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CENTRAL PLANNING IN POLAND AFTER 1981

The aim of this paper is to recall the main lines of changes in the field of planning which were adopted within the framework of the reform of 1981-1982. Against this background comments are offered which indicate at certain assumptions made as well as at conditions relevant for such assumptions to materialize.

1. Initial conditions

The directions for change elaborated in 1981 were conceived under two kinds of premises and pressures. On the one hand there was a natural will to remove the sources of errors and distortions experienced in the past. On the other hand there was a necessity to cope with a number of extremely strong and acute current problems resulting from the decreasing output as well as from widespread disproportions and socio-economic conflicts. The first kind of arguments led to far-reaching concepts of radical changes in the manner of functioning of the economy and the society. The second kind emphasized various feasibility aspects, numerous constraints of various nature. According to some opinions one should have waited with reforms until the most acute disproportions were removed and the state of the economy become normalized. In practice such an approach was not possible even if it were justified. In 1981 there was an urgent need to introduce some kind of orderly behaviour as the former manner of functioning become disintegrated. Thus the options consisted either of reconstructing one of the former patterns of functioning, i.e. those which were criticized as unsuccessful, or of looking for a new approach which would offer a chance to remove formerly experienced unfavourable features.

I am drawing attention to these circumstances because they seem relevant for understanding our present practice. Since 1981 a number of new laws and other regulations have been adopted

which say how the reformed economy should function. In general they reflect the aforementioned will to introduce radical changes in comparison with the past. Among others there is the Law on Socio-economic Planning /from February 1982/ the characteristics of which will be given below. However, additional laws were also adopted which for certain issues enforce special, temporary solutions differing from those envisaged in the basic blueprint for the reform. The arguments used to justify such exceptional solutions are based mostly on feasibility premises, i.e. it is argued that the prevailing socio-economic conditions do not allow yet to apply the approach envisaged in the basic blueprint. Besides, even in cases where there are no exceptional legal solutions there are natural differences between the blueprint and the practice. The latter does not change immediately as the result of changes in legal and institutional conditions. A longer process is involved depending on changes in informational conditions, in motivations, in behavioural patterns. Moreover, this is a process full of contradictions. The need to have more severe efficiency promoting rules is readily accepted in general. Naturally enough it is rejected if it clashes with some particular interests and exceptions from such rules are demanded. One can witness, in many mutations, well known contradictions between future oriented and current criteria as well as between those which would promote behaviour oriented at success and higher efficiency and - on the other hand - those which put an emphasis on protecting relatively weaker and less successful. In socio-economic practice one can hardly look for clear-cut, extreme solutions for such contradictions and various compromises are rather involved.

All this exerts, of course, an influence on the present state of planning contributing to a heterogeneity, complexity of its conditions and to difficulty of its tasks.

Main lines of reform in planning were meant to promote the following desired changes in the whole manner of functioning of the economy: /a/ to increase economic efficiency at a micro-level, /b/ to introduce objective premises for appraisal and choice in economic behaviour /removing haphazardness and arbitrariness/, /c/ to form motivations linking personal

benefits with objectively measured success, /d/ to widen and to strengthen social participation in the processes of control at all levels.

None of the previous reforming essays in Poland has succeeded in these fields. Analyses of past experience indicated several reasons for these failures and hence the directions for new approaches which, hopefully, would offer a better chance for success.

## 2. Enterprises and the centre.

One of such reasons was identified with the conditions of functioning of enterprises, which in the past:

- were disintegrating the area of choice because of various partial directives, limits, obligatory indicators concerning outputs, inputs, input-output relations,
- were hampering initiatives and activities meant to introduce innovations and other ways to promote efficiency; the latter clashed with short-term performance indicators and besides were hampered by uncertainty about future decisions of higher management levels,
- were inducing enterprises to press for higher material supplies, wages and investments, to develop bargaining attitudes in corresponding hierarchical channels as there were no effective self-control devices which would have checked such pressures,
- were characterised by a passive and distorted role of prices and financial categories which were supposed to follow previously made real-terms decisions and which themselves were subject to bargaining procedures,
- were leading to depreciation of the role of planning and to its distortions; in enterprises planning was tailored mainly to formal demands of hierarchically higher units as well as to an aim to outwit these units in bargaining.

In order to change these conditions new relations between enterprises and the central administration have been established since 1982. Under the new laws enterprises should have much more autonomy in decision making than ever before. They shape their own plans according to internal purposes of consciously prepa-

ring their own activities. Hierarchical structures of planning and management were removed /with exceptions for certain branches and types of enterprises/. As a general rule there is no need now to get an acceptance from outside for an enterprise's plan nor to conform to directives previously set. The laws indicate only certain cases when enterprises are obliged to include into their plans some output tasks which follow from decisions made at the central level. Three kinds of justification were foreseen for such cases: /a/ national defense, /b/ international agreements and contracts signed by governmental agencies, /c/ necessity to cope with consequences of natural disasters. Within temporary legal regulations the number of such cases became larger. According to the new basic laws there should be no administrative allocation /rationing/ of resources i.e. an economic mechanism was foreseen, acting through relative prices and financial capacities of competing prospective buyers. However, this is considered as a solution for the future and for the time being there are various forms of rationing material supplies and foreign exchange.

The shift towards a larger autonomy in enterprises was linked with a will to introduce strict rules of self-financing which would force enterprises to economize on expenses as well as to search for favourable substitutions possibilities in outputs and inputs. Obviously, an implementation of such rules depends on conditions of ensuring exogenous prices as well as of solving difficult problems of adaptations to the new rules /numerous clashes of conflicting interests are involved here/.

Within the rules of strict self-financing enterprises become financially responsible for wages and other benefits accruing to the employees. This means that they are entitled to shape such payments, without any predetermined restrictions, as long as they can afford it in terms of their income. Restrictions are only internal because higher wages relatively diminish profits which, after taxation, form the basis for development funds, for premiums and social benefits and besides must suffice to pay special levies related to wage increases /in comparison with the past/.

Responsibility of individual enterprises for wages involves a risk for employees, whose welfare may become endangered if economic health and finances of a given enterprise deteriorate. Self-management organs within an enterprise /representing the crew/ were given important prerogatives in elaborations and acceptance of plans so that they can participate in coping with issues relevant for the aforementioned dangers and risks.

Keeping in mind the condition of exogenous, parametric prices and assuming strictness of self-financing it may be argued that in a long-run such internal restrictions would serve two purposes: /a/ of regulating wage payments, /b/ of enforcing restructuring and innovations in enterprises which otherwise would not be able to afford wage payments corresponding to general trends and proportions /the latter reflecting wage differentials among branches and professions as well as an acceptable average elasticity of wage-rate in respect to labour productivity/. This would be combined with appropriate changes in the structure of prices and of demand, leading to a relative increase of prices for products with relatively slower increase of labour productivity as well as to substituting them by other products, more competitive from the viewpoint of relative effectiveness.

Principles of the reform did not leave these dynamic interrelations to be shaped autonomously. They are to be actively influenced by central policy corresponding to patterns consciously envisaged in central planning.

Simultaneously, however, it was assumed that most of current, short-term activities of enterprises /concerned with production, purchases and sales, adaptations in input and output-mix/ would be regulated by means of autonomously induced horizontal interactions among economic subjects without involvement of vertical instruments which determine particular elements of output, particular transactions and supply limits. Consequently the tasks of central planning were changing. The emphasis was shifting from dealing with a large network of numerous transactions towards the tasks of setting beforehand adequate parameters and rules in order to influence the behaviour of economic subjects and their interactions. From the central viewpoint this meant that:

/a/ relatively longer time had to be taken into account between setting the instruments and obtaining expected results, /b/ there were relatively more limited possibilities to set detailed, differentiated targets. This is raising controversial opinions and arguments. The arguments against widespread detailed targets result from the past experience. On the other hand it is argued that in certain cases it seems unjustified to wait for autonomous adaptations if there are possibilities to organize directly respective activities in order to get desired results. The latter view was partly taken into consideration in the form of so-called governmental contracts signed between enterprises and designated governmental agencies for deliveries of specified quantities of products as well as for implementation of certain investment projects and R D programmes. In General it has been assumed that for such contracts the enterprises would be chosen from a number of competing bids but if no one is willing institutional pressure can be used to ensure the implementation of a given contract. At present enterprises are usually interested in signing these contracts because this gives them priority in obtaining some scarce supplies.

### 3. Real and financial terms in planning

Within the new approach there is a change in respective roles /and their mutual relations/ of the real terms categories and technical coefficients on the one hand and the categories of value, finance and income distribution as well as behaviouristic coefficients on the other hand. An active role of the latter categories is emphasized as well as the need to take into account feedbacks between all the categories mentioned. There are two aspects of this postulate. The first one concentrates on mutual integration, internal consistency of planning accounts made in real and financial terms respectively. It rejects the former practice according to which decisions were primarily based on real terms accounts whereas financial terms followed to serve an implementation of changes in real terms variables. The second aspect goes farther as it is linked with a postulate of validity of prices as information carriers in economic behaviour and in planning.

The notion of validity is used in a twofold sense. Prices are operationally valid if in the sphere of commodity-money relations they indicate real conditions of purchases and sales, i.e. for a prospective buyer a real possibility to get something for a given price and for a prospective seller a real picture of buyers intentions and preferences. Prices are considered allocationally valid if they adequately express relative rates of evaluation from the view point of system-wide criteria i.e. relative scarcities, preferences in consumption, conditions of foreign markets. The latter is never fully ensured and hence the necessity of system-wide planning. However, probability of errors in planning accounts is growing if the premises of allocational validity of prices are generally neglected. As far as an operational validity of prices is concerned there are no objective reasons justifying opinions that it is unattainable i.e. that an access to goods and services must depend on various non-price conditions. /This does not preclude subsidies as long as there is an adequate supply: of products or services with subsidized prices. /If prices are not valid, as for many products in our case, then an integration of real terms and financial accounts can have only a limited, formal meaning. In such a case there is only a limited influence of financial categories and also - it is difficult to trace any comparatively stable behavioristic coefficients. Thus one can conclude that the change in planning depends on changes in the role and functions of prices, on increasing their validity.

#### 4. The structure of central plans

Within the new structure of central plans a more explicit distinction is made between specific kinds of studies, statements and figures:

- /a/ expressing general macro-economic proportions as well as formulations of socio-economic policy in its main spheres,
- /b/ concerning general and specific regulatory instruments devised in order to implement chosen policies,
- /c/ expressing directly central decisions related to certain selected real terms problems i.e. certain investments

- projects, activities subject to governmental orders, activities in the field of social services and infrastructure subject to financing from the central budget;
- A/ providing other kinds of information for economic subjects i.e. forecasts and statements of an indicative nature.

This differentiated approach replaces the former practice according to which almost all statements were supposed to be normative and which was using mainly real terms categories in order to prescribe what should happen in particular sectors, branches and units of the economy.

## 5. Procedures of planning

Analyses of past experience in this field have led to deliberations how to find a practical way to enable choices between variants of plan drafts as well as to ensure safeguards against arbitrary, erroneous choice. Experience has shown that this problem was unsolvable within the former framework of planning with its multilevel structure of information flows and a mass of detailed figures. This framework was serving for elaboration of a single over-all concept of a given plan, which was emerging gradually as a result of a multistage process with manifold partial adjustments of earlier assumptions, with bargaining and compromises dealing with various pressures. According to this approach there was a practical need to specify and to deal with numerous detailed matters so that the tasks of central policy and strategy were lost in a mass of routine operations.

From a procedural viewpoint general strategic appraisals of the conditions and directions for respective central plans were taking place rather early, i.e. at the time when the top political bodies were deciding about approving or changing an outline for the future plan. However, this did not involve a choice among variants checked for their feasibility but usually consisted in ordering changes to be made in a single variant initially presented. Usually this was leading to more ambitious goals, more optimistic input-output ratios for the future and less internal consistency in the initial directives for a given plan. During subsequent phases of planning the attention was concentrated mainly on filling the initial frame

work with detailed figures and on deciding on partial, marginal options. When the final draft of the plan was ready it was too late for general options to be considered again. The top political bodies, the government, the parliament were deciding about the contents of the final draft but for pragmatic reasons they were not able to introduce any major changes even if their desirability was felt. Instead implicit or explicit assumptions were being introduced that there will be a room for such changes during the implementation. Arguments for a flexibility in planning were used to justify such an approach but they proved to have been misused. Within a rigid structure of hierarchical management there were no other safeguards for ensuring internal consistency, for keeping adequate relations between available resources and their usage but only the safeguards of respecting the regime of valid, realistic central balancing. The circumstances encountered in practice were leading to the destruction of this regime. The quality of balancing was low and implications from balancing accounts were not exerting sufficient influence upon the paths of economic processes.

Within the new approach we have an essay to make the whole multilevel structure more flexible because the traditional procedures of a planistic "shuttle" /performed along vertical branch channels/ have been removed. Instead of the uniform concept of interlinked, multilevel plans serving central management functions it is recognized that there are differences between managerial and policy-making functions. Central plans are meant to serve primarily the latter functions the aims of which include that of forming external, system-wide conditions for managerial functions served by respective planning activities. Within this general setup the role of central balancing will not decrease but its nature will change and its quality should increase. In this context:

- it is hoped that the information concerning various technical and behaviouristic coefficients would become more trustworthy because: /a/ statistics will reflect efficiency promoting behaviour of economic subjects, /b/ prospective projections and estimates will not be boased by bargaining attitudes,

- as far as balancing will be no longer dominated by premises of administrative allocation /rationing/ it will concentrate more on multidimensional factors influencing demand and supply and especially on those which may rationalize demand; thus the tasks of balancing will be conceived in a dynamic sense, to promote qualitative changes and to care for adequate conditions of their implementation,
- as far as balancing will primarily serve to substantiate central policy /in its specific aspects/, to analyze effectiveness of existing policy instruments and to devise their adjustments, so there will be less temptations to introduce arbitrary assumptions; the premises for policy making will be formed with participation of various social bodies and research institutes, they will be checked in a process of public consultations which altogether should contribute to their validity,
- comprehensive balancing performed in the Planning Commission will be counterchecked by independent studies, appraisals and projects done by the Central Bank and Ministry of Finance respectively.

The whole procedure of central plan construction is explicitly divided now into specific phases. It starts with a general outline and basic assumptions for a respective plan period where specific variants are presented and their implications for certain important socio-economic issues. This outline is published for a wide consultation with enterprises, trade unions, socio-professional organizations, political parties. Opinions are expressed by academic circles, by journalists and by individual citizens. Results of these consultations are presented in an analytical and summarized form to the parliament where decisions are made on the choice among variants. This choice serves then as a basis for the final draft of the plan which is subsequently elaborated. The final draft of a five-year plan must be approved by the parliament. Annual plans are accepted by the Council of Ministers, with an exception for the state budget and other basic financial plans which are subject to approval by the parliament. There is also a condition that the contents of annual plans must keep in line

with major goals and policy targets specified in the respective five-year plan. If a justification for change arises it must be submitted to the parliament for a decision whether and how the five-year plan should be corrected. It has been also envisaged that the final version of a plan should contain for certain issues alternative scenarios within which the paths of more distant processes would depend on earlier developments. The government has been obliged by the new law to report each year to the parliament on the state of implementing the five-year plan. It is assumed that after two years this report will be linked to an analysis of eventual adjustments to be made in the remaining two-years period in view of an initial outline of problems characterizing the next five-year plan to follow.

The nature of substantial issues which focus attention differs, of course, depending on the length of time horizon. The new law on planning foresees, similarly to the former practice, three main types of central plans: /i/ perspective plan for a period of ten years or more, /ii/ five-year National Socio-Economic Plan /NSEP/ and /iii/ Central Annual Plans. The leading role is assigned to the NSEP because most of important strategic and policy goals need a relatively longer time for their implementation. Perspective planning is meant to provide a framework for shaping directions for certain development processes and programmes with still longer gestation periods. It is assumed, however, that development programmes included into a perspective plan become operational only after decisions concerned with their respective stages are taken within the NSEP. Annual plans are to deal mainly with matters related to adjustments in policy instruments in the fields of prices, money, credit, income distribution, balancing income and expenditure of the population and of the state financial system etc. The policy in these fields will be outlined within the NSEP subject to actualization and more detailed specification in annual plans.

## 6. Investment planning

In the field of investment planning and of R+D activities there is a general shift of emphasis towards the role of enterprises in preparing respective projects, in appraising their relative effectiveness and in taking care that they really prove effective in terms of self-financing rules. However, in most cases enterprises need credits and the banks have to choose certain projects and to reject others /within their financing potential/. Generally the banks are expected to apply criteria related to the soundness of economic position and to expected profitability of enterprises involved. Nevertheless, it is parallelly assumed that the banks will follow also other criteria, giving preferences to the projects which correspond to certain centrally set priorities. In other words, central planning, is expected to provide directions for structural changes in productive capacities /in quantitative and qualitative terms/ which would be used by banks in granting credits as well as by enterprises in preparing and appraising their own development projects. It is also assumed that central planning will provide information on expected prospective changes in prices reflecting relative scarcities of resources, so that this information can be used in preparing new techniques and constructions. Certain projects are decided upon directly at the central level with a condition that total outlays for such projects cannot exceed a ceiling approved by the parliament within the NSEP. Separate category includes development projects in the so-called unproductive sectors which are subject to planning together with procedures concerned with the state budget and territorial budgets respectively.

The most controversial issue in this whole setup is the decision making procedure related to productive investments, especially in manufacturing industries.

In discussions concerning this issue there are arguments which on the one hand justify the need to rely primarily on micro-effectiveness criteria with the banks shaping their credit policies on a commercial basis. On the other hand there are arguments which indicate weak points of such a solution: unreliability of prices and of financial criteria in choices con-

cerning the future, dangers involved in leaving relatively large profits and depreciation funds at the disposal of individual enterprises. Taking another standpoint, one can argue against feasibility of rational choices if centralized criteria are supposed to be applied to a large number of projects but one can show also many cases in which the use of such criteria is justified. In general this seems to be an issue which cannot be solved by any of the extreme approaches i.e. neither based on the assumption of a capital market nor relying exclusively on central premises. The new legal and institutional framework in Poland has not specified the solutions in this field in detail; in fact quite a lot has been left to be worked out in practice.

There is now much more room for micro-effectiveness criteria to prevail but at the same time extensive tasks are assigned to central planning. In comparison to the past it is assumed that these two lines will be combined through the application of a different manner in which central criteria will influence development processes i.e. without a hierarchical structure of tasks and limits, without an administrative procedure of projects appraisal and choice, but - instead - through an influence on relative financial position of enterprises, through a control over credits as well as by means of providing accounting prices for decentralized appraisal of projects. An open question remains, how the central over credits will be executed. The answer is not clear because it depends on the nature of prices and price-formation processes which will prevail in practice. If prices become significantly more valid /than in the past and present/ then there will be no obstacles to limiting detailed control, i.e. there will be less reasons to justify choices contrary to micro-effectiveness criteria. Cases of diverging criteria will happen but as exceptions and not as a rule. If there is no improvement in the validity of prices then a tendency towards detailed control of credits will prevail, i.e. towards rationing of credits according to preferences deduced from real-terms, non price premises, which will resemble the practice of the past. In other words, if a relatively higher profitability is not a sign of success but a reason for being suspected of malpractice then one can hardly expect micro-effectiveness criteria to be compatible with those prevailing in institutionalized channels of appraisal.

## 7. Social participation in planning, policy-making and management

The reform is introducing new institutional solutions in this field in three main aspects and forms. Various steps are taken to widen and to strengthen the role of the parliaments in deciding on basic issues of central plans and policies. In a similar context the authority and functions of territorial national councils are significantly increased so that they may use the rights of self-government in most issues of local scope. Secondly, there are wider social consultations on basic matters of socio-economic policy built into the procedures of planning. Thirdly, representative organs of the employees have an important role in self-management of enterprises. There are important arguments in favour of such solutions which stem out of socio-political considerations. Within the context of this paper a relatively narrower, socio-economic standpoint will suffice. The following main issues are involved here:

- In what manner labour is remunerated and other benefits are distributed? What kinds of mechanisms and institutional solutions serve these purposes?
- Whether and how the functioning of the economy, its mechanisms and institutions, are oriented towards identification of contradictions and conflict situations? What kinds of actions and measures are serving to counteract them as well as to tackle their consequences if they already arise?

As far as the first of these issues is concerned one may note, that the former approach followed an assumption that all the elements of the economy should contribute to a "common pool" which should be distributed according to certain ranking of importance attributed to particular contributions. The specifications of desired contributions were to be formulated in plans. It was assumed that the pattern of contributions and corresponding pattern of distribution should be constructed according to the criterion that they serve best an achievement of specific societal goals. Analysing the experiences in applying this approach one can put an emphasis on various cases of arbitrary appraisals and decisions in the practice of specifying the

societal goals, of setting the patterns of partial contributions /meant to serve the achievement of goals/ as well as the patterns of distribution. In this context the role of social participation can be conceived as a set of institutional arrangements meant to increase quality of the aforementioned appraisals and decisions. However, another question can be raised viz: whether an introduction of social evaluation criteria will really help if this is not combined with a reconstruction of the whole approach. One can argue that in view of an enormous complexity of the economy it will not be possible to avoid arbitrary and haphazard solutions unless the whole account of contributions and of benefits distribution becomes decomposed so that there will be direct dependences between objectively measured performance in particular elements of the economy and their corresponding rights to benefits. The reform is going towards such a decomposition and we have already touched this problem earlier in this paper /together with its implications from the viewpoint of prices, their validity and role/. However one should add, that this direction of change means also a much greater acceptance of autonomous market forces, which - in turn - may breed various conflicts from the viewpoint of income distribution. There are, in general, well known conflicts between efficiency and equality premises which lead to a need to work out some acceptable trade-off criteria in practical solutions. In this sense one can indicate at a wide spectrum of issues where a social participation in appraisal and choice is of an utmost significance.

As far as an issue of contradictions is concerned one may note that they were seen in a simplified and distorted way which followed from the formed approach to planning and management. One could see a contradiction between a wish to satisfy various needs of the society and a low efficiency /i.e. relatively high input-output ratios for all inputs/ which was magnifying the strength of resources constraints. It was not possible, however, to express this knowledge in terms of structural characteristics and to link it with an assessment of relative success in performance. In planning one had to tackle the well known contradiction between consumption and accumulation but this was done

mainly in terms of final product and final demand categories whereas it was much more difficult to link this issue with structural characteristics of processes concerned with creation of surplus and of income distribution.

One could see also contradictions between numerous qualitative challenges of the future /concerning technological gap, competitiveness in foreign markets, degradation of natural environment, qualitative features of infrastructure etc/ and limited capabilities to tackle such challenges but it was not possible to find solutions in quantitative terms /concentrated mainly on material outlays and technical projects/.

Quite often opinions were voiced demanding better "economic education" of the society so that various difficult and contradictory problems of the economy would be better understood and taken into consideration in practical activities. It seems, however, that there is no other way of such a learning process but through the practice of functioning in which basic system-wide issues are adequately "translated" into another language related to the behaviour of economic subjects, their interactions as well as their relations with institutions charged with regulatory functions. Inevitable clashes of interests are involved in such a process, conflict breeding situations must emerge and consequently there is an evident role for social participation in institutions and procedures devised to tackle them.

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Planowanie centralne w Polsce po r. 1981

W opracowaniu prezentowane są główne zmiany w dziedzinie planowania w konsekwencji reformy gospodarczej. Wykazane są przesłanki zmian i ich cele. Autor podkreśla, że zmiany w planowaniu mają przede wszystkim na celu usamodzielnienie przedsiębiorstwa. Jest to warunek wzrostu efektywności gospodarowania. Wykazując zależność między rzeczowym i finansowym aspektem planowania Autor podkreśla konieczność prymatu aspektu finansowego. To, jak i prawidłowa struktura planów centralnych oraz procedury planowania winny zabezpieczyć przed błędnymi wyborami. Podkreślone jest także znaczenie systemu bankowego i informacyjnej roli planu centralnego. Istotnym czynnikiem, który ma chronić przed błędnymi wyborami w procesie planowania jest jego uspołecznienie, jak i uspołecznienie całego systemu kierowania gospodarką narodową.