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### POLAND: THE PRICE ISSUE

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Summary: Problems relating to price formation have persisted in Poland throughout the postwar period. In particular, popular resistance to sudden and sharp price rises has resulted in social disturbances and political upheavals. It is apparent, however, that significant sections of Polish society have in recent months been contemplating price reforms. This paper surveys the historical background to the price issue, and discusses its impact on Poland's economy and politics.

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### Introduction

Prices, an issue that in the last three decades has brought down, directly or indirectly, several governments and two party first secretaries, is a vital element of all the hitherto published versions of proposals to reform the Polish economy. It is now generally accepted that an irrational price system has contributed to Poland's present economic difficulties. Nevertheless, the extent of popular consent to actual price adjustments, if and when they come, is still uncertain, mainly because no detailed plan for such a restructuring, together with the form and size of expected compensation, has yet been formulated. As far as the domestic market is concerned, unrealistic agricultural procurement prices and food prices are generally recognised as creating the biggest pricing problems in the postwar period. Thus, although the freezing of food prices in the late 1940s and early 1950s was justified on social and economic grounds, the maintenance of this policy in the changed industrial and sociopolitical conditions of the 1970s became an anachronism.

In the early postwar days the freezing of food prices, in a situation of chronic shortages and of extremely low wages, constituted the only guarantee for maintaining a minimum living standard.

Low food prices brought in their wake inflexibility in the procurement prices paid to food producers, and the consequent lower profitability in agriculture. In the absence of subsidies this also resulted in lower agricultural production.

The industrial expansion of the last decade changed the picture dramatically. The wage and income explosion created a market gap between purchasing power and consumption expectations on the one hand and market availability on the other. This discrepancy could only partly be reduced by increasing subsidies to food producers. These, it turned out, were, however, only a stopgap measure which created more problems than they solved, even in the short term.

First, the subsidies made the retail prices of processed foods irrationally low, in relation to procurement prices paid for agricultural produce. On occasion, processed prices were actually lower than the price of the unprocessed product. This led to direct waste and excessive demand, a problem that was compounded by the shortage of durable consumer goods on the market. Secondly, the subsidies resulted in a drain on the country's budgetary resources, with a large proportion of state budgets being devoted to price subsidies. This inhibited domestic capital accumulation, and led the country to rely increasingly on foreign loans. These loans were used both for maintaining artificially low prices and to pay for the industrial expansion and modernization program. In the meantime, the agricultural sector was ignored, thus exacerbating the problem of food shortages.

### Historical Retrospect

The first attempt at a substantial reform of food prices took place early in January 1953. While the unexpected price increases announced then were received with astonishment, the repressiveness of the Stalinist regime of the period prevented any visible manifestation of displeasure. The bulletin announcing them did not exactly specify the rate of the price increases, which facilitated increases, also unspecified, in the procurement prices paid to farmers. These changes were accompanied by hikes in wages and retirement pensions (by around 40% and 46%) respectively.

It was only much later that it became apparent that the actual price increases amounted to 65%, resulting in a drop of people's real incomes of between 7% and 9%, arguably the most serious drop on record from then to date. (1)

- (1) This section of the report is based on an article by Professor Zdzislaw Krasinski of the Poznan Academy of Economics' Domestic Trade and Services Institute, part of a series published by Gazeta Handlowa, 14, 19, and 26 April, and 17 May 1981.

Nevertheless, the measure, combined with the simultaneously abolition of the rationing of meat, fats, and of sugar, succeeded not only in balancing the supply/demand market, but also in increasing agricultural production to the extent where prices were later forced down to stimulate demand. Three later increases followed: butter in 1957 (25%), and meat in 1959 and 1967 (28% and 18%, respectively).

By 1970 a poor harvest and the necessity to increase food subsidies to a sum total of 16,000 million zloty, an amount extremely modest by today's standards led the authorities to introduce another price increase. On 12 December 1970, at 2210 hours, it was announced that, as of midnight, the prices of many foods, and of some industrial goods, would go up, while the prices of several other industrial products would be reduced. On balance, the price increases would have amounted to between 10% and 11%, lowering the cost of living index by about 5.5%. This time the population's indignation was expressed in what is now called the "December events" on the coast. The authorities (Gierek replaced Gomulka at that time) responded by withdrawing the increases (on 1 March 1971).

The agricultural procurement price increases have, however, remained in force, causing the initially modest food subsidy figure to escalate to 100,000 million zloty by 1975.

The growing market imbalance, aggravated by the income explosion that came in the wake of the country's rapid industrialization, combined with the crippling burden of mounting subsidies, encouraged the authorities to attempt another food price reform. This was announced by Premier Piotr Jaroszewicz on 24 June 1976 in the Sejm and revoked, in a dramatic television announcement, the next day, as a result of spontaneous protests and disturbances (Ursus and Radom). These government "proposals" were to be implemented on June 29, supposedly leaving the intervening weekend for consultations, in fact a face-saving maneuver for the authorities as things turned out. The most drastic of the price increases were those for meat, poultry, butter, and sugar (which went up by 69%, 30%, and 95%, respectively). The price rises were to be followed by across-the-board compensation (i.e., wage increases). At the same time, procurement prices were adjusted. According to later calculations by the Poznan Academy of Economics, this particular round of price increases would have resulted in a general drop in real incomes of between 5% and 6%, but as much as 8.5% for those in the lowest income bracket.

To offset the growing subsidies bill, augmented by the latest procurement increases which were not withdrawn and which then topped 130,000 million zloty, the authorities resorted to price adjustments by means of hidden increases, by changing specifications, and thus prices, on a variety of products. These measures were soon followed by the introduction of commercial (i.e., market) prices for meat, to be sold in a specially appointed chain of shops, at double and more of the official 1967 prices.



By 1978 the number of commercial shops had trebled, selling 8% of all meat and meat products, (2) increasing their share by a further 10% in 1979.

On 1 July 1980 the government introduced yet another extension in the sale of meat at commercial prices. (3) On the face of it, this amounted to only a 2.5% increase in the commercial sales of the previous year (thus 20.5% in all) but in reality it was nearer 30%, if innards, poultry, and private slaughter were excluded.

This price increase and the way of its announcement (4) proved to be a catalyst for a wave of national protest that starting in Warsaw, Lodz, Tczew, Wloclawek, and Lublin, and extended throughout the country.

### Government and Solidarity on the Price Issue

Economic realities in the late 1960s and during the decade of the 1970s -- including the issue of price stagnation versus the problem of mounting world inflation -- produced such distortions in Poland's economy that a price reform (price increases) was not only indicated, but vital. The question, however, of how to raise prices without at the same time arousing public discontent proved more difficult than the party leadership expected or knew how to cope with.

The fault often lay with the party-government combine itself. The last two price increases, in December 1970 and June 1976, were foisted on an unprepared population. Since, in addition, the announcements themselves were not properly talked over beforehand, or even intelligently explained, people feared that the new measures would not only fail to achieve market equilibrium but would also lower living standards.

It was only in the wake of the August events that a climate enabling the tackling of the problem of prices was created. In the government's Draft Guidelines for Economic Reform (5) retail prices are now considered an instrument for creating a guaranteed balance between supply and demand. The draft is, however, still

(2) Zycie Warszawy, 26 October 1978.

(3) See Polish Situation Reports/3 and 14, Radio Free Europe Research, 30 January and 9 July 1980, Items 2 and 1, respectively.

(4) On 2 July 1980, in a casual remark during a radio interview with Czeslaw Burchardt, a relatively minor official of the state-owned retail organization (Radio Warsaw, 2 July 1980, 2200 hours).

(5) Zolnierz Wolnosci, 10-11 January 1981; see also Cam Hudson, "Polish Reforms Inspired by Hungarian Model," RAD Background Report/15 (Poland), RFER, 22 January 1981.

not specific enough about the precise criteria for price formulation to adopt -- market prices or the cost of production -- particularly in the area of retail prices, or in what way to achieve popular consent.

Much more attention seems to be paid to the less controversial question of industrial supply and raw material prices than to retail prices, possibly because both the economic and the political justifications are easier to supply in the former case.

The adjustment of the retail prices of consumer goods so that they would respond to the market's supply/demand conditions may be achieved, according to the draft outline, either through a one-time adjustment of prices and incomes or by means of a gradual, stage-by-stage transformation of the price structure.

Solidarity is also preoccupied with the question of retail prices. While their "discussion theses" for Lines of Action in the Country's Present Situation (6) also accept the necessity for a price reform, these theses do not go beyond a general statement that "changes in retail prices require compensation in wages and convincing the entire labor union and the general public of the need for such changes."

Somewhat more explicit are the proposals contained in the report delivered by Stefan Kurowski, a noted economist and Solidarity adviser, at the meeting of Solidarity's National Coordinating Commission on 7 January 1981. (7)

What Kurowski proposed was the transfer of the total amount of subsidies to the wage fund and the social benefits fund for equitable distribution with a simultaneous upgrading of all prices to their proper economic level. Such an operation is obviously designed to avoid the 1976 pitfall where compensation payments favored people in the higher income brackets, rather than the other way around.

### Conclusion

While a consensus is apparently emerging in Poland on the need to restructure prices, there is a difference of opinion on how such a price reform is to be carried out.

Both Solidarity and the government itself are hesitant in deciding on methods of compensating for price rises. Some economists fear that switching subsidies to augment incomes (as compensation)

- (6) Published by Glos Pracy, 14 April 1981.
- (7) Subsequently published in Zeszyty OBS, Osrodek Badan Spolecznych /Social Research Center/, 3/1981. OBS, headed by Andrzej Wielowieyski, was created by a special resolution of the NCC, on 8 January 1981. Kurowski is a member of the OBS's Program and Consultation Council (Samorzadnosc, 12 January 1981).

might reinforce inflationary trends. Others assert, equally emphatically, that such a move cannot have an additional inflationary effect, since such an operation does not result in extra money coming onto the market, but merely constitutes a change in direction of the money stream.

Where all agree is that realistic prices, retail as well as procurement and supply prices, will help to establish a basis for proper economic accounting and healthy price relationships, an essential condition for and an element of avoidance of proven waste, equally in industry as well as in agriculture, and probably even more so in private households.

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