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# Soviet aid and the future of Poland

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A bilateral trade pact for 1982, worth $12.6 billion, was announced in Moscow, Jan. 6, after talks between the Polish and Soviet Foreign Trade Ministers. The agreement guarantees Poland energy and raw materials imports for this year—natural gas, oil, iron, wood, and cotton—as well as heavy industrial machinery worth 4.8 billion rubles. The Soviets will import from Poland 3.6 billion rubles worth of machine tools, construction equipment and capital goods for chemical output. Moscow extends to Warsaw a $3.6 billion credit line, expressed in rubles in the announcement, to cover the new deficit and that from 1981.

The Soviet-Polish agreement for 1982 in no way addressed the current favorite topic of financiers' and geopoliticians' speculation: will the Kremlin cover Poland's hard currency debt to Western governments and banks? Although rumors abound that the Soviet Union is seeking some new Euroloans, for possible diversion to Poland, the Jan. 6 pact pointed to something of a different order. The Soviets are laying the groundwork for Poland's integration, and that of other Council for Mutual Economic Assistance (CMEA) members, into a more tightly coordinated industrial network.

Some Western analysts acknowledged that under the new pact, Poland will export to the U.S.S.R. commodities which had previously been consigned for export to the West. Through such intra-CMEA measures, the Soviets intend to protect the CMEA from the economic depression which has begun to hit Western Europe, an effort which will not work however, unless the Soviets simultaneously trigger greater internal growth of markets within the CMEA sector.

This does not exclude continuing Polish trade with Western Europe, but merely allows the country not to depend on Germany and France—its major Western trading partners—for solving its economic problems. Since 1979-80, Poland's most serious difficulty has been the stagnation of export orders from these two countries. During the 1970s, Poland took on $26 billion worth of loans, about $9 billion of that from those two countries, with the expectation that by building up industrial infrastructure Poland by the 1980s would be a significant industrial-goods exporter to its creditors.

In 1979-80, however, Western European growth rates began to flatten out. West Germany has had no need of Polish industrial equipment—restricting imports to food and coal; and, due to general Western monetary and economic constraints, its own exporting industries cannot even sustain domestic industrial equipment orders, which in contrast to exports, have been steadily dropping over the past two years.

## Which model for integration?

Many Western observers underestimate the degree to which Soviet policy-makers are convinced that economic stabilization of Poland can only be achieved through in-depth industrial expansion and better, more advanced technologies.

This underestimation is expressed strongly, for example, by analysts around Wharton Econometrics, who insist that the primary economic outcome of the Polish events will be an increasing *decentralization* of decision-making within the Soviet bloc.

There is no question that a major debate on centralization versus more local control of industry is under way in the Soviet bloc. As the Wharton circuit is always quick to point out, in recent months the Soviet press has run a remarkable number of articles reviewing and praising the Hungarian economy.

For Western observers, Hungary is the model of a decentralized economy within the Soviet bloc. The Hungarians, led by a clique of bankers trained back in Hapsburg Empire days, introduced this decentralization in the 1960s through a series of price revisions which aimed to bring domestic prices over a long period of time in line with market prices in the West.

The Wharton analysts argue that price adjustment is the first step Poland has to take in order to emulate the Hungarians. In fact, in late December, Polish authorities introduced major changes in the country's price structure, lifting food and other consumer prices 300 percent at one shot. However, these measures in no way prove that the Hungarian approach—which has in fact been a channel through which certain Western banks have attempted to manipulate CMEA from the inside—is now about to become the blueprint for Poland.

The price rises in Poland are put into better perspective by the fact that the Polish money supply for the past decade has borne no relationship to the availability of consumer goods, which have been in extremely short supply. For political reasons, prices had been held to early-1970 levels until last December, although incomes were never matched by a rise in the output of goods wage-earners would have purchased.

Such problems still need to be tackled, and the trade treaty is a first small step in that direction.

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