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CAUSES, MECHANISM AND CONSEQUENCES OF GRADATION  
OF THE ECONOMIC REFORM

1. Causes of gradation of the reform

Impossibility of reforming the economy rapidly has never been questioned. Controversies concerned the length of period during which the economy was to be switched from one system to another, what the reform should be begun with, sequence of its stages etc. but not the principle itself that it should be carried out in stages. Finally, in "Directions of the Economic Reform" from July 1981 being some kind of constitution of the reform, it was recognized that "two- or three-year transitional period would be necessary" /thesis 10/ encompassing the years 1982-1984. There were envisaged for this period subsequent changes deepening the reform and leading to the target system, and more specifically:

- /1/ finding and application of new forms and procedures of allocation of the most deficit means of production in the years 1982-1984;
- /2/ rebuilding of the state economic administration and organizational structure of the economy in the years 1981-1982;
- /3/ bringing the motivational system closer to the target solution, which was to be attained after 1982;
- /4/ performing a thorough analysis of changes in procurement prices /as from the beginning of 1982/ and retail prices /in the second half of 1981/ anticipating that retail prices and state purchasing prices of agricultural products would tend to go up in the following years.

From among these tasks, the first and the fourth were executed inconsistently, the third began to be solved with a considerable delay, and the execution of the second task was never commenced. Functional-organizational rebuilding of the state administration was practically given up. Prices were changed,

but in the process of changing them major mistakes were made, and - what is more important - their elasticity was not allowed. Reform of wages in enterprises was passed over to supervision of branch ministries.

The abandoning or delaying with functional-organizational rebuilding of the central administration are connected with quite unique interpretation of the target economic system. Acceptance of "Directions..." did not imply that there disappeared differences of opinions with regard to what the system should be like after the reform and, thus, also what the reform should consist in. "Direction..." were a compromise between two quite different concepts. Consequences of this compromise did not appear until quite recently.

According to one concept, the reform should be a profound change of economic relations in the economy in all spheres of the economic life. Radical transformations were to encompass: /a/ internal relations in enterprises, /b/ relations between enterprises, /c/ mutual relations between enterprises and banks, /d/ relations between banks and state administration organs.

These transformations would require from the state administration to perform a completely new role in comparison with its previous role.

The discussed concept assumes that the current economic processes occur through a mechanism of market self-regulation. The state may adjust these processes but only to a limited extent and almost exclusively by means of non-administrative methods.

The central planning is focussed on problems of long-term development. Cohesion of central plans with mechanism of current processes imposes, however, a requirement on the investment plans to be demand-oriented. This assumes freedom of enterprises in disposition of their profits after taxation and existence of an economic /and not administrative/ mechanism of interbranch reallocation of long-term savings. A part of all investments would continue to be centralized. This refers to production investments with a scale of outlays and time of their execution exceeding possibilities and time horizon of enterprises, as well as investing in the social infrastructure.

The next element of the analyzed concept is active economic involvement of social bodies. They exert their influence on decisions both on micro- and macroeconomic scale.

The concept involving: market self-regulation, demand-oriented long-term central planning, and active economic involvement of social bodies will be called here a model of socialized market economy regulated by the plan.

The other concept is a model of state indirect regulation covering both long-term and current processes. Such a model is often referred to as "parametric" but the sometimes applied term of "indirect centralization" seems to be better. The model of state indirect regulation differs from the traditional system /based on commands and centralized allocations/ mainly as regards instruments in execution of central plans. Short-term central plans have a relatively detailed character although, not to the same degree, as in the traditional model. The central plan constitutes a system of desirable production proportions and proportions in distribution of productive factors and production. It is a primary system of economic magnitudes with "instruments of steering the enterprise's activity" /thesis 35 of "Directions..."/ being adapted to it. These instruments are indirect i.e. they have a monetary-market form but they are not generated by the market but by the plan. Despite it, the model envisages that prices may simultaneously be instruments for execution of the central plan and market equilibrium prices.

Similar to the current plan, also in the long-term central plan material proportions constitute a primary system of magnitudes. Direct and indirect /economic/ instruments of steering investors are adapted to them. A predominant part of the investment fund is centralized. The material plan and division of the investment fund are largely affected by pressure exerted by enterprises and their branch associations, as well as by desiderata of local authorities. In such mechanism, subjective /discretionary evaluations prevail over objective economic criteria.

Consequently, investments are subordinated to "needs" and not demand.

The way of regulation of current and long-term processes in this model results in a specific treatment of the social

side of economic management. Namely, social bodies play here mainly a consultative function.

"Directions of the Economic Reform" were an attempt at reconciliation of both concepts. Stating /in thesis 35/ that the market would not be an *exclusive* regulator of the economy, it was also admitted that it would be allowed to perform its regulatory role. Hence, a conclusion could be drawn that "Directions..." proposed a model of the market self-regulation with adjusting influence of the state. Some other formulations may be interpreted in the same way as well. However, in the same thesis 35, market categories are treated as instruments of steering enterprises in execution of the central plan. From this, it can be concluded, in turn, that the market is to be used instrumentally for execution of the originally determined system of detailed production proportions. This interpretation has been closer all the time to the circle of people acting at the central level as it can be reconciled with a still popular doctrine of the planned economy as one centrally managed. Moreover, it does not threaten the material and social status of those who adhere to it.

Fully consistent approach to the model of indirect centralization imposes also a requirement of effecting major changes in the functioning of the central administration. However, it does not require such deep changes as those required by the model of market self-regulation with adjusting influence of the state. This is so as the rights of the central administration are not restricted here with changes including only the forms of decisions and kind of instruments of their execution. In the final account, the whole problem boils down to a postulate of rationalizing activity of the central level without its any major remodelling.

Various visions of the target economic system exert their influence on evaluation of the reform process. Those who support the reform generally share a view that it is accompanied by delays. Opinions concerning the impact of various causes are quite different, which finds its expression in difference of opinions with regard to the necessary further steps that must be taken and their order. Supporters of the model of in-

direct centralization stress the significance of: /a/ economic causes i.e. disproportions hampering introduction of the market mechanism, and /b/ social causes, usually identified with the population's allergy to prices. Supporters of the model of socialized market economy being adjusted by the plan identify the main causes of delays with /c/ a traditional doctrine of the planned economy. The central decision makers agreed to modification of this doctrine, although their version of such modification proved to be too modest taking into account the necessity of a radical reform. There are also opponents of the reform and, thus, of any modification of the traditional doctrine in whose opinion the reform has already gone too far.

## 2. Elements of the new system and inertia forces

The bridge-heads of the new economic system have become: increased autonomy of enterprises, self-management of employees, and independent, autonomous social organizations representing the main force reinforcing both autonomy and self-management of enterprises and the principle of the so-called socialization of the central planning and management of the economy. Autonomy of enterprises and employees' self-management found their support in the acts from September 1981. Autonomy of social organizations was based on the so-called social accords and at the time the concept of the economic reform was being elaborated, it was not regulated by law yet.

Throughout the entire period when the old economic system was crumbling, its main defence bastions were: the doctrine of traditional planned economy, economic strength of the central state administration, and its position in the structure of power. Let us look closer now at the way of operation of the two last factors.

The reform programme allowed the central administration to retain temporarily its right of deciding about allocation of deficit productive factors and products. This concession was practically inevitable. The dangers inherent in such solution were fully realized, and, therefore, it was retrenched with restricting conditions /narrow scope of allocations and

the forms least colliding with the target system/. It appears that when the central administration accepts such constraints unwillingly /and, moreover, it is probably not efficient enough to respect them even if it wanted to/, then the scope of centralized allocation expands while its forms become more and more similar to the traditional ones.

Having at its disposal the most important factors of production, the central administration holds control over almost entire production and distribution. It restricts the autonomy of enterprises, which do not make any resistance in order not to endanger their own current interests.

Maintenance of a long list of priorities and individualization of steering instruments lead to reproduction of disproportions and stimulate enterprises to ineffective activities. Thus, a vicious circle is formed: economic difficulties justify equipment of the central administration with special rights, which do not lead to removal of difficulties, at least to such an extent that would allow to take away from the administration its extraordinary rights.

An argument willingly utilized in favour of the administrative fixing of prices is resistance of the population to their raising. Artificial holding back of price rises creates situations, which may also serve as justification of expanded competences of the central level.

Thus, a temporary deviation from principles is consolidated acting in favour of the old system.

Another protective force is a special position held by central organs in the structure of power. In practice, centres of executive power decide about the actual order and about the legal order although in the latter case decisions are taken by legislative authorities. The balance of forces among executive and legislative organs is, however, such that it allows the former to win agreement of the latter relatively easily making control exercised by the latter on the former quite limited. This has significant consequences for the economic reform as the central state administration is able to equip legal regulations referring to the economic system with such a form that suits it best. It also decides about the order in which various problems are to be included into the legislative pro-

cess, and about what should be included into this process and what should not. Concern is expressed also about small stability of legal regulations, instances of preparing drafts of legal acts without participation of social bodies and even without their knowledge about the nature of solutions being prepared, as well as absence of legal standardization of the legislative process itself.

In this way, not too strong position of executive organs in the structure of power allows to diverge the process of reform in a direction suiting the central administration. It also leads to tolerating the functional-organization inertia of central economic organs.

### 3. Relationships between elements of the new and the old system

The framework of the new economic system was not created automatically, just like inertia forces of the old system were not eliminated, by the fact of beginning the reform. Bridgeheads of the reform were formed on the way of violent controversies. In such a way there were created "social accords" from August 1980. Controversies of another type and on a much smaller scale appeared in the course of appointing the official Commission for the Economic Reform in September 1980. Its first composition was characterized with predominance of representatives of the central administration. It was expanded to include representatives of science, enterprises, and other participants not until the first decision was submitted to sharp critique.

An important battle was fought about the shape of the draft project of the reform. Many versions of the reform programme were formed outside the Commission. It was under their influence and under pressure of a wave of violent critique that the original draft presented by the Commission in January 1981 /"Basic Assumptions of the Economic Reform"/ was rejected. Six months later, the Commission submitted a new, considerably changed draft project, which was accepted by the public opinion /although without any greater enthusiasm in the circle of specialists/, and approved by the authorities.

From among initial battles fought to win bridge-heads for the new system, it is worth mentioning here polemics concerning the position to be held by the enterprise's director and list of enterprises "of primary importance for the economy", which were filled with emotional tensions.

As a result of these and other controversies, there were created two subsequent /besides the already existing autonomous social organizations/ elements of the new system in the form of autonomous enterprises and employees' self-management equipped with vast competences.

Confrontation of the elements of the new and the old system took place almost immediately after the acts on enterprises and self-management were passed in the Parliament. The polemics were focussed on the so-called transitional solutions for 1982. They augured consolidation of power of the central economic administration and restriction of autonomy with which enterprises had just been equipped. This aroused apprehension of the reform's supporters, which were to prove soon to be justified.

Regardless of differences of views on the necessity of imposing the martial law, it is indisputable that its regulations shook all three bridge-heads of the reform. There was removed social pressure on the central organs to change their organization and functions. Autonomy of enterprises was substantially restricted, and activity of self-management bodies was suspended.

Simultaneously, defensive forces of the traditional system were strengthened. The right of appointing and recalling directors of enterprises was restored to the central administration, which also obtained a right of deciding about possibilities of reviving self-management bodies, which had not regained, however, their all rights guaranteed by the acts of law. The rebuilding of the central administration was put off. In the place of the liquidated intermediate level of management /"amalgamations"/, there were gradually introduced associations of enterprises being established, however, with by-passing a legal requirement of their acceptance by self-management bodies. The central administration did not reveal any active in-

terest in search for management instruments that would collide least with the reform, while simultaneously it expanded the range of applied direct instruments.

The year 1982 witnessed also other phenomena being characteristic for the traditional system of the planned economy. Namely, inconsistencies appeared in the economic policy, among others, in the sphere of income levels. They undermined considerably the chances of weakening the market disequilibrium created by rises in prices at the beginning of 1982. Moreover, there appeared distinct pressures on the banking system "softening" the credit system both in relation to enterprises /renunciation from refusal of credits to enterprises not possessing credit-repayment capacities/ and to the state /budget deficit "financed" partly with a credit extended by the National Polish Bank with an unbalanced credit plan/. Central priorities were also typically expanded in relation to production, which later on was called deformation of "operational programmes".

These phenomena cannot be treated as accidental errors and consequences of "running-in" of the economic reform mechanisms. Their common source is regress of the system, which had begun even before the elements of the system were able to consolidate themselves.

#### 4. Transition from consulted reform to centrally imposed reform

Officials of the central level tried to exert their decisive influence on the shape of the reform from the very beginning. Their monopoly was undermined, however, by strongly revealing aspirations of numerous professional groups and social organizations to exert their influence and supervise the process of the reform. The moment possibilities for these aspirations to be revealed were undercut, the officials of the central level obtained almost unlimited possibilities of moulding the reform according to their own preferences. Their participation in elaboration of draft projects of new solutions began to grow rapidly while participation of social bodies began to evolve in direction of purely symbolic activity. Sometimes, even all appearances were abandoned which is confirmed by such examples as the omitting of the Socio-Economic

Council when passing an act on trade unions or omitting the Commission for the Economic Reform when preparing a bill on the Council of Ministers /even the economic part of this bill was not consulted with the Commission/.

After a public discussion, there are presented draft projects on important matters /e.g. variants of tax system/ but not on the most important ones /e.g. drafts of acts on territorial self-management were not publicized at all/.

Thus, not only directions of the reform but also the very mechanism of reforming the economy underwent fundamental changes.

Assuming of full control over the issues connected with the reform by the central administration created a peculiar divergence between evaluation of the state of the economic system and programmes of subsequent transitory solutions. Admitting that in 1982 no progress was made in the functional-organizational restructuring of the central level and in application of economic instruments by this level, there were introduced changes in 1983, which proved to be a therapy not ensuing from the put diagnosis. Namely, the founding organs were empowered to perform administrative control of costs in enterprises, and the scope of administrative price fixing was expanded. This was only treatment of symptoms without treating the causes of illness, which, moreover, was using medicines whose ineffectiveness had been discovered a long time ago.

Preparations for "transitory solutions", which become effective at the beginning of 1984 and are to remain in force longer than one year /their period of validity has not been determined precisely/, had been under way for quite a long time and they had been carried in a little different atmosphere than in the case of earlier modifications. An expression of the changed atmosphere was appearance of competitive projects. The Office of the Government's Plenipotentiary for the Reform submitted three variants successively. The Planning Commission submitted its own concept as well. An object of discussion was also a project prepared from an entirely anti-reformatory position and subscribed by the Chief Technical Organization.

Finally, the new "stabilized for a longer period of time" principles were chosen assuming a form of a package of acts of law, resolutions, and decrees constituting a legal framework for the consecutive "transitory system". Of course, the economic system cannot be brought down to this framework. The actual behaviour of those participating in the economic life is dependent upon the social and political environment in which the law is applied. The impact of this environment is perhaps best visible in relation to economic decisions, which have not been regulated by the law or which have been regulated vaguely thus admitting diverse interpretations. Taking all this into account an attempt could be made to evaluate the evolution of the economic system in late 1983 and early 1984.

First of all, there has been consolidated a trend towards reequipping ministries with their partly lost positions in the current management, which could be observed since the beginning of 1982. The intermediate level of management is also being reconstructed slowly but steadily. Thus, hierarchical management structures are being reactivated. This process is promoted by regulations modifying the reform, which either pave the way for it or legalize it ex post.

Application of certain measures of systems character discloses also some other symptoms confirming decay of chances for further evolution of the economic system. Thus, for example, fixing of a new deadline for abolition of the rationing of means of production has been given up /the previous deadline lapsed on 31st December 1983/ since achievement of equilibrium prices within the next few years was considered to be impossible. On the other hand, with a very imprecise step made towards ensuring bigger elasticity for prices /introduction of the so-called "agreed prices"/ nothing else has been done in this direction, and what is more - efforts are made again to stiffen the mechanism of price movements.

Apart from distorted new instruments, there continue to be used traditional instruments of management i.e. commands and centralized allocations. The administration has much wider possibilities of imposing production tasks on enterprises than it is allowed by the act on enterprises. Compulsory mediation of employment agencies introduced in 1983 belongs also to the array of traditional instruments.

When the latest systems modifications were being introduced it was announced that they would be applied during two years at the most in order to create more stable conditions for operation of enterprises. As a matter of fact, this is, however, stabilization of unstable environment in which they operate.

## 5. Systems perspectives

Further destiny of the economic reform will largely depend on what stage of its development will be decided to be maintained over a longer period of time. The type of component elements of the stabilized "transitory" solution is most likely to decide whether and in what direction will further systems changes go once the interval in the reform is over.

Let us begin with what was expected and what did not happen since this "interval" had been announced. Thus, the scope of competences of central economic management organs has been neither changed nor their precise division has taken place. So far, no institutional solutions have appeared even vaguely that would increase effectiveness of control over central economic organs. Accordingly, the economy continues to be deprived of its safeguard against voluntarism in the economic policy.

Postulated changes in the decision-making pattern of central organs and introduction of effective control over them meet no response in the centres of power. On the other hand, these centres often transmit declarations that there will be simply improved efficiency of central organs. This testifies to the fact that social bodies will not be playing any bigger role in formulation of macroeconomic decisions and in supervision over their execution.

At the moment, stabilization of the present "transitory" solution was announced, employees' self-management bodies did not occupy the position envisaged for them in "Directions..." and in the act of self-management. The actual suspension of the reform can hardly promote consolidation of self-management bodies. Consequently, they will be only consultative bodies deprived, in practice, of their decision-making functions.

Similar to the social stratum of the economic system, the market is also treated in a way pointing at the fact that indirect centralization represents a chosen variant of the target system. The mechanism of market self-regulation seems to have been given up completely. What remains is a quasi-market in which supply, prices and trade ties are determined by material proportions of the central plan. In this situation it can hardly be expected that employment and wages will be absolutely dependent upon the real effectiveness of enterprises' performance. With absence of a full market verification of enterprises' effectiveness and absence of full autonomy, and thus - responsibility of employees, the self-financing principle can function exclusively in its "soft" version.

The problems indicated above seem to be already foredoomed. Still some hesitation can be observed with regard to the final composition of elements of indirect and direct centralization that should be adopted. The centres of power, and - at least - some circles of people in these centres are interested in accepting a lower dose of elements of indirect centralization.

On the other hand, a part of authorities both those controlling the economy and other spheres of the public life give their preference to administrative methods and instruments. This does not refer to the central authorities alone but to intermediate levels of power as well.

The centres of power while opting for the system of indirect centralization cannot neglect attitudes existing among the executive level of management. It is envisaged that it will continue to hold a prominent position in management, which is not surprising since no conditions are being created either for the market self-regulation or for active participation of social bodies in decision-making.

Ultimately, the economic system will contain elements of two different concepts. It will be far-removed from the variant called earlier on "socialized market economy" regulated by the plan. Neither will it be a pure model of indirect regulation. But it will not be a repetition of the system existing before the reform either.

The ability of this systems hybrid to ensure equilibrium for the economy is highly doubtful. Neither does it contain in itself such forces that could force out increase of real effectiveness and innovation orientation. Additionally, there are absent solutions allowing for immediate detection of voluntarism in the economic policy. Consequently, like in the time past, economic successes will be determined, to a greater extent, by ability to avoid mistakes in the economic policy rather than by efficiency and effectiveness of the economic system.

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#### Przyczyny, mechanizm i konsekwencje stopniowania reformy gospodarczej

Autor podejmuje na początku opracowania kwestię kontrowersji wokół problemu długości okresu przejściowego wdrażania reformy gospodarczej. W szczególności jednak wykazuje, że dokument pt. "Kierunki reformy gospodarczej" był kompromisem dwóch koncepcji. Autor prezentuje te dwie koncepcje - uspołecznionej gospodarki rynkowej regulowanej przez plan oraz model państwowej regulacji pośredniej, obejmującej regulowanie nie tylko procesów długofalowych ale i bieżących. Druga koncepcja zdaniem Autora różni się od modelu nakazowego - rozdziałowego głównie narzędziami realizacji planów centralnych i narzędziami oddziaływania na przedsiębiorstwa. Analizując główne czynniki ograniczające głębokość reformy C. Józefiak formułuje pogląd, że dotychczasowe zmiany zmierzają do rozwiązań hybrydowych, nie gwarantujących odpowiedniej społecznej efektywności gospodarowania.