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# THE REALITIES AND DILEMMAS IN POLISH-SOVIET ECONOMIC RELATIONS

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# THE REALITIES AND DILEMMAS IN POLISH-SOVIET ECONOMIC RELATIONS

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## I. Introduction

First, perhaps, I might start with a few words of explanation of why the topic of Polish-Soviet economic relations should deserve a special or separate treatment at this particular moment. Of course, I am tempted to cite numerous reasons for this. But let me limit myself here to mentioning just a few of them. First, the nature and degree of Poland's economic dependence on the Soviet Union has been overwhelming throughout the postwar period and in reality has become almost a determining factor in shaping both Poland's domestic and foreign policies. Second, as will be shown later in this study, the Polish Communist regime first initiated and pursued policies that led to that growing economic dependence on the Soviet Union at different times. It then used this fact in different crisis periods as an argument to inhibit any meaningful political change in the country's domestic policies, such as economic reform or some minimal changes in the operation of the political system, either of which would allow a more effective use of the existing human potential and economic resources for the benefit of the Polish people. Third, in recent years, as the prices of raw materials and energy surged upward, it has become rather fashionable, mostly in the West, to write about how much Eastern Europe, and Poland in particular, has become a liability to the Soviet Union and how much Soviet subsidies to these countries have been growing. What is, however, usually overlooked or forgotten in all this is the long-term damage done to the economies of these countries in terms of their technological backwardness, economic inefficiency or the inability of their products to compete on the world market, all due to systemic features for which only the Soviets can ultimately be held responsible. What is also often ignored is that the overall balance of benefits and losses from trade and economic relations with the Soviet Union has varied for particular East European countries from one period to another, so that it should never be treated in a fragmentary or static manner. Fourth, the topic of Polish-Soviet economic relations has always been and still is one of the most secret subjects to the Polish and Soviet people, and, indeed, to the world at large. As such it has been avoided by both Polish and Soviet economists, or just treated in a propagandistic manner that does not explain anything. It has also been avoided by Western economists, because not enough hard evidence was available on the nature of that relationship. In Poland itself, there were periods when economists were not supposed to ask any questions on this subject. Quite obviously, all this led to a sort of mystification of even the most basic questions of trade and credit relations, but apparently such mystification served some political purpose and was useful to the Polish Communist regime, as it enabled it to say on occasion things that were not quite true, but were politically expedient and useful. Therefore, any clarification of the nature of that relationship, as far as is possible given the limited availability of data, should be very useful. And finally, the problems of Polish-Soviet economic relations have recently acquired even greater political validity in view of the continuing Polish crisis and the desperate search by the Jaruzelski military regime for its solution. A better understanding of current problems and trends in Polish-Soviet economic relations is likely to shed some light not only on the immediate outlook for the Polish economy, but also on the feasibility of some alternative solutions to the present dilemmas of the Polish economy, including a possible opening to the West.

As regards methodology, there are, of course, a number of ways to approach the subject. Most mainstream economists would probably prefer to approach it in purely economic terms. If our intention were just to show the net benefits or losses from trade with the Soviet Union over a particular midterm period, that would probably be the best methodology, though even then a number of assumptions would still have to be made to substitute for some of the missing hard data. Depending on the quality and validity of such assumptions we might or might not get a full and well-balanced picture of the real situation. However, as Philip Hanson rightly points out,[1] it is important to distinguish between long-term and medium-term gains and losses from Eastern Europe's trade with Moscow. While in the medium term the net benefits from trading with the Soviets may on occasion be in favor of the smaller East European countries, as seems to be the case in the most recent period due to the emergence of a new price pattern in international trade in the early 1970s, in the long term the balance of such benefits may look quite different, particularly when one takes into account a number of other factors, such as technology transfers, the imposition of Soviet-style priorities for investments, autarky and insulation from the Western markets in certain periods, excessive military commitments, as well as a number of other systemic features inherent in the Soviet-type economic system.

Since our objective in this study is to present a comprehensive picture of Polish-Soviet economic relations from a long-term perspective, we have to include in the analysis a number of factors which are less susceptible to quantification, some of them due simply to "secrecy" and lack of reliable data, others due to their "qualitative" nature. Finally, in a study like this one should not shy away from trying to evaluate political factors as well, since at different periods they played a major role in shaping these relations, and also have had a major impact on the development and performance of the Polish economy. What almost everyone will recall is that the "Soviet factor" was evident in every major political and economic crisis in Poland in the postwar period. What is less apparent is that the "Soviet factor" was also among those that led to those crises.

With these objectives in mind, the most appropriate methodology seems to be to produce a historical and descriptive account, but one which would also try to evaluate the significance of particular factors in a manner common to political economy treatises. To justify this approach, I am trying to bring out some new insights and evaluate new evidence, particularly from the recent past, which are not commonly known in the West.

The periodization in which Polish-Soviet economic relations are considered has been structured in a way which corresponds to major watersheds in those relations, and which happens to coincide with major political crises in Poland. As will be shown in the study, the nature of Polish-Soviet economic relations was in some way changed or "adjusted" after each major political crisis in Poland, starting from 1956.

An attempt is also made to show how strongly developments in the Polish economy are conditioned by, and indeed depend on trade and political relations with the Soviet Union. It will be shown that despite various twists and turns over time, that dependence is steadily increasing.

I am trying to avoid as much as possible a repeated treatment of the same subject matter such as prices, payments, monetary questions, terms of trade, etc., by focusing attention on only those problems, which were most important or controversial in any given period. However, the methodology adopted here makes it unavoidable to treat some of the same questions in different periods, as they had a different dimension or significance at different times.

And finally, I should perhaps state the obvious: that in presenting a comprehensive analysis of Polish-Soviet economic relations, it would be rather impossible to stay exclusively within the bilateral framework of these relations. The other part of them is, of course, relations within the Council of Mutual Economic Assistance (CMEA). Obviously, it would go beyond the scope of this study to attempt to give any detailed or systematic treatment to questions of multilateral cooperation and integration dealt with within the CMEA. However, it is equally impossible to avoid completely some of the major problems relating to economic integration within the CMEA, as they have either a direct bearing on or constitute an integral part of economic relations with the Soviet Union. The best examples are joint investments in the development of raw materials on Soviet territory. Thus, some major questions of multilateral cooperation will be considered here very selectively and only to the extent which the major theme of the study justifies.

## II. Polish-Soviet economic relations in the first postwar decade: a period of inequality and exploitation

Looking retrospectively at the state and nature of Polish-Soviet economic relations in the early postwar period, it is not difficult to see that these were the relations of an overwhelming Soviet domination. Poland was a country torn and devastated by war, while the Soviets came as "liberators." Most of the Polish people had felt abandoned, betrayed and politically defeated ever since the crushing of the Warsaw uprising in late 1944 and perhaps even more so since the Yalta Agreements of February 1945. A very carefully planned process of putting the Communists in power was well under way and the Soviets were fully determined to exercise their control. Indeed, they were losing no time in doing just that. On April 21, 1945, they concluded in Moscow a Treaty of Friendship, Mutual Assistance and Postwar Cooperation with a Polish Communist puppet regime even before it was reorganized according to the provisions of the Yalta Agreements and recognized by the western powers. That treaty was drafted and practically dictated by the Soviets, and it contained everything they wanted to see in it. The Polish Communists at that time were not particularly concerned about questions of fairness or equality with the Soviets. Their predominant concern was to grab political power inside Poland with the use of Soviet support and backing. From their perspective the adversary to be reckoned with was still the overwhelming majority of the Polish people, not the Soviets.

Under such circumstances it is easy to see that the Polish Communist regime could not have had much bargaining power vis-a-vis the Soviets.

1. Immediate economic costs of a new relationship with the Soviet Union

The economic consequences of this situation were numerous and immediate. This can best be illustrated by what is commonly called "capital transfers" from Poland to the Soviet Union. Though Poland, as a member of the anti-Nazi coalition, should have been treated differently than ex-enemy countries, she was in fact forced to make two kinds of capital transfers for the Soviet Union. One was apparently in violation of an agreement on reparations signed by Poland and the Soviet Union in Moscow on August 16, 1945. According to this agreement, the Soviets renounced all claims to property located in the new Polish territories which had formerly belonged to Germany. However, the

Soviet troops, already present on these territories, dismantled many of the key industrial installations and much of the transport equipment, and moved them, together with livestock, to the Soviet Union. It is a well-known fact that Polish Communist leader Wladyslaw Gomulka, who somewhat later was made Minister in charge of the Western Territories, came in conflict on several occasions with the Soviet military authorities when he was trying to protect some of those installations. The Soviet plunder of these territories became a serious handicap in their development in subsequent years. Second, according to this agreement, German reparations to Poland were set at 15 percent of total German reparations to the USSR and were to be handled by the Soviet Union. However, in return for this service the Soviet Union imposed on Poland the delivery, at a special price, of large quantities of coal, namely, 8 million tons in 1946, 13 million tons in each of the years 1947-50, and 12 million tons annually thereafter throughout the occupation of Germany.[2] That price was established at $1.25 a ton--somewhat less than one-tenth of the prevailing world market price.[3] In March 1947 these quantities were reduced by 50 percent. Between 1946 and November 1953 Poland delivered about 50 million tons of coal to the Soviet Union at that price. In November 1953 these "reparation" deliveries were terminated. Polish losses from these transactions are estimated at between $600 million and $750 million.

As the officially admitted Soviet reparations up to the end of 1953 amounted to at least $4,294 million, the Polish share should have totalled $645 million. But only a small part if it was actually delivered to Poland, mostly in the form of obsolete ships and chemical-plant equipment. According to International Monetary Fund data, Polish receipts of German reparations amounted to $20 million in 1946 and $40 million in 1947.[4] In 1947 one Polish source complained that "deliveries of reparations justly due Poland did not reach proper dimensions,"[5] but thereafter the press was no longer allowed to discuss the subject.

As is well known, after the political upheaval in Poland in October 1956, when Gomulka came to power, he pressed the Soviets to compensate Poland for "past inequalities." He received an admission of past inequalities and some compensation for underpricing the deliveries of Polish coal. In an agreement signed in Moscow on November 18, 1956, the Soviet Union agreed to reimburse Poland for $500 million, in the form of the cancellation of Poland's debt to the Soviet Union.[6] Polish claims, as reportedly presented by Gomulka, amounted to $1,250 million. They apparently included some $500 million for industrial equipment removed by the Soviets from Western Poland, as well as about $75 million for transit facilities and other services. However, Khrushchev rejected the latter claims, arguing that Poland could not go on "milking" the Soviet Union.[7] Thus, Soviet compensation represented somewhat less than half of Poland's claims. But, as Paul Marer points out: "the real issue to Poland was that by 1956 coal was no longer in short supply on the world market so that whatever chance Poland had earlier to earn hard currency had passed, and for this reason too the compensation seems inadequate."[8]

Poland's increasing dependence on the Soviet Union in the immediate postwar period has also produced a number of long-term negative consequences for her economic development. Some of them can be called simply forgone opportunities. For example, under direct Soviet pressure Poland was not allowed to accept economic assistance under the Marshall Plan, though initially she had expressed an interest in it. This fact alone put her at a disadvantage vis-a-vis the West European countries, which greatly benefitted from that plan in their postwar reconstruction efforts. In this connection it is worth recalling that the assistance Poland received through the United

Nations Relief and Rehabilitation Administration (UNRRA) in the years 1945-47 amounted to $481 million[9] and turned out to be the principal factor in reviving the Polish economy after World War II. The American contribution through UNRRA and other grants amounted to $349 million.[10] But other Western economic assistance and credits, which looked rather promising initially, were greatly curtailed or cut off in subsequent years due to the deteriorating political situation inside Poland and to her active support for Soviet Cold War policies abroad. One of the immediate results of this situation was that Poland could not fully meet her demand for foreign credits under the Three-Year Plan of Postwar Reconstruction in 1947-49 and a number of investments had to be trimmed accordingly.

Another consequence of a similar nature was her relationship with the International Monetary Fund and the World Bank. Although she had been among the founding members of these institutions, she could not make active use of their financing for her trade or development needs. In 1947 her request for a World Bank loan of $600 million was turned down, and a few years later she decided, under Soviet pressure, to withdraw from both institutions.

2. Soviet aid to Poland

Now let us look briefly at Soviet aid to Poland in the early postwar period. The first Soviet loans, extended in early 1945, were so miniscule that they must have been designed simply to keep the Communist regime going. The amount of the first loan, made on January 24, 1945, on the occasion of Bierut's visit to Moscow, was never disclosed. The second loan, signed in Moscow on April 9, 1945, amounted to 50 million Soviet rubles and $6.5 million.[11] At the same time the official Communist propaganda in Poland was continuously advertising Soviet aid as the most fundamental factor in

Poland's survival and development. This has been going on for decades and in numerous publications up to this moment. In this Communist jargon, any kind of Soviet export to Poland--be it seed grain, cotton, animal hides, salt, matches, or trolley-buses--were termed and labeled as Soviet "aid." In this connection it is perhaps appropriate to explain what actually happened in 1945. Of course, at that time Poland was still isolated from the rest of the world and the Soviet Union was virtually her only trading partner. The first Polish-Soviet trade agreement was signed in Moscow on July 7, 1945. It contained a number of general provisions regulating trade relations between the two countries and committing them "to strengthen with all available means mutual economic relations in the spirit of friendship and cooperation." On the same day a separate trade protocol was signed, stipulating the composition and volume of mutual trade by the end of 1945.[12] The results of bilateral trade in that first year were probably somewhat unexpected and surprising. Polish exports amounted to the equivalent of $35.3 million, while Polish imports were the equivalent of only $30.7 million.[13] Poland managed to export to the Soviet Union in that first year 5 million tons of coal and coke, as well as significant quantities of steel products, cement, soda, and textiles. It is thus hard to see why she should have needed Soviet ruble loans in that year since she earned a surplus on her trade account. The only logical explanation is that her export performance turned out to be stronger than initially expected. This may also help explain why there were no new Soviet credits in 1946. That year, in turn, was the peak of UNRRA programs for Poland and also a revival of Polish trade with the western countries.

The next, but in fact the first, meaningful Soviet commercial credit to Poland in the amount of about $29 million was granted on March 5, 1947, after the Communist regime was already firmly in power. It was to be used for Poland's purchases from the West and repaid over a period of ten years.

There were two more significant Soviet credits during the Stalinist period: one announced on January 26, 1948, in the amount of 1,800 million rubles (equivalent to $450 million at the Soviet official rate of exchange), and another one on June 29, 1950, in the amount of 400 million rubles (equivalent to $100 million).[14] Both of them were linked to financing Polish imports of capital goods and equipment from the Soviet Union within the bilateral trade agreements for the years 1948-52 and 1953-58 respectively. This was the beginning of Stalinist industrialization in Poland. These credits are usually connected with the financing of that industrialization process, which was defined in the Six-Year Plan of 1950-55. Thus, the total Soviet credits extended to Poland during the whole period of Stalinist industrialization amounted to 2.2 billion rubles, or the equivalent of $550 million.[15] Deliveries under these loans were used for the construction of approximately 30 industrial plants, but most of it for the construction of the largest steel mill at Nowa Huta, near Cracow.

3. Reorientation of Poland's trade

The new geopolitical situation in which Poland found herself in the postwar period had a number of long-term economic consequences for her development. One of them was a radical reorientation in her foreign trade toward the Soviet Union and other East European countries. While in the prewar period Poland's trade with those countries was marginal, accounting for only 7 percent of her total trade for the whole region and only 1 percent for the Soviet Union, in 1948 that share had already jumped to 34 percent for the region and 22 percent for the Soviet Union. By 1952 the share of the Soviet Union itself in Poland's trade went up to 32 percent, and the region as a whole to 67 percent. That means that Poland's trade with the rest of the world shrank from 93 percent in 1937 to 66 percent in 1948 and to only 33 percent in 1952.[16] This has been the most dramatic and, as it turned out, almost irreversible change in the direction of Poland's trade, with vast economic consequences.

In the brief three-year period of 1946-48 Poland made a rather impressive attempt to recapture some of her traditional western markets, and the share of the Soviet Union in her trade declined temporarily. However, following the heightened international tensions in 1947-48, Polish trade was, as a matter of policy, increasingly oriented toward the Soviet Union and Eastern Europe. Although political factors were largely responsible for this drastic reorientation, some economic considerations also contributed to it. Among them were the postwar lag in agricultural and forestry production, the absorption of some traditional exports by the domestic market in connection with the postwar reconstruction and industrialization, and difficulties inherent in the bilateral nature of postwar trade patterns.

The commodity pattern of Polish-Soviet trade was also changing rather rapidly. Soviet exports to Poland, which were initially composed mostly of raw materials such as iron and manganese ore, ferrous alloys, oil products, natural gas, apatites, cotton, and grain, were subsequently expanded to include a wide range of investment goods, particularly machinery and heavy industrial equipment. This diversification in the composition of Soviet exports occurred mostly in the early 1950s, when imports of Soviet investment goods became a key element in Poland's "socialist" industrialization. These goods were delivered mostly under the so-called investment agreements, which provided for Soviet credits against the delivery of Polish manufactured goods over a period of time. Imports of Soviet machinery and equipment rose, e.g., from the equivalent of $9.5 milion in 1950 to $30.2 million in 1955.

On the other hand, Polish exports to the Soviet Union, which were initially composed of such basic items as coal and coke, cement, zinc, and sugar, were also diversified rather quickly to include manufactured goods, mostly textiles, glass, chinaware, transport equipment, and machinery. One large industry in particular, which is credited as having developed in large measure in response to Soviet demand, is shipbuilding. Exports of commercial ships to the Soviet Union started as early as 1950, and have been increasing steadily since then. Polish exports of industrial machinery and equipment to the USSR rose from the equivalent of $8.3 million in 1950 to $16.7 million in 1955, or more than doubled. Total Polish exports to the Soviet Union rose in that period from the equivalent of $154.1 million to $280.5 million, or at an average annual rate of 16.4 percent. Polish imports from the USSR increased in the same period from the equivalent of $192.4 million to $313.5 million, rising at an annual rate of 12.5 percent.[17] Despite this rather dynamic growth in mutual trade Poland's share in the Soviet Union's foreign trade declined from 13.9 percent in 1950 to 11.1 percent in 1955. Thus, Poland declined as the Soviet Union's trade partner from second to fourth place, after China, the GDR, and Czechoslovakia. But the share of the Soviet Union in Poland's trade rose somewhat, and in 1955 it amounted to 32.2 percent.

As can be seen from the above figures, despite the faster growth in her exports, Poland was still running a sizable trade deficit with the Soviet Union. This might be explained, of course, by a number of factors, including the political decision by Polish planners to drastically increase imports of Soviet machinery and equipment on credit. However, the question may also be raised as to what are some of the basic economic causes of this deficit. And here we come inevitably to the question of prices. One commonly known example is, of course, that of Polish coal. It is illustrative to note that the share of coal in Polish exports to the Soviet Union declined from 60 percent in 1945 to only 14 percent in 1946, despite the fact that the quantities exported rose in that period from approximately 5 million tons to 8 million tons. This shows vividly how the prices of "reparation coal" depressed the value of Polish exports to the Soviet Union. It was apparently not easy to compensate for that loss with other goods. We will deal with the question of prices in the next section.

However, one more thing which is probably more important in the long term should be said before we come to the question of prices. This is that the reorientation of the directions of trade has resulted in long-term negative effects on Poland's industrial development. It brought about the growing isolation of the Polish economy from western markets, an isolation which prevented it from importing higher-quality machinery and equipment to reconstruct and build a competitive industry capable of producing high-quality products. The Soviet Union was simply unable to provide this kind of equipment and technology. The technological inferiority of Polish industry, built with Soviet equipment, became painfully evident in the late 1950s and early 1960s, when Poland, because of an improvement in the political climate, was again trying to expand her exports to western markets. It then became apparent that massive imports of Western equipment and machinery were needed to bring the Polish industry up to more competitive standards. A costly modernization process, ranging from steel to textiles, had to be undertaken to at least partially close the huge technological gap. True, the process of Stalinist industrialization, as adopted and implemented in Poland under the Six-Year Plan, opened up a huge Soviet market for Polish exports, but that market was not terribly demanding in terms of quality and standards. It could absorb almost anything. It was a seller's market. This factor, combined with other systemic features endemic to a centrally planned economy, contributed to the building in Poland of a huge industrial structure almost totally unfit to compete on the world market. This damage could never be rectified in subsequent years.

4. The price question

It is not my intention to go deeply into the question of prices and price-setting arrangements within the CMEA, as this would clearly go beyond the scope of this study. There is a voluminous literature on this subject in both the East and the West, and it is rather difficult to add anything new on the basis of available evidence. However, I cannot avoid making at least several observations on this subject here. Everyone knows that the question of prices in Soviet/East European trade has been shrouded in secrecy from the very beginning, and that intimate knowledge in this field was shared by a chosen few, who were directly involved in the price negotiations at one time or another. Thus, the economists, both East, and West, were kept largely in the dark. As Hewett notes, those in the East, who may have occasionally had more information, mostly through leaks and gossip; could not publicly raise certain questions. While those in the West could raise and discuss anything they liked, but the availability of hard evidence was limited. For this reason we may never know precisely what was really going on in this sphere at one point or another, or why. Now, of course, we know a great deal more about the whole subject, and virtually everything about the general guidelines and procedure of price determination. It seems to me that four general observations are appropriate here by way of introduction.

First, in the early postwar period there were hardly any rules for price determination between the Soviet Union and its East European partners. Second, a claim has always been made, and indeed still is, that prices in intra-Comecon trade (though Comecon as such did not exist until early 1949) are based on those of the world market. Third, actual prices were set through bilateral negotiations, and still largely are, at different levels of government, depending on the importance of the products involved. And fourth, the technique of price determination has been changing over time. All sorts of improvements have been made, but the price question still remains controversial and politically sensitive.

Of course, the secrecy of the price question as such, coupled with the bilateral network of price negotiations within the bloc, may have contributed to making the whole issue look more mysterious and complex than it otherwise would seem. But this alone can hardly explain the whole thing. The perception of inequality, discrimination of one sort or another, or even "unequivalent" exchange was present from the earliest postwar period, and apparently not without deeper roots. In most general terms, these roots go back to early Soviet policies and the official jargon about Soviet "fraternal assistance" to the East European countries, based on "proletarian internationalism." That is how the Soviets and the East European regimes wanted their relationship to look in the first place. It is no wonder that bits and pieces of evidence to the contrary looked very exciting to the outside world and shocking to the East Europeans themselves.

What some Western analysts apparently failed to grasp or sufficiently appreciate was the basic political and ideological slant of the whole economic relationship between the Soviet Union and its East European satellites. Some American authors in particular were attempting to explain the price issue in very objective terms, by using very sophisticated methodologies, which were based on logic and very appealing intellectually; but in their dispassionate search for objectivity they sometimes tended to lose sight of the more fundamental and not so sophisticated realities of the Soviet camp.[18]

Being myself for many years what Edward Hewett would probably call a "spectator" Eastern Branch, though a "spectator" relatively close to where the "action" was, I do not pretend to know all the answers. I will, however, share some of my reflections and perceptions. When one talks about prices in Soviet/East European trade, I think it is always helpful to keep in mind the particular political climate in which price questions at any particular time were being decided or discussed. That atmosphere in the early postwar period, and even more so in the Stalinist period, was such that the whole attitude toward prices was what we would probably call today "benign neglect." And this was so both from the official side and from the scholars, who were in some ways responsible for explaining things and shaping attitudes. Let me illustrate this by one notable example.

A highly respected Polish economist, Tadeusz Lychowski, whom Professor Wiles credits with writing the first Marxist textbook on international economics in the Communist bloc,[19] defined the whole approach to prices among the socialist countries as follows: "...in the agreements establishing prices in exchanges between the countries of socialism and democracy 'world' prices play, in a certain measure, the role of one of the indicators, whereas the proper basis of price formation is the "desire to arrive at mutual aid and to attain on both sides an expansion of the economy" that guides each country of this type...."[20] No wonder that when this definition was given to us as students in the early 1950s, the only question raised by us, but never answered, was "who helps whom and how much?" However, this definition, forgotten or overlooked by many, probably more faithfully reflects the realities of the early postwar period than other official claims relating prices in intra-Comecon trade to those of the world market. If we keep in mind the clear emphasis on "mutual aid" rather than "world prices" we shall avoid many of the pitfalls which await anyone who attempts to "prove" the official claims.

Certainly, in the early postwar period and until at least the mid-1950s, the question of intrabloc prices, including prices in Polish-Soviet trade, was influenced by a number of different factors, which related to Soviet policies toward the smaller East European countries, to price developments in the world markets, and, last but not least, to the very nature of bilateral trading arrangements with the Soviet Union. Although the role of particular factors may have varied over time, I would emphasize the role of the latter factor as probably the most significant and enduring. This factor is important because in its broad sense it covers not only institutional arrangements per se, but also the relative bargaining position of the smaller East European countries vis-a-vis the Soviet Union. I tend to believe that the nature of institutional arrangements, with their underlying assumptions directed at achieving certain long-term political and economic objectives within Comecon, made the Soviet Union a major player in the game. The smaller countries had little choice but to adjust and participate in that game. That was a situation substantially different from that in any traditional customs union, where partners play by economic rules alone and where price differentials and other market conditions usually determine the directions of imports or exports of the member countries. Here one can hardly speak of any market conditions, and hence any analogies to traditional customs unions should rather be avoided.[21] The smaller East European countries have never had a viable alternative to substitute for Soviet imports with imports from western markets, and this was not just for price considerations alone. Such an alternative was excluded for both political and economic reasons. It is obvious that the adoption of Soviet development strategies by the ruling elites in the East European countries made them almost by definition totally dependent on the Soviet Union. Also the theory of socialist economic planning, as formulated at that time, had a particular approach to foreign trade. As Oskar Lange formulated it, "...in socialism foreign trade is basically determined by import needs. Export is only an indispensable means to pay for needed imports."[22] According to this theory the top priority for any socialist country in foreign trade is to secure the flow of needed imports, which are provided for in the economic plans, and to do so at stable and preferably fixed prices. This was indeed the essence of long-term trade agreements between the Comecon countries. Under these circumstances prices in trade with the Soviet Union were treated mostly as an instrument to balance "mutual deliveries." Neither their absolute level nor even their pattern could correspond to that of the world market. The paradox, obviously, lies in the fact that, despite all of this and the alleged existence of a "world socialist market" as claimed by Stalin, world market prices had to serve as some point of reference, as there was no other viable alternative. Some vague proposals to create an autonomous socialist price system, advanced mostly by Soviet economists at different periods had a clearly utopian ring considering the existing realities under which the various Soviet-bloc economies work, as well as their ties with western markets.

Under such circumstances it would be rather hard to overstate the significance of the negotiating process in price setting. Virtually everything was left to and depended on that process. Of course, any number of questions might be raised as to how effective it was, or by what criteria it should be evaluated, and so on. In any case it seems to be clear, in light of what was said earlier, that the price question in the bilateral trading arrangements we are discussing has to be looked upon in the broader context of the terms of trade, the composition of that trade, and even its significance to the parties involved. The price of any particular commodity taken in isolation from other factors may not always be very meaningful.

Now, coming back to the question of prices in Polish-Soviet trade in the first postwar decade, we have to subdivide this period into roughly three different phases. They are different both in terms of price-setting procedures and apparently in terms of price levels in relation to the world market as well. The first is the period 1945-1950, when hardly any rules for price setting in the bloc existed, and prices were claimed to be based on those of the capitalist world market. Prices for the most important commodities were established annually in bilateral negotiations, usually in the course of negotiations of annual trade protocols. Prices of less essential goods would be set in negotiations between the foreign trade organizations of the two sides. The fact that in that period the Soviet Union did not hesitate to use its overwhelming bargaining position to its maximum advantage has been rather well established in Western literature and hardly requires any extensive elaboration here. As Marer rightly put it, the Soviet Union under Stalin "used every chicanery in the book to obtain favorable prices."[23] This was certainly true in its trade with Poland. The fact that until approximately 1948 prices and contracts were denominated in U.S. dollars should not be misleading. The dollar was used basically as a unit of account. It was hardly ever used for the purpose of balancing bilateral trade. Of course, Soviet hard currency credits opened for purchases in the third countries is a separate matter. Even after 1948-49 when prices and contracts began to be denominated in rubles, nothing was changed. The ruble again served only as a unit of account. The fact of Soviet price discrimination towards Poland in this first period was admitted in general terms and indirectly by Polish party and government leaders at the end of 1956 or just after. Thus, for example, in April 1957 the Polish Foreign Trade Minister, Witold Trampczynski, upon arriving from Moscow stated for the party newspaper:

> ....this year agreements with the Soviet Union have been for the first time based upon current world prices. These prices have been fixed for one year with the provision that, in case of some considerable fluctuations on the world market, each party has the right to give notice as to the suspension of the fixed prices.[24]

That statement clearly admits that prices in Polish-Soviet trade in the whole period up to 1957 did not correspond to the current world price levels, and in any case not in Polish exports to the Soviet Union.

The second period was that of 1951-53. In that period the Soviet-bloc countries were using the so-called stop prices, i.e., prices agreed upon prior to this period were frozen in order to protect the socialist countries from the distortions of "capitalist inflation" caused by the Korean conflict and its aftermath. This was a conscious decision to cut off intrabloc prices from those of the world market. The freezing of these prices meant, of course, the freezing of all existing inequalities favoring the Soviet Union. Paradoxically, that move gave rise to the Soviet bloc countries' boasting about the "stability" of their price system and contrasting it with the "wild fluctuations" of prices on the capitalist market. Nevertheless, in 1953 negotiations were already under way to modify some of the "stop prices."

And that led to a third period, 1954-57, in which certain "stop prices" coexisted with modified prices. This only confounded the whole price situation in intrabloc trading and led to wide discrepancies in price levels among particular products and markets, because price modifications were made in bilateral negotiations, and thus were influenced by different considerations peculiar to the particular bilateral relationships. All in all, virtually none of the foreign trade prices in that period corresponded to real production costs in any Comecon country, they bore little relationship to current world price levels, and most of them were years behind the world market.

Unfortunately, there is hardly any statistical evidence regarding relative price levels in Polish-Soviet trade in this whole period. In Poland such statistics were simply not published during the Stalinist period. Neither were they published in the Soviet Union. Some more meaningful statistical series relating to foreign trade began to be published in Poland only in 1958. Thus, the best statistical evidence we have so far seems to be that collected by Hewett from Soviet and Polish statistics. It has been properly arranged to show changes in the net barter terms of trade, which is apparently the most objective methodology available. Hewett's calculations were derived from incomplete but very representative samples. They show the Soviet Union running very positive net barter terms of trade with Poland in 1955 and 1956. Only in 1957 was that situation reversed.[25] This picture seems to be consistent with what has been said earlier about the turning point in the Polish-Soviet trade. The most discriminatory type of pricing against Poland, judging by import and export price differentials, seems to have been in the area of machinery and equipment. This did not stop even in 1957. However, the price of coal, which was a major Polish export to the Soviet Union, was adjusted upward in 1957 by about 50%, which again indicates how much its prices lagged behind those of the world market, even though the "reparation deliveries" had been terminated in 1953.[26]

In conclusion we may say that it took the Soviet Union the experience of the Polish and Hungarian revolts of 1956 to conclude that prices with its East European satellites would have to be modified in a more meaningful manner. We will return to this question in the next chapter.

Here, meanwhile, we might add one more aspect of the exploitative nature of the Soviet-East European trade relationship. As Professor Wiles has defined it theoretically, the most exploitative part of that relationship may have been not the price, but the quantitative aspect.[27] By demanding excessive quantities of goods from the smaller countries, the Soviet Union has effectively forced them to throttle back their home demand and to restrict their exports to the rest of the world. The net result of this was a shrinkage in their actual or potential hard-currency export earnings, and domestic production bottlenecks. This situation has been clearly evident in Poland at different periods. Production capacities in some industries, like machine tools and shipbuilding, to cite just the two best-known examples, were so heavily committed to the Soviet market that Poland could not satisfy her own demand, and was often forced to import these goods, such as ships from Norway or Britain, for hard currency. Nor could she accept attractive proposals for cooperative venture with Western partners (for example: in machine tool production), due to the overextension of her industrial capacity.[28] In Poland this became a real problem in the early 1960s, when opportunities for such cooperative ventures were increasing, but, mostly for this reason, could not be utilized.

## 5. The meaning and costs of Stalinist industrialization in Poland

When we seek the root causes of the present crisis in Poland, and in fact of all previous crises as well, we have to go back to where it all began, and that is to the imposition on Poland of a Stalinist economic model. The overall costs of realizing that model in Polish conditions turned out to be intolerably high, and its performance ineffective and wasteful. It is not difficult to see that all major distortions in the Polish economy date back to the period of Stalinist industrialization and its aftermath.

The model of Stalinist industrialization was not only too costly in its implementation, which under normal circumstances would be sufficient reason to reject it, but, more importantly, it brought about structural changes in the Polish economy which make it uncompetitive in the present world, ill-fitted to Polish resource endowment, and heavily dependent on the Soviet Union. This, of course, might be a theme for a separate study. Here, I would like just to touch briefly on some of the major aspects of this development strategy, showing the origin of major structural distortions and perhaps in the process dispelling the myth of a "centrally planned" economy in Poland.

Perhaps at the risk of repeating the obvious we should note that the model of Stalinist industrialization in Poland was clearly Soviet-inspired and carefully planned long before it actually started.[29]

The economic policy of the first postwar years, usually called the "reconstruction period," though loaded with numerous internal contradictions, and associated mostly with an overambitious drive for "socialization" and the elimination of private elements from the economy, was on the whole rather impressive, considering the circumstances and all sorts of internal and external limitations. Suffice it to mention that national income (distributed) in the three-year reconstruction period of 1947-49 rose by an average annual rate of over 23%. Even considering the fact that growth in that period had many specific features associated with postwar reconstruction, and that much of it was generated by the restoration of previously existing production capacities rather than the building of new ones, at least two aspects of it should be stressed here. One is that it was a well-balanced and proportional growth. Production, investments, and consumption were all growing at roughly the same rate. And second, the ratio of investment to consumption was very moderate, just slightly over 20%.[30] This situation, as we shall see, was drastically reversed in the course of the Stalinist industrialization of 1950-55. Of course, a number of major mistakes were made in that period, with long-term and in some cases irreversible consequences for future development. Among them were drastic limitations on, or even total elimination of, entire economic branches, particularly the private sector of retail trade, small industry, and handicrafts. Naturally, the nationalization of major industries, transportation networks, and other infrastructure, along with a radical reform of agriculture, had already been accomplished by 1946. All this led to drastic changes in ownership relations and employment. Besides agriculture, which remained predominantly in private hands, the state was rapidly emerging as the dominant employer. The excessive drive toward nationalization of even those branches of the economy which the state could not effectively take over and run has caused lasting damage to economic development. The large and centrally managed state enterprises could not simply fill in for many branches of private industry and services, which had been responsive to market conditions and consumer demands. However, this drive presaged the Stalinist development strategy, which the Marxist-Leninist elements within the ruling establishment, with full Soviet backing, wanted to realize. Initially, they did not have total control over the government structure, but, as it turned out, the future belonged to them. Once they had gained over total control of all government agencies, including the Planning Board, which was in the first period staffed by the Socialist Party (PPS), planning for Stalinist industrialization went into full speed.

The basic assumption of this strategy is Lenin's thesis that industrialization under any circumstances provides the fastest way for development and socialist construction, and particularly in a country with large labor reserves in agriculture. It is further assumed that structural changes brought about by industrial development will increase productivity in the whole economy. In Poland's conditions there were, of course, huge reserves of underutilized labor in agriculture.[31] The problem of how to implement this strategy was again resolved by copying the Soviet model, which meant industrialization based on domestic accumulation, without foreign investment or the advantages of an international division of labor, aiming basically at self-sufficiency. This approach implied the construction of a wide range of industries integrated both vertically and horizontally, with top priority being given to heavy industry, machine industry, and in general to producer-goods industries (group A).

This approach was clearly reflected in the formulation of production targets for the Six-Year Plan of 1950-55, which are shown in Table 1.

Table 1: Planned Output of Selected Branches of the Polish Economy in the Six-Year Plan

| Sector | 1955 Output (1949 = 100) | Average Annual % Increase in Output, 1950-55 |
|---|---|---|
| 1. Agriculture | 150 | 7.0 |
| 2. All industry | 226 | 14.6 |
| 3. Large- and medium-scale state industry | 236 | 15.4 |
| (i) Consumer goods | 211 | 13.3 |
| (ii) Producer goods | 254 | 16.8 |
| 4. Machine-building industry | 364 | 24.3 |
| 5. Railway freight, ton/km | 186 | 10.9 |

Source: Alton, Thad P. (1955), p. 158, as taken from official Polish sources.

The plan targets were indeed incredibly ambitious. National income was expected to grow at an average annual rate of 13.4%. The plan provided for the extension of industrial development far beyond the traditional industrial regions, calling for new industrial centers at Cracow, Czestochowa, and Warsaw. As many as 80% of the new plants were to be built outside the existing industrial areas.

The plan assumed a huge immigration of labor from the rural areas to the industrial centers, an impressive jump in industrial employment (by over 2 million), and, of course, an enormous rise in investments, particularly in industry. Agriculture, on the other hand, following the Soviet model, was to be treated as a major source of accumulation for industrial development.

Two more things should be said here before we briefly evaluate its results. First, the location of certain new industrial plants was based more on political than on economic criteria. For example, the location of the steel mill plant at Nowa Huta near Cracow could never be justified on economic grounds. There were neither coal nor iron-ore deposits in the area, nor even sufficient water resources. Both coal and iron ore had to be hauled in over long distances, the former from Upper Silesia, the latter mostly from the Soviet Union.[32] Building the proper infrastructure required tremendous investments. However, the ruling party merely wanted to create a "proletariat" in or around the major population centers, in which the population was not known to have any pro-Communist inclinations. On the contrary, for reasons of tradition, history and religion, it was rather more anti-Communist.

And second, an industrialization program on such a gigantic scale, particularly in steel and heavy industries, had to involve a steady and growing dependence on the Soviet Union for the delivery of raw materials and industrial equipment. Polish political leaders of that time must have been fully aware of this. These were, indeed, long-shot decisions.

Now, as we know, the implementation of this gigantic program did not fare very well. Besides certain unquestionable quantitative successes in selected areas where huge material and human resources were concentrated, there were major failures and disappointments, the legacies of which are evident to this day. Of course, there are plenty of reasons that might be cited for this. Some of them have much to do with the external circumstances of that period, such as the Cold War and Soviet policies in particular, but others are organically linked with the internal contradictions or inconsistencies of many plan assumptions, as well as with the workings of the Stalinist economic model in general. The latter set of causes became more obvious and much better understood somewhat later.

The external circumstances meant, in practical terms, that the Soviets had by 1951 forced upon the Polish planners very drastic revisions in plan proportions in favor of military industry. As Michael Checinski notes: "A Polish military industry was built and organized over a three-year period by simply taking over a large portion of existing and much needed civilian factories and by allocating production factors from the nonmilitary sectors ...."[33] This certainly caused serious distortions in many sectors of the Polish economy. These were the basic political costs paid by Poland for her "friendship" with the Soviet Union.

The other set of causes is perhaps even more important, as it has a greater theoretical validity in understanding the internal dynamics and contradictions of a Soviet-type economy. Such contradictions were inherent in the assumptions of the Six-Year Plan, though apparently they were not fully understood at the time.

One of them was a contradiction between full-employment policies and the application of capital-intensive technologies. This generated tendencies toward ever-higher investment spending. The other one, working in the same direction, was a strong drive toward a steadily increasing scale of production combined with autarchic biases, which was in addition leading to uneconomical and inefficient production. The third was a very well known preference for producer goods over consumer goods industries, which over a longer period is bound to lead, particularly under conditions of rapidly rising employment, to imbalances and shortages in the consumer-goods market.

All these tendencies combined led to an unsustainable rate of growth in investment spending. In 1949, for example, investments jumped by 60.7% and in 1950 by 64.5%.[34] In 1953 the share of accumulation in national income reached 32%. Given a pattern of investment which favored the producer goods sector, the ratio between producer goods and consumer goods in the gross value of industrial output was shifting constantly in favor of producer goods. It rose, for example, from 54 in 1948 to 62 in 1953.[35] But at the same time investments in light industry, the food-processing industry, and agriculture remained either stagnant or were falling. In agriculture, for example, in 1951 as compared with 1950, they declined by 36.3%.[36] Thus, while in some selected sectors of the economy, mostly in heavy industry, an excessive concentration of resources was put to work to achieve certain quantitative production targets, in other sectors sufficient resources were not available to secure even a simple reproduction of the existing plant and equipment.

Among the major policy blunders of that period was the reckless drive toward collectivization in agriculture. To achieve that objective, a wide range of discriminatory policies against private farmers was applied, including excessive taxation, compulsory deliveries of farm produce to the state at depressed prices, restricted availabilities of agricultural inputs, etc. While investment in the state and collectivized sector of agriculture was rising moderately, in the private sector of agriculture a process of decapitalization was well under way.

All of this could not last very long, and indeed a crunch soon came in 1953. By that time it had become increasingly clear that the extensive methods of production growth had passed their peak and were rapidly grinding to a halt. The rate of growth of national income was declining from year to year, and so was industrial production. But, more importantly, imbalances in the consumer goods market were becoming increasingly painful. Prices of consumer goods had to be increased sharply, and per-capita consumption was actually declining. Earlier promises of substantial increases in real wages had become a mockery, even though official statistics were trying to prove otherwise.[37] This had already grown into a crisis of major proportions; and in 1954 the party was forced to revise the plan again, this time reversing some priorities in favor of consumer goods. This, of course, became possible after Stalin's death and the ensuing change in the political climate in the Soviet Union itself.

Structural distortions in the Polish economy brought about by the policies of Stalinist industrialization were not to be easily eliminated despite various adjustments which were made in the macroeconomic variables of the plan. How some of those variables were changed is well illustrated by changes in the rates of growth in fixed capital investment between the period of rapid industrialization of 1950-53 and the following of adjustment period of 1954-57, as shown in Table 2.

Table 2: Growth of Gross Fixed Capital in the Polish Economy, 1950-53 and 1954-57 (average annual growth rates)

| | 1950-53 | 1954-57 |
|---|---|---|
| All sectors | 15.5 | 5.3 |
| Industry | 25.6 | 1.2 |
| Building construction | 10.5 | 18.3 |
| Agriculture | 0.3 | 17.9 |
| Transportation and communication | 7.7 | -2.2 |

Source: Checinski, Michael (1983), p. 36.

In 1956 the share of accumulation in national income declined to 19.5%. Improvements in the consumer goods market, housing construction, and social services received higher priority. More importantly, when Gomulka came to power in 1956, one of his first policy moves was to allow the dissolution of most of the collective farms, and to make some significant adjustments in agricultural policies, particularly toward the private sector. The great "successes" of the socialist sector of agriculture disappeared as soon as state subsidies to it were reduced.

Perhaps I should interject here two brief remarks on the cyclical nature of economic development in Poland. Such development is clearly evident when we look at it in terms of the fluctuations in the rates of investment, and to a lesser extent in the rates of growth in general. Of course, fluctuations in investment can be only partly responsible for fluctuations in national income in any given period. When considered in those terms, Poland's postwar economic development can be divided into nine distinct periods. After each short-lived upswing in investment and dynamic growth comes a period of cooling-off or even retreat, and later the same cycle repeats itself. In other East European countries the situation is very similar in this respect; although the degree of fluctuation varies widely by countries and periods.[38] The causes of these fluctuations are mostly systemic. Periodic adjustments in plan proportions do not eliminate a general tendency toward ever-higher investment spending in the following period. The contradictions we described earlier stay within the system, and they generate very much the same tendencies. What we see in the case of Poland is that the ratio of investment to consumption has been steadily rising in almost every subsequent period.[39]

Coming back to the question of Stalinist industrialization in Poland, we may note that most of the policy mistakes of that period were publicly admitted, starting in 1956. They usually include such faults as the neglect of agriculture, the premature elimination of private handicraft, autarchic tendencies in industrial development, tendencies toward gigantic investment projects ("gigantomania"), or a neglect of environmental concerns.[40] There is, however, a reluctance to admit publicly that policy mistakes, though important, are only part of the story; the other part being systemic factors which have never been adequately dealt with or eliminated.

It would probably be more interesting to get a response as to why the Stalinist model of industrialization was adopted in the first place. Oskar Lange, writing in 1957, was trying to explain it from a Marxist position as follows: "There were two motives at work here. First, a fear of the destructive role of capitalist and petit bourgeois elements in the national economy, and thus an eagerness to drive them out from all positions where they might have an influence on the economy. And second, a desire to accelerate the industrialization process and to direct it in a way that would make maximal provision for the country's defenses. In this situation there arose phenomena which we now call distortions of the Stalinist period. Those distortions had their historical roots."[41]

At the same time Lange avoids the question as to whether the economy might have been developed by other methods, arguing that "it is a difficult and complex question. Personally I have the impression that there was largely, if not wholly, an element of historical necessity."[42]

Lange's impression was probably correct, which means that we come back to the "Soviet factor" as being largely responsible for the Stalinist economic model in Poland and, consequently, for the major distortions and policies of that period.

Although some of those policies were somewhat revised or modified in subsequent periods, the basic distortions created in the Polish economy in the course of Stalinist industrialization and, more importantly, the wrong economic structures created in that period have stayed with us, and probably could not have been totally eliminated. They have been exacting a heavy price on the Polish people to this day.

## III. Polish-Soviet economic relations under Gomulka; a period of relative equality and dynamic expansion

It may seem from the general title of this chapter that Polish-Soviet economic relations under Gomulka were nothing but smooth and sweet. This would certainly be an oversimplification, even though there were periods when they were indeed very close and very good. But, like so many other of Gomulka's policies and ideas, they were not totally devoid of paradoxes and surprises, probably for both sides. However, as many of the details of these policies have not yet been fully disclosed and brought to public light, any generalizations about them should be made only with the utmost caution.

The circumstances under which Gomulka ascended to power, or, rather, was returned to power in 1956, are commonly known and his views on relations with the Soviet Union were in general terms already expounded at the historic VIIIth Plenary Meeting of the Central Committee of the PZPR on October 20, 1956. Though he became a symbol of the Polish October for many reasons (which we are not going to elaborate here), not the least among them were the principles of equality and national independence vis-a-vis the Soviet Union, which he defined in that speech. Of course, independence in his definition had a certain geopolitical and ideological connotation. He was not speaking about independence in abstract terms. He also must have understood very well that, being a Communist leader in Poland, he was very much dependent on Soviet support. As Zbigniew Brzezinski notes one of Gomulka's dilemmas: "....Gomulkaist Poland was a Communist state which could not be maintained without the support of the USSR, the interference of which Gomulka rejected. Therein lay the paradox and the inherent long-range weakness of the Gomulkaist solution."[1]

It is safe to say that Gomulka's personal traits, his Marxist-Leninist outlook on the world, shaped mostly by self-education, as well as his personal past experience, all contributed to his perception of the Soviet Union and the kind of Polish-Soviet relationship he would like to see.

There can be little doubt that Gomulka as a Communist and a strong believer in "proletarian internationalism," but also having a deeper understanding of the specific Polish circumstances, traditions, and historical experience than his Communist predecessors, was trying to reconcile what he understood as Polish national interests with those of the Soviet Union. Though he was not very well known for flexibility, his position even on some major issues was not immovable. Certainly his policies toward the Soviet Union evolved over time, although certain ingredients remained in them throughout.

It may be appropriate to make three more general remarks before I come to discussing specific questions. First, in view of what we know now about Gomulka's failed policies in general, and his rather tragic end as a political figure, some people may be tempted to simply downgrade all of his policies altogether. I personally think that this would be wrong. His failed policies in other areas, for whatever reason, should not in any way diminish the need for an objective evaluation of Gomulka's policies toward the Soviet Union. After all, the policies of his successors in this respect turned out to be a spectacular failure. Second, for the above-mentioned reason, a meaningful approach to appraising Gomulka's Soviet policies seems to be that of viewing them in relation to those of either the earlier or the subsequent period. Seen in such perspective, Gomulka's policies will not look too bad. And third, I do not want to create an impression that Gomulka should be held personally responsible for every detail in Polish-Soviet economic relations during his period in power. To impute that would be improper and impossible to prove. On the other hand, we know that it was an area of special concern to him and that he liked to deal even with the details. In any case, there can hardly be any doubt that he was preoccupied with every major issue in these relations.

1. Rectification of past inequalities

The normalization of Polish-Soviet relations became one of the first items on Gomulka's agenda, as soon as he was returned to power in October 1956. The urgency of this task was accentuated by developments associated with Gomulka's accession. As is well known, one of them was the sudden and unannounced arrival into Warsaw of a top-level Soviet delegation with Khrushchev, Kaganovich, Mikoyan, and Molotov, which disrupted the proceedings of the VIIIth plenary meeting of the Central Committee of the Polish party on October 19. The second was the approach toward Warsaw of Soviet troops on the same day. The Polish leaders had to suspend their plenary meeting and start negotiations with the Soviet delegation. At that point Gomulka was still only a candidate for the position of First Secretary, but it was he who had to take the challenge of confronting the Soviet leaders squarely. As a result of that confrontation, the march of Soviet troops on Warsaw was stopped. The Soviet leaders must have realized that the best way to resolve the crisis was to concede to Gomulka and hope to calm the situation by negotiation. On October 21 Gomulka was officially elevated to the position of First Secretary of the Party. The third development which added to rising tensions was the expulsion of Soviet marshall Konstanty Rokossowski from the Politburo at the same plenary meeting and his subsequent dismissal from the position of defense minister. A wholesale withdrawal of Soviet military advisers to Moscow, with only some exceptions, became under these circumstances almost a matter of routine.

The Soviet leaders must have realized that the de-Stalinization process in Poland had gone too far to expect a return to the Stalinist model of relations with the Soviet Union. They must have grasped that Gomulka might very well be a savior of Communism in Poland, and that he might save it not only without bloodshed but even with strong popular support. If this was their perception, they were certainly correct. In any case, a substantial change in Soviet attitudes toward relations with other socialist countries was already reflected in a Soviet Government Declaration of October 30, 1956, in which a need to take full account "of the historical past and specific features of each country" was recognized. Both Polish and Hungarian developments of that time must have shaped new Soviet attitudes on this question. Of course, this required some redefinition of Soviet interests in Eastern Europe.

On the other hand, the Soviet leaders could never have had any good reason to be afraid of Gomulka. As Brzezinski notes, Gomulka from the very beginning "coupled all references to independence with assurances of Polish friendship for, and need of, the Soviet Union."[2]

In mid-November 1956, Gomulka took up the task of straightening up Polish-Soviet relations in the course of his first official trip to Moscow. In political terms this turned out to be almost a triumphant trip. He managed to obtain from the Soviet leaders full recognition of a general principle of equality and mutual benefits in bilateral relations. This was clearly reflected in a joint declaration signed in Moscow on November 18.[3]

The visit was probably somewhat less spectacular in economic terms, even though here, too, its significance should not be underestimated. From what we know, Gomulka brought up in his discussions with the Soviet leaders a wide range of economic questions. One of them was compensation for losses resulting from past Soviet price discrimination. In practical terms it all came down to compensation for "reparation coal" deliveries. Another one was compensation for past transit facilities and other services. Khrushchev apparently was not willing to recognize those claims in full amounts, as presented by Gomulka. In the end, it was decided that to compensate Poland for those two items, all of Poland's debts to the Soviet Union as of the end of November 1956 would be cancelled.[4] But this came down to just the equivalent of $500 million, or less than Poland's losses on coal transactions alone.[5] Gomulka's claim for compensation for the removal of Polish property from the western territories met with outright rejection by Khrushchev.

On the other hand, Gomulka received a new Soviet credit in the amount of 700 million rubles, which was important in view of large Polish trade deficits at that time. He also received some other Soviet concessions which were meaningful in terms of future economic relations. One was recognition for the negotiation of prices in mutual trade and bringing them into a closer relationship with the world market. As similar pressures were coming from other bloc countries, particularly from Hungary, this put into motion the first round of multilateral consultations on price-setting principles within the CMEA. But independently of those multilateral consultations, which lasted until June 1958, new prices in bilateral trade were adopted in April 1957. Another Soviet concession, which had both political and economic dimensions, concerned the stationing of Soviet troops in Poland. The formal agreement on this matter was worked out and signed in Warsaw on December 17, 1956. From then on, those forces were taken under the umbrella of the Warsaw Pact and their movements were made subject to prior approval by the Polish authorities. In many other respects they were also subordinated to the requirements of Polish law. Economic benefits to Poland on this account were probably not very large, but at least Poland was no longer expected to pay the full cost of their maintenance. In any case, in the hot atmosphere of 1956 this was considered an important concession. The provisions of this agreement remain, of course, secret. What is known is that there is a joint Polish-Soviet administrative organ, which is meeting periodically and which evaluates contributions and settles claims of both sides according to the adopted provisions. Polish contributions on this account are settled bilaterally as part of "non-commercial" transactions, which means that they simply fall into the category of services, with a somewhat different exchange rate from that applicable in trade transactions.

In short, we may say that the first round of Gomulka's negotiations with the Soviet leaders was more successful in political terms than it was in economic terms. But even so, it marked a watershed in Polish-Soviet economic relations, because it terminated the period of outright Soviet exploitation and put the two nations on a more equal footing. Soviet economic concessions did not compensate fully for Poland's losses during the Stalinist period. However, by obtaining the cancellation of Poland's debts to the Soviet Union as well as new credits, Gomulka gained a breathing space in which he could make some critical adjustments in the Polish economy. He could also feel much more at ease in expanding Poland's economic relations with the West. How he decided to use that increased scope of maneuver remains very controversial.

Under all sorts of pressures, both from his domestic adversaries as well as from other "fraternal" parties, Gomulka apparently felt that he had to steer within certain limits of uniformity and orthodoxy. Having come to terms with the Soviets on the basic issues of principle, he became a devout supporter of close relations with the Soviet Union and developed a warm personal relationship with Khrushchev. Internally, it helped him very much to "disarm" his "dogmatist" adversaries, whom he also "pre-empted" on a number of important domestic issues. However, he reached this accommodation at a high political price, by alienating many of his original supporters. Though he continued to attack "dogmatism" for some time, the real evil for him became "revisionism," with which he decided to deal more forcefully. As many years later a special party commission itself diagnosed the mistakes of that period: "After 1956, revisionism came to be considered the principal enemy of developing socialism, while dogmatism and sectarianism continued to be regarded with considerable lenience by the leadership, due to fear that more severe treatment might result in the rise of political opposition."[6]

## 2. A dynamic expansion of Polish-Soviet trade in the second postwar decade

The very dynamic expansion in Polish-Soviet trade and economic relations which followed Gomulka's accession to power can be explained by at least three major factors. First, it was Gomulka's own conviction, after he had managed to straighten out the most controversial issues, that developing close economic relations with the Soviet Union was in Poland's best interest. He saw a huge Soviet market as offering an enormous potential for Polish exports, particularly in machinery and equipment, turn-key industrial plants, and industrial consumer goods. After all, the industrialization period brought about some impressive increases in industrial capacities in selected industries, which could be used for export to the

Soviet market. Second, Gomulka must have realized early on that Poland's economic dependence on the Soviet Union was already a hard reality to be reckoned with, and that without large Soviet imports, particularly of raw materials, Poland's industrial capacities could not be fully utilized. The dependence of the Polish economy on imports of raw materials rose enormously as soon as the first investment cycle had been completed. The most acute problem, indeed, was how to pay for Soviet imports. As can be seen from Table 3, Poland ran large trade deficits throughout the second half of the 1950s. Although she earned a surplus on "invisibles," due mostly to transit facilities and shipping, that surplus was not large enough to make up for these deficits. That table also shows that, while Polish imports were rising quite rapidly after Gomulka came to power, it took a few years for Polish exports to catch up. In that first period, Poland had to rely on Soviet credits. And finally, a very important factor in the dynamic development of bilateral trade as time went on was the relative ease of exporting to the Soviet market. Industrial managers in Poland very soon became accustomed to the rather lenient quality requirements of the Soviet market. In later years this was to become a very acute problem which

Table 3: Polish Soviet trade in 1955-1965, in millions of valuta zlotys[a]

| | Imports | Exports | Balance |
|---|---|---|---|
| 1955 | 1254.3 | 1122.0 | − 32.3 |
| 1956 | 1377.1 | 1081.0 | −296.1 |
| 1957 | 1687.5 | 1033.9 | −653.6 |
| 1958 | 1335.9 | 1060.8 | −275.1 |
| 1959 | 1809.2 | 1251.9 | −557.3 |
| 1960 | 1861.1 | 1560.9 | −300.2 |
| 1961 | 1959.0 | 1940.0 | − 19.0 |
| 1962 | 2311.4 | 2274.6 | − 36.8 |
| 1963 | 2588.7 | 2469.8 | −118.9 |
| 1964 | 2569.7 | 2887.1 | +317.4 |
| 1965 | 2913.7 | 3125.5 | +211.8 |

[a]One valuta zloty in that period was equal to US $0.25.
Source: Rocznik Statystyczny, 1963, pp. 314-315, and Rocznik Statystyczny Handlu Zagranicznego, 1971, pp. 26-27, 32-33.

hampered the performance of Polish industrial exports to western markets as well as to the Soviet market itself, when Soviet quality demands rose. But for many years those demands were generally low, while official pressure on Polish producers and exporters to increase exports was very great. Economic considerations, such as export effectiveness, did not play virtually any role until at least the late 1960s. The primary consideration was to close the gap between imports and exports. Although the so-called foreign trade barrier to economic development, a very fashionable subject in the Polish economic literature of that period,[7] was somewhat ameliorated in the years 1957-61 by the use of foreign credits, the official policy was still directed toward maximum export growth.[8]

The worst years for Polish exports were 1956-1957, when they actually declined, as they did to the Soviet Union, too. Starting, however, with 1958 they gradually recovered, so that for the 1956-1960 period as a whole they rose at a moderate annual rate of 8.9%. In the following five-year period that rate increased to 11.0%.[9]

The benefits of trade with the Soviet Union, once that trade was put on equal terms, could not be ignored. They were usually considered in three dimensions. First, the Soviet Union was the major supplier of investment goods, which Poland still needed as the industrialization process continued. Second, the Soviet Union was also the major supplier of raw materials for the newly created Polish industries. And finally, the Soviet market provided a secure outlet for Polish industrial exports, all under long-term bilateral agreements. All of these mutually reinforcing aspects, coupled with the persistent and occasionally growing difficulties of increasing exports to western markets, particularly agricultural exports to the EEC contributed to the emergence in Polish leadership circles around the early 1960s of an almost euphoric attitude toward developing trade with the Soviet Union and other socialist countries, and a rather skeptical attitude toward trade with the West. Of course, those attitudes were not universally shared by everyone in high government positions. However, it was very frequently argued that trade with the socialist countries, besides such benefits as just mentioned above, has a number of other virtues, such as stability, predictability and that it reflects more adequately the actual level of economic development in terms of its commodity structure. This meant that the share of industrial products, i.e., machinery and equipment and industrial consumer goods in Polish exports to those countries was much higher than was the case with Polish exports to the developed western countries, which consisted mostly of raw materials (coal) and foodstuffs. This was indeed true, as is illustrated by Table 4. The share of machinery and equipment in Polish exports

Table 4: Commodity structure of Polish exports in 1960, 1965, and 1970

| | World | Countries: Socialist | Countries: Capitalist | Countries: Developing |
|---|---|---|---|---|
| | | 1960 | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Machinery & equipment | 28.0 | 38.8 | 1.9 | 41.3 |
| Fuels & materials | 43.8 | 45.0 | 43.9 | 34.8 |
| Agricultural & foodstuffs | 18.1 | 5.5 | 47.1 | 6.1 |
| Industrial consumer goods | 10.1 | 10.6 | 7.1 | 17.8 |
| | | 1965 | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Machinery & equipment | 34.4 | 48.6 | 3.3 | 34.2 |
| Fuels & materials | 35.1 | 34.4 | 41.4 | 27.5 |
| Agricultural & foodstuffs | 18.2 | 5.8 | 45.5 | 16.5 |
| Industrial consumer goods | 12.3 | 12.2 | 9.8 | 21.8 |
| | | 1970 | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Machinery & equipment | 39.2 | 52.7 | 6.0 | 40.8 |
| Fuels & materials | 33.0 | 24.9 | 49.5 | 35.5 |
| Agricultural & foodstuffs | 12.1 | 4.2 | 33.7 | 11.9 |
| Industrial consumer goods | 15.7 | 18.2 | 10.8 | 11.8 |

Source: Derived from Rocznik Statystyczny Handlu Zagranicznego, various issues.

to the socialist countries increased from 38.8% in 1960 to 48.6% in 1965, and to 52.7% in 1970. In the case of western developed countries, this structure also improved somewhat over those years, but not so dramatically. The share of fuels, raw materials, and agricultural products constituted the bulk of Polish exports to the western countries, ranging from 91.0% in 1960 to 86.9% in 1965, and 83.2% in 1970.

Though the significance of those differences in commodity structure has sometimes been exaggerated, overall it did have some validity, considering the given structure of the Polish economy. On the other hand, we know that the industrialization process in Poland has not been designed very much with a view toward developing exports to the West. To the extent that it was export-oriented at all, which is in itself open to argument, it was export-oriented to the East. In terms of quality, Polish industrial products could not in most cases be very competitive in western markets. In these terms it may be argued that the failure to build highly competitive export-oriented industries has been one of the cardinal sins of the postwar industrialization.

Another interesting phenomenon which we see in Table 4 is that the share of agricultural products and foodstuffs in exports to the socialist countries remained marginal over the years and even declined a little. Under Gomulka this was frequently a contentious question in relations with some socialist countries, mostly with the Soviet Union. This problem may have acquired some political significance by the fact that Poland was frequently importing grains from the Soviet Union, while exporting ham, bacon, and other meats to the hard-currency markets. On the other hand, it was a well-known fact that Polish meat exports were one of the few hard-currency exports that were competitive on the western markets and could not be easily substituted by anything else. This was the main reason why Gomulka successfully resisted pressures to shift some of those exports from the western markets to the Soviet Union.

If we take a closer look at Polish-Soviet trade in the period under consideration, we can see that its nature, its commodity pattern, and to some extent even its dynamics had been very much predetermined by the industrialization policies of the earlier period. The drive towards an ever greater dependence of Poland on Soviet trade continued. The question as to how far Gomulka was ready to go to increase trade with the Soviet Union and other socialist countries at the expense of trade with the western countries remains controversial and most likely is not going to be fully explained for some time. There can be no question that in the early 1960s he was willing to go quite a distance along this way. But here again, actual developments had their own dynamics and grand designs did not always live up to hard realities.

As can be seen from Table 5, the dependence on trade with the socialist countries was somewhat greater on the side of imports than exports, though in both cases it was rising. Also rising was the share of the Soviet Union in that trade, though with some minor differences in degree over time. According to the evidence presented by Professor Wiles,

Table 5: Geographical structure of Poland's foreign trade, 1955-1970

| | Imports | | | | Exports | | | |
|---|---|---|---|---|---|---|---|---|
| Countries | 1955 | 1960 | 1965 | 1970 | 1955 | 1960 | 1965 | 1970 |
| Socialist | 64.9 | 65.3 | 66.1 | 68.6 | 62.9 | 62.6 | 63.2 | 63.9 |
| --Soviet Union | 33.7 | 31.2 | 31.1 | 37.7 | 30.5 | 29.4 | 35.1 | 35.3 |
| Western developed | 26.5 | 29.7 | 24.5 | 25.8 | 30.4 | 29.9 | 28.7 | 28.4 |
| Developing | 8.6 | 6.8 | 9.4 | 5.6 | 6.7 | 7.5 | 8.1 | 7.7 |

Source: Derived from Rocznik Statystyczny Handlu Zagranicznego, various issues.

which can hardly be questioned, the original intention of the Gomulka regime was to increase that dependency much further. The shares of the socialist countries in Poland's foreign trade were to increase as follows:

| | 1965 | 1970 |
|---|---|---|
| Exports | 72.8 | 77.3 |
| Imports | 66.2 | 73.8 |

See Peter Wiles (1969), p. 235.

It is obvious that to achieve such targets would have required a very drastic reorientation in the directions of trade in favor of the socialist countries. It would also involve a much faster growth of exports to than imports from the socialist countries. The real situation did not change that much, but several things should be said here about the plans and actual trends. First, strangely enough, the plan targets for foreign trade in the whole Gomulka period, as formulated in the consecutive five-year plans for 1956-1960, 1961-1965, and 1966-1970, were systematically below the actual performance figures.[10] This tendency toward lower plan targets, particularly on the import side, stemmed from severe balance-of-payments constraints that emerged in the mid-1950s and persisted for a number of years. Those plan targets proved simply to be understated. Political authorities did not realize right away that the Polish economy was becoming structurally more and more dependent on imports. Second, the dynamics of foreign trade with the socialist countries was generally higher than that with the western countries throughout the 1960s. This can be seen from Table 6. Trade with the Soviet Union in particular was showing the fastest growth. This certainly proves that the Polish planners were indeed giving priority to developing trade with the socialist countries. However, as we see from Table 6, the rate of growth of that trade slowed in the second half of the

Table 6: Average annual rates of growth of Poland's trade by selected regions in the 1961-1965 and 1966-1970 periods

| Region | 1961-1965 Exports | 1961-1965 Imports | 1966-1970 Exports | 1966-1970 Imports |
|---|---|---|---|---|
| Soviet Union | 14.9 | 9.4 | 9.9 | 13.3 |
| Other Eastern Europe | 9.5 | 12.0 | 10.8 | 7.2 |
| Western Europe | 9.6 | 9.3 | 8.5 | 9.3 |
| Developing regions | 10.1 | 15.1 | 9.6 | -0.7 |

Source: Economic Bulletin for Europe, vol. 23, no. 2, ECE, 1972, pp. 22-23.

decade. And again this slowdown was not caused by any design, but rather by difficulties encountered both in the production sphere (similar production structures within the CMEA area, which led to a maladjustment in the demand for and supply of certain goods) and in the constraining nature of bilateral trading arrangements. Third, and this is a point I want to stress, there was a clear reluctance and perhaps even a fear at certain levels of the Polish government to shift Poland's trade too much in favor of the Soviet bloc. That is why in 1963 Poland, within the Kennedy round of trade negotiations, came up with a particular scheme for GATT membership, under which she undertook certain long-term quantitative commitments to increase imports from western countries. The underlying assumption was, of course, that undertaking such commitments to increase imports, Poland would have to expand her exports to the GATT countries, and thus effectively pre-empt any significant switch in trade towards the Soviet bloc. This kind of thinking may not have been shared by many at the top of political leadership, but it was very well understood at the executive levels of the government. Under this arrangement, Poland undertook a commitment to increase imports from GATT countries in exchange for trade benefits negotiated within the Kennedy round, at an annual rate of 7%. As seen from Table 6, trade with Western Europe, which constituted the bulk of Poland's trade with the GATT area at that time, rose at a respectable rate of approximately 9% throughout the decade, with imports growing somewhat faster than exports. This proved to be one of the main reasons why the geographical structure of Poland's trade did not shift much further in favor of the Soviet bloc countries. Of course, one might argue that even without this commitment imports from the western countries would have been rising because there apparently was a demand for it. True, there was a demand for it. However, the very fact that such import commitment was undertaken necessitated putting into motion a number of practical policy measures to promote Polish exports to the GATT countries, in order to pay for those imports. Thus the practical consequences of that commitment cannot be easily ignored.

### 3. Major issues in multilateral cooperation within the CMEA

Though Gomulka was initially trying to keep a certain distance from the Soviet Union and other bloc countries, he eventually decided to render his strong support to efforts aimed at strengthening and upgrading the CMEA's role. He did it partly for political reasons, to avoid a potential isolation of Poland from other bloc countries, though economic considerations seem to have played a significant role as well. The Poles saw a number of weak spots in bilateral trade relations with the bloc countries and hoped to be able to work out more satisfactory arrangements through multilateral channels. Among such issues which had been identified very early were difficulties in balancing bilateral trade, the lack of appropriate credit facilities, currency convertibility, and the need for a new and comprehensive price arrangement. As time went on, the Soviets would be coming up with their own ideas on questions of economic integration within the bloc, such as an international division of labor or joint planning. However, in the late 1950s and early 1960s Soviet leaders did not yet have a clear idea of how to practically solve some of those questions. Nevertheless, they were very much determined to use the CMEA as a handy mechanism for institutionalized coordination of bloc-wide economic policies.

The Polish approach to these questions was on the whole differentiated. Polish initiatives were directed first of all at attaining a more dynamic expansion of trade by removing some of the restrictions imposed by the nature of bilateral agreements, and, further along the road, some progress toward a multilateralization of trade and some form of currency convertibility within the CMEA. But as it turned out rather soon, most of those initiatives proved to be unrealistic within the existing economic structure of the CMEA. Bilateral trade agreements, requiring strict balancing of trade within calendar years by means of quotas, were considered by the Polish side as a serious impediment to the expansion of trade. These agreements tended to lower the level of mutual trade to the export potential of a weaker partner. Second, as practical experience had shown, their restrictiveness had gone even further as many countries were insisting on balancing not only total trade, but even trade within particular commodity groups, like machinery and equipment, agricultural products, and industrial consumer goods. Due to the absence of currency convertibility national currencies must have a passive role in foreign trade. The currency in which foreign trade prices are denominated, be it the Soviet ruble or later on, the transferable ruble serves simply as a unit of account. A surplus gained in intra-CMEA trade cannot be used to acquire products from another partner within the bloc or from outside the bloc. All this means that commodity convertibility does not exist either. Under such circumstances a task to "liberalize" bilateral agreements did not look promising. As Polish experts were fully aware of those difficulties, they were talking about achieving this objective only by very small steps, gradually reducing the number of quotas and limiting them to the most essential commodities, while at the same time setting up general or "value quotas" for less essential products, like industrial consumer goods, which would be rising over time. This suggestion was linked with a proposal for a partial and also gradual multilateralization of trade agreements. It was recognized, however, that as long as shortages of various essential goods persisted in the CMEA countries, it would not be possible to completely dispose of bilateral agreements.[11] This is a hard economic reality that cannot be changed very soon.

Repeated attempts at multilateralization of payments, first through a clearing house in Moscow, established in 1957, and then through the International Bank for Economic Cooperation (IBEC), proved to be practically a total failure. When IBEC was set up in January 1964 and the transferable ruble replaced the clearing ruble, it was hoped that a real move toward multilateralization of settlements would be made. A technical facility to that end was created in IBEC by the introduction of a single account for each country for settlements with the rest of CMEA, and a rule requiring that each country should strive to achieve a zero balance with the whole of CMEA and not necessarily with every individual country. It very soon proved, though, that such technical devices have no meaning as long as bilateral trade agreements remain the major instrument of regulating trade. No individual country is ready to make its goods available to the others if it does not know exactly what kind of goods, if any, it can get in return. And this is the whole dilemma of trade relations in CMEA. In the early 1960s the Poles were hoping that a measure of economic discipline might be introduced into the system if at least a partial convertibility of surpluses into hard currency was adopted. Here again it proved that countries preferred to avoid cumulating surpluses rather than go for partial convertibility. In 1963 a gathering of CMEA party leaders suggested that countries negotiate bilateral agreements first and then, in a second round of negotiations, sell off surpluses against deficits.[12] Of course, this attempt at multilateralization failed once again. It is surprising that it took the East European planners and policy-makers quite a few years to realize that any attempts at multilateralization which run against the logic of economics stand no chance of success.[13] And economics were clearly not on the side of multilateralists.

Another factor complicating a meaningful move toward commodity convertibility was to some extent the mechanism of foreign trade prices. True, here real progress was made in 1957-1958 and in the early 1960s. The so-called Bucharest Price Principle, adopted at the IX Plenary Session of CMEA in June 1958, recognized the need to base intrabloc prices on capitalist-world market prices, trimmed from "undue fluctuations" and other "irregularities" of the capitalist-world market, and to correct them sporadically when required.[14] An important objective, however, was to attain a measure of stability in prices for longer periods, usually meaning the five-year periods for which trade agreements are concluded. In both 1958 and 1959 CMEA prices were based on the world market prices of 1957. For the years 1960-1964 a correction was made on the basis of average prices of 1959. However, for the period 1965-1970 a somewhat modified formula was adopted, namely, the average prices of 1960-1964 were taken as a base. This time the introduction of new prices was made in two stages: The first half of the correction was introduced on January 1, 1965, the second half on January 1, 1966.[15] This correction was generally downward. Though as a result intra-CMEA prices came much closer to world price levels, they were still higher than the latter by about 20% on the average, ranging between 20% to 40% for major groups of manufacturers and between 0% to 20% for groups of primary products.[16] Without going into the pluses and minuses of the new system it is important to remember that actual contract prices were still determined in bilateral negotiations, which, practically, means that prices for the same commodity were different in different bilateral trade flows. In each set of bilateral negotiations, besides a reference price from the world market, a different set of factors enters into the process of price determination. All this means in turn that a transferable ruble earned in trade with the Soviet Union does not necessarily have the same purchasing power as a transferable ruble earned with Rumania or Hungary. This is one of the main reasons why nobody was able or willing to "trade off surpluses against deficits." The very basic question as to "which surpluses" and "for what" remained unanswered.

It should be apparent that under the existing circumstances the transferable ruble is "transferable" only by name. In trade transactions it serves only as a unit of account and at that only in bilateral trading. As the national currencies are basically passive in foreign trade, there would seem to be no real need for economically meaningful exchange rates between national currencies and the transferable ruble. This is not exactly so any more, when some of the East European economies, and particularly that of Hungary, have been somewhat reformed. And it was not even quite so in the past, as there were other kinds of financial transactions in which national currencies were actively involved and which eventually had to be settled through the conversion of respective assets or liabilities into the transferable ruble, or earlier, into the clearing ruble.

One kind of such transactions are the so-called non-commercial operations related to transport, tourism, settlement of property claims, embassy expenses, rents, grants, honoraria, alimonies, and other payments in the nature of wages.[17] And finally there is a group of "other" transactions comprised of capital movements arising from joint production ventures or from the establishment and operation of international institutions. Due to substantial dissimilarities in the price structure of the CMEA countries, the relative value of national currencies is different with respect to the same or similar products or services. The exchange rates for "non-commercial" transactions have been established on the basis of purchasing power parity, measured by an internationally agreed consumption basket for a four-person diplomatic family. Initially, the respective agreements were concluded bilaterally with the Soviet Union in late 1956. The other countries then negotiated similar agreements among themselves. In the next stage, the equivalent amounts of claims or assets were calculated in clearing rubles by using special coefficients, and then transferred into the clearing accounts used for trade settlements.[18] As a result of tedious and drawn-out negotiations a mutilateral arrangement which defined all titles for "non-commercial" payments and established the exchange rates between national currencies and the clearing ruble was finally worked out and signed in Prague on February 8, 1963. That agreement was subsequently revised and updated on July 27, 1971, in Bucharest.[19] What should perhaps be noted here is that the multilateral arrangement in this regard never really worked effectively for a variety of reasons. First, the countries were almost perpetually squabbling about the composition of the "consumption basket." Second, the exchange rates among other currencies continued to be established in bilateral negotiations, which was not consistent with the principle of uniform exchange rates through the clearing ruble or the transferable ruble. On January 1, 1978, the Soviet ruble was devalued once again vis-a-vis the transferable ruble; otherwise nothing was changed in the principles of the system. However, in practice the countries ceased to set the exchange rates multilaterally. Bilateral determination of exchange rates through bilateral bargaining rather than through the exchange rates of those currencies to the transferable ruble put an effective stop to a cross-exchange rate system, if there ever was one.

We are not going to discuss here a rather complex methodology of accounting for "other" operations, as they are somewhat less relevant to the subject matter of this paper, though the role of CMEA cooperation in this sector has been growing in recent years and is likely to grow significantly in the nearest future.[20] I will just state that as long as there is no comprehensive economic solution to the exchange rate and convertibility problem through economic reforms and institutional change in all CMEA countries, any approach taken with regard to this question is purely voluntaristic and as a rule depends much more on the outcome of bilateral bargaining on numerous specifics, than on pure economic logic as such.

Turning now to the Polish and Soviet positions on those questions, it is probably fair to say that quite often they diverged, especially with respect to multilateralizaiton of payments and partial convertibility of surpluses. The Polish position on these matters was initially quite innovative and usually closer to that of Hungary. The Soviets, on the other hand, did not seem to appreciate very much the significance or urgency of these questions. They saw their priorities much more in terms of precise stipulation and execution of bilateral agreements from the perspective of central planning. On questions of prices and exchange rates, the bargaining was occasionally hard and intensive, but essentially not much different from that with other CMEA countries.

The same cannot be said, however, with respect to some early Khrushchev ideas on supranational planning, specialization of production or the CMEA's international division of labor in general. On these questions the Polish position, though evolving somewhat over time, was generally much more guarded or even outright negative. The reasons for this were numerous and complex, very often both political and economic in nature. Gomulka, for one, has probably never been completely free of lingering doubts with regard to the ultimate motives and intentions of the Soviet Union in promoting CMEA-wide economic integration.

He was ready to support such integration, but only to the extent to which he could identify it with Poland's economic interests. It was hard for him to see Khrushchev's suprational planning ideas in such terms. Second, being aware of the relative backwardness of Poland's industrial development, he wanted to remain in full control of the shaping of Poland's industrial model according to his own vision, and to catch up with the more developed economies in CMEA and outside. Third, being a pragmatist with a strong inclination to study and to often become involved in the minute details of various problems, he must have realized that economic conditions in the bloc, being as they were, did not permit the formulation of rational economic choices on the basis of hard evidence and reliable calculation.

However, I do not want to imply that Gomulka was in favor of market-type economic reforms which might have led to consistent and rational solutions to some of the major problems that constituted obstacles to economic integration within the bloc. Everyone knows that it was he who almost single-handedly stopped meaningful economic reform proposals in the 1956-58 period. His other attempts at economic reform in 1965-67 and then

1969-70 were also a far cry from radical. From this point of view, one may very well argue that Poland's position in CMEA on some of the major issues was not terribly consistent with her domestic economic record and policies. Coming up, on the one hand, with proposals for gradual multilateralization of trade and payments, and doing very little domestically to create a conducive economic environment for the realization of such proposals on the other, was hardly imaginative.

The trend toward the so-called international socialist division of labor and industrial specialization in CMEA was initiated against a background of overwhelming evidence that the industrial structures of its member countries, developed under the conditions of autarky, were becoming increasingly competitive toward one another, instead of complementary. The priorities assigned to heavy industries, particularly steel, throughout the area led to structural imbalances with numerous negative side effects. The question of how to cope with those distortions became paramount for the political leadership in most countries, though some of them, Rumania in particular, continued to push for the development of steel and other heavy industries. The Soviet Union, being a high-cost producer of raw materials, did not find it attractive to invest heavily in resource development for the needs of other Comecon countries. Against this background came Khrushchev's attempts at CMEA-wide plan coordination and an international division of labor. He believed that this could be achieved through more effective plan coordination. In June 1962 the conference of Communist Party leaders adopted "The Basic Principles of the International Socialist Division of Labor," which called for the development of specialization through the concentration of investment and production of certain goods in those countries best endowed and equipped to produce them. One of the most important objectives was to avoid duplication of investments, especially in situations where domestic demand for a given product was not large enough to justify the construction of new plants or industries, or where such production would not be economically effective. The problem was that not all countries perceived the potential benefits from an international division of labor in the same terms. The rejection by Rumania of the classical theory of comparative advantage, and a somewhat different--what might be called a "dynamic"--approach to it, received much attention at that time, both in the East and in the West. What should be stressed here is that other smaller countries also insisted that the international division of labor cannot lead to a one-sided economic structure, and thus has to be reconciled with a comprehensive all-round economic development of the member countries.[21] In this sense we may argue that a tendency to attain in each country a sustainable and comprehensive economic structure must have been a limiting factor in developing a meaningful international division of labor.

A general assumption was, though in practice it did not work quite that way, that countries would develop only those branches of industry for which they had sufficient natural and human resources, as well as a domestic market. There was hardly any mobility across the borders of such production factors as labor or capital. All this led to a belief that a more narrowly defined international specialization within certain industrial branches was more feasible and practical than a broadly defined international division of labor along industry lines. But in practice even this less ambitious objective could not be realized to any significant degree throughout the 1960s. Whatever progress was made in this direction was more a product of bilateral arrangements than of any multilateral scheme. The reasons for this were numerous, and mostly institutional. There was, for example, a strong tendency to balance trade in specialized products. Obviously, it was somewhat easier to achieve this bilaterally than in a multilateral scheme, where many partners with different interests and production potential would be involved. But perhaps more importantly, it should be remembered that international specialization was undertaken under conditions where no meaningful comparisons of costs and benefits could be made due to such systemic factors as vastly different price and cost structures, a complete detachment of domestic prices from foreign trade prices, unrealistic exchange rates, and the absence of currency convertibility. Under such circumstances, as one Polish economist admitted, specialization decisions were based essentially on "common sense" rather than on economic calculus.[22] And though he also argues that no major mistakes were made in the process of selecting specialization, such a statement must be taken at face value, as it is not possible to verify it by economic calculation.

Despite such systemic problems, Poland in 1966 supported a scheme for closer inter-branch and even inter-enterprise cooperation.[23] The latter type would seem to be potentially more risky and much more dependent on common sense (of the enterprises involved) than would intergovernmental cooperation. This may serve as an indication of how far the Gomulka regime was prepared to go in promoting CMEA economic integration.

It is not my intention here to either deny or question the potential benefits that may result from production specialization when and if the proper environment exists, and when the parties concerned can work out mutually beneficial terms. In the case of such specialization in the CMEA, however, such conditions have never existed, and still do not exist. Decisions on production specialization thus have to be made on very general assumptions of comparative advantage, and are very often politically motivated. Under such circumstances official claims about the "profitability" of these undertakings cannot be convincingly substantiated.

4. Tensions and disappointments

Despite Gomulka's sincere commitment to expand economic relations with the Soviet Union, both bilaterally and within the CMEA, the relationship was not devoid of occasional tensions and strains in the second half of the 1960s. Toward the end of the 1960s those tensions were becoming increasingly stronger. I would argue that much of it resulted from the deteriorating performance of the Polish economy, as well as from the disappointing results of economic integration within the CMEA. The dynamics of intra-CMEA trade was clearly losing momentum, and there were no effective instruments at hand to reverse the trend. This was also clearly visible in Polish-Soviet trade. As Polish exports began to slow down, Polish imports started to rise at a much faster rate (see Table 6). This change again brought about rising trade deficits and payments difficulties. In the five-year period of 1966-1970, Polish accumulated trade deficits with the Soviet Union exceeded 910 million valuta zlotys and were still rising toward the end of the decade. The natural temptation of the Gomulka regime was to look for reasons first of all in the sphere of foreign trade itself. It searched for ways to stimulate exports by creating a link between production and foreign trade operations, and by rewarding production managers and workers for better performance in export production. The first experiments of this type, on a rather modest scale, were started in 1967 in the pharmaceutical industry.[24] Gomulka was interested, on the one hand, in promoting export expansion to meet growing import needs while, on the other hand, he was concerned about the profitability aspects of exports. Scholarly studies conducted in Poland at that time were revealing a somewhat mixed picture on this issue. On the one hand, with a forceful drive to expand exports there were numerous instances in which the marginal cost of earning a dollar (in terms of domestic factor costs) was rising. On the whole, however, the situation was not so bad at all. For example, in the 1967-1970 period, total Polish exports increased by over 40%, or about 12% annually, while the average profitability of exports, as measured by an exchange rate coefficient reflecting the actual cost in domestic currency of earning a dollar, improved by 6.8%.[25] This can be considered a good performance. One would assume that the profitability of Polish exports to the Soviet Union should not differ much from this general picture. In fact, some western studies would tend to support this thesis indirectly.[26] Hewett's study, based on statistical evidence compiled for the Hungarian Academy of Sciences, shows that in both 1960 and 1970 the Soviet Union was a net loser in trading with other CMEA countries, except for Bulgaria and Rumania. Poland, on the other hand, was a net gainer in trading with the Soviet Union to the tune of 26% in 1960 and 25% in 1970.[27] However, this study is based on a different methodology, and thus its applicability to the question raised above is limited and only indirect. What was of concern to Gomulka and the Polish planners was that the hard-currency content of Polish exports to the Soviet Union was considerable and steadily rising. This was particularly true in the case of ships, a wide range of turn-key projects which Poland was constructing for the Soviet Union, and other industrial equipment, all of which contained a considerable portion of hard-currency imports. The Soviets were giving no recognition to this fact in pricing these exports. This used to be a constant source of friction in trade and price negotiations. Soviet ships, for example, originally built in Poland, would be calling on Polish shipyards for routine repairs completely bereft of almost any equipment originally installed. Each time, the Soviets would be demanding the installation of brand new equipment, which Poland had to purchase from western markets. Payments for such repairs were made in rubles, and were usually underpriced in relation to their actual costs. This was one of the main reasons why in late 1969 and early 1970 Gomulka was again pressing the Soviets for an upward price revision on a wide range of Polish exports. The then chairman of the State Planning Commission and Secretary of the Central Committee B. Jaszczuk was the chief Polish negotiator in that last round of Gomulka's bargaining with the Soviets.

What should be emphasized here is that the Polish economy toward the end of the 1960s was faced with major structural problems which could not be dealt with by half measures or solutions on the margins. And this was, unfortunately, what Gomulka was trying to do. With the pattern of economic development pursued under Gomulka, which was persistently biased in favor of heavy industry and resource development requiring large investments, the Polish economy became heavily dependent on imports in general and particularly on Soviet imports. Import elasticity, for example, in relation to national income was very high throughout the 1960s, ranging in the vicinity of 1.50.[28] But in spite of severe tensions in the economy appearing at different periods and causing bottlenecks in various production sectors, as well as shortages of consumer goods, Gomulka did not revise sufficiently his basic development strategy. Some timid attempts at the so-called selective development, made in the late 1960s, did not really bring about any substantive changes in the economic structure. Pressure groups in the traditional smokestack industries were simply too strong to permit sufficient funds for new, export-oriented industries. Besides, institutional and other constraints on technological innovation were also stifling any meaningful progress.

Most of the so-called "productive" investments were channeled into the development of outdated or labor-intensive technologies. True, pressure on the labor market was quite heavy throughout the 1960s, and the task of keeping full employment was not easy. This may be offered as one explanation for using labor-intensive technologies. The diminishing results of Gomulka's economic strategy can perhaps be best illustrated by trends in the growth of national income, investments, and the share of investment in national income over the three 5-year periods, as shown in Table 7. We see that the average rate of growth of national income was sliding steadily downward. Investments, on the other hand, after a moderate growth in the 1956-1960 period, accelerated to a very high rate of 12.3% in the 1961-1965 period and slowed down a little in the 1966-1970 period. However, as the slowdown in national income growth was deeper, the share of productive investments in national income climbed further to exceed 15% in the last Gomulka period.

Table 7: Average annual rates of growth of national income and productive investments and the share of those investments in national income

| Years | Rates of Growth | | Share of Investments |
|---|---|---|---|
| | Investments | National Income | in National Income* |
| 1956-1960 | 5.6 | 6.8 | 9.0 |
| 1961-1965 | 12.3 | 6.4 | 11.6 |
| 1966-1970 | 10.0 | 5.8 | 15.1 |

*In 1961 prices. The "non-productive" investments are not included here.

Source: M. Nasilowski, "Analiza czynnikow rozwoju gospodarczego PRL," PWE, Warsaw, 1974, p. 182.

What must have been particularly disappointing to Gomulka was that he had not been able to score a much better record than his predecessors in such politically sensitive areas as real wages and the standard of living in general. Real wages, for example, in the 1960s were rising on the average at an annual rate of approximately 1.5%, which, compared with the average growth in national income of over 6%, is hardly a cause for pride. This only proves once again how much the policy of distribution of national income was biased against consumption and in favor of investments.

We are not going to deal here with the question of why Gomulka did not change his development strategy and whether this might have improved the situation substantially. I would just say that changing economic policies in a meaningful way would have almost certainly involved changing or reforming the economic system. Gomulka's economic policies were very much a hostage to the economic system, instead of the system serving to implement economic policies. And here we come to the even more complex and sensitive question of Gomulka's attitude to economic reforms. Defining this question in the most general terms, and at a risk of some simplification, I would say that his objections to economic reform were almost instinctive, very strong and ideological in nature. If he was willing to experiment with economic reforms, he meant only such reforms as would not threaten in any way the monopolistic control of the party over the economy. Paradoxically, he was in a way trying to "beat the system" without really changing it. He was never willing to go for radical, market-type reforms. That is why he had rejected very sensible reform proposals in 1957-58 in the first place. Of course, most of the hard-line party apparatus was siding with him on that issue.

And finally, we may ask if he was influenced on questions of economic reform by the Soviets. Here again my very brief response is yes, he was. But probably not so much by direct Soviet pressure, although the Soviets were very much concerned about possible economic reforms in the 1957-58 period, as by his own fears and apparent inability to perceive how such reforms might influence Poland's economic relations with the Soviet Union and other socialist countries. In a reformed economy the state enterprises would not be guided by central directive planning, but by economic considerations. This was for him a crucial question, to which he could find no satisfactory answer. And in this sense we may say that the "Soviet factor" was particularly relevant in shaping his attitude toward economic reforms.

## IV. Polish-Soviet economic relations under Gierek

The political disturbances which occurred in Poland in December 1970 and which brought about the fall of the Gomulka regime also happened to be very much a new turning point in Polish-Soviet relations. Probably very few people in the West are aware of this connection, being overwhelmed by the subsequent evidence of Poland's dynamic expansion of trade and economic relations with the West. Contrary to such perceptions, however, the first few months after Gierek came to power in December 1970 turned out to be a watershed in Polish-Soviet relations.

In the background of the change lies the political evaluation of the causes and nature of the so-called December events made soon after Gierek had assumed power. According to this evaluation, political upheavals on the Baltic Coast were basically economic in nature--not antisocialist and not anti-Soviet. And though we might argue whether and to what extent this evaluation was correct, the fact remains that it was accepted as such by the Gierek leadership and, as it turned out, led to long-term and far-reaching consequences for Polish-Soviet relations during the whole Gierek period. Gierek's closest political advisers were very fast in jumping to the conclusion that, since the December upheavals had not been anti-Soviet, this should mean at least two things to the Polish party: first, that the Polish working class, especially that part of it which was assumed to know the nature of Polish-Soviet relations best (shipyard workers), harbors no anti-Soviet sentiments; and, second, that Polish-Soviet relations should in no way be affected by the recent developments. Moreover, a third and almost parallel conclusion was immediately drawn from that evaluation to the effect that Gomulka's bargaining tactics with the Soviets had simply been an unnecessary irritant, a spoiler in bilateral relations. Even more, they were counterproductive. After all, the argument went, the Soviet Union was not exploiting Poland any more, and thus this kind of bargaining should be avoided as much as possible in the future.

Within a few months the fourth conclusion gained wide circulation. This time it was a long shot indeed: namely, that if Poland wanted to improve her relations with the western countries, which of course she very much wanted and badly needed to do for economic reasons, she could do so effectively only as a very close ally of the Soviet Union. Otherwise, the argument went, the western countries might not be interested in dealing with Poland. That is how the idea was born that Poland should and must become the first ally of the Soviet Union, the closest and most reliable one. The conclusion that Poland stood the best chance of improving relations with the western countries as a close ally of the Soviet Union was drawn from a very superficial evaluation of American policies during the Nixon administration. These policies were perceived in Warsaw by some influential members of the establishment as representing a total departure from the "bridge-building" policies toward Eastern Europe of the Johnson administration. Gierek's advisors kept arguing that Washington would be happier dealing with Poland via Moscow, rather than directly. Those who would have argued differently were immediately at a disadvantage politically, as they would have been suspected of harboring anti-Soviet feelings, to say the least. As the then powerful member of the Politburo and secretary of the Central Committee F. Szlachcic put it: "Yes, we will conduct our diplomacy through Moscow and all of our diplomats must go through Moscow and gain their experience there."[1]

This was just one aspect of the political reality of the early Gierek period, but it turned out to be very important in shaping attitudes and formulating policies toward the Soviet Union.

The domestic political situation, contrary to the tone of official propaganda, remained tense for at least a few months after the December "events." It was not until the government rescinded Gomulka's food price increases in mid-February 1971 that the situation became manageable. This move was forced on the government by the unrest among the women textile workers in Lodz, where Premier P. Jaroszewicz had to be rushed to deal with the situation on the spot. Reluctantly, he had to promise the "reconsideration" of food prices. Interestingly enough, he used the occasion of meeting the textile workers to play up a little pro-Soviet trick, saying that such reconsideration might be possible due to Soviet "fraternal assistance" in the form of a new loan of $100 million. Without mentioning the figure, he repeated the same formulation two days later in a TV appearance in which he announced the annulment of price increases.[2] As it turned out a little later, Poland did not take that loan at all, since its terms were harsher than those available on the Eurodollar market.[3] However, since the Western press announced this loan, Western economists continue to talk and write about it to this day. Jaroszewicz's statement was certainly a clever political ploy, as it was framed in the context of expected revocation of food price increases and was intended to convey a message to the Polish people that this move was made possible mostly due to generous Soviet assistance.

The economic reality of the country at that time was very harsh. A closer review of the economy, conducted sector by sector by the Planning Commission and various ministries in early 1971, was revealing a sad and disturbing situation, especially in the sphere of technology, safety conditions, social infrastructure, etc. It was obvious that long years of autarky and isolation from Western technology had taken a heavy toll on Polish industry. The evidence presented in those reviews was almost incredible in view of the heavy investments made during the entire decade of the 1960s. It turned out that in spite of those investments many branches of the economy had been utterly neglected. One of the studies revealed, for example, that the shipyard industry had not received a singly zloty of investments in the 1966-1970 period. In the textile industry the situation was found to be so catastrophic that a special commission recommended closing some of the plants due to intolerable safety conditions. Even assuming that some of the findings may have been exaggerated for tactical reasons to justify new investment funds, the overall picture was very bleak indeed.

As it happened, one of the first casualties of that review was the abandonment of Gomulka's strategy of "selective development." In its place Gierek announced a strategy of "harmonious development." The new term was to convey the impression that from now on no economic sector was to be neglected. It was less clear, however, in what respects such "harmonious development" would differ from the previous autarkic development of the Stalinist period, or how it might be financed. Before any such questions could be answered, a new term was coined. This time it was "a new development strategy," a term that was less controversial, at least to economists. As elaborated by Gierek's advisers, it signaled a departure from the former "extensive" growth (Marxists prefer the term "development"), based on the quantity of factor inputs, to an "intensive" growth, based on improvements in factor productivity.

Gierek's team was faced with very serious dilemmas in policy choices. First, it was clear that real wages and standards of living must increase faster than under Gomulka's reform proposals and "incentive system." The support Gierek received from the shipyard workers in Gdansk and Szczecin in January 1971 was clearly conditional on his performance in this regard, and implied a limited, not-too-long period for accounting. Second, considering the state of the economy that Gierek "inherited," it was unrealistic to expect that the standard of living could be increased by cutting down on investments, which might have been a "classical" solution under normal circumstances. In this case, higher expectations for the standards of living had to be reconciled with decisive attempts at economic modernization requiring new investments. In addition, a record number of new jobs had to be created for the new entrants to the labor market in the 1971-75 plan period.

Another dilemma was what to do with the economic system. It was obvious that Gomulka's reforms of 1970 were dying out naturally, but there were no immediate answers as to what to do next. Upon assuming power, Gierek promised "to study" the matter carefully, but as time went on, the more he studied it, the more ambivalent he became about the need for economic reform. His first priority was obviously not so much to reform the economy as to restore the party's reins over it. What is more, economic reform at that time did not have any strong constituency. The workers were frightened almost to death by Gomulka's attempted reforms and were not in a hurry for another attempt. Some pressure was coming from academic circles, which, however, could never be terribly effective.

It is not surprising that under these circumstances Gierek's top advisers, mostly from the Planning Commission at that time, had no difficulties in convincing him and the entire Politburo that foreign credits might provide the only feasible solution to financing large import needs. This solution even looked attractive. It was also obvious, particularly since initial hopes for Soviet assistance had been dashed, that such credits must come from the Western countries. And, indeed, it was not long before they started coming. The first major credit, in the amount of DM 350 million, came from the Federal Republic of Germany in March 1971 (under the Hermes line) at a very attractive subsidized interest. It was treated as a welcome substitute for the Soviet credit that never came. However, it was used mostly for purchases of meat, butter, and other foodstuffs from Western Europe. American CCC credits, used to some extent under Gomulka, were very soon resumed and helped to finance imports of agricultural products. A green light for other Western credits designed to finance industrial and technological imports was on, and they soon started coming in increasing amounts. Gomulka's instinctive conservatism toward foreign borrowing was disavowed as unfounded and outdated, which was very much true. The alarm Gomulka made among party activists over Poland's indebtedness in late 1970, when that indebtedness amounted to slightly over $500 million, looks particularly funny today, but it looked ridiculous even then. However, the concept of foreign borrowing as perceived by Gierek's advisers had several important flaws. A number of very basic questions relating to the management of foreign borrowing, to its size in relation to export earnings, to the maturity structure of credits in relation to the creation of new production capacities, export generation capacity, etc., were left open. As time went on, foreign credits were also used to finance projects not expected to generate export earnings at all, as all prospective production was intended for the domestic market.[4] Moreover, within the existing institutional system the responsibility for borrowing money (and thus for repaying it) was completely divorced from responsibility for investing it. The system did not work according to legalistic and well-defined rules. Demands for resources were formulated and major investment decisions were made by the party and technocratic echelons, often in informal structures that defied any legal or constitutional responsibility. Meanwhile, responsibility for providing the resources continued to rest with the financial sector of the government, which had been traditionally placed quite low in the decision-making process.

The "new development strategy" had also a number of other deficiencies in its implementation. Investment priorities, for example, were never clearly formulated, and the extent of permissible investment commitments was treated quite flexibly, thus allowing imports to grow faster than would have been otherwise prudent. The Politburo would discuss major investment projects on a case-by-case basis, occasionally adding new projects to the already approved plans. This led to the unprecedented practice of so-called open planning, which, practically, meant a departure from planning in the real meaning of the term. The plans could never be balanced or "closed." A number of other devices were adopted, which I do not intend to deal with here, but which in their global effects made the task of keeping the balance of payments under control absolutely impossible.

Imports of Western technologies were treated not only as the means to modernize the economy and to boost exports, but also as a substitute for economic reform. Many Western economists quite rightly argue that Gierek's economic reforms, initiated in 1973 and abandoned in 1976, were half-hearted. I would go further and say that they were almost unintended. In late 1971, just prior to the VIth Party Congress, held in December of that year, a basic political decision was made that there would be no economic reform in Poland. In its stead, it was said, there would be only improvements in the central system of planning and management, with a clear emphasis on <u>central</u>. Even the use of the term "reform" was clearly discouraged in the top echelons of the establishment. This attitude was somewhat relaxed a year later when a committee of experts prepared the first blueprint of some very modest reform measures to be introduced in selected industries as the so-called pilot projects within economic associations and combines (WOG). Some of the previous indicators in measuring economic performance were replaced by new ones, called "synthetic" (like "value added," "profit"), which would measure economic efficiency in net terms. They would also involve changes in the motivation system, and thus in the principles of remuneration. The piecemeal introduction of this reform, the insufficient measure of decentralization and persistent manipulation by the central authorities with different components of the "parameters," made it vulnerable from the very beginning to voluntaristic political decisions of the center. It should have been no surprise when the whole experiment was quietly withdrawn (without any public announcement) in early 1976, with the appearance of the first major economic difficulties. Paradoxically, the system of central planning itself, which was supposed to be improved in the first place, had not even been touched. There was simply no political climate for any meaningful economic reform in the Gierek period.

However, I do not want to deny that there was some logic in Gierke's economic strategy, which attempted to combine a high level of accumulation and investment with so-called import-led growth, financed by foreign credits. The assumption that the foreign debt might be tolerated for a limited time and then gradually "worked down" and eliminated by increased hard-currency exports, as well as by substituting some hard-currency imports by domestic production, was not illogical. However, for this strategy to be realized successfully would have required some kind of "optimal conditions," both domestically and externally. As it happened, no such conditions existed. Externally, the economic slowdown in the West, which made it possible to obtain credits on attractive terms, also made Polish exports to those markets more difficult a little later. Some Polish planners were clearly counting on the fact that American inflation would lead to a further depreciation of the U.S. dollar, and that they would be able to repay the credits rather easily with depreciated dollars. As we know, that did not happen. Instead, the dollar has appreciated in relation to other currencies. A great bulk of Poland's debt happened to be in dollars. Second, domestic conditions have been deteriorating for a variety of reasons, policy mistakes combined with many institutional and systemic weaknesses. An implicit assumption that Western technologies could be applied in a centrally planned economy with efficiency equal to that in a market economy turned out to be false. A number of very basic ingredients which would be necessary for a successful assimilation of modern technologies, such as motivation, an institutional framework encouraging innovation, work ethics, a definite legal system, etc., are missing in a centrally planned economy.[5] In the Polish case some other institutional factors, mentioned earlier, relating to the decision-making process and planning, further compounded the difficulties.

In addition, the regime wanted to reconcile another set of contradictory objectives, namely, increasing consumption and the collectivization of agriculture. The drive toward collectivization was initiated in late 1973 and halted in 1976. This time the drive was not particularly successful in terms of "socialist transformations," but it did terrible damage to the private sector of agriculture and to agricultural production in general. Agricultural output, which jumped by 7.3% in 1973, slowed to only 1.6% in 1974, with a sharp decline in livestock numbers in the winter of 1974/75 and declined by 2.1% in 1975. To compensate for losses in agricultural production, the regime was forced to finance huge imports of agricultural products from the hard-currency area on credit. This compounded the problem of external debt even more.

And to add just one more general observation, this whole ill-conceived and utterly irresponsible drive against the private sector of agriculture was initiated at Soviet instigation. The question of Polish private agriculture has been permanently on the agenda of high-level bilateral consultations with the Soviets. The other such item being, of course, the Catholic Church. However, under Gierek-Jaroszewicz the Soviets were in a much stronger position than under Gomulka to press their demands. The resignation from bargaining by the Polish side made a return to an unequal relationship a fact of life.

### 1. Major problems in bilateral economic relations

The role of trade and economic relations with the Soviet Union and other socialist countries was very much enhanced in the five-year plan for 1971-1975. This plan, originally drafted under Gomulka, was very substantially revised and finally approved in 1972, following the XXV Session of CMEA, held in July 1971 and the VI Party Congress, held in December 1971. The CMEA session was very important in this context, as it adopted the "Comprehensive Program for Socialist Economic Integration",[6] which had far-reaching consequences for intra-bloc economic relations in the 1970s. The resolution adopted by the VI Party Congress reflected a qualitative change in economic relations with the CMEA countries, signalling a shift from cooperation to integration.

The Polish five-year plan for 1971-1975 reflected fully those changes and set very ambitious goals in trade expansion with all socialist countries, and particularly with the Soviet Union. High priority was given to expanding exports. Exports to the Soviet Union from now on were to perform two functions. One was to pay for current imports, the other was to serve as Poland's contribution to joint investment projects on Soviet territory in the development of fuel and raw material resources. Exports in the latter category were to be made on credit and counted against the prospective Soviet deliveries of additional quantities of oil, gas, asbestos, cellulose and various metals. Those additional deliveries were to start after 1979.[7] Unfortunately, it was not explained how the two kinds of exports were to be divided in terms of their relative weights. Total Polish-Soviet trade in the 1971-1975 period increased by 80%, with exports rising faster than imports.[8] Poland also registered trade surpluses in every year except for 1971, with the 1972 and 1973 surpluses quite substantial.

This dynamic expansion in Polish-Soviet trade was slowed down by price developments in the world markets. The first serious difficulties appeared already in 1975, though they were not immediately apparent in Polish-Soviet trade. Indeed, Polish exports to the Soviet Union jumped by 36.7% in that year, and by 32.9% to the whole CMEA area. But in 1976 they only rose by 2.6% to the Soviet Union and by 6.6% to the CMEA as a whole. More importantly, due to the increase in world energy prices the Soviets felt compelled to change the intra-bloc price formula one year earlier than might have otherwise been the case. New prices for 1975 were based on an average of world market prices for the 1972-74 period, corrected by the usual factor of bilateral negotiations. Starting from 1976, the intra-CMEA prices have been corrected annually on the basis of the moving average of the preceding five years' world market prices (called commonly a "five-year moving average formula"). As a result of this shift to the new price formula, prices in intra-CMEA trade have moved sharply in favor of the Soviet Union, which is the major supplier of oil and other raw materials. Terms of trade of other East European countries with the Soviet Union started to deteriorate steadily.

In 1975 alone prices in intra-CMEA trade jumped by 20%.[9] According to estimates made by Vanous, Poland's terms of trade with the Soviet Union in 1975 declined to 95 (1970-100) and in 1980 to 83.[10] Other East European countries experienced even sharper declines in their terms of trade with the Soviet Union (except for Rumania). Initially Poland had some "cushion" in the form of her coal exports to the Soviet Union. In the past years there used to be some link betwen the price for Soviet Union oil and the price for Polish coal. In recent years, however, this link has been considerably weakened as oil prices have been rising much faster than coal prices. Thus, e.g., in 1975 one metric ton of Polish coal was still buying 0.9 tons of Soviet oil, while in 1980 it was buying only 0.53 tons of Soviet oil.[11] Besides, Poland has been importing from the Soviet Union approximately 13 million tons of oil annually, while selling to the Soviet Union only about 9 million tons of coal. Poland is also importing from the Soviet Union about 3 million tons of refined oil products and about 5 billion cubic of natural gas, whose prices in relation to those for coal went up even more steeply. All this must have contributed to a growing gap in the energy sector of bilateral trade.

Perhaps it might be appropriate at this moment to interject a few general observations about the state of the Polish economy to better demonstrate in what economic context several other factors in Polish-Soviet relations contributed to the economic crisis. The performance of the Polish economy in the first half of the decade looked impressive, if judged by official economic indicators. National income produced was rising at an average annual rate of 9.8%, national income distributed at a rate of 12.0%, the difference resulting from a negative trade balance. Industrial production rose at an average annual rate of 10.4%, labor productivity in socialist industry at a rate of 7.5%, and total investment in the economy at a rate of 18.4%. Even agricultural output rose at an annual rate of 3.7%, due to exceedingly steep increases in 1972 and 1973.

What is more, economic policy in the first half of the decade seemed to be successful in reconciling the conflicting priorities of fast industrial growth with consumer needs. Rapidly growing consumption was widely advertised as an effective instrument for stimulating higher labor productivity. As it happened, wages and salaries were apparently rising faster than the government would have wished. Real personal incomes per capita were rising at an average annual rate of 6.1%, retail sales at 7.7% and total consumption (real) at 7.2%.[12] In other words, the investment boom was moving along with a consumers' boom. Consumption of meat per capita rose from 53 kg in 1970 to over 70 kg in 1975, thus reaching the consumption level of France.

Behind these successes, however, lay the already lurking dangers resulting from an overextended economy, rising foreign debt, and clearly visible underperformance in exports to the Western markets. Even in 1975 the government did not sufficiently appreciate that it was to a considerable extent "a borrowed prosperity". The official optimism, apparently boosted by impressive results in the first half of the decade, was reflected very strongly at the VII Party Congress, held in December 1975, and in its resolutions. Premier Jaroszwicz, speaking at this Congress, outlined the economic goals for the 1976-1980 period in rather bright colors. National income was to grow by 40-42% (for the whole quinquennium), industrial production by 48-50%, agricultural output by 15-16% and investment outlays in the whole economy by 37-40%.[13] By any standards, such targets must have assumed the continuation of a booming economy. Jaroszewicz admitted, however, that the rate of inflation had reached 13% in 1975, and was much less specific in outlining targets for further real wage or consumption increases.

On the other hand, his unfounded optimism was probably best reflected in a statement that the continuing high level of investment was to be implemented "in conditions of considerably higher labor productivity and full investment equilibrium".[14]

It should be noted, however, that the leadership was already at that point concerned about an unsatisfactory performance in the foreign trade sector. But here again it set as a target, somewhat optimistically, the complete elimination of balance of trade deficits with the Western countries by the end of the decade. Exports were expected to grow at an average annual rate of 11.8%, while imports were to slow down to an average growth of 4.7%.[15] Trade with the Soviet Union was to expand at an annual rate of 8.6% (50% for the whole five-year period), with exports apparently rising faster than the imports.

A combination of external disturbances and domestic policy failures, particularly the failure to come up on time with a realistically and sensibly defined adjustment process, were responsible for the rapidly deteriorating economic situation, beginning with 1976 and leading straight to the political crisis of 1980-1981. The food price riots of June 1976 forced the regime to a major policy retreat. Besides rescinding the food price increases, the regime was forced for all practical purposes to abandon the "new development strategy" and replace it with a policy of "economic maneuver". Its main objectives were to slow down growth by cutting on investments and decelerating wage increases, and to improve the balance of payments by cutting on imports and driving up exports. Unfortunately, numerous factors contributed to the complete failure of these policies. One of them was the insufficient restructuralization of production in favor of consumer goods, which would have restored an equilibrium to the domestic market. As it turned out, despite sharp cuts in accumulation and investments, starting in

1977, many of the gigantic investment projects in the heavy industry, mining and energy sectors were virtually unaffected by these cuts. Ironically, many of the smaller projects in the light industry which were close to completion and might have produced goods for exports and the domestic market were affected too. Second, as the attempt at raising food prices failed, the government was forced to continue and even increase heavy subsidies to the agricultural and food sector of the economy, without being able to bring down wage increases significantly. Third, as imports were being cut "across the board" instead of selectively, they also affected those sectors of the economy which were producing for exports and for the domestic market. This put into motion what Richard Portes calls a vicious spiral of the "bottleneck multiplier".[16] Fourth, as agricultural production fell sharply in 1977, the government was forced to finance huge grain import from the West, thus deteriorating the balance of payments situation even further. While, e.g., grain imports in the 1971-75 period had been running at an average of 4.3 million tons a year, in the 1976-80 period they rose to 8.1 million tons a year.[17] Fifth, as the debt-service obligations were rising rapidly in the 1976-1980 period, the government had to seek new financial credits just to service the debt and avoid an immediate financial collapse. The maturity structure of the Polish debt was very bad. Most of the debt was short-and medium-term, which greatly complicated the task of debt management and contributed to a severe liquidity crunch. The debt-service ratio (in relation to export earnings) rose from 26.3% in 1975 to 45.6% in 1977, to 75.0% in 1979, and to 81.6% in 1980.[18] In practical policy terms this meant that, beginning with 1977, Poland, anxious to avoid the term "rescheduling", was already engaged in a "debt-rotation" exercise. This exercise did not help much, if at all. According to US Government estimates made in June 1980, out of the total Polish debt of 21.1 billion outstanding at the end of 1979, 38.4% was due in 1980, 20.7% in 1981 and 41.3% after 1981.[19] Of course, one of the many policy mistakes had been the inappropriate use of credits. In some cases short-and medium-term credits were used to finance investments in industries with long gestation periods.

Curtailing imports from the western countries turned out to be more damaging to the overall performance of the Polish economy than it might have seemed initially. The full extent of the Polish economy's dependence on western imports seems to have been comprehended only when those imports were being cut. This dependence is particularly great for those economic sectors which produce consumer goods, i.e. food processing and light industries. On the other hand, industries producing investment goods, like steel, machinery and construction are more dependent on imports from the socialist countries. What is interesting, however, is that goods which are being exported to the socialist countries also require a high content of imports in terms of material inputs from the western countries. One study shows, e.g., that in 1977 the goods exported to the western countries, while goods exported to the socialist countries required 48.5% of material inputs from the western countries.[20]

This latter aspect has a practical significance for Polish-Soviet trade. It proves that almost half of the material content in goods exported to the Soviet Union has to be imported by Poland for hard currency. Of course, this ratio is never static and may vary over time; but it is nevertheless important to remember it when we are talking about implicit Soviet trade subsidies to Poland or to Eastern Europe in general. This is a kind of "subsidy in reverse", a subsidization of ruble trade with dollar imports. There is another aspect somewhat related to this. Since the average cost of earning a dollar in exports to the West (in terms of domestic currency) is usually higher than the cost of earning a ruble, this should also have been reflected in ruble prices for Polish exports to the Soviet Union, but it was not. The Soviets were simply ignoring this fact, as if the goods exported by Poland were of purely domestic origin. In the late 1970s, for one dollar's worth of such material inputs coming from the West, Poland would be receiving 0.67 rubles in exports to the Soviet Union, according to the official dollar/ruble exchange rate. The same rule was also applicable in calculating the value of Polish inputs going into "joint investments" in the Soviet Union. In the latter case several other important economic aspects arose, which I will discuss later in this chapter. Here let me just note that trade with the Soviet Union contributed in a variety of ways to Poland's rising hard currency debt in the West. For one, Poland's involvment in "joint investment projects" in the Soviet Union required hugh imports of equipment and technology from the hard-currency area on credit. Second, Poland was trying on her own to upgrade the quality of her export products in order to become more competitive on the Soviet market. This also involved Western imports of technology and equipment. Third, in many instances the Soviets would specifically demand particular Western technologies or equipmenet as an integral part, and, indeed, a condition of a bilateral transaction. It is sometimes argued in the West that the Soviets have not been very successful in using Eastern Europe as a source of Western technology transfer.[21] While this may be so, it does not mean that they have not been trying, at some expense to Eastern Europe. And finally, some element of hard-currency imports in Poland's exports to the Soviet Union would have been unavoidable under any circumstances, as it was conditioned by the overall structure of Poland's imports and exports.

Throughout the 1970s Poland was unable to benefit as much as she otherwise might have in the whole area of "invisible" transactions. This relates mostly, but not exclusively, to transit and transport rates.

Poland, being a typical transit country, should have been able to derive considerable earnings from transport and transit fees. Unfortunately, she was not able to do so, because these rates in intra-CMEA relations were kept at artifically low levels, much below those prevailing in Western Europe.[22] The two countries, namely the Soviet Union and East Germany, which benefited most from low transit rates, had persistently opposed their upward revision. Poland's own rail transportation system was steadily deteriorating without being able to earn enough money for its improvement and modernization. Unfortunately, here again due to the secrecy of data, it is impossible to evaluate the extent of Poland's subsidization in this area.

Another important aspect in Polish-Soviet trade, which received hardly any recognition in the West and which eventually contributed to the economic crisis, had been an excessive drive in Polish exports of consumer goods to the Soviet market. Part of this drive was directly coonnected with Poland's participation in "joint investmenet projects". Poland was obviously contributing to those projects in many ways, including the delivery of consumer goods. Under normal circumstances such exports would have been treated as nothing peculiar, and even a positive phenomenon. However, in the conditions of a steadily deteriorating domestic market imbalance in the second half of the 1970s, those exports were draining the domestic market of almost any goods. Beginning with 1975, exports of beef and veal were added to those of industrial consumer goods in this category.[23] What is interesting about these exports, is that toward the end of the 1970s the government itself was gradually losing control over them, because the decision making process in this particular case was unusually decentralized. This resulted in large measure from so-called "border exchanges" with the neighboring and not-so-neighboring Soviet republics. Trade ministers from various Soviet republics would come to Poland and contract for large quantities/in relation to what was available / of consumer goods with the Polish ministry of internal trade, or even with trade associations. The ministry of foreign trade was typically by-passed altogether in these exchanges, and hence was gradually losing control over what was available for regular exports. However, the "border exchanges" enjoyed the full backing of Premier Jaroszewicz, who would not allow anyone to interfere in his exclusive domain of managing the economy.

## 2. "Joint investment projects" and their implications"

A great deal has already been written in Western economic literature on "joint investment projects" within the CMEA, and therefore I see no need to go into many generalities here. On the other hand, a number of important aspects of those projects, particularly from the point of view of smaller East European countries, or the investors, may not have been fully appreciated thus far. As time goes on, the cumulating experience of the smaller countries seems to reveal more and more critical elements and even outright disadvantages, contradicting some of the earlier assumptions. The Polish experience with those projects in particular seems to provide ample evidence of frustration and disappointment. I should add, however, at the very outset, that these disappointments are of more recent origin, usually starting with the Solidarity period, but persisting up to this day. During the Gierek-Jaroszewicz period this subject virtually did not exist for economic investigation. Jaroszewicz's personal assurances about the projects' "unusual profitability" were to be treated as a substitute for economic evidence.

It goes without saying that Poland was initially one of the strongest supporters of those projects. For this reason she got actively involved in almost all of them. These included the pulp mill project at Ust-Ilim in

Siberia, the Kimbaev asbestos project in the Urals, the iron-ore mining and production of ferroalloys at Kursk, the development of natural gas condensate deposits and the constructrion of Orenburg gas pipeline, the Novopolock and Surguck oil pipelines, and some others.

In return for her participation for her participation in those projects Poland has been able, starting since 1979, to obtain additional quantities of cellulose, asbestos, oil, gas, iron ore and some ferroalloys which she would otherwise have to buy elsewhere, and probably at higher prices. There is no question that as long as world market prices for those commodities have been rising, the revised Bucharest price formula in CMEA has been providing the East European countries some "cushion"; and from this point of view at least, participation in those projects seemed to be attractive. Upon a closer look, however, at least three sets of objections or reservations are being raised, some of which are being spelled out very clearly and directly, while others more indirectly or implicitly. The first set relates to the general concept of joint investment as a viable approach to deal with the foreign trade problems of Eastern Europe. The second set of objections has to do with the economics of the present accounting procedure relating to the projects as such, or, to put it simply, with some loopholes in the economics of those projects from the investors' point of view. Finally, the third set of objections relates to the Soviet approach to the construction process.

Objections of the first type come down basically to three arguments. The first is that the Soviet Union is trying to avoid an investmenet risk of its own by involving the resources of smaller countries in the "joint" projects, and thus accomplishing major investment tasks which also serve its own long-term interests by way of resource transfer from the smaller countries. The second argument is that the smaller countries simply do not have sufficient resources to earmark for such collosal projects, and thus to effectively eliminate them from current domestic use. Since the smaller countries do not have any "surplus" production potential or hard currency reserves, such investment commitments have to be squeezed out of current consumption and/or domestic investments. And third, under the existing trade bilateralism within the CMEA, such resource transfers from the smaller countries to the Soviet Union tend to reduce the current levels of mutual trade of all partners by reducing the availability of goods for current exports. All this must raise a question about the viability of this solution. As one Polish economist put it, "the attempts to replace (national) investment decisions by an international transfer of investment funds are testifying more about the accentuated difficulties of coping with systemic questions within the CMEA than about the real need for such transfers".[24] This is certainly true, but it is equally obvious that as long as market instruments do not gain proper recognition in CMEA economic integration, these systemic difficulties will never be overcome. They may only get worse.

Now we turn to the second set of objections. Here again doubts and questions are beginning to multiply due to both some inherent inadequacies of the system as originally conceived and to the likelihood of changing circumstances in the world markets for the commodities in question. To begin with, the smaller countries seem to resent the fact that under the existing accounting procedure their inputs to joint investment projects are being underestimated. This results, broadly speaking, from a failure to measure the real opportunity costs in evaluating their inputs. This relates particularly to hard-currency credits. The investor countries have to use such credits to finance purchases of equipment required for the projects, and these credits have to be obtained at the prevailing market terms.

The international Investment Bank (IIB) of CMEA also charges rates at least slightly over the terms it obtained on the money market.[25] However, for the purposes of the joint projects the investors are extending credits to the Soviets at a "fraternal" 2-percent interest, charged only on the principal. The interest which the East European countries have to pay to either Western lenders or to the IIB is excluded from this calculation.[26] The reasons for this exclusion are not quite clear; but, apparently, when the investors are using Western credits directly, there is no synchronization between maturities and uses of the two credits. Nevertheless, it would be only logical to expect that the investors should be fully reimbursed for the interest that they are paying for their hard-currency credits, irrespective of the sources from which the credits are drawn. There should be no difficulty in distinguishing that portion of inputs which is financed by hard-currency credits from other kinds of inputs; and the IIB should be able to do this. The practice of extending hard-currency credits to the Soviet Union at a 2% interest rate represents a major departure from normal economics. Second, the investment projects remain in the possession of the country in which they are situated. There is no participation in ownership or in management. Once the loan is repaid, the supplies are "guaranteed" only by the goodwill of the borrower - the Soviet Union. Third, and this is one of the crucial points, the price of the commodity in future deliveries remains open, and is to be set at the time of delivery according to the CMEA price formula then in force. Marie Lavigne calls it a "non-privileged" price,[27] while Polish economist Trzeciakowski draws attention to the fact that the costs of earning a ransferable ruble through joint investment projects are substantially higher than those in typical commercial transactions.[28] Fourth, due to the lack of a direct link between the value of inputs and the future prices of the commodities in question, investors do not know how much they will effectively obtain for their investment in terms of commodity paybacks. For this reason also the repayment period of credits extended to the Soviet Union remains flexible. Depending on the price of the commodity the repayment may occur sooner or later.

To overcome all these very serious drawbacks Trzeciakowski is suggesting the following alternative solutions:

- repayment of loans should take place in the same price conditions that existed at the time the loans were extended;

- the nominal value of loans extended should be adjusted upward according to the average rise of contractual prices;

- a change in the exchange rate of the transferable ruble to convertible currencies.[29]

It seems doubtful that the Soviets will accept any of these proposals, and particularly the latter one, as it would mean a devaluation of the transferable ruble, which to the Soviets always has an ideological ring.

And finally, the last set of objections has to do with the evaluation of labor and other associated construction costs in the investment process. The Soviets are insisting that construction, including labor costs, has to be carried out according to their own cost rates. The fact, e.g., that the Poles, Hungarians, Czechs and East Germans have to pay their workers at least double or triple in labor rates and other benefits as compared to what Soviet workers would earn is of no interest to them. This is an absurd condition if we consider that the price structure differs so much in each country. All this leads to a situation in which the East European construction companies involved in the joint projects are big losers and have to be subsidized from their respective state budgets. Is it conceivable that any Western company would go into the Soviet Union and work on a project according to Soviet rates and not be able to recover even its own costs?

This is exactly the situation in which the Polish construction companies find themselves. And what does the official Polish press have to say about it? Here is a sample: "The Soviet Union presented to us a logical condition that we build the pipelines according to the Soviet cost rates, i.e. in the same way as if they were built by the Soviet companies. We accepted these conditions because they are advantageous to the Polish economy as a whole, though not to the construction companies".[30]

This kind of economic logic, that one can afford to lose money in one place in the hope that he will be able to recover it in another, leads to a total disarray in measuring economic efficiency. Second, the expected recuperation of losses incurred in the construction sector by future deliveries of goods is based on a set of assumptions that may or may not come true. What happens, e.g., if the price of oil in the world markets falls sharply, or if the contractual price formula is revised to the disadvantage of the present investors? And finally, in Poland's case there is no evidence that anyone has ever made even an approximate accounting for the economic efficiency of all these operations combined. On the other hand it is commonly known that the cost overruns incurred by the Polish construction companies were in many cases horrendous due not only to the very high labor rates which were necessary to induce Polish workers and specialists to work in difficult Soviet conditions, but also to all sorts of unexpected natural and terrain difficulties encountered particularly on the construction of pipelines. This may have been one of the reasons why, e.g., the Hungarians and other East Europeans withdrew from the construction of the Orenburg gas pipeline in 1975 and 1976. Poland was the only country to complete its section of the pipeline.[31] The others preferred to sub-contract Soviet companies and pay them apparently according to Soviet rates.

Still, Hannigan and McMillan are arguing, e.g., that the Orenburg gas project has been beneficial to the East Europeans. They used in their analysis a standard methodology in calculating opportunity costs, and made some assumptions with respect to prices and quantities of expected deliveries.[32] Even if we assume that their analysis in this particular case is correct, the question still remains whether this type of cooperation can actually help solve the difficulties of East European countries or, as seems more likely, only make them even worse. As the authors themselves admit, participation in joint projects limited the resources available for alternative uses, particularly for the badly needed restructuring of the East European economies to make them more competitive and improve their performance on world markets. As Marie Lavigne rightly points out, the main difficulty is the growing indebtedness of the East European countries to the USSR. This indebtedness, which amounted to just 6 billion transferable rubles in 1980, rose to 13 billion transferable rubles in the third quarter of 1983, and is apparently still rising.[33] Can the Soviet Union uder these circumstances still draw on the resourvces of the debtor countries for joint investments? It is worth noting that practically all joint investment projects that we have seen so far were initiated and started in the first half of the 1970s. It is being estimated that in the 1976-1980 period 7.5 billion rubles were allocated to joint investment projects by the CMEA countries. A Hungarian author estimates that joint investments for the energy projects in that period, as measured in relation to total domestic investment, amounted to 4% for Hungary, 3% for theGDR, 2.9% for Bulgaria, and 2.4% for Poland.[34] In recent years integration efforts in the bloc have slowed down considerably, partly due to the Polish crisis and its economic reverberations throughout the bloc. This must also have affected the joint investment projects. Earlier forecasts of common investments for this decade in the amount of TR 70-90 billion must simply be treated as totally unrealistic. A Czech journal estimated their value more recently at TR 20 billion.[35] However, chairman of the Soviet Gosplan N. Baybakov on his recent trip to Hungary stated that Soviet gas deliveries to the CMEA countries could only be increased if and when a new pipeline leading from Yamala to Yamburg (4,700 km) were constructed through a joint venture.[36] Though the Soviets may have themselves recognized serious difficulties in enlisting new East European commitments for joint investments, they are likely to press for them again.

### 3. Other costs of the Soviet "connection"

Poland's dependence on the Soviet Union and the nature of that relationship goes far beyond strictly bilateral relations. Since it is also a political and ideological relationship, it carries with it a wide range of implications both for Poland's domestic policies and for her relations with other countries, including those outside the bloc. This is, of course, a "common truth" evident throughout the postwar period; and I am not going to analyse it here in all its ramifications. It bears stressing, however, that, contrary to certain perceptions in the West, the implications of Poland's Soviet connection were very evident in her economic relations with the West, and resulted in the loss of potentially great opportunities to the Polish economy. Indeed, they may have even contributed in some measure to the failure of Gierek's economic policies. I am going to illustrate it with a few examples, probably not so commonly known in the West.

First, let us take the case of "joint ventures" with the Western countries, an idea widely discussed in theoretical terms in Western economic literature. In Poland conceptual work on this question began in early

1971, when a "Round Table Conference" was held in Warsaw with Business International. It gathered some speed as a result of the so-called "Scott mission" to Poland later that year.[37] An expert body was set up immediately after that mission, and in 1972 it produced a lengthy and on the whole constructive report, eleborating in great detail several alternative solutions and coming up with proposals of its own. These proposals were subsequently approved by the Concil of Ministers; and in early 1973 an official decree of the Council of Ministers was prepared. In the meantime literally hundreds of joint venture proposals had been received for consideration from all over the world, mostly from Western Europe and the United States, but no practical action was taken on any of them. Western companies were pressing the Ministry of Foreign Trade for answers, but to no avail. The situation was becoming increasingly embarrassing as Jaroszewicz and Gierek were frequently receiving various business leaders and promising action. Equally embarrassed were many Polish ambassadors in the Western capitals, who did not know how to respond to the local business communities. The then Polish ambassador in Bonn, e.g., made a strong point that he had forwarded to Warsaw about a thousand proposals from West German companies in the course of 1973 and 1974, but did not receive a single response. It was apparent that practical decisions were blocked at the top government levels for political reasons. Finally, the whole impasse was quietly resolved in December 1974 when Jaroszewicz returned from his trip to Moscow, where he had met with Soviet premier Kosygin. The word was passed very discreetly, without any written notice, that there would be no "joint ventures" in Poland. Thus, almost two years of work by various expert groups, voluminous papers, numerous high-level governmenet discussions, thousands of trips by Western businessmen to Warsaw, and high expectations built up at certain points, all came to nothing as a result of Jaroszewicz's single talk with Kosygin. Will anyone ever be able to estimate the opportunities lost by the Polish economy due to this single Soviet decision?

One case of a potential "joint venture" which looked particularly promising to the Polish side deserves to be mentioned here. It was a proposal by Standard Oil of Indiana for joint exploration and oil drilling in the Baltic shelf. The proposal was elaborated in great detail by Standard Oil of Indiana on the basis of a satellite geological survey. The chairman of Standard Oil of Indiana made a number of trips to Warsaw in the course of 1973 and 1974, and was received at the highest government levels, including meetings with Gierek and Jaroszewicz. Of course, it was a politically sensitive issue from the beginning, but in view of the potential benefits, the Polish side was willing and eager to work it out. The Ministry of Mining was backing this proposal very strongly. Following numerous high-level discussions and a long drawn-out decision-making process everything looked almost ready for final approval. Shortly after Gierek's trip to the United States in September 1974 the Politburo formally approved the project, but with the provision that the Soviet comrades should be "consulted". This "consultation" was conducted by Jaroszewicz on the same trip to Moscow I just mentioned, and he came back with a firm Soviet "nyet". According to official "leaks" at high government levels, Kosygin simply stated that the Baltic shelf was too sensitive a strategic area to let the Americans in. Instead, he proposed to set up a tri-partite joint venture operation with Poland, the Soviet Union and the GDR. And indeed, in January 1975 the establishment of such a project was announced under the name of "Petrobaltic". To Standard Oil of Indiana the news of the setting up of "Petrobaltic" was probably the only message it ever received to its own proposal. To many Polish experts, on the other hand, it was obvious that the setting up of "Petrobaltic" was not the beginning, but rather an effective end to the possibilities of oil drilling in the Baltic shelf. And, as the experience of almost the past 10 years proved, they were right. "Petrobaltic" turned out to be almost a fictitious operation. It is no nearer to drilling oil now than it was in January 1975. Neither of its three partners has sufficient experience, capital or technology to make this operation a success in the conditions of the Baltic shelf. Besides, there is no evidence that the Soviets have ever treated this project seriously. Poland, of course, is a net loser, and as dependent on Soviet oil as ever.

Another example of Soviet interference in Poland's domestic affairs and, indirectly, in her relations with the Western countries, that is perhaps somewhat better known in the West, concerns civil aviation and the aquisition of commercial aircraft. Here the Soviet demands are twofold. First is the firmly established practice and expectation that Poland must purchase commercial aircraft only from the Soviet Union, not from the West. And second, the Soviets insist that Poland must pay for their aircraft in hard currency. No doubt these demands did not have many enthusiasts in Warsaw. In the early 1970s, when Poland was trying hard to attract Western tourists and develop foreign tourism as a viable and profitable business, some lobbies in Poland were trying to break those rules and modernize Polish civil aviation by the acquisition of new Western aircraft, which would be more attractive and more economical in fuel than the Soviet Illiushins. The The question became particularly acute in 1974 and 1975 when, due to steep increases in the cost of jet fuel and even occasional shortages in the particular type of fuel required for the Soviet aircraft, the Polish Airline "LOT" started to lose money.[38] The managers of Polish Airlines and the aviation industry were negotiating with several Western aircraft companies, including Boeing and McDonnel Douglas, in the hope of purchasing modern, competitive and economical aircraft. They received a number of very attractive proposals. Boeing in particular made a great marketing effort to sell its aircraft offering very attractive prices and credit terms. But here again, after many high-level discussions, negotiations, business trips and even personal pleas to Gierek by the managers of Polish Airlines, the final decision was negative. The Soviets insisted on keeping their monopolistic position as the supplier of commercial aircraft to Poland.

The Gierek regime was willingly or unwillingly yielding to Sovieet pressures on a wide range of issues, both foreign and domestic. One eminent example, this time more domestic, is a wide-gauge rail connection to Katowice. When Gierek initially (in 1971) came up with the idea of building a gigantic steel complex called "Huta Katowice", the Soviet leaders were apparently taken aback, probably by the mere size of the project. Its capacity was estimated at 9 million tons of steel a year, which would make it the biggest single steel mill in the whole of Europe. The idea, of course, had to be discussed with the Soviets as it was based on the asumption that most of the iron ore would be delivered by theSoviet Union. After a short hesitation the Soviets agreed, but under one provision, namely that Poland build, at her own expense, a wide-gauge rail connection from the Soviet border to Katowice (400 km). Following the usual pattern of "non-negotiations" with the Soviets, Gierek agreed. This was aparently the single most important political concession that the Soviets had extracted from Polish leaders since the Stalinist period. The significance of the new railway was first of all strategic. Gomulka, according to well informed sources in Warsaw, had been pressed for this concession first by Khrushchev in the early 1960s, and later by Brezhnev. But on each occasion he had successfully resisted. To him at least, it was clear that the Soviets did not need this connection for economic reasons; and strategic considerations represented to him a different ball game altogether. To Gierek and Jaroszewicz this distinction was not so important.

Moreover, the whole operation of building a new railway connection, much of it through new terrain, turned out to be very expensive as well. Most of it was financed during the 1976-1980 period, when investment cuts had to be made in other economic sectors. Paradoxically, the system was put into operation not long before the Polish upheavals in 1980, and wold have been ready for Soviet troops, had it come to this. At least up to now there is no evidence that the import volume of Soviet goods has increased because of this system. It was just the heavy political price that Gierek had had to pay for his "gigantomania".

In addition, throughout the 1970s Poland had to carry a heavy and apparently disproportionate burden of military expenditures. In the 1971-75 period official defense expenditures amounted to 211.3 billilon zlotys, or $15.2 billion. In the 1976-80 period they rose to 298 billion zlotys, or $21.4 billion.[39] This was an increase of over 41%, quite impressive by any standard, and particularly for a period of detente and conditions of "economic maneuver" at home. Poland is, of course, an important producer and exporter of arms, but most of her arms exports go to the Warsaw Pact countries. Arms exports data for the 1975-79 period show that she had a negative balance in arms trade. Her arms exports to the Soviet Union, e.g., amounted in that period to $800 million, while her imports of arms from that country amounted to $1.2 million, thus leaving a negative balance of $400 million.[40] Thus, in addition to her huge deficits in civilian trade Poland was additionally burdened with deficits in arms trade.

This is just one more evidence that the policy of "first ally" turned out to be more expensive than its originators had probably thought. Or, did they think about it?

## V. The Soviet Union and the present crisis in Poland

Having shown in the preceding chapter how a combination of wrong economic policies and an excessive dependence on the Soviet Union, with many of its domestic and external implications, led to a crisis situation, we are not going to describe here the crisis situation as such, or how it was managed. There is plenty of recent literature on this subject. Nor are we going to analyse the domestic policies of the Jaruzelski regime, either prior to or after the military coup in December 1981. This in itself would call for a separate paper. Instead, I am going to limit my analysis here to Soviet economic policies toward Poland, and the dilemmas they create for the Jaruzelski regime. I would also like to outline briefly the most likely options for the Jaruzelski regime from its present predicament, as well as some policy options for the West.

A great deal has been written in the most recent period on Soviet economic assistance to Poland in all its possible forms, implicit and direct. And much of it is true. It is not my intention here to dispute facts. However, when talking about Soviet assistance to Poland we should be aware that recent and present Soviet policies toward Poland are little more than a crisis management operation.

By crushing the Solidarity movement in Poland, by indirect methods, the Soviets have in fact removed the option of solving Poland's economic crisis on her own through proper economic reforms and the mobilization of the Polish people for hard work, discipline, and sacrifice. Instead, they opted for the rescue of an unworkable economic and political system. Such an operation was bound to be expensive for all concerned, including the Soviets.

The particular option which was chosen by the Soviets to "solve" the Polish crisis could only lead to a predictable political stalemate. Looking at the situation from the Polish perspective, nothing has really changed from the Gierek-Jaroszewicz period. Jaruzelski is as subservient to the Soviets as Gierek was, but even more dependent on them due to the cut-off in Western contacts. None of the failed pro-Soviet policies which led to the political crisis (together with other factors) can either be condemned or abandoned. The same demoralized and corrupt group stays in power. In contrast to 1956, e.g., the latest political crisis and its "solution" has not brought about any qualitative political change for the better. We can speak only of changes for the worse. Apparently, as it was not a political solution that was chosen, it could hardly be expected to bring about such change. But, as many prominent Polish scholars warned, any attempt to crush "Solidarity" would cause more problems than it would solve.[1] There can be no doubt that a political solution to the crisis would have been much "cheaper" in terms of economic costs. The Polish economy would have recovered on its own much faster. Also, Western economic assistance would have been a factor in that recovery. Thus, the Soviets might have been spared the kind of "assistance" which they are now forced to provide to the Jaruzelski regime.

It should have been only natural to expect that a "forceful solution" to the crisis would lead, at least in the short-term, to a deterioration in the performance of the Polish economy instead of an improvement. Western sanctions should not have been a surprise, either. Thus, it seems reasonable to assume that the Soviets should have taken all these factors into consideration before pushing the Jaruzelski regime against "Solidarity".

### 1. Recent Polish-Soviet trade and aid flows

The economic crisis brought about almost immediate and very sharp changes in both the volume and geographical structure of Poland's foreign trade.

These changes, at least in the short-run, caused quite radical re-orientation in the directions of Poland's trade. Total Polish exports, which still in 1979 rose by 6.8%, fell in 1980 by 4.3%, and in 1981 by 21.1%. Total imports, which fell in 1979 by less than 1%, and in 1980 by 2.8%, fell further in 1981 by 19%. However, the sharpest decline occurred in trade with the non-socialist countries, particularly in imports. Those imports fell from almost \$8.5 billion in 1980 to \$5.4 billion in 1981, and to only \$3.7 billion in 1982. Exports to the non-socialist countries, which rose by 4% in 1980, fell by 27.3% in 1981 and by a further 4.5% in 1982. Thus, by cutting sharply on her imports from the non-socialist countries, Poland turned around her trade balance with them from a deficit of almost \$1 billion in 1980 to a small surplus in 1981, and to a surplus of \$1.4 billion in 1982. A somewhat different pattern developed in her trade with the socialist countries in this period. Here exports fell too, but less sharply, while

Table 8. Poland's trade with the Soviet Union in 1980-1983

(in million rubles)

| | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|
| Exports | 3,596 | 3,221 | 4,214 | 4,870 |
| Imports | 4,406 | 4,931 | 4,835 | 5,250 |
| Balance | - 810 | - 1,710 | - 621 | - 380 |

Source: Wharton Econometrics for 1980 and 1981, Polish official sources for 1982 and 1983.

imports remained either stable or even rose. The net result of all this is that Poland's trade deficits have been shifted from the West to the East. And this has been reflected very much in Polish-Soviet trade. Polish exports to the Soviet Union, which still in 1979 rose by 17%, declined in 1980 by 9.8% and by 10.4% in 1981. In 1982 they rose sharply by over 30% and continued rising in 1983. Imports from the Soviet Union, on the other hand, which rose by 11.5% in 1979, increased again by 13.8% in 1980 and by 11.9% in 1981. They declined only slightly in 1982. The most significant characteristic here was a sharp shift from a trade surplus of 171.5 million rubles in 1979 to a deficit of 810 million rubles in 1980 and 1,710 million rubles in 1981. But, as can be seen from Table 8, the deep point in Polish-Soviet trade was reached in 1981. Since then Polish deficits have been declining and the trend is clearly toward the restoration of balance.

The Soviets are apparently not very happy about Polish trade deficits and would like to eliminate them as soon as possible. On the other hand, if they want to avoid a total disruption of trade and complicate Jaruzelski's situation even further, they have hardly any choice but to tolerate them for some time. To help finance these deficits, they introduced a new form of credits, called "balance credits". Though they do not correspond exactly to Poland's trade deficit in a given year, they are for the most part designed to finance those deficits. As can be seen from the accompanying table, these credits in the 1980-83 period amounted to close to 3.3 billion rubles, and for 1984 the Soviets agreed again to extend this line of credit to up to 600 million rubles. According to the most recent information, Jaruzelski worked out an arrangement with the Soviets during his official visit to Moscow in early May,

Soviet "balance credits"
to Poland/in million rubles/

| year | amount |
|---|---|
| 1980 | 707 |
| 1981 | 1,400 |
| 1982 | 594 |
| 1983 | 568 |
| 1984[x] | 600 |

Source: "Rynki Zagraniczne", Warsaw, May 5, 1984'

x - an upper limit promised.

that Poland would be permitted to continue unbalanced trade till 1987.[2] This would seem to indicate that Soviet credit assistance to Poland may further increase within the next few years. As of today, total Polish debt to the Soviet Union stands at 3.5 billion rubles and $1 billion.[3] This is the best proxy for total Soviet assistance to Poland so far. This is what we might call "official assistance". It does not include so-called "implicit subsidies", resulting from price differentials between transaction prices in intra-CMEA trade and world market prices. Not denying in any way the existence of such subsidies, as defined by Marrese and Vanous,[4] I do not think, however that they should be classified in the category of economic assistance. To begin with, they were never intended as economic assistance and are strictly the product of price fluctuations in the world markets, fluctuations against which the CMEA price system had been specifically devised to protect its members. As is well known it was the Soviets more than anybody else, who insisted on a stable price mechanism within the CMEA, since foreign trade prices have been used as an integral and vital instrument of the planning process. It is the Soviets who have always resisted, in the past, a more flexible price mechanism within the CMEA. Second, there are certain specific cases where prices, e.g., for Soviet oil have been stipulated in separate international agreements, and constitute a binding Soviet commitment. The special deliveries of oil to Czechoslovakia and the GDR provide possibly the best illustration.[5] When the Soviets were concluding those agreements in 1966 and 1967 neither they nor anyone else could have foreseen the sharp oil price increases in 1973-74. The Soviets received attractive loans at token interest rates, (2% in case of the Chechoslovak loan), and agreed in exchange to repay them in oil deliveries at a fixed price of TR 15 per ton, which at that time was roughly the equivalent of the world price. What should the Soviets have done when oil prices rose? I do not think that it is methodologically proper to consider such price differentials as Soviet assistance. Besides, the inclusion of implicit subsidies as part of economic assistance completely changes the commonly accepted notion of economic assistance as the product of policy, rather than as resulting from exogenous factors over which governments have little control.

Of course, if we exclude implied subsidies, then the total size of Soviet assistance to Poland looks dramatically different from the one which is presented in some recent Western literature.[6] Then we bring it down to only official assistance, which is still substantial but which reflects only Soviet policy decisions and Polish commitments to repay. The general intention of Soviet assistance to Poland is to compensate her in some measure for the cut-off in Western credits and the dramatic decline in Western imports. Most of it, as we have shown a little earlier, is in the form of "balance credits" in transferable rubles. But there is also a hard-currency component, designed mostly to compensate Poland for hard-currency imports indispensable to produce goods for the Soviet market. The latter type of assistance seems to be quite new in Polish-Soviet relations. Serious disruptions in Western imports made it difficult for Polish industries to fulfill their export commitments to the Soviet Union. The Soviets were then forced to come to the rescue in various forms. In some cases they were simply trying to substitute for Western imports with deliveries of their own materials. In other cases they had to reimburse Poland for hard-currency imports in the form of dollar credits. There were also cases in which the Soviet Union would reimburse Poland directly in hard currency for some Western imports, but such short-term hard-currency credits wuold be rapaid immediately with additional quantities of Polish coal exports.[7] Generally, information on the terms of Soviet credits is not revealed by the official Polish press, except for saying that they are "attractive". One large ruble credit in the amount of TR 1.2 billion, extended in January 1982, bears an interest of 5% and is to be repaid over the 1986-1990 period.[8]

In any case it is evident that the Soviet Union has not come to Poland's economic assistance on any massive scale, apparently because of its own troubles. Much of the assistance it did render was in its own economic interest and was designed to help Polish industries to fulfill their export commitments to the Soviet Union. In some cases the Soviets also agreed to take back equipment sold to Poland during the Gierek period but never used. This was mostly equipment for the steel industry, pre-fabricated housing and cement factories.[9] In other words, all kinds of Soviet "high technology", on which Gierek had been wasting money.

It is important to remember that from the Soviet point of view the Polish crisis has had two dimensions. On the one hand the Soviets felt compelled to assist Poland, or strictly speaking the Jaruzelski regime, in various ways. But mostly they have had to accept the fact of unbalanced trade exchanges for some years, something which under normal circumstances they would never have considered. This kind of assistance is clearly temporary and, as recent trends in mutual trade seem to indicate, is likely to be eliminated within the next few years. On the other hand, it has opened up vast opportunities for Soviet economic penetration and domination.

Unused capacities in Polish industries, uncompleted investment projects from the Gierek period, declining imports from the West and an overwhelming burden of foreign debt, combined with the continuing distrust of the workers, social unrest, low labor productivity and the tremendous costs of social welfare, have presented the Jaruzelski regime with enormous problems and few plausible options. One of the ideas that cropped up quite early in the martial law period was to make some of those unused industrial capacities available in one form or another, to the Soviets, or perhaps to other socialist countries. And indeed, this approach has already been adopted to some extent. Special arrangements have been worked out with the Soviets, under which the Soviets are supplying materials, and Polish industries are simply processing them for the Soviet market. The question, of course, arises, what is the economic meaning of such operations? What is Poland gaining by them, except for keeping the workers employed with wages and inflation going up? Certainly, it is not easy to answer such questions without an in-depth analysis of cost and price relationship. However, two aspects of these operations bear stressing. One is that the government has been trying to create the appearance that these operations are profitable to the Polish economy. Under these arrangements a portion of the final products, sometimes as much as 50%, is destined for the Polish market. Apparently, the feeling in the country that the Soviets are in large measure responsible for the economic crisis by "grabbing" whatever consumer goods were available runs still so strong, that it has become one of the more sensitive political issues. The regime is trying to emphasize, wherever possible, that trade with the Soviet Union is not going to be conducted at the espense of the domestic market. Interestingly enough, even the Soviets themselves are starting to stress this point.[10] It is interesting that a growing number of Polish economists are raising the issue of the profitability of such operations, as well as of the profitability of trade with the Soviet Union in general in ways which would have been unthinkable under the Gierek regime. Apparently, the debate on economic reforms which has been going on for well over three years has something to do with this.

Another interesting question is that the Soviets have become seriously interested in helping the Jaruzelski regime to complete some of the investment projects started in the Gierek period, particularly in the steel, chemical and light industries. Indeed, several arrangements have already been worked out to this effect early this year, including one for continuing the expansion of "Huta Katowice" (so-called "second stage"). All this seems to indicate that the Soviets continue to see Poland in the "socialist international division of labor " as specializing mostly in heavy industry. This has already proven to be excessively material and import intensive, embodying a low level of technology, and generally unprofitable to the Polish economy.

2. A lasting "re-orientation" of the Polish economy to the East?

The general trends in the Polish economy in recent years, in conjunction with a wide range of external factors, are posing serious questions abut the perspectives and direction of even short-term development, not to speak of the long-term outlook. It seems aparent that as the economic choices are hard to make for the Jaruzelski regime, which is trying to boast of some successes in economic recovery and reform. National income, which declined by 6% in 1980, by 12% in 1981 and by 5.5% in 1982, apparently rose by 4% in 1983. This "success" may very well be questioned, but I do not intend to go into it here. Equally, a "success" in economic reform is far from obvious, and, indeed, is being increasingly questioned by many leading economists. For the time being the regime seems to be totally preoccupied with the current difficulties, grasping for almost anything that can patch them up, rather than shaping the future with any consistent vision. In the meantime, however, more and more voices are being heard on the question of the "re-orientation" of Poland's economic relations toward the Soviet bloc. Recent discussions and various statements on this subject reflect the views of different factions both within and without the ruling establishment. What is symptomatic, however, is that as time goes on and the economic situation does not visibly improve, or even begins to deteriorate economic choices seem to be narrowing, and the protagonists of "re-orientation" are gaining the upper hand using "objective circumstances" as their main justification. Futhermore, looking at the question from the perspective of actual policies it becomes evident that this "re-orientation" has already taken place to a considerable degree and is still going on. Thus, the whole question is not just an academic discussion any more. The real question, therefore, seems to be not if, but rather how far this "re-orientation" may go, and what the decisive factors which may work either for or against this "re-orientation" will be.

No doubt, Jaruzelski's capacity to stabilize or "normalize" the domestic situation must be considered as the most important factor of all. However, another very important aspect is by what means this "normalization" is achieved. Will it be mainly the performance of the Polish economy and the domestic support Jaruzelski masters around his program? Or will it be mostly Soviet assistance, for which he will have to pay a political price? It seems obvious that the weaker Jaruzelski is domestically, the more dependent he must be on the Soviets.

In any case, Soviet policy must come next as the most important factor in this calculation. As the Soviets are clearly not interested in carrying on the burden of economic assistance much longer, they should be interested in the economic recovery of Poland. The trouble is that Soviet expectations are likely to make economic choices for Jaruzelski more, rather than less difficult. Although a number of elements in Soviet policies need to be clarified in this respect, and probably will be in the near future, certain broad guidelines seem to be emerging from recent summit meetings. I am referring here to the recent Polish-Soviet Long-term Economic Agreement, signed in Moscow on May 6, 1984 and valid till the year 2000, and to the recent CMEA economic summit, held in Moscow June 12-14, 1984. Soviet expectations, as they relate not only to Poland, but to the other European CMEA countries as well, can probably be summarized as follows:

1) the stabilization at present leveles of Soviet deliveries of fuels and raw materials to Eastern Europe;

2) an improvement in the commodity structure of Soviet imports in favor of high quality industrial products and foodstuffs;

3) the continuation of East European investments in Soviet resource development;

4) a reduction in Soviet economic assistance through the gradual elimination of trade deficits and an upward adjustment of raw material prices resulting from a revision of the present price formula in CMEA.

How is the Jaruzelski regime going to meet these expectations? No doubt, they will also be difficult to meet for those East European countries that are in better shape than Poland.

Before dealing further with some of the Polish dilemmas, I want to make two observations regarding Soviet policies. The first relates to some of the above-mentioned Soviet objectives. The first and the last objective should not be of any surprise to observers of the Soviet scene. Objective number two may perhaps be less appreciated, but from the Soviet point of view it is of almost paramount importance. Looking at Soviet trade statistics for the 1970s, it is easy to see why the Soviets may have been frustrated over their excessive dependence on the West for imports of foodstuffs. In the 1976-1980 period, e.g., Soviet imports of foodstuffs from the capitalist countries were rising at an average annual rate of 10.1% in volume terms.[11] This was the single most dynamic segment of their trade with the capitalist countries, which also became a heavy burden for their balance of payments. It became larger in absolute terms than the imports of machinery and equipment, which apparently had to be slowed down considerably (in volume terms it was actually falling) to meet the demands of food imports. This is basically the main reason why the Soviets are determined to "transfer" the burden of agricultural and food production to Eastern Europe, and thus become less dependent on such imports from the West. Up to now they have strongly resented the fact that the East European countries have been selling most of their foodstuffs to the Western markets. Now they seem to be determined to change this. This does not mean, of course, that it is going to be easy to attain this objective. Similarly difficult may be the task of obtaining high quality industrial goods from Eastern Europe. By what methods are some of the East European countries going to produce high quality industrial goods? The joint statement from the Comecon summit speaks of the need for a "reconstruction and rationalization" of industries to meet Soviet demands for industrial goods. This is obviously a long-term process which will require huge financial resources and new technologies. And the question again arises, whose technologies? - Soviet? Second, upon reading the final documents from the last Comecon summit one can hardly escape the impression that a "re-orientation" has become one of the principal objectives of Soviet policy with regard to the whole of Eastern Europe. And this again is not so very surprising when one appreciates how the Soviets have blamed the West for the economic troubles of Eastern Europe in recent years, and also how, directly or indirectly, they have been critical of the East European countries for their "excessive" dependence on the West. One recent example of such criticism is provided by a leading Soviet theoretician of Comecon, O. Bogomolov. Blaming first the European and American banks for seeking profitable locations for their monies in Eastern Europe due to the decline in economic activity in their own countries, he then proceeds to an indirect criticism of the East Europeans for not taking "sufficiently into consideration the fact that the repayment of credits requires the creation of normal conditions for exports from the

CMEA countries to the Western markets".[12] Like other Soviet writers, he simply forgets to mention the fact that the East European countries have for the most part failed to produce high quality products with which they might be able to enter Western markets. Probably to him this is a minor detail. In any case, it seems clear that the Soviets would like to see their junior partners less fascinated with teh West and more inward-bloc looking.

Turning back to the dilemmas faced by the Jaruzelski regime, one has to consider at least two additional factors which would tend to limit its potential "re-orientation" toward the East. One is the structural dependence of the Polish economy on Western imports, and another one is the burden of Western debt.

With respect to structural dependence on Western imports, it seems clear that any abrupt attemps to reduce them still further would result in a further deterioration in economic performance, both short-and long-term. To see this better one needs to disaggregate these imports into several categories: investment goods, industrial supplies, agricultural products, and consumer goods. In each of this categories the dependence on Western imports is somewhat different or determined by different factors. With respect to investment goods, these imports have already been brought down to a bare minimum by severe shortages of hard currency and the decline in economic activity. At present they constitute abouit 10% of total impoorts from the non-socialist countries, and consist mostly of spare parts and replacements. They could hardly be substituted for with imports from the CMEA countries, due to the existence of the given industrial structure which is already in place. Of course, a question may be raised with respect to the selection of new technologies for the future. Here, as Poland's postwar history proves, choices are very often determined by political rather than economic factors. The Jaruzelski regime will have to ponder carefully whether it wishes to base future Polish economic development on modern technologies, which would have to mean Western, or on outdated technologies, which would then be Soviet. This choice will have a critical importance for the future. The second component of Western imports, industrial supplies, which constitutes at present roughly 75% of these imports, would also be extremely difficult to replace. According to a study made by two Polish economists in 1982, probably not more than 8.5% of actual imports in 1981, and about 15% of actual imports in 1980 might be substituted for.[13] A substitution might be relevant for those goods which are being imported from both East and West, like some raw materials. But a wide range of other goods, like quality steel, pipes, or many materials for the industrial plants built on Western technologies could not be substituted for. As far as agricultural products are concerned, their volume in any given year, and particularly in the case of grains, depends heavily on domestic crops. Generally speaking, these imports cannot be substituted for since the alternative source of supply would have to be for the most part the Soviet Union, which does not have them. The quantities of some grains offered to Poland in recent years by the Soviets are so miniscule that they hardly deserve any mention at all. Imports of industrial consumer goods are only of marginal significance, and are either determined by barter deals or, as is increasingly the case, are coming from the developing countries under the "soft-currency" clearing agreements. Thus, they are not likely to be affected by substitution choices.

Now let us move to the factor of Western debt. This is gradually becoming the most enigmatic problem of all. It is significant that as time goes on, opinions within the Polish ruling establishment with respect to serving the Western debt are becoming increasingly polarized. The whole question is heavily charged both politically and emotionally in the opposition circles as well. For some intellectuals in the oppositions circles, e.g., the whole question simply does not exist. They deeply resent the very fact that Western bankers have been lending money for the the "construction of Communism" in Poland. In their view the Western bankers got what they deserved. Of course, this is not the predominant attitude even in the opposition circles.

Attitudes in the official establishment toward this issue have also been evolving: from an almost unequivocal commitment, to service the debt at any cost, prevailing still in late 1980, to a virtual questioning of the wisdom of such a course in the most recent period. But before getting into this, let me first bring out a few figures and facts. Poland's total foreign debt toward the West now stands at $27 billion, of which roughly $12 billion is the debt to Western commercial banks and $15 billion is the official debt to Western governments. Negotiations on rescheduling the Polish debt were started in 1981 and have been going on since then on two separate tracks: with the commercial banks on the one hand, and with the governments on the other. While with the commercial banks four separate rescheduling agreements have already been signed over the last four years, with the governments only one agreement was signed in 1981. After the imposition of martial law in December 1981, western governments cut off further negotiations with Poland and, instead, imposed economic sanctions. Poland, in turn, suspended its service of the official debt in 1982. Thus, paradoxically, she has enjoyed a complete moratorium on interest and principal on her offical debt. The unpaid and un-rescheduled interest on the official debt has in the meantime increased to $2.6 billion. Technically and legally this is a default. But apparently nobody wants to declare a Polish default. Instead, Western governments resumed negotiations with Poland last November; but so far no agreement has been reached due to a dispute over the unpaid arrears on the 1981 rescheduling agreement and a number of other issues.

Now, without getting into the intricate details of any of those agreements I would like to say that original Western expectations about Poland's capacity to service her debt as well as Polish expectations proved to be simply unrealistic. What we see in recent years is that in each subsequent agreement the banks have had to yield milder terms to Poland, while they

Table 9. Polish projections of debt service and export-import flows with Western countries in 1982-1990 in billion $

| | Exports | Imports | debt service | | |
|---|---|---|---|---|---|
| | | | principal | interest | total |
| 1982 | 5.8 | 5.8 | 2.8 | 2.5 | 5.3 |
| 1983 | 6.4 | 6.0 | 2.8 | 2.5 | 5.3 |
| 1984 | 7.1 | 6.5 | 4.8 | 3.7 | 8.5 |
| 1985 | 8.1 | 7.2 | 5.3 | 3.9 | 9.2 |
| 1986 | 9.5 | 8.3 | 7.5 | 4.3 | 11.8 |
| 1987 | 11.0 | 9.6 | 10.4 | 4.4 | 14.8 |
| 1988 | 12.5 | 10.7 | 12.3 | 4.7 | 17.0 |
| 1989 | 14.0 | 11.4 | 13.8 | 4.8 | 18.6 |
| 1990 | 15.5 | 12.3 | 14.6 | 5.0 | 19.6 |
| Total | 89.9 | 77.8 | 74.3 | 35.8 | 110.1 |

Source: Gruzewski St. /1982/, p. 5

have had to satisfy themselves with almost token amounts of interest repayments. Last April the banks agreed to reschedule all the debts falling due up to 1987. As the London "Economist" put it: "the deal saves the time and expense of repeated negotiations over relatively small sums".[14] The Polish government, too, was making optimistic assumptions with rspect to both export earnings and the availability of new credits. Polish projections, as presented in Table 9, were apparently still considered valid in early 1982. The data come from the Polish Planning Commission. What they show is that throughout the 1980's the total debt service would have to be out of proportion with projected export earnings. Already in 1980 Poland's debt service exceeded her export earnings from the developed market economies, but as long as she enjoyed access to Western credits the whole vulnerability of the situation was somewhat masked. However, this situation was untenable in the long-run. As Polish projections in Table 9 prove, even the expected gradual improvement in trade balance would not have provided a viable solution to the problem of debt. Now, of course, these projections do not have much validity as Polish trade with the West declined in the 1982-83 period instead of increasing, and the availability of new credits has almost totally disappeared and is still highly problematical. In the meantime, Poland's debt is still rising, though at a much slower rate, and Western creditors are not likely to see their money soon. The willingness of the Polish regime to service the debt has clearly diminished of late. Polish hardliners have been increasingly trying to blame Western bankers and governments for being largely responsible for the Polish debt and other problems. They blame the West for a "credit blockade", which forced an "expensive adjustment process" upon the Polish economy.[15] However, this and many other absurd charges notwithstanding, some elements within the ruling establishment, mostly in the financial sector, seem to be fully aware of the importance of debt service in one form or another, and would like to avoid a financial default.[16]

This fear of the potential consequences of default and the tremendous difficulties of adjustment are likely to be the key factors working against a deeper "re-orientation" toward the East. Nevertheless, the whole talk about "re-orientation" should not be seen simply as a propagandistic slogan. True, the Soviets, as we have seen from the latest Comecon summit, are not offering an attractive alternative either, but the existing realities are very hard for the Jaruzelski regime. Besides, a proper margin should be taken for the intellectual caliber of people in power, and this leaves much to be desired.[17] Also, this time around, the Soviets are playing hard ball and their bargaining position, particularly vis-a-vis a weak Poland, has never been stronger than it is today.

## VI. Conclusions

It seems clear from what has been said in the preceding pages that Poland finds herself in a virtually deadlocked position. Her options are severely limited and totally unattractive, to say the least. I would sum up some of the major conclusions as follows:

1. The military coup in December 1981 has not solved any of the major problems faced by this country. Though it may be argued, as is often the case in the West recently, that Jaruzelski may have saved Poland from Soviet military intervention, he has so far been unable to solve the deep social and economic crisis. On the contrary, as far as possibilities for economic recovery are concerned, he has only complicated them by leading Poland to a growing isolaton from the West and making her almost totally dependent on the Soviets. In this sense we may say that he has choosen to save "socialism" at the expense of the country. In the long-run the Polish people are likely to pay a heavy price for this kind of "socialism".

2. The widely advertised, both in Poland and perhaps even more so in the West, Soviet economic assistance to Poland is more in the nature of emergency assistance, a rescue operation designed to save the system and the Communist regime, rather than to assist Poland on a long-term basis. This Soviet assistance has none of the features of a comprehensive recovery program. What is more, the Soviets plan in the long-term to benefit greatly from this relationship economically by treating Poland in fact as an extention of their own economy. This is apparent both in bilateral relations and in Soviet policies for an "international socialist division of labor", as spelled out most recently by the Moscow Comecon summit.

3. Though I have not analyzed Western policies and Western economic options with regard to Poland in this paper, mostly for reasons of its structure and space, it seems clear that without substantial economic assistance from the West, Poland is not likely to achieve a full economic recovery. On the other hand, political stabilization in Poland at a stagnation level is highly unlikely. The present situation is potentially explosive, and serious consideration should be given to how to deal with it.

4. The whole question of Poland's foreign debt requires new approaches. The arrangements which have been made so far between the Polish regime and Western bankers are not likely to provide a viable solution to the problem. A more realistic approach would require a combination of at least three elements:

a/ a comprehensive long-term rescheduling agreement;

b/ a genuine and radical economic reform in Poland, including measures for the stabilization and eventual convertibility of the Polish zloty (not through the "transferable ruble" but directly);

c/ Poland's membership in the IMF and the World Bank, which would automatically open up new credit opportunities in the financial markets.

Obviously, this whole package of measures should be considered only within a given political context. The Jaruzelski regime should not be rewarded for nothing. On the other hand, Western policies toward Poland should be more active in terms of offering alternative choices to Poland. Policies based on a wait-and-see attitude do not seem sufficient. Although the "Polish policies" may not have large constituencies in the Western countries, the West apparently has a considerable political stake in Poland.

Notes of Chapter II

1. Philip Hanson, "Soviet Trade with Eastern Europe," in Dawisha and Hanson (1981), pp. 92-93.

2. Dewar, Margaret (1951), p. 40.

3. Wszelaki, Jan (1959), p. 60.

4. Cited in Wszelaki, Jan (1959), p. 124.

5. Ibid., p. 70.

6. The estimates of that compensation vary from $500 million in Walichnowski (1974), p. 242; to $550 million in Wszelaki, op. cit., p. 70; to $626 million in Marer, Paul (1974), p. 140.

7. Wszelaki, op. cit., p. 124.

8. Marer, Paul (1974), p. 140.

9. Alton, Thad (1955), p. 268.

10. Ibid., p. 283.

11. Walichnowski, T. (1974), p. 62.

12. Margaret Dewar speaks in her book, op. cit., p. 40, about the "second" trade agreement signed on the same day, but it was in fact just the trade protocol.

13. Walichnowski, op. cit., p. 64.

14. Ibid., pp. 112-113, and Alton, op. cit., p. 284.

15. Walichnowski, op. cit., p. 113.

16. Spulber, N. (1957), p. 410, and Alton, op. cit., pp. 280-281.

17. Walichnowski, op. cit., pp. 116-117.

18. See, for example, the famous "debate" between Horst Mendershausen and Franklyn Holzman from 1959 to 1962, in particular Mendershausen (1959) and (1962), and Holzman (1962).

19. Peter Wiles (1969), p. 2. He also happened to be the first chief trade negotiator for Poland in the early postwar years.

20. Cited in P. Wiles, ibid., p. 12.

21. In this respect Mendershausen was right in arguing against comparing the traditional customs union with the situation in Comecon. See H. Mendershausen (1962), pp. 493-494.

22. Oskar Lange (1955), "Zasady planowania gospodarczego" (Principles of Economic Planning), in "Dziela" (Collected Works), vol. 2, Panstwowe Wydawnictwo Ekonomiczne, Warsaw, 1973, p. 363.

23. Marer, P. (1974), p. 147. Professor Wiles (1969), p. 240, quite rightly suspects that this kind of chicanery may have been going on until at least 1956.

24. Trybuna Ludu, April 19, 1957; cited in J. Waszelaki, op. cit., p. 62.

25. See Edward A. Hewett (1974), Tables 3.1, 3.2, and 3.3, pp. 70-75.

26. Ibid., p. 95.

27. Wiles, Peter (1969), pp. 242-244.

28. Among the proposals rejected for this reason was one by Douglas Aircraft made in 1964 for a cooperative production of large, numerically controlled machine tools for the production of aircraft. This was deeply regretted by industry managers and trade experts as a missed opportunity.

29. For a more extensive and extremely interesting treatment of the origin and beginnings of planning for Stalinist industrialization in Poland, see Drewnowski, Jan (1979).

30. Beksiak, Janusz (1982), pp. 165-166.

31. The "disguised unemployment" in prewar Polish agriculture was estimated by P. N. Rosenstein-Rodan at 24%. Cited in N. Spulber (1957), p. 276.

32. The other huge steel mill at Czestochowa was more rationally located, being closer to both iron ore and coal deposits. Though here, too, there was a political motive in the decision (this was the deep religious significance of Czestochowa).

33. Checinski, Michael (1983), p. 32.

34. Beksiak, J. (1982), p. 168.

35. Spulber, N. (1957), p. 343.

36. Beksiak, J., ibid., p. 168.

37. For a devastating criticism of these statistics, see Gomulka's statement at the VIIIth plenary meeting of the Central Committee of the PZPR in October 1956. "Nowe Drogi," no. 10, 1956, p. 28.

38. For a more extensive treatment of this subject in all East European countries, see Wozniak, Michal G. (1983).

39. For details see Beksiak, J. (1982), table 1, p. 165.

40. See Karpinski, Andrzej, "Rola polityki uprzemyslowienia kraju. Cele i model industrializacji socjalistycznej" (Role of industrialization policy. Objectives and model of socialist industrialization), in K. Secomski (ed.), "30 lat gospodarki Polski Ludowej" (30 years of economic development in People's Poland), Warsaw, 1974, pp. 122-123.

41. Oskar Lange (1957), "O niektorych zagadnieniach polskiej drogi do socjalizmu" (On some issues of the Polish road to socialism), in "Dziela" (Collected Works), vol. 2, Warsaw, 1973, pp. 496-497.

42. Ibid., p. 499.

Notes for Chapter III

1. Zb. Brzezinski (1967), p. 362.

2. Ibid., p. 264.

3. "Trybuna Ludu," Warsaw, November 19, 1956.

4. Ibid.

5. For Khrushchev's account of these questions, see his memoirs in "Khrushchev Remembers," Bantam edition, pp. 236-239.

6. See "The Kubiak Report," in "Survey," vol. 26, no. 3, summer 1982, p. 95.

7. For a theoretical framework of this subject see Michal Kalecki, "Introduction to the Theory of Growth in a Socialist Economy," ch. 6, Oxford, 1969.

8. The largest flow of foreign credits came from the United States. Between January 1957 and November 1963 Poland received approximately $550 million in US credits under PL-480 for the purchase of agricultural products. Only a small fraction of it was repaid in hard currency, as most of it was used in local currency for mutually agreed programs, like the children's hospitals, scientific research and scholarly exchanges, pension supplements for American retirees in Poland, US Embassy expenses, etc. Thus, Gomulka's initial headache of how to repay those credits was solved in a way that was hardly noticed.

9. Rocznik Statystyczny Handlu Zagranicznego, 1971, p. 22.

10. The respective plan and performance data as expressed in average annual rates in constant prices are as follows:

| | Exports | Imports |
|---|---|---|
| 1956-1960 Plan | 7.9 | 4.9 |
| Actual | 8.9 | 10.5 |
| 1961-1965 Plan | 9.1 | 4.9 |
| Actual | 11.0 | 9.9 |
| 1966-1970 Plan | 5.9 | 5.1 |
| Actual | 9.8 | 9.2 |

Source: Polaczek St. (1969), p. 34, and Rocznik Statystyczny Handlu Zagranicznego, 1971, p. 22.

11. For a more extensive treatment of some of those ideas see Soldaczuk Jozef in "Integracja czynnikiem poglebienia wspolpracy krajow RWPG," in Bozyk, Pawel (ed) (1974), pp. 42-47.

12. See Hewett Edward (1974), p. 15.

13. Polaczek St. (1969), p. 121.

14. For an expanded elaboration of those principles see Csikos-Nagy (1975), pp. 304-305.

15. Polaczek St., ibid., p. 170.

16. Marer, Paul (1974), p. 148.

17. See Wesolowski Jerzy (1975), p. 135.

18. Wesolowski and Wyczanski (1980), p. 12.

19. Ibid., p. 13.

20. For an interesting presentation of those methods see Csikos-nagy (1975), pp. 309-311.

21. See Gora St. and Knyziak A. (1974), p. 26.

22. Polaczek St. (1969), p. 69.

23. Korbonski A. (1980), p. 363.

24. See Rydygier W. (1973), pp. 185-190.

25. Ibid., p. 197.

26. See Hewett Edward (1977).

27. Ibid., Table 5.10, p. 116.

28. Wojciechowski B. (1982), p. 4.

Notes for Chapter IV

1. This quotation is from memory. I should add, however, that the real architect of the "first ally" theory was not Szlachcic, but R. Frelek, who very soon afterward was promoted to the position of member of the Secretariat of the Central Committee.

2. See "Trybuna Ludu," February 16, 1971.

3. The prospective loan was to be extended through the Soviet Moscow Narodny Bank in London. When the Polish negotiators came to London in late February, they were told by the Soviets that the spread on the loan was to be 1 and 3/4% over LIBOR. A number of European banks were willing at that time to extend a loan at 1 and 1/2% over LIBOR. The Polish negotiators saw no reason to take the loan from Moscow Narodny at a higehr spread. I should also add, however, that the Polish press never reported that loan and no Polish author, to my knowledge, ever mentioned it. It was just "a loan that never was."

4. A project for color TV production, undertaken in cooperation with RCA, was one of them.

5. For an interesting elaboration of these factors and their significance, see Jan Drewnowski, "The Anatomy of Economic Failure in Soviet-type Systems, in Drewnowski, J. (1982).

6. The full name of the program is "Comprehensive Program for Further Intensifying and Improving Cooperation and for Developing the Economic Integration of CMEA Member Countries Through 1990". In the literature it is simply referred to as "Comprehensive Program."

7. See Swierkocki J., "Handel zagraniczny w polityce gospodarczej w latach sied emdziesiatych - zalozenia i realizacja", 'Handel Zagraniczny", No. 5-6, 1982, p. 10.

8. Olszewski Kazimierz, "Wspolpraca gospodarcza Polski ze Zwiazkiem Radzieckim", "Nowe Drogi", Nr. 3, 1976, p. 32

9. "Economic Survey of Europe in 1978", Part I, ECE, Geneva, 1979 p. 158

10. Vanous, Jan, "East European Economic Slowdown", "Problems of Communism", July-August 1982, p. 5

11. "Polityka-Eksport-Import", Nr. 2, Warsaw, February 1981

12. "World Economic Survey 1976, Supplement", United Nations, New York, 1978, p. 111

13. "VII Z jazd Polskiej Z jednoczonej Partii Robotniczej - Podstawowe materialy i dokumenty", Warsaw, 1975, pp. 152 -171

14. Ibid., p. 173

15. Swierkocki J., op.cit., p. 13

16. Portes, Richard (1981), p. 13

17. Swierkocki J., op.cit., p. 12

18. Fallenbuchl Zb. (1982), p. 7

19. Portes, Richard (1981), p. 58

20. Wojciechowski, Br. (1982), p. 6

21. As is well known, Western policies in technology transfer to Eastern Europe were often more flexible and "permissive" than they were with respect to the Soviet Union itself.

22. See "Polityka-Eksport-Import", Nr. 2, Warsaw, February 1981

23. "Handel ze Zwiazkiem Radzieckim: Korzysci i Straty" (1981), p. 18

24. Trzeciakowski W. (1982), p. 18

25. Lavigne, Marie (1983, p. 146

26. Hannigan J. and McMillan C. (1981), p. 281

27. Lavigne M., op.cit., p. 147

28. Trzeciakowski W. (1982), p. 19

29. Ibid., p. 19

30. "Polityka-Eksport-Import", Nr. 2, Warsaw, February 1981

31. Hannigan and McMillan, op.cit., p. 276

32. Based on the tables provided in their 1981 paper it is not clear whether their total "nominal costs" are really total. It is also not clear how they arrived at "soft currency" costs, or whether the 10-percent allowance taken for "unknown costs" adequately reflects all the cost overruns and other cost elements it is supposed to include.

33. "Rynki Zagraniczne", 28 April 1984, p. 5

34. Cited in M. Lavigne, op.cit., p. 147

35. Cited in Jozef M. van Brabant in "The USSR and Socialist Economic Integration - A Comment", "Soviet Studies", No. 1, January 1984, p. 138, footnote 49.

36. "Rynki Zagraniczne", Warsaw, 29 April 1984, p. 5

37. Harold Scott, then Deputy Secretary of Commerce in the Nixon Administration, made at least two missions to Poland in 1971 and 1972, during which he was received at the highest levels of the government and presented some inspiring ideas on the possible pattern of "joint ventures".

38. Soviet Illiushins used by Polish Airlines have such a high rate of fuel consumption, that on flights between New York and Warsaw, e.g., they have to stop for refuelling either in Greenland or in Scotland. Besides, in the 1974-75 winter there were shortages of this type of fuel at JFK in New York.

39. See Checinski, Michael /1983/, p. 37 and his footnote [25]

40. Ibid., p. 39

Notes to Chapter V

1. See Jan Szczepanski, "Poszukiwanie rozumnego wyjscia"/ "In search of a sensible solution"/, "Polityka", Nr. 1, Warsaw January 3, 1981

2. Bartoszewicz T., "Ten rynek trzeba zdobywac", in "Polityka-Eksport-Import", Nr. 6, June 1984

3. "Rynki Zagraniczne", Warsaw, May 5, 1984

4. For a brief definition of implicit Soviet subsidies see Marrese and Vanous/1982/, pp. 103-105

5. See Jozef M. van Brabant, "The USSR and Socialist Economic Integration - a Comment", "Soviet Studies", Nr. 1, January 1984, pp. 129-130. In each case the Soviets agreed to deliver 5 million tons of crude oil annually between 1973 and 1984 at a fixed price of TR 15 per ton.

6. Elizabeth A. Goldstein (1982) estimates that implicit subsidies amounted to 83.7% of Soviet assistance to Poland in 1980 and 69% in 1981 (p. 560). According to Vanous' estimates Soviet implicit subsidies to Poland in the 1972-81 period amounted to $17.9 billion (see Vanous 1982, op. cit. p. 7).

7. See Cieniuch, Irena /1983/, p. 29

8. de Wydenthal, Jan B. /1983/, p. 295

9. Cieniuch I., op. cit., p. 29

10. In a recent interview with the Polish Journal "Rynki Zagraniczne", (April 28, 1984) President of the Soviet Chamber of Commerce Evgenii Pitovranov stated: "..We are interested in obtaining for the Soviet Union those goods which will not cause disruptions in the Polish domestic market".

11. "Economic Survey of Europe in 1981", p. 288

12. O. Bogomolov, "SEV: Ekonomiczeskaya strategiya 80-tih godov", "Kommunist", Nr. 7, May 1983, p. 76

13. Olechowski A. and Paszynski M., "Granice i koszty reorientacju" in "Handel Zagraniczny",Nr. 4, 1982, p. 10

14. "The Economist", May 12, 1984, p. 98

15. See Dlugosz Stanislaw, "Dylematy zadluzenia", in "Zycie Gospodarcze", Nr. 50, December 11, 1983

16. See Glazewski Kazimierz, "Dylematy pesymizmu", in "Zycie Gospodarcze", Nr. 2, January 8, 1984

17. For a good example of this see the latest article by Bozyk Pawel, former chief economic advisor to Gierek on the last Comecon summit "Szczyt w nowych warunkach", "Polityka", Nr. 26, Warsaw, June 30, 1984.

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