

## EAST EUROPE

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THE SITUATION OF HANDICRAFTS IN POLAND.

Summary: This paper examines the state of handicraft activity in Poland and reviews official policy toward this important sector of the Polish economy.

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Artisans constitute quite a predominant group in the private (nonagricultural) sector of the Polish economy. At the end of 1969, 340,000 persons out of a total of 448,000 employed in that sector were artisans (including apprentices), while at the same time the socialized sector of the economy employed 9,515,000 people. Thus, according to rough estimates, the number of people dependent for their livelihood on handicraft activity was around one million, out of a total population of 32.4 million. At the end of 1969, there were 66,000 apprentices, of whom an estimated 20,000 annually complete their apprenticeship and become trained artisans.(1) In 1969, handicrafts accounted for more than 2% of the GNP (Tygodnik Demokratyczny, 11 January 1970). (Excluded from these figures are those whose employment in this sector is unauthorized.)

The impact of handicrafts in the national economy extends far beyond that indicated by the figures, for the simple reason that it touches directly upon many spheres of the everyday life of each citizen. For handicrafts supply about 50 per cent of all the consumer services and play a considerable role in the production of the so-called "thousand and one"

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(1) See Appendix (1a).

small articles; the shortage of both these services and articles is strongly felt on the domestic market. Hence the considerable interest in handicrafts by both the consumer and the government, which is aware of the fact that the state-run industry is not capable of fully satisfying need for services and products of light industry.

The fate of handicrafts in postwar Poland has been marked by successive ups and downs. The policy of discrimination during the Stalinist era depleted the ranks of private artisans. Their number dropped from about 300,000 in 1948 to below 124,000 in 1953.

The gradual change of attitude to private initiative in the post-Stalinist era also encompassed a reversal vis-à-vis handicrafts. As early as 1954 the number of private artisans' shops had increased by more than 5,000 and the number of artisans by almost 10,000.

But the real foundation for a revival of private handicrafts was created by the Seventh Plenum (July, 1956) and the important Eighth Plenum (October, 1956). The earlier policy of discriminating against private handicrafts was openly condemned, and a number of practical measures were introduced which were designed to ease the lot of individual artisans and to encourage the development of handicrafts. The fiscal policy was relaxed, a two-year tax exemption for new workshops was introduced, artisans were allowed to obtain bank credits and were given access to the central supplies of materials. The government's spokesmen gave assurances that the new policy was not transitional, but permanent.

The official change in attitude and the manifold measures adopted favoring artisans had an almost immediate effect, and the two years following October, 1956, saw the expansion of private handicrafts. From some 96,600 workshops employing over 141,000 people at the end of 1956, handicrafts grew to almost 136,000 workshops employing over 227,000 at the end of 1958 (that is, an increase of 39,400 and 86,000 respectively).

The Development of Handicrafts 1955-1959(2)

On 31 December	Number of persons employed, including apprentices	Percentage change over previous year
1955	129,571	- 3.0
1956	141,314	+ 9.0
1957	209,495	+48.0
1958	227,084	+ 8.5
1959	226,690	- 0.2

Period of Stagnation, 1959-1964

But with the gradual fading away of the October 1956 spirit, the atmosphere in the private sector of the economy also grew less favorable. Thus, in summer 1959, the Democratic Party weekly Tygodnik Powszechny (23-29 July 1959) wrote: "The program for state-run handicrafts is today the only program which could guarantee a really rapid development of the crafts." The main task lay with the socialized handicrafts, maintained the paper, while individual craftsmen were to act as a supplementary force. In conclusion, the paper maintained that it was more reasonable, from the social point of view, and economically more effective to direct investment funds to state-run handicrafts.

The immediate effect on the artisans was the resumption of harassment by the local Party and national council (local government) functionaries, who persisted in their attitude that privately run workshops are remnants of the bourgeois past. They could, and did, make life difficult for artisans through refusal of permits and premises, cutting off of supplies, blocking sales and the like. The short-lived dynamic development of handicrafts was halted.

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(2) See Appendix (1).

Handicrafts in the Post-October 1956 Period(3)

On 31 December	Number of persons employed, including apprentices	Percentage change over previous year
1959	226,690	- 0.2
1960	223,258	- 1.5
1961	225,811	+ 1.0
1962	226,656	+ 0.4 o.u. ?
1963	227,938	+ 0.5

Period of Slow Revival, 1964-1968

This era of stagnation, lasted for over five years, until the Fourth Party Congress (June, 1964), which declared, as one point of its resolution, that "individual handicraftsmen should play an important role in the development of services for the people and agriculture." The resolution called for an increase of employment in the handicrafts, for better supplies of materials to artisans, for credit facilities and allocation of adequate premises.

During a period of more than two years following the Fourth Party Congress, scores of legal acts were issued, mainly designed to increase the volume of artisans' services to the people and of handicrafts production of light industrial goods in short supply. The most important of these decrees concerned increases in the permitted number of paid workers (up to eight in the building trades); extension of the validity of concessions (to 10 years and over); tax reductions for training apprentices; reduced turnover tax rates; extension of the two-year tax-free period for newly opened workshops; investment credits; and social insurance for artisans.(4)

In 1965, following the recommendations of the Fourth Party Congress, the economic activities of the handicrafts sector were included for the first time in the development

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(3) See Appendix (1).

(4) For sources on legislation see Appendix (2).



plans of the voivodship national councils. The national plan of economic development in the years 1966-1970 included concrete directives on the development of handicrafts in the field of services and supplementary production for the domestic market and for export. Commenting on that move, the Democratic Party weekly Tygodnik Demokratyczny (14-20 December 1966) concluded that this meant that handicrafts had been accepted as a permanent element of the national economy.

In spite of all these overtures, the response of private handicraftsmen was rather slow and hesitant, and it was actually only in 1967 that the effects of all the enactments became really noticeable. By the end of 1967, the number of workshops had risen to over 159,500 and of those employed to over 306,700, the highest number since the war.

Handicrafts Between the Fourth and the Fifth Party Congresses(5)

On 31 December	Number of persons employed, including apprentices	Percentage change over preceding year
1964	241,318	+ 5
1965	254,744	+ 5
1966	278,662	+ 9
1967	306,783	+10
1968	332,604	+ 8 8?

One of the reasons for this initially slow response by handicraftsmen to the official incentives was the artisans' apprehensive attitude regarding the government's real intentions. Remembering the varying fate of handicraftsmen in the years since the war, artisans could no longer be so easily persuaded that this was to be a really permanent official policy. Those many artisans who, after the post-October, 1956 period of favors was over, went underground (allegedly about 100,000 practiced their trade illegally) were still reluctant to come out into the open for fear of later again being forced

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(5) For source, see Appendix (1).

out of business by harassment and heavy taxes. Those who gave up their workshops and went to work for state enterprises were hesitant to leave their safe jobs for the risky independent trades.

On the other side, the numerous new decrees and laws had often been supplied with clauses and later implementing orders which at times considerably lessened their final effect. Thus, for instance, the beneficial results of the government's law on the extension of the social security system to private artisans -- although one of the most important concessions to handicrafts in recent years -- were considerably reduced by the high contributions artisans were made to pay into their social insurance fund, because the contributions were not adjusted to the level of various income groups.

The 29 March 1965 law on the social insurance of artisans (Journal of Laws No.13, 6 April 1965, Item 90) provided for an insurance fund based on contributions paid by artisans. The average contribution, amounting to 233 zloty monthly, was, in the case of small or irregularly employed artisans, at times higher than taxes. As a result, finding the contribution too high a burden, some artisans, mainly peasant-artisans, decided to close their workshops. Furthermore, the law of January, 1968, which produced a considerable general increase in pensions, did not include artisans.

Thus, owing to a certain inconsistency in official policy, the various inducements primarily designed to encourage expansion of artisan services to the people failed to produce the expected results. Thus while in 1968 handicraft turn-over with socialized industry increased by 30 per cent, the volume of services to the individual consumer increased by only 12 per cent.

#### Fifth Party Congress and After

The government's most recent policy toward handicrafts is based primarily on the resolution of the November, 1968,

Fifth Party Congress. The full meaning of the resolution, as a definition of official policy vis-à-vis private handicrafts can be best judged when compared with the similar resolution of the Fourth Party Congress. The new resolution on handicrafts reads:

The basic duty of handicrafts should be to concentrate on extending and increasing services to the population, especially in the villages and small townships. One should restrict the tendencies of handicraftsmen to increase their turnover with the socialized sector of the economy in the field of co-operation and production of industrial goods.

One should counteract the socially and economically harmful capturing of a part of the national income by private trade intermediaries.

A certain change of mood has become noticeable since the resolution of the Fourth Party Congress. The main stress in both is on the necessity of developing services for the individual consumer. But while in June, 1964, the necessity of creating adequate conditions for handicrafts to develop, for improved supplies, credit facilities and adequate premises was also stressed -- the resolution of the Fifth Congress sounds rather like an admonition to handicraftsmen, obviously reflecting the concern of the authorities over the development of handicrafts in officially undesired directions and over instances of artisans earning large profits.

The authorities' two main reservations against handicrafts in recent times have been: the gravitation of artisans toward production rather than services, and secondly what officialdom terms as the excessive profits of the private sector. Production of miscellaneous items, especially in comparatively long series, for the state enterprises brings considerably higher profits than providing services to direct consumers. In 1969, out of a general turnover in handicrafts amounting to 35 thousand million zloty, turnover with the socialized sector accounted for 15.8 thousand million, and services for the population for 14.1 thousand million zloty.

The authorities were also not deaf to the indignant voices complaining about excessive incomes in the private

sector, leading to an extravagant way of life, luxurious villas and expensive cars. A lively discussion developed in the press around the problem of excessive artisans' incomes. Thus, Argumenty (1 December 1968) suggested that a proper tax policy should regulate incomes in handicrafts, however in such way as not to hamper the generally desirable development of the crafts, but to channel their development in economically and socially favorable directions. The paper called the excessive profits in handicrafts of marginal importance and stated the bulk of artisans were working hard for their daily bread, but that the public often confused turnover running into the millions with incomes of millions. In 1967, less than 1 per cent of all workshops had a turnover exceeding one million zloty, said the paper, and the progressive tax system was reducing profits considerably. So much so that, in the case of a yearly turnover of 1.2 million zloty, the net monthly income amounted to only about 20,000 zloty.

In an article entitled "Private Initiative" (Zycie Gospodarcze, 22-29 December 1968), Jerzy Urban criticized the lack of a clearly defined policy toward the private sector and stressed the most urgent necessity to give artisans full access to legal sources of supplies, thus eliminating illegal transactions and bribery. The present situation, said Urban, is a "mosaic of nonsense," and the cases of excessively successful private initiative are the result of the indolence and the lack of initiative of the socialized sector and, at times, of corruption.

Coming out again in defense of the handicrafts, Jerzy Urban wrote in Zycie Gospodarcze (5 January 1969) that about 20 per cent of industrial workers earn as much as an average artisan, but that artisans work longer hours and have to turn part of their earnings into investments. The author concluded that most of the excessive incomes due to private initiative are caused by shortcomings in the national economy.

Writing on the same subject, the official Party daily Trybuna Ludu (31 July 1970) admitted that the problem of the handicrafts and the private sector of the economy in general aroused great public interest; that, on the one hand, stories were circulating about the astronomical profits of private entrepreneurs, while on the other, there were rumors about an alleged war against the handicrafts and private initiative as



such. The paper went on to say that some trends undesirable from the point of view of the national economy could be observed, namely that handicrafts had developed mostly in the large cities and near large industrial plants, while their development in small towns and villages was considerably slower; secondly, that while the production sector had developed excessively, the progress in the services sector was slow.

#### Legislation on Handicrafts Following the Fifth Party Congress

The method of implementing the resolutions of the last Party Congress and the government policy concerning handicrafts can be best judged from the important decrees issued since November, 1968. The decree of the Minister of Finance of 30 April 1969 (Journal of Laws No.14, 16 May 1969, Item 103) produced an amendment to the decree on the excess profits tax, sharply increasing tax progression. Thus, for an annual income in excess of 108,000 zloty, the new tax rose to a prohibitive 90 per cent, compared with the previous 60 per cent. At the same time, taxes for some particularly favored consumer services (like repairs and maintenance of household goods) were lowered from 5 to 3.5 per cent.

In May, 1970, in order to restrict handicrafters' lucrative co-operation with state enterprises, the Council of State ordered that sums paid by state enterprises for products bought from private entrepreneurs would accordingly be charged against the wage funds of state enterprises. Reporting on this measure, Trybuna Ludu (27 August 1970) wrote that it would help to reduce the number of orders granted indiscriminately to the private sector.

The credit policy is also being used as a tool of the government's employment policy. Commenting on the credit policy for 1970, Zielony Sztandar (21 December 1969) confirmed that preference will be given to new workshops opening in rural areas, so that "in view of the slower rate of increase of employment in the socialized sector in 1970, a part of the peasant youth, especially from the overpopulated areas, should be able to find employment in handicrafts."

There exists at present no problem of a decrease in the number of artisans, but a year ago Radio Warsaw (25 October 1969) complained that the growth rate of handicrafts had slowed

down in recent times and ascribed this partly to the fact that a number of artisans' shops which boosted their production have been classified as belonging to private industry; partly to the retirement of older artisans, and finally, also to the adverse effects of fewer purchases from artisans by the socialized trade. As compared with the previous period, the rate of growth in the number of artisans shows a marked decrease since the November, 1968, Party Congress.

Handicrafts' Growth Rate Before and After the Fifth Party Congress(6)

On	Number of Employed, including apprentices	Percentage change over previous year
31 December		
1967	306,783	+ 10
1968	332,604	+ 10
1969	340,000	+ 2
1970	355,000 (estimate)	+ 5

The most recent legislative steps concerning tax reductions for private investors again focused attention on the government's policy with respect to handicrafts. A government draft bill on tax reductions for private investors was presented to the Sejm last September and was passed on 25 November 1970. Reporting on the discussion on the draft bill in a Sejm commission, Radio Warsaw (October 13) quoted the opinions of deputies who stressed that the draft bill reflected the consistent policy of the state vis-à-vis handicrafts and state support for the numerous artisans who supply consumer services; that, therefore, "for those very same artisans", the legislators want to create conditions favoring investments.

Commenting on the same draft bill, Życie Gospodarcze (25 October 1970) said that it actually was extending the existing regulations beyond 31 December 1970, while introducing, at the same time, some restrictions on the application of tax reductions: tax reductions are to be limited now to 50 per cent of investment outlays and those in the higher tax brackets are not to benefit from tax reductions. The paper said further that the practical application of the bill should help adjust the

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(6) See Appendix (1).

activities of handicraftsmen to the general principles of the development and the needs of the national economy in the years 1971-1975.

The article maintained that the policy stipulated in the draft bill of withholding tax reductions from artisans in the higher income brackets was justified by the fact that the government was deliberately according preferential treatment to service workshops, which meant in the first place smaller workshops with lower incomes. The paper pointed out that the draft bill created only a general framework for future steps which will be defined clearly by subsequent regulations of the Council of Ministers and the Minister of Finance.

That the projected extension of tax reductions beyond December, 1970, was not meant merely as a favor to handicraftsmen, was clearly stated by Michal R. Stundzis in an article in Slowo Powszechne of 28 September 1970. Tax reductions applicable to investments in the handicrafts sector, introduced originally in 1959, were to continue to the end of 1970, said the author, but since experience proved that the result was an increase of internal tax revenue which more than compensated for the allowances granted, the government has decided to extend the concessions beyond the end of 1970.

Since the text of the new bill is not yet available, it is difficult to judge its full implications with regard to the future of handicrafts.

But the government's general, long-range intentions as to the development of handicrafts can be judged from tentative draft plans for handicrafts for the next five years, 1971-1975.

As reported by Slowo Powszechne (27 January 1970), by the end of 1975, the number of workshops was expected to reach 190,000 (a 10-per cent increase over estimates for 1970) and the number of those employed in handicrafts 410,000 (which means a 15 per cent increase over 1970). This would mean a deceleration in the growth rate in comparison with the 1966-1970 period, during which the number of workshops increased by about 27 per cent and the number of those employed in handicrafts by about 38 per cent. It would also mean a yearly rate of growth of only 2 to 3 per cent.



As mentioned several months later by Radio Warsaw (17 June 1970), the value of artisans' services to consumers is to increase according to plan by over 50 per cent by the end of the 1971-1975 period as compared with the level of 1970.

To sum up the main points of the government's policy to private handicrafts expressed in various resolutions and declarations, as well as in many decrees and regulations:

1. The government does accept private handicrafts as a permanent element of the national economy;
2. The government projects their development, but at a moderate rate, safely below that of the development of the national economy as a whole;
3. The government desires handicrafts to concentrate mainly on consumer services and in the production sector only on the limited, supplementary production of goods in short supply on the domestic market;
4. It desires the development of mainly small workshops, primarily in the villages and small townships, possibly away from large industrial centers, preference being given to repair shops and building trades;

What the government is trying to prevent is:

1. Handicrafts developing production, especially for state enterprises;
2. Artisans settling near big factories and industrial centers, which creates more possibilities for illegal supplies of materials and for obtaining large orders from state industry;
3. Artisans achieving incomes greatly in excess of average workers' wages.

All this means qualified support for and stricter control over the development and activities of handicrafts. The relatively recent (30 June 1970) change in the chairmanship of the Committee for Small Industry which is also responsible for private handicrafts, is not without significance in this respect. The chairmanship,



so far traditionally in the hands of a Democratic Party member, has passed into the hands of a PUWP member, Jerzy Kusiak, considered a supporter of a get-tough policy, a man who started his professional career immediately after the war in the voivodship security office in Poznan and who, several years later (1958-1960), was chairman of the Poznan branch of the Supreme Chamber of Control.

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APPENDIX (1)

PRIVATE HANDICRAFTS

On 31 December	Number of Workshops	Number of people employed, of which:	
		Total	Apprentices
1948	140,000	300,000	
1950	93,884	158,950	21,252
1951	88,147	138,155	15,299
1952	88,644	132,435	13,071
1953	82,611	123,865	12,600
1954	87,882	133,184	14,743
1955	89,627	129,571	17,391
1956	96,652	141,314	20,372
1957	131,737	209,495	35,043
1958	135,992	227,084	43,378
1959	134,474	226,690	46,763
1960	133,733	223,258	43,387
1961	134,883	225,811	42,486
1962	134,335	226,656	42,475
1963	132,447	227,938	44,004
1964	135,612	241,318	50,179
1965	138,516	254,744	54,842
1966	147,412	278,662	58,253
1967	159,571	306,783	59,041
1968	167,637	332,604	63,917
1969	170,000	340,000	66,000
* 1970 (esti- mated)	176,000	355,000	68,000

(Small Statistical Yearbook 1970, except for 1948 and 1970, which were taken from press reports.)

APPENDIX (1a)

Number of Employed in the National Economy (excluding agriculture)  
(in thousands)

On 31 December	Total	Socialized Sector	Private Total	Sector of which: Handicrafts
1967	9,313	8,904	409	306
1968	9,646	9,211	435	332
1969	9,963	9,515	448	340

(Small Statistical Yearbook 1970)

(Small Statistical Yearbook 1970, except for 1948 and 1950, which were taken from 1948 report.)

APPENDIX (2)

Legislation on Handicrafts

Journal of Laws No.60, 29 December 1956, Item 289

Decree of the Minister of Finance of 7 December 1956, on a two-year tax exemption for new small artisans' shops opening between 1 August 1956 and 31 July 1958 in localities below 5,000 inhabitants (up to 10,000 in the Western Territories), applying in general to artisans employing no hired labor.

Journal of Laws No.6, 29 December 1956, Item 288

Decree of the Council of Ministers of 27 December 1956 on flat-rate income and turnover tax for artisans' shops employing no more than four paid workers and having a yearly turnover not exceeding 660,000 zloty.

Journal of Laws No.77, 31 December 1958, Item 406

Decree of the Council of Ministers of 17 December 1958 on a three-year tax exemption for small artisans' shops opening between 1 August 1958 and 31 July 1960 in localities of under 10,000 inhabitants; applying to workshops employing not more than one family member.

Journal of Laws No.13, 1964, Item 78

Decree of Minister of Finance of 23 March 1964 on a two-year tax exemption for small artisans' shops opened between 18 March 1964 and 31 December 1965 in localities of up to 20,000 inhabitants; applying to workshops employing neither family members nor paid workers.

Journal of Laws No.13, 6 April 1965, Item 90

Law of 29 March 1965 on social insurance for artisans.



APPENDIX (2) .... continued

Journal of Laws No.52, 1965, Item 321

Decree of Minister of Finance of 7 December 1965 extending the decree of Minister of Finance of 23 March 1964 on a two-year tax exemption for new workshops; extension valid from 1 January 1966 to 31 December 1970 for workshops in localities of up to 20,000 inhabitants.

Journal of Laws No.14, 16 May 1969, Item 103

Decree of Minister of Finance of 30 April 1969 on the excess profits tax, sharply increasing progression; taxes for some groups of workshops (services) lowered.

APPENDIX (3)

SOURCES (Press)

Tygodnik Demokratyczny: 14-20 December 1966;  
11 January 1970

Zycie Gospodarcze: 22-29 December 1968  
5 January 1969  
25 October 1970

Trybuna Ludu: 31 July 1970  
27 August 1970

Slowo Powszechne: 27 January 1970  
28 September 1970

Tygodnik Powszechny: 23-29 July 1959

Argumenty: 1 December 1968.

Zielony Sztandar: 21 December 1969