Poland's future: industrial growth or imposed backwardness?

by Luba George and Clifford Gaddy

The most frequent explanation in popular and business publications for labor unrest in Poland reads like reports on the riots in Iran that brought the Ayatollah Khomeini to power. "At the root of [Polish leader] Gierek's problems," wrote the *Christian Science Monitor* Aug. 22, "has been Poland's rush to rapid industrialization."

This is not true. Gierek's 1970-1975 centralized industrial investment program vaulted Poland to a new level of economic strength and higher living standards. The severity of the country's problems today is closely related to the *slowing down* of industrialization since 1976. But European businessmen believe that, thanks to what Gierek accomplished a decade ago, Poland is still an excellent prospective market.

In an Aug. 13 newspaper interview, West German Chancellor Helmut Schmidt made the point that Poland's economic crisis of the past half-decade was "not a special case." Rather, it stemmed from the 1973 oil crisis and the collapse of international trade, which constricted Poland's export markets and thus ensured that Gierek's policy of borrowing hard currency with which to import industrial plants would result in a payments deficit.

According to Hans Friderichs, chairman of the Dresdner Bank (which participated in a large West German credit to Poland this month), the Polish economy is in better shape than is usually thought. Poland has always paid its debt, he said, and should be able to increase its hard currency earnings from the export of coal in the near future.

Especially since 1973's oil crisis, the enormous export potential of Polish coal has been a recognized fact, particularly to the extent it could be processed into needed liquid or gas forms. But although Poland invested a large amount of funds into its coal industry, an earlier desire to diversify away from coal—plus the more recent general shortage of capital—has resulted in an under utilization of its real coal wealth.

Nevertheless, the potential for Polish coal exists. The upgrading of Polish heavy industry which took place during the 1970s means that there are now better preconditions than ever before for applying new, advanced technologies to the coal mining sector.

Both the Soviet Union and West Germany have developed advanced technologies for coal gasification and liquefaction. Both are extremely interested in putting it to work, and for the Soviets and Poles there is the added consideration of the need to fill the energy gap in Eastern Europe between U.S.S.R. oil deliveries, now being frozen at 1980 levels, and a large nuclear power capacity not yet on line.

The 1.2 billion deutschemark West German loan to Poland finalized in August included a 400 million deutschemark segment earmarked for investment in the Polish coal industry. West German Economics Minister Lambsdorf stated in a recent interview that one of the most promising areas for Soviet-West German economic cooperation in the future would be nuclear energy and electricity generation.

This European attitude has been an important mitigating factor for the Polish economy. French and West German loans for financing expanded production and shipment of Polish industrial goods continued through the second half of the 1970s, even as British and American banks imposed a credit squeeze and loaded their loans with conditionalities.

Economic Warfare

The decline in Poland's economic growth rate to a 2.6 percent gain in industrial output in 1979 must be considered in light of:

1) a six-year period of rapidly rising costs for essential imports from the West, with no corresponding easing of Western credit terms;

2) a four-year virtual freeze on long term industrial development loans from the West, especially from British and American lenders;

3) an active Anglo-American policy of imposing International Monetary Fund-style conditionalities and a credit squeeze on Poland. To secure loans for refinancing and new investment, Poland has accepted harsher interest terms. With this year's $350 million loan from a Bank of America-led British and American consortium, Poland for the first time agreed to submit "comprehensive and confidential information" on its economy, including the amount and structure of the national debt, which used to be a state secret;

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4) insistence by some Western lenders that the Poles guarantee national economic policy decisions favoring the hard currency export-oriented sectors, as a condition for acquiring credit. The development projects of the early 1970s and the growth rate that corresponded to them have begun to wind down as a result of these stiffening debt terms.

Economic pressure on Poland has been centrally coordinated for several years. In 1977, Poland's Western creditors met under the auspices of the Bank for International Settlements in Basel, Switzerland. At this little-noticed meeting, it was decided to establish a special "information exchange system" whose purpose was to manipulate Western banks' lending operations in targeted Eastern European countries such as Poland.

The City of London banks and their allies in Canada and the United States reorganized their credit policies toward Poland. Interest rates were set according to the rates paid by the "poorest risk" Third World countries, like Egypt. Poland was unable to get loans for debt consolidation.

The result of this constriction from outside is evident in the memorandum submitted by Poland's Bank Handlowy for the Bank of America loan. The bank disclosed that the Polish hard currency debt stood at $19.4 billion at the end of 1979. During 1980, the Poles are paying $7.2 billion to service the debt—70 cents of every export-earned dollar goes to debt payments. This debt-export ratio is as bad as that of Third World nations.

Domestic restructuring

While giving in to these British and American financial pressures, the Polish leadership launched a domestic shift they called "the economic maneuver." It called for shifting resources and investment away from heavy industry, into production for export and for consumer goods.

The economic maneuver turned back the clock to the period of Wladyslaw Gomulka's regime (1956-1970). Therefore it is instructive to recall the Gomulka economic policy debacles, which ended in political upheaval and Gomulka's overthrow in 1970, in the heat of strikes and riots in Gdansk and Szczecin.

Gomulka lowered growth targets for the capital goods and steel sectors, deliberately avoided a policy of mechanizing agriculture, and emphasized light industry and a coal-based economy.

Gomulka was a committed proponent of the "'Bukharinite" school of economics in Eastern Europe, named for Nikolai Bukharin, the Soviet Communist Party official who until his arrest and execution in 1936 was closely linked to the intelligence networks of Royal Dutch Shell and London banking interests. Bukharin was a student of Milton Friedman's teacher Friedrich von Hayek; his 1920s purge cleared the way for Soviet industrial growth.

As Bukharin for Russia, Gomulka since the 1940s advocated a decentralized, predominantly agrarian economy for Poland. His legacy remains. Forty percent of Poland's working population lives on farms, most of them small plots of land. Poland has one of the least productive farm sectors in Europe. When natural disasters hit, such as this year's six-times normal rainfall, Polish farms are not technologically equipped to cope.

The Gierek recovery

Gierek's import and capitalization policy took Poland from the shambles Gomulka left, to the status of the tenth largest industrial power in the world. One-third of Polish industrial capacity has been constructed since 1971. Between 1971 and 1976, 60 percent of Poland's industrial machinery was replaced, and 1.8 million new jobs were created.

The Gierek regime devoted a high level of funding to research and development to improve Polish industry technologically, resulting in the world's most highly mechanized and modern coal production methods in Silesia and the mechanized Lublin coal basin mines.

Related to the coal industry was the development of Poland's electrical power generation capacity and the giant modern metallurgy complex in Katowice.

By 1973, Poland had the highest rate of growth of R&D funding in the world. The government proclaimed that year the "Year of Polish Science," and vowed "to accelerate the rate of technological revolution."

It was in the early 1970s also that a team of scientists under the late Dr. Sylvester Kaliski used a laser pulse experiment to reach the first stage of production of a unique thermonuclear fusion microreactor, internationally recognized as groundbreaking.

Under the debt-enforced "economic maneuver," the remaining Bukharinite opponents of "too-rapid" industrialization in Poland asserted themselves. A scheme of decentralized "cost effective accounting" went into effect, particularly for enterprises in the export sectors. The investment rate for the capital goods industry took a back seat to those industries and organizations which could produce for a quick export dollar.

Compounding these blunders, Poland reversed its energy policy in 1979. While continuing to back the extraction of exportable coal, the regime scaled down its nuclear power electricity generation target from 20 percent 1990 to a mere 8 percent. This decision came from the "low-growth" faction in the leadership, and Gierek acceded because the debt squeeze has so reduced his maneuvering room.

In 1980, Poland has achieved a 29.8 percent growth of exports to the hard-currency sector, resulting in a positive trade balance. The newest cost has been a reduction in state subsidies of consumer prices, including the meat prices whose rise touched off this summer's strikes.