

## EAST EUROPE

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### POLISH ECONOMIC MANAGEMENT SYSTEM RESTRICTS MULTINATIONAL CO-OPERATION

Summary: Changes in the economic management system of Poland are a prerequisite for a significant expansion of multinational economic co-operation. These modifications would have to be in the direction of providing economic stimuli for such agreements and of endowing Polish economic units with greater initiative, independence and responsibility.

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The current Polish economic management system is a far more formidable barrier to multinational economic co-operation than are technological inadequacies, according to a two-part evaluation by Henryk Chadzynski appearing in the widely read Zycie Warszawy.<sup>+</sup>)

Although there are a number of examples of Polish economic organizations co-operating with Western enterprises, thereby permitting Polish economic units to skip "a technological stage of know-how," there are many more cases in Poland "of avoiding such ventures." According to Chadzynski:

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(+) Henryk Chadzynski, "Changes of Foreign Co-operation: Hopes and Reality," Zycie Warszawy, 14 and 15 October 1970.

It turns out that it does not always suffice to surmount the technical or technological barriers; it is also difficult to achieve an adequate organizational standard and -- what is extremely important -- to conduct flexible activity, which is indispensable under the conditions of the difficult market game. In spite of many optimistic views on this subject, one must realize that, irrespective of whether one likes it or not, we come, on the international scale, into contact with problems which we are not always able to tackle at home. After all, co-operation is the Achilles' heel of our economy.

In short, the very same inadequacies of the system of economic management which have made internal economic co-operation most difficult are also preventing the full utilization of the possibilities flowing from expanded multinational co-operation, particularly with those economies operating under market conditions.

#### Some Obstacles to Economic Co-operation

The author of the two-part article in Zycie Warszawy illustrates some of the difficulties encountered in multinational economic co-operation, using actual cases. In one of the examples of a potential economic co-operation agreement with a foreign firm, he traces the attempt to find a suitable partner in Poland. The foreign firm sought to have an agreement for the manufacture of castings needed as components for a certain type of heavy duty equipment. The Polish foreign trade enterprise Polimex was contacted and the search was launched. A series of enterprises and associations of the machine industry were contacted and the answer from each was negative. One, the Casting Industry Association, suggested that Polimex might be successful with the Steel and Iron Industry Association. The latter replied in the negative and returned the favor of the Casting Industry Association by suggesting that the associations of the Ministry of the Machine Industry might help! Chadzynski then observed, "And so the circle closed," adding that "it is baffling when it /the negative answer/ comes from almost all potential producers."

Under these circumstances, where virtually every enterprise or association which could serve as the partner in a pro-

duction co-operative agreement refuses to participate, the usual solution reluctantly may be applied -- namely "the ministry is finally forced to issue a severe administrative injunction."

Chadzynski dismissed the possible explanation for nonco-operation as being simply a display of "ill will" by the manager. Instead, he thought the answer to the unanimous refusal to participate lay in a series of disincentives inherent in the economic management system which provides many obstacles but few benefits for participating in production co-operation schemes.

By accepting, under the existing conditions, Chadzynski wrote, "an enterprise gains nothing, yet exposes itself to various kinds of conflicting situations." The risks are too great to be met by the inadequate enterprise or association risk funds. Strict deadlines are involved and backed by heavy penalties. The "factory's indices for productivity" may be affected unfavorably, followed by a resulting unfavorable evaluation of the enterprise. The enterprise, in addition, will have to worry about materials under the stringent scarcity conditions prevailing in Poland, which require the placement of material orders "many months in advance." Also discouraging is the lack of working capital arising simply because the Commercial Bank gives loans for "quick return investments" and "not yet for circulating assets." The enterprise plan has to be changed to accommodate the foreign intrusion, because it usually has no production reserves to accommodate the added production requirements. Getting plan changes approved "is not so easy." Then, too, should the purchase of foreign equipment or material be required, "the enterprise has to beg for foreign currency." The obstacles are many and the benefits few -- this is the rationale underlying the managers' refusal to undertake risky co-operative production.

#### Changes Needed

Many changes have to be introduced, according to Chadzynski, if a significant expansion of co-production is to transpire. He suggests that "some privileges" with regard to materials have to be assured, credits made available, and profit guarantees expanded to match risks, for the enterprise and the personnel. Equally important is the need to develop "greater organizational flexibility"

within Polish economic organizations, which would permit making decisions quickly and freely adjusting to changing market requirements.

One of the difficulties experienced by potential Western co-operators is associated with negotiations. Frequently, after long periods of negotiations, a decision is reached, only to be reviewed again at the next session, as if the problems had never been discussed previously. Much of this is due to the fact that, in Poland, there frequently is a clear distinction between those who conduct the negotiations and those who are to carry out the agreement. The Zycie Warszawy writer suggests that combines and large enterprises be permitted to conduct direct negotiations with their foreign partners and that the Polish co-operators be subjected only to the rather strict supervisory control by the bank. Under risk conditions, "initiative, independence and sole responsibility" for economic units are the prime prerequisites for successful production co-operation with foreign partners.

New organizational forms and operational methods are also needed. Accommodations must be made for the possibility of investments by foreign enterprises on the basis of returns satisfactory to the foreign investor. It is through this method that Poland will be able to advance technologically, with a minimum expenditure of scarce foreign currency. The experiences of other socialist countries could also prove useful.

Many problems, according to Chadzynski, have yet to be unraveled before Polish economic units can become acceptable partners. He therefore calls for a discussion among experts of these problems and suggested solutions, but adds that such discussions should not be "carried on for too long" if Poland is to participate extensively in multinational economic co-operation.

Many of the same problems that Poland faces also arise when other East European countries have embarked on an expanded program of economic co-operation, particularly with enterprises operating under market conditions. Similarities in the systems of economic management have given rise to the same problems. Only changes in a direction which will permit greater flexibility of response on the part of production units directly involved can provide a firm foundation for the furthering of multinational economic co-operation, regardless of whether it be with non-Communist or with Communist partners.

Harry Trend