for 1983 or were preparing them (the questionnaire was taken last January). The following production-growth indices were planned:

Table 6

Planned growth-rate of production in 1983 (%)	Proportion of enterprises (%)
up to 4.0	21
4.1 - 7.0	23
7.1 - 10.0	30
10.1 - 15.0	11
above 15.0	15

The remaining firms are of the opinion that--because of changes in the official prices of raw and intermediate materials, social-security rates and tax rates--they should increase prices for their products by more than 10 percent.

36. Because of the limited representativeness and numerical strength of the sample, this presentation of consulted enterprises' intentions should not lead one to far-reaching generalizations. But it should be stressed that the relatively optimistic projections of enterprises reflect an offensive approach to problem solving and to the identification and tapping of production opportunities. With fresh memories of the restricting impact exerted in this field by the command/rationing system of management, one is permitted to venture an assessment that the principles and mechanisms of reform began to prove in practice their superiority over the previous system.

### Conclusions

The assessment of the implementation and consequences of economic reform indicates that--despite the very serious limitations hampering the introduction of new principles--major progress was made in 1982 in reconstructing the economic system towards the model outlined in documents of the 9th PZPR Congress and Sejm laws.

By its very nature, the introduction of reform is a complex socioeconomic process which--as stressed in Lines of Economic Reform--must be spread into a number of stages. Practice has proved the opinion that "following the introduction of a breakthrough package of reform, a two- or three-year interim period will most probably be needed /.../ in which successive changes deepening the reform and bringing it closer to the target model will be made."

In a characteristic feature of the transition period, solutions which do not suit the target model /imposed by constraints external to reform/ are applied. It is extremely important that the interim solutions do not run counter to the logic of reform and that, in the worst cases, such collisions be as short-lasting and as little painful as possible. Observance of this guideline is crucial for the success of the whole reformatory process. That is why in the concluding part of this report much attention is devoted to the question of which problems should be solved in near and more distant future in order to bring the transition-period systemic solutions and economic policy closer to the target model of reform.

In the light of past experience, data concerning future economic conditions, and findings of research into the principles and mechanisms of reform, the need arises for:

a. reconditioning the duration of the transition period and methods of solving economic problems during that period;

Table 7

Expected rate of wage increase (%)	Proportion of enterprises (%)
up to 5.0	18
5.1 - 10.0	30
10.1 - 15.0	22
15.1 - 20.0	15
above 20.0	10

As shown in Table 6, nearly 75 percent of enterprises plan higher [production] dynamics than provided for in the Central Annual Plan for 1983 (104.0). The average (non weighted) production dynamics planned by enterprises stands of 108 percent, or 4 percentage points above the annual plan figure. Interestingly, around 60 percent of enterprises plan export growth, while 20 percent expect its drop. Among the former, almost 50 percent of enterprises plan year-on-year export growths of above 10 percent.

Asked whether they have production supplies needed for the planned first-quarter output, 60 percent of enterprises replied in the positive, while others pointed to some difficulties in this respect. As far as the production supplies for the whole year are concerned, few enterprises have concluded relevant contracts.

34. Employment cuts are planned by 30 percent of enterprises, and the same proportion of those questioned expect increases. Around 40 percent of enterprises want to retain the previous level of employment.

All of the questioned enterprises plan increase in average pay (see Table 7). The average (non-weighted) wage dynamics stands at 11.6 percent, or nearly 4 percentage points more than the average growth-rate in production (a 16-percent wage increase was assumed in the Central Annual Plan for 1983).

Higher production growth-rate, as compared with wage dynamics, is planned by 33 percent of enterprises. Faster pace of wages, as compared with production, within 0-5 percentage points is planned by 29 percent of enterprises and above 5 percentage points by 38 percent of enterprises.

35. As regards pricing trends, the intentions of enterprises are as follows:

--decrease is planned by 3 percent of enterprises,

--maintenance of the present level is planned by around 50 percent of enterprises,

--increase of up to 10 percent is planned by 14 percent of enterprises.

b. changing some provisions of Sejm laws on economic reform /this is particularly true of the tax system, pricing, and finance management at enterprises/.

Understandably, proposals concerning the functioning of the economy in the next phases of the interim period should take into account the need of some Sejm-imposed modifications. Some changes of this sort /concerning, for example, taxing wage increases with contributions to FAZ/ have been in force since January 1, 1983. They were proposed, together with other conclusions, in the report on the implementation and consequences of reform in the first half of 1982.

Against the background of economic conditions presented in the National Socio-economic Plan for 1983-85, it can be stated without hesitation that there will be insufficient economic grounds for a full introduction of target principles of reform. Interim solutions will still be needed, especially in such areas as supply of raw materials, intermediates and foreign exchange, or distribution of some consumer goods.

In no circumstances, however, should the second phase of the transition period, covering the years 1984-85 constitute a simple continuation of solutions applied in the first phase, that is in 1982-83. There are major, qualitative differences between these periods, both as regards the features of socioeconomic situation and the applied solutions. A consolidated "foreground" for reform, massive functioning of worker self-management, new institutional and organizational structures, accumulating experience in the application of reformed rules at various levels of management--these are but a few factors explaining why the two phases differ from each other. Thanks to these factors, the departures from the target solutions may be much reduced as compared with the 1982-83 period. It is with this in view that the following conclusions were formulated:

#### A. Ensuring the Cohesion of Action

One major condition for the effectiveness of reformed mechanisms is the cohesion between decisions concerning economic and social policies on the one hand and the functioning of these mechanisms on the other. Solutions introduced under reform are aimed at supporting economic development and providing economic and social policy-makers with proper tools. If the reform is to be highly efficient, the following is needed:

1. the scope of production-factor rationing should be substantially reduced, and enterprises should be granted much greater room for maneuver in adjusting themselves to the requirements of economic policy;
2. the inflationary tendencies, which render impossible the correct functioning of the economic mechanisms of reform, should be counteracted;
3. corrections should be made in reformed solutions in order to consolidate mechanisms stimulating enterprises to take care of the three major tasks:

restoration and strengthening of economic equilibrium, improvement in economic efficiency and dynamization of the economy.

It is thus necessary, when preparing proposals for systemic corrections, to analyze the functioning of instruments and mechanisms of reform, while at the same time taking account of goals and lines of action provided for in the three-year plan and in government austerity and anti-inflation programs. The corrections should comply with the general lines of reform and should consolidate the new economic mechanisms.

2. The cohesion between economic policy and the principles of reform requires greater efficiency and greater role of central planning as well as its integration with the principles of the new system of the functioning of the economy. For this purpose, it is necessary to:

- organize a system of analyses and assessments of central-plan implementation, to be adjusted to the new principles of the functioning of the economy, and especially, in the first place, to introduce into economic practice a system of early warning, drawing on statistical data, banking/financial information, questionnaire findings and, ad hoc, telex-conveyed information;

- work out and introduce simulation models, making it possible to forecast the multiple effects of consequences of the use of various economic tools;

- improve the quality of preparatory work for current and long-term decision-making, and to improve planning methods;

- efficiently synchronize and coordinate economic policy implemented by various bodies of central state administration;

- develop the methods and instruments of influencing state-owned enterprises and other economic units, while fully respecting the principles of reform.

#### B. Supply of Production Factors

In order to achieve a marked improvement in the management of labor resources, it is necessary to:

- work out a system of influencing the structure of employment, towards its compliance with the interest of the national economy as a whole, with particular emphasis on the issue of vocational training;

- verify and consolidate the mechanisms of justified transfer of labor resources among economic sectors and mechanisms of rational employment by enterprises,

- stimulate occupational re-activization of people able to work, who for various reasons stopped working,

--enable the establishment of partnerships of state-enterprise employees, operating their parent enterprises' plant and equipment after working hours,

--develop cottage industries,

--dissolve low-productivity plants, enabling their workers to take jobs in higher-productivity units,

--organize specialist teams on regional basis, to be employed, when need arises, in various enterprises,

--provide conditions encouraging temporary transfers of employees from enterprises suffering from raw material shortages to enterprises with sufficient production supplies.

4. In order to limit producer-good rationing and minimize its impact upon the functioning of the economy, measures aimed at the following objectives should be taken, or intensified:

--narrowing the protected area (with priority access to production supplies) to products and services of the greatest social importance,

--dissolving operational programs, while at the same time consistently sticking to the system of government orders, placed with state-owned enterprises and other units of the national economy by way of invitation to efficiency-oriented tenders,

--making broader use of equilibrium prices, the difference between the seller's price and the buyer's price being channeled to the budget in the form of sales tax,

--taking legislative, organizational and economic measures countering the tendency to monopolize the intra-industry markets and to centralize anew the distribution of production supplies.

5. After several years of steep decline in investment activities, there appears a real danger of decapitalization of productive potential in many areas of the economy. On the other hand, much capital is tied up. In 1984-85, the investment front is expected to be fully put in order, and the financial side of the replacement /modernization/ development program is to be harmonized with the physical side /construction and assembly potential, production of capital goods, etc./.

Organizational and structural measures are needed, adjusting the physical side of investment processes to long-term economic policy goals, while ensuring the growing share of enterprises in investment activities. Against this background, a detailed analysis of various possible ways of dividing depreciation allowances between enterprises and the budget is needed, as are respective decisions.

The elaboration and introduction of an integrated investment system, covering all levels and stages of investment activities, should be completed. Solutions influencing rational fixed-asset management and its direct linkage with investment decisions should be consolidated. With the help of organizational and economic measures, transfer of unused machinery to high-productivity enterprises should be stimulated /for example, by leasing/. An investment reserve should be created, to guarantee balanced development.

C. Enhancing Economic Pressure for Higher Efficiency

6. Measures stimulating productive activities and higher efficiency have to be multi-pronged and to differ from one sector to another. In particular, they should be aimed at:

- a. eliminating disequilibrium and countering inflationary tendencies,
- b. rationalizing the price system,
- c. utilizing taxes to stimulate higher efficiency.

Their combined application is expected to result in a tight-money policy, forcing enterprises to boost efficiency.

7. [...] A full and consistent implementation of the government anti-inflationary program should bring about a major improvement in the consumer market situation. Disequilibrium should be eliminated and the consumer market situation should be brought under control. These are good assumptions for the implementation of reform. In fighting inflation, past experiences should be taken into account--both positive and negative ones. What is needed in particular is to elaborate methods of keeping the wage/income flow in desired relation to increase in the supply of goods and services, and to observe this relation in the practice of economic management.

8. A comprehensive assessment of the price system and pricing principles should be made. In particular, attention should be drawn to the fact that, in the absence of a demand barrier, the system of contractual prices is exposed to the danger of degeneration, pitting enterprises against society /tendency to excessive increase in prices, without an increase in production/. Market segments should be identified in which:

- a. the contractual-price system can play its functions correctly,
- b. instruments of different kinds are needed to support the discharge of these functions,
- c. it is not possible to continue applying contractual prices, because of the persisting deep disequilibrium and monopolization of the market.

9. Proposals should be formulated on the use of sales tax in shaping equilibrium prices for "higher order" goods, to be connected with a more active assortment policy in respect to the so-called mass consumption goods /for example, textiles, garments, footwear--along the toiletry-market lines/. Sales-tax rates should be so designed as to prevent enterprises from taking advantage of demand surplus and to encourage them to expand the scope of production /small profits and quick returns/.

10. Lump-sum commissions, depending on labor intensity of trading operations and not on the sales value, should be consistently applied in trade, and their scope should be expanded.

11. Both positive and negative aspects of the functioning of income tax should be thoroughly analyzed, and conclusions should be formulated as to redesigning the tax towards consolidating its motivational functions, while at the same time respecting the interests of the state budget.

12. The provision to exporting enterprises of financial resources /export rebates/ and foreign exchange /export revenue allowances/ should be closely linked to the level and profitability of exports. Strong economic stimuli to the development of efficient exports should be provided.

13. Organizational and systemic solutions transferring the collection of sales tax and distribution of direct /commodity/ subsidies to trading units should be prepared and introduced.

14. A program on the reduction of direct subsidies to all kinds of prices should be elaborated and consistently introduced into economic practice.

Indirect /producer/ subsidies should be abandoned, with the exception of grants to bail out state companies [threatened with default].

15. The banking system's function as a guardian of monetary equilibrium in the national economy should be effectively enforced. The principle of linking credit to enterprises' current and long-term credit worthiness should be consistently observed. There should be firm resistance to any pressure for more liberalized credit policy, which would in fact undo the tight-money principle.

16. Work on the state-enterprise rehabilitation and default bill should be finalized and its provisions should be quickly introduced into economic practice. It should be patiently explained that the bill provides the socialist state with an instrument of correcting the allocation of production factors and that this instrument is connected with the stimulation of greater interest on the part of workers, worker self-management and management in the enterprise's current performance and prospects for the future.

17. The principles and techniques of cost calculation at enterprises should be improved. There should be wider control of the observance of the warranted cost formula in pricing, and this formula should be broadened to cover contractual prices.

#### D. Creating Conditions for Technological and Economic Change

18. The mechanisms and instruments of reform should be reviewed from the angle of their impact on innovation and technological change. Ways of fuller utilization of the R + D potential for the solution of the country's economic problems should be sought. Factors hampering inventions and shop-floor improvements should be identified and eliminated.

19. Economic and non-economic instruments influencing the quality of goods and services should be strengthened. The scope of product standardization and quality certificates should be broadened.

20. The modified principles of FAZ taxation, introduced on January 1 1983 should be assessed from the angle of their impact on more rational employment and more offensive motivational systems in enterprises. Principles and methods of central influence upon wage proportions in the national economy /complying with the principles of reform/ should be worked out. Legal basis should be provided for the application of experimental motivational systems at enterprises. Such systems should be aimed at harmonizing the pay systems with the principles of economic reform. Arrangements permitting rational wage-fund management in periods longer than one year should be introduced. Work on the amendments to labor law, to be in line with the basic principles of reform, should be finalized.

21. Social contracts between the management and the workers, concerning working and pay conditions, should be supported, and such arrangements should be allowed to function on an experimental basis.

22. Those pay systems which proved efficient in linking wages to labor productivity, raw-material economies, product quality, etc., should be popularized /for example, the pay systems applied in Radom's Radoskor, Lodz' Uniontex, Warsaw's ZUD crane factory, and Poznan's FMZ harvester machine factory/.

23. The impact of the solutions of reform upon work protection should be analyzed, and relevant proposals aimed at enhancing occupational safety should be formulated and introduced into practice.

#### E. Developing and Consolidating the Legal Framework of Reform

24. Intensification of legislative work, closing the legal system of reform, is a matter of necessity. In particular, work should be urgently finalized on bills concerning the following subjects:

- rehabilitation and default of state enterprises,
- spatial planning,
- land management and expropriation,
- foreign exchange,

- budget,
- monopoly,
- joint-stock companies formed by socialized economic units,
- amendment of the Labor Code,
- amendment of the Civil Code,
- transportation,
- communications,
- state airline LOT,
- state forestry,
- state railways [PKB]

25. Documents on the establishment of enterprise associations should be reviewed from the angle of their compliance with the principles of economic reform.

26. The principle of managerial selection by competition should be consistently observed.

27. Proper legal forms should be imparted to interim solutions planned for the second phase of the transition period, and concerning in particular the following areas:

- distribution of short-supply raw and intermediate materials, goods, and foreign exchange,
- financial settlements of foreign trade operations,
- division of depreciation allowances between enterprises and the state budget,
- application of sales tax to capital goods sold to socialized enterprises,
- central fund for technological and economic progress.

28. Ministerial regulations and other legal acts should be thoroughly reviewed, and their compliance with the principles of reform should be checked. A "Register of Ministerial Regulations" should be established, with a view to preventing the introduction into practice of regulations which run counter to the principles of economic reform.

F. Developing Worker Self-Management and Introducing Successive Institutional and Organizational Changes

29. Decisions taken by bodies of worker self-management should be watched and analyzed from the viewpoint of their relation to the public interest. In particular, the cases of disagreement between worker self-management and the director or the enterprise founding body should be studied in detail.

30. Targets of national economic development, and related constraints, should be made known to representatives of worker self-management from all over the country, in order to win them over to the program of economic revival.

31. Enterprise establishing bodies should be encouraged and assisted in transferring their supervisory powers--in line with Article 53 of the state enterprise law--to supervisory boards, to be appointed by the founding bodies. This would contribute, among other consequences, to enhancing the direct interest in economic matters on the part of social, occupational, scientific and technical organizations such as NOT /engineering/, PTE /economics/, TNOiK /business administration and management/, whose representatives would sit on such boards, and to utilizing their occupational experience.

32. Work on the restructuring of the organizational set-up, and the division of powers and responsibilities at the central level of national economic management should be continued. Urgently needed are decisions concerning central management of water resources, natural environment protection, and scientific and technical progress. The functions of central bodies should be defined, with a view to substantially reducing central-administration employment. Functions of such central bodies as the Government Planning Commission, the Ministry of Labor, Wages and Social Affairs and other functional bodies should be defined in Sejm laws.

33. The functions and the operating mode of sectoral economic ministries should be adjusted to the powers and operating conditions of state enterprises, provided under economic reform, with particular emphasis on methods of founding bodies' supervision over enterprises.

34. A system of state control should be introduced, aimed, among other targets, at analyzing and assessing the impact of economic reform on the attainment of social goals. In this context, decisions should be made on ways of discharging the economic audit functions [by the state control system].

35. Work should be continued on fuller application of economic-reform principles to areas with distinct technical/economic characteristics/ farming, transportation, communications/. In particular, draft legal regulations should be prepared, adjusting the systemic solutions to specific organizational and technical features of the energy and coal industries.

36. The implementation of the cooperative law should be assessed, with particular emphasis on cooperatives' economic activities, and relevant conclusions should be presented to the central cooperative bodies.

37. Methods with which local authorities influence economic activities carried out in their respective areas should be worked out--in line with the principles of economic reform and provisions of the bill on people's councils and local self-government.

G. Popularizing the Idea of Reform

38. A program of economic education of society should be prepared and implemented in order to popularize the principles of reform. It is very important that current state of social consciousness and factors determining social perception should be taken into account. That is why a realistic program of economic education should not repeat the schematic approach that was often taken to the subject in the past, and should draw directly on the experiences of factory workers and employees of service establishments and other economic organizations.

39. The press, radio and TV should be inspired towards popularizing the authentic achievements of reform and towards taking up "difficult" subjects, which is absolutely necessary for the proper shaping of public perception of reform. In particular, a new approach is needed to the issue of socialist egalitarianism in concrete Polish conditions of the present day. In particular, a possibility should be considered of organizing contests at which ideas and achievements concerning economic rationalization could be presented.

40. Initiatives of NOT, PTE and other socio-occupational organizations, concerning popularization of reform, should be utilized, and cooperation with these organizations in popularizing the principles and achievements of reform should be developed.

41. It is very important that work on changes, modifications, and corrections of the solutions of reform be so organized as to be made known as soon as possible. All proposals concerning changes of principal nature, requiring alteration of Sejm laws on economic reform, should be announced by June 30, 1983. Instruments for the implementation of economic policy in 1983-85 should be worked out--on the basis of corrections in systemic solutions--by October 30 1983.

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END