

# RADIO FREE EUROPE *Research*

## EAST EUROPE

*This material was prepared for the use of the editors and policy staff of Radio Free Europe.*

POLAND/28  
9 November 1972

### EXPERIMENTAL CHANGES IN THE POLISH SYSTEM OF PLANNING AND MANAGEMENT

Summary: On 1 January 1973, several score large economic units in Poland will introduce experimental new principles into their systems of planning and management. Should the results of this experiment prove positive, the use of these principles will then be extended to cover the country's entire economy. To date, two variations of the suggested changes have been published. It appears from them that the experiments indicate a desire to arrive at a more flexible system of economic management, in part by weakening the power heretofore accorded directives, in order to encourage self-regulating economic independence on the part of the individual industrial units.

The plants selected for the experiment represent a broad spectrum of industrial branches and types of economic activity. Hence there is to be considerable diversity in applying some of the principles.

The introduction of the experiment is to be supervised by an especially created government commission.

X X X

#### 1. General Principles

The main direction to be taken by the changes in the economic management system which will be experimentally introduced on

1 January 1973 (1) emerges from the decisions of a party-government commission to modernize the system under which the economy and the state function. (2)

The outline of the program of changes worked out by this commission (first published four months after it was passed) (3) plans to eliminate the reasons responsible for the low efficiency of economic activity, both on the national scale and at plant level. These are the main reasons: (4)

1. An evaluation of plant activity was based on plan fulfillment rather than on real progress in creating an un wasteful economy;
2. Economic decisions were not based on economic cost accounting;
3. There were no incentives to encourage economic efficiency;
4. The rights of economic organizations in decision-making supporting economic rationality (effectiveness) were greatly circumscribed;
5. There was no pressure from below to introduce innovations (new products or new technology).

When preparing the general outline of the new economic system, particular attention was paid to the need to eliminate the last of the above-mentioned reasons causing low economic efficiency. The essence of the new concept, as expressed in the outline, can be

- 
- (1) See Polish Situation Report/39, Radio Free Europe Research (EERA), 20 October 1972, Item 2.
  - (2) See Polish SR/15, RFER /EERA/, 14 April 1972, Item 2.
  - (3) Gospodarka Planowa No.8, August 1972.
  - (4) According to J. Kleer, "The Role of Large Economic Units," Przegląd Związkowy, October 1972.

boiled down to a completely new definition of the role of large economic units from that contained in the present system. It would appear that they alone will decide on such things as production, employment, and wages, ventures in the fields of technical progress, investments, etc. The individual enterprises will acquire the right to make decisions on matters concerning the internal organization of planning and management, on principles governing financial accounting, on transferring capital assets, etc. There will also be a relationship between the results of good management and the economic advantages accruing to the economic unit, as well as a new form of relationship with the central plan.

The advantages derived by the enterprise are to stem from good management rather than from the fulfillment of targets imposed from above. The plans of the enterprises are to conform to the general principles of the central plan. Thus far, they could be likened to a central plan split up into parts, like a composition for a choir. The central offices will still be able to set certain targets for the lower-level enterprises, but this is not to be the general rule. The connection between the financial advantages gained by an enterprise and the economic results achieved by it is interpreted as a strict rule: in the case of an enterprise's continuing inability to manage its assets profitably, those assets can be transferred to another economic unit (that is, shutting down the enterprise as a result of bankruptcy).

In order to avoid misunderstandings, however, it must be made clear precisely who will have the authorization to use the prerogatives of what are here referred to as enterprises: i.e., the large economic units which have a particular role to play in economic development. These will be:

1. Associations, which are aggregates of a large number of so-called "internal enterprises" (producing similar goods, or dissimilar ones which are related to one another in terms of technological and co-operational ties);
2. Combines with specialized production;
3. Individual enterprises which are, in fact, very large production units.

The authors of the program tried to create conditions encouraging large production series, concentration of means and effort, development of research, and taking advantage of technical progress.

As far as the experiments set up for 1 January 1973 are concerned, these are designed to:

strengthen large economic units working according to full economic cost accounting, with extensive managerial independence, and, as a result, considerable responsibility. Therefore, the selection of the pioneer plants was made with all this in mind (emphasis added). (5)

The experiments are to be based on a broader use of "economic instruments of guidance and management, with a simultaneous strengthening of the role of the central plan in establishing the basic, strategic aims and targets" (Pinkowski). This is to be mainly evident in a more flexible management of the wage fund (tied to the results obtained from the management of material and investments), and in connecting the economic results of the activities of the enterprise with the scale and degree of utilization of new investments.

## 2. Detailed Solutions

At a CC conference on 9 October 1972, (6) the degree of readiness of the new experimental principles of management was evaluated. These will encompass 35 economic units in which about 20 per cent of over-all industrial production is currently concentrated (including 25 per cent of production for the market and 30 per cent of production for export), and employing 11 per cent of all industrial workers. Thus, these are obviously very large industrial organizations. After operational testing and

---

(5) Jozef Pinkowski, first deputy chairman of the Planning Commission, in Trybuna Ludu, 16 October 1972.

(6) Trybuna Ludu, 10 and 11 October 1972.



appropriate modification of individual variants, the changes are to become the foundation upon which the "best possible system, which would then become generally obligatory," is to be created.

In the days following the above conference, it was difficult to make out what it was all about: information in the general press and over the radio did not go beyond generalities, and complete "discretion" was maintained as to actual details. It was not until Zycie Gospodarcze (7) published the draft principles which are to be introduced with the new year in two economic units that one got some idea of the character of the suggested (and now partially accepted) changes. These are the principles to be applied to the Delta Aircraft and Engine Industry Association and the Pollena Household and Cosmetic Industry Association. Below are discussed in greater detail the basic changes to be introduced in both these associations.

#### Delta

This association possesses a large production potential, mainly of nonmarket goods and with a high proportion of its production earmarked for export. The long-range targets of this association, arising from favorable conditions on both the domestic and foreign markets, depend, to a large extent, on plant modernization.

According to the new principles, the association will receive the status of an enterprise, with a much broader scope of rights and the power to make independent economic decisions. The units combined at present in the association will maintain their current independence, together with "a higher degree of integration."

The increased rights of the association (superenterprise) arise from:

1. Limiting directive indexes to a preferred assortment of products, obligatory targets so far as new technique goes (concerning key problems), and limits on credit investments;

---

(7) 15. and 22 October 1972.

2. Guidance of the association through economic instruments in the form of multiannual parameters and ratios;
3. Broadened rights for the director in making economic decisions.

Increased integration of enterprises (plants) will be achieved as a result of:

1. Creation of centralized funds;
2. Joint decisions on the development of branches and individual plants;
3. Joint undertakings in introducing technical improvements.

The parameters and ratios include:

1. The rate of the wage-fund increase related to growth in production;
2. The general principles governing the charging of the wage fund with interest payments on plant capital asset funds;
3. A participation index in foreign currencies obtained through export to the so-called capitalist countries, establishing at the same time a ceiling on import expenditures in that area;
4. Interest or rates on credits for investment and stocks.

One might add here that, while the first two restrictions are introduced in place of self-regulating profits, the last two appear in a similar form in many countries with a market-regulated economy (through the intervention of central banks).

Only two indexes have been retained in place of the earlier six:

1. Sales on the basis of realized prices;

2. The value of additional production.

Indexes setting the size of production disappear completely. The wage fund would be created (apart from the general dependence on additional production) according to the utilization and stockpiling of war materials, repayment of investment credits, and payment of interest rates. At the same time, there is a plan to reform the criteria governing wages by including all types of remuneration in the wage fund. The wage of a worker, which, at the present time, may be made up of as many as 13 various forms of remuneration, will, in future, be made up of 5 items at most. The basic source of financing investments will be bank credits, with an annual rate of 8 per cent. These credits are to be repaid by the amortization of new plants, but the interest will be charged to gross profits. Interest will be calculated at the same rate during the course of constructing new plants. The repayment of credits and interest charges will be obligatory, regardless of the degree to which the newly constructed facilities will be exploited, and will reduce, to a greater or lesser extent, net profits as a source of bonuses for management and workers. A second, unlimited, source of investment financing will be an "enterprise fund," also created from net profits. This fund will, moreover, finance any increase in circulating assets, so that the size of the funds available for investment will, to a large extent, depend on the level of profitable production. Among the sources of enterprise funds, the item "state budget" has been eliminated -- the new regulations project only two sources of funds: production expenditures, and profits.

It is also worth noting that the principles of the so-called plant fund have been changed (it has been transformed into a "thirteenth monthly wage fund") as have those of the social and housing fund. Payments into these funds are to be charged to production costs at a prescribed ratio to the wage fund.

Pollena

The peculiarities of the household chemical and cosmetic industries in Poland are:

1. An overwhelmingly market-oriented production (c. 80 per cent);

2. The need to maintain a balance between supply and demand in view of the possibility of saturating the market;
3. Small and medium-sized enterprises.

The greatest difficulties in the development of these industries arise from:

1. A far-reaching decapitalization of capital assets and a lack of funds for the modernization and expansion of plants;
2. Rigid sale prices;
3. A shortage of raw materials.

The basic principles of the new economic system are the same as the proposals represented by the remaining "experimental" economic organizations. Differences appear only in the individual solutions.

The main (though not directive) index selected for Pollena is profit, defined as follows:

The value of production and services sold, minus the value of the purchased materials, external services, externally purchased fuel, and repayment of that part of bank credit not covered by amortization.

As one can see, this is a conventional definition, except for a number of important cost items (for instance, wages) and other charges (for instance, turnover tax). However, the final decision as to the exact profit definition has yet to be made. The authors of the draft wanted to define the index in such way as to stimulate, as strongly as possible, sales increases, reduction of material costs (about 80 per cent of the association's own costs), and the minimalization of stockpiling.

The following, on the other hand, are the directive indexes:



1. Export targets in foreign currency zloty to so-called capitalist markets;
2. Normative coefficients, including adjusted increases of the wage fund, normative deductions from and surcharges on specific funds, etc.

The most interesting thing in this enterprise is the system used to clear accounts between the central office (the association) and the individual enterprises, indicating great similarity to a horizontal combine (konzern) model. The central office, with the aid of a trade and services branch, will study market requirements, obtain delivery orders, and then give production orders, at its own risk, to the associated enterprises. The central office will then be obliged to sell the ordered production. The central office will also maintain a system of clearing accounts with the enterprises on the basis of flexible, internal prices. The profit included in internal prices will remain with the enterprises, while the difference between the sales prices (domestic sales, exports, etc.), minus various charges, such as the turnover tax, will remain in the central office as net profit. Thus, the turnover tax will be paid by the central office (it is now paid, as a rule, by the enterprises). As in the enterprises, the net profits in the central office will be divided into a bonus fund for the management and an enterprise (central office) fund.

Under this system, individual enterprises will have only one trading partner: the marketing enterprise of the central office, and one price: the internal price. The most important novelty, however, is the right granted the director of the central office (the association) to establish and change retail prices, with the exception of basic commodities described in a special list. In view of the large part played by cosmetics in the enterprise's production (and a minimal part played by basic articles), this makes it possible for the central office to exert considerable influence not only on the profitability of production, but also on creating a market for a given branch or group of products. As for the products included among basic articles, the prices will be approved by the State Price Commission, but only as maximum prices.

The specific character of Pollena (the majority of its imports is from the so-called capitalist countries, and the majority of its exports is to the so-called socialist countries) does not permit a direct relation between the means assigned to imports and the level of exports. This part of the draft has not yet been fully prepared. There is, nevertheless, a noteworthy suggestion to make it possible for the central office to purchase part of the necessary foreign currency from the bank, at a higher exchange rate. This would probably cover the purchase of the sort of raw materials or equipment which would make possible particularly high profits. At the beginning of October, the draft principles for the Pollena experiment had not yet been given final approval, but the state of preparations at that time suggested that they have probably been endorsed in the meantime.

### 3. Comparisons and Conclusions

Work on the final text of the "initial application" (a recently coined phrase, clearly designed to minimize the importance of the undertaking) is proceeding. By mid-October, of the 20 projected draft experiments... only a few had been approved or were in course of adoption. (8) Government permission to introduce the experiments will be granted, in the final analysis, by a special commission, with Jozef Pinkowski as chairman. At a conference on October 9, it was pointed out that an institution should be created which would concern itself with an extensive, systematic analysis of the results achieved by the experimental units. Reservations were also expressed as to the usefulness of maintaining double bookkeeping during the experiments (according to the old and the new regulations) by the units involved. Excessive planning and accounting paperwork might -- in many cases -- negatively influence the success of the experiments.

Delays in preparation and approval of the drafts have resulted in a certain lack of clarity as to the scope of the changes planned. One can only consider the two versions discussed in this paper (one of which, for Delta, has already been approved). Despite a lack of complete information, we know enough about

---

(8) Zycie Gospodarcze, 15 October 1972.

the main thrust of the changes and -- in general -- their scope. The projects seem to contain the following general innovations:

1. Increased powers for the central office (association, combine management) in dealing with enterprises;
2. A more flexible relationship between economic units and the central plan (conformity in "direction" only);
3. A more economical approach to the activities of enterprises through reducing the number of directive indexes and the regulation of general proportions through long-range (multiannual) ratios and parameters;
4. In particular, a more economical approach to investments (financing through high-interest credits) and to the wage system (making it dependent upon the efficiency of given economic units).

Certain areas of the changes now suggested do not depart too far from the "reforms" initiated in the late 1960s by the Gomulka administration, under the guidance of then Politburo member Boleslaw Jaszczuk. (9) In that concept, too, the main emphasis was put on an enhanced role for the large economic units (associations, combines) and on their independence. In that period as well, the principle of credit-financed investments (low rate or free credits) was first introduced, and preparations were made to base the growth of the wage fund on the successful production of the economic unit involved. The main trend, therefore, is similar. But there are also essential differences.

At present, though "the Thames has not been set on fire," (10)

- 
- (9) Details, inter alia, in Antoni Marek, "The Draft of the Wage System in Poland," Polish Background Report/2, RFER (EERA), 1 April 1970, and "The Second Plenum of the PUWP CC and Its Background," Polish BR/11, RFER (EERA), 27 May 1970.
  - (10) Stefan Bratkowski in Zycie i Nowoczesnosc of 20 September 1972: "After one year of work by a state and party commission of experts, there is still no full agreement on what sometimes amount to fundamental solutions."

the suggested changes are devoid of various dogmatic restrictions: no one is any longer afraid of imposing market relationships. The material published to date indicates far-reaching flexibility in the suggested systems, and better preparation as far as the feasibility of the planned results is concerned. It also seems very important that the suggested changes will still depend upon controlled but self-regulating microeconomic relations within economic units. Moreover, there is a praiseworthy individual approach to various drafts, and their adjustment to the specific needs of various branches or plants.

Central solutions are far removed from the patterns prevalent during the late 1960s. Here one might mention (in the case of Pollena) the right of the association director to set retail prices, or the possibility of purchasing foreign currency from a bank at a mutually agreed upon rate, or (in the case of Delta) the theoretically admissible possibility of turning resources set aside for wages into investments and vice versa. These may be extreme examples among the experiments now in preparation, but they are telling enough, seemingly free of the usual doctrinaire inhibitions.

However, only the future will show to what degree the current efforts will differ from earlier attempts. A Zycie Warszawy commentator had good reason to write (11):

Thus far, the main difficulties lay not so much in preparing concepts as in correctly introducing them in practice.

Antoni Marek

---

(11) On 11 October 1972.