

# Observations on the Future of Economic Reform in Poland

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## I. Rethinking Historical Experience.

After decades of experience in socialist socio-economic patterns, and in socialist planning in particular, some re-evaluation of the underlying concepts and premises seems desirable. This is not only because we have accumulated new intellectual inputs after years of theorizing and practicing. In addition to the vast body of real experience available, the socio-economic reality is showing some important lines of change both within the national and wider scope. Thinking patterns have to be adapted to the changing life. Man should not become a servant of the tools he himself has created, and this is true for both, physical tools and constructs of the mind. This calls for some new conceptualization in the field of socio-economic patterns of the socialist economy with a view to their most desirable shape for the future. This is the main subject matter of the forthcoming observations.

It will be seen that I am basing the argumentation on the Polish experience, mainly. It is not intended, however, to describe the "Polish case". My intention is to raise issues having wider relevance, seen through concrete socio-economic setting, and in concrete historical conditions.

Progress of human civilization has been shaped by the growing capabilities of human beings to act consciously, i.e. to base behaviour on purposive and deliberated activity. This is not tantamount, however, to conscious shaping of socio-economic processes within wider societal scope. The later concerns not individual behaviour but a pattern of human interactions, of relations and institutions, which may be conducive to integrated societal guidance but not always are. Basing on historical evidence one could venture formulation of a hypothesis on the growing tendency of human beings for conscious shaping of socio-economic processes. This would require a separate discussion, however.

Conscious shaping of socio-economic processes is also a model of human

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behaviour. It is a praxeological principle rather widely acknowledged nowadays. Within the European culture the ages of Enlightenment ushered in understanding of reality in terms of rational behaviour. It was only one step further to the paradigm of conscious shaping of socio-economic processes. This is how the socialist theory of planning came about. The paradigm has found ever wider acceptance, and recently there appear tendencies to apply it for guidance of the global processes. Formulation of the new international economic order and of the international development strategies, though unsuccessful, are steps along this line.

Seen as a praxeological principle, the conscious shaping of processes can be given the following characteristics: a) It is based on cognizance of reality which utilizes all the available knowledge and experience, and on anticipation of the future which, though it can rely on past experience only, nevertheless reflects capability of the human mind to conclude about the future, b) It is based on value judgements, i.e. on judgements of what is just and rational. A further step can be made by indicating that both comprehension /also anticipation/ and value judgements concern: c) aims and objectives, d) means and ways. Thus one can state that to act consciously is tantamount to acting with cognizance of what one wants to attain and how best to achieve it. The last item can be subdivided by discerning: e) with what material means, f) in what ways; this comprises particularly the institutional and economic instrumentarium.

One has to keep in mind the rather diversified features of various processes with respect to their susceptibility to anticipation and evaluation, and also anthropological characteristics with respect to human capabilities for formulating aims, choosing between to-day and the more distant future, etc. Still, civilization develops human capability for better comprehension of reality and increases human ability for anticipation. We cannot state with full confidence that the human and societal abilities to draw conclusions from the anticipated future is evidently increasing, though there are also no strong arguments against this proposition. This remains the main challenge for mankind. In general one can state that civilisation shows certain progress in developing capabilities of the human mind for guiding human and societal behaviour. We assert that aiming at conscious shaping of socio-economic processes is worthy and justified, and not that this can be done easily and in a perfect manner.

The praxeological principle of conscious shaping of socio-economic processes, as explained above, seems a most proper general model for development planning. This was not, however, the case in reality. The concept of planning, as developed in theory and applied in practice, has narrowed down the sphere of conscious shaping of reality.

In the initial theoretical premises planning was conceived to operate mainly in the sphere of the "exchange system"—to substitute for working of the market system and to solve the problems of allocation of resources. This allocative function of planning, still emphasized by bureaucratic tendencies, overshadowed other functions leading to neglect of certain most important aspects of development process and socio-economic change. In practical application national planning in the socialist countries was so overburdened with allocative functions — which, as a matter of fact, it was not capable to perform properly — that other, sometimes most crucial development problems were neglected or put into oblivion.

For a long time problems connected with the societal values and aims were largely forgotten. It is rather in more recent years that they appear in development planning considerations. After initial changes in the socio-institutional sphere, of socialistic character, further changes in that field could have been found on the agenda of development planning in a very limited scope. They have reappeared in recent years, though sometimes with great pains and difficulties. This experience demonstrates that wide concern for continuous socio-institutional change is indispensable in development planning.

It is to be observed that along the way of development process the socio-moral and institutional issues grow in importance. One fact is that they had been rather neglected in the past, another is that their significance is growing along the way of historical change. They reflect new tendencies in societal behaviour. Planning has necessarily to cope with them.

The main initial theoretical idea of socialist planning may be seen in the concept of macro-economic rationality, as opposed to efficiency of an individual firm. This theoretical orientation came from critical appraisal of functioning of the capitalist economy which was demonstrating micro-efficiency connected with great macro-economic irrationality seen in periodic crises, mass unemployment, in great social discrepancies, and in lack of purposeful long-term orientation. It was the concept of macroeconomic purposefulness and rationality, seen as a corollary of social ownership of the means of production, which formed the leading ideas of political organization of the society, of the national planning system, and of the management system. Looking at the development process historically, it can be stated that the indicated theoretical orientation helped to overcome the inherited structural and social disproportions, and to frame new structures favourable for self-sustained development. In further development process, however, the main idea with all the basket of institutional solutions implied has been showing ever greater deficiencies.

It is my view that it is necessary in the socialist countries to attain a new balance between macro-rationality and micro-rationality. Institutionalization of macro-economic rationality is indispensable, but it should not be carried in a way eliminating the necessary conditions for rational behaviour on the micro-level. One cannot have sound general development unless it is based on rational and dynamic behaviour of the firms and other socio-economic organisms.

The core of the problem does not lie in theoretical acceptance of the indicated proposition, which may even sound like a cliché. It lies in its institutional implications. Creating conditions for micro-rationality requires appropriate institutional change. Not going into sophisticated argumentation, and somewhat simplifying conclusions, they can be presented as consisting in acknowledging of the three, basic institutions: of real money, of the market mechanism, and of the independent firm. Though this again may sound for somebody like a cliché, it is to be perceived that really involved is a radical change of the initial institutional premises.

Economic reforms carried on nowadays in a number of the socialist countries can be characterized by the three elements:

- firm installation of the indicated institutions,
- their marriage with central, strategic planning,
- observing realization of the principle of social justice in their guidance.

It is to be observed, however, that the necessary institutional change encounters serious obstacles, both theoretical and factual. The socialist countries do not possess an "automatic" easiness in institutional change, as sometimes claimed. Institutional change seems difficult in all the human world.

## II. Some Determinants of Change

Anticipation of factors and forces operating in the field of institutional change faces difficulties and uncertainties. This does not mean that we are not in the position to work out some analytical insights into future conditions and tendencies from which one can deduce conclusions allowing for more rational policies.

Hypotheses and expectations of future tendencies must be continuously verified. This type of verification is necessary in every area of science; it is also indispensable in economic policy. For we have here an exceptionally difficult process of cognition where we find not only highly diversified

causative factor but also characteristics of behaviour which may undergo changes in the process of time.

Notwithstanding the difficulties and uncertainties, there appears a great need for scientific analysis and anticipation of the future. This is necessary if we aim at increasing rationality of current policy. In development projects/ capital investment/ we cannot act rationally unless we consider future conditions. Similarly in undertakings related to the mode of functioning of economy and society, maximum use must be made of knowledge concerning the probable and desirable future. Myopy is no less harmful here than in other areas of societal activity.

In anticipation of future tendencies we assume that a certain number of determinants of change in the economic system can be formulated. By "determinants" we understand features of the development process, operating as the causative reasons of progress, having strong implications for institutional solutions. Some important determinants of change in the economic system can be formulated for Poland's present and future conditions as follows.

1. Societal aspirations as well as the political set up can be expected to continue to exercise strong drive for economic progress. It can be anticipated that, against the background of historical experience, this will strengthen the position of rational pragmatism. This implies a very open attitude in search of the best institutional solutions making for efficiency.

2. Educational and cultural advancement of the people has already been the main driving force making for institutional and political change. Together with that, economic process brings growing importance of the qualitative, creative features of the human factor. Both then, the operating societal forces and the logic of development process demand adequate solutions. Conclusions should be drawn for shaping the management style and system. Relying on creative human forces cannot be limited to economic management only. People creative in economic behaviour demand active participation in the decision making process, also on various political levels.

3. Growing importance of the scientific-technological advance and of the wide innovative dynamism is commonly acknowledged. This has broad implications for the whole economic system. They concern the internal development factors /e.g. the human factor/ as well as the basic premises of participation in international exchange. Compared with the initial solutions, far reaching change should be expected.

4. While in the past creation of basic conditions for self-engineered growth was considered to be the main policy orientation, inclusion of the economy in the international division of labour becomes a cardinal re-

quirement for prosperous development nowadays and in the future. This dictates adequate institutional and instrumental solutions. Stressing that this implies some radical change is no exaggeration.

5. Development process leads to growth of productive interdependence, increases need for flexibility in economic relations, brings diversified and complex features of the human needs. All that requires adequate measures in the area of coordinating economic activities. Experience shows that this cannot be done by any administrative method, and the only way demands establishing of a mechanism of self-regulation, i.e. of the market type. Organization and guidance of the market mechanism, adapted to various internal requirements as well as eternal factors should be expected to be of crucial importance for improving efficiency.

6. Growing role of the human factor and the human need to participate in shaping the course of socio-economic development demand adequate institutional and political solutions. There are no premises to expect that aspirations to participate in self-management and on the various public platforms will decrease or vanish. On the contrary, one should expect further limitation of the various elitist institutions and procedures and strengthening of forces making for democratic solutions. The corresponding line of institutional change should be advanced.

### III. Technocratic-Conservative Opposition

In analysis of factors that determine socio-economic processes it is important to examine forces which oppose the institutional change. We call them here the technocratic conservatism. Their background should be seen in mechanistic understanding of development process, failing to comprehend the complicated and changing development interrelations, as well as in ignorance, partizan interests and emotional stand inimical to change. It seems worth observing that the opposing forces of the indicated character do not voice any theory of counter-reformatory type. They operate more like a blind force of resistance to change.

In reviewing the odds of the technocratic-conservatism it is not without purpose to recall a not too remote historical experience. There is a close similarity between the opposing forces appearing at present and those which managed to check the reforms in the middle of 1970s. If such negative action was possible in the past, why can it not be repeated? There seems to be a clear answer to this question. Under changed historical conditions a recurrence of the earlier experience is impossible. In the middle of the 1970-s the reform was killed by influential part of the bureaucratic elite. The effect was then achieved, but not thanks to the methods used

but to the fact that a favourable opportunity was offered by foreign credits which became a substitute of the reform and of necessary structural adjustments. This kind of measure had no prospects in the long run. A prominent feature of conservative position is, however, lack of shrewd foresight. This feature of conservative forces can be found in different forms all over the world. Today the country cannot incur more debts or draw on other resources which would provide the mainstay for the survival of technocratic conservatism. The role it played in the past cannot be repeated. The only way out for the country is to raise efficiency, to develop massive innovations, and sound structural change. All this calls for changed and not for return to old methods.

Conservatism is basing on the faith that renewed progress can be achieved by means of strong central pressure and stringent controls over all socio-economic processes. But the state is no longer capable of mobilizing this type of force. Neither the superior authorities nor the lower ranks are capable of restoring the system of relations and the institutions coming from the initial stages of industrialization.

Conservative technocracy does not have a chance of survival over a longer time period for it promises no solution to problems which determine the country's progress. This is going to determine the horizon for the survival of the forces which hold back the institutional change. It is worth observing that conservatism was holding back the desirable institutional change in the past availing itself of the favourable external factors, climate and support. Not going into details, evaluation of the present and of the prospective set up allows to state that for the first time since a longer historical period odds are against the technocratic conservatism in the field of economic reform and the associated institutional and political change. This is at least what can be seen on the horizon today.

#### **IV. Egalitarianism, Welfare State and Motivations for Progress**

Socialism brought with it the promise of economic superiority and of social justice. These ideas have been deeply rooted in the social consciousness and exercised profound impact on real processes. The patterns of functioning of the socialist economy were shaped under influence of those ideas. Institutional set-up and all the economic mechanism should be seen in strong connection with the indicated ideological premises.

Due to the initial ideological premises, though also as a result of certain policy lines connected with them /e.g. in the field of employment, education, etc./ socialism ushered in growing human expectations. This took in possession particularly the wide social strata, leading to strong egalita-



rian tendencies. Egalitarianism had some deep roots. Historically exploited groups, people from the social margins, handicapped people, etc. perceived that socialism was offering them a new, great opportunity and pressed for its realization in the name of equality, now dominating ideology.

It is nowadays possible to evaluate, expose, the effects of the revolution of aspirations developed by socialism, on the basis of real historical experience.

It seems worth observing, that unleashing of wide societal aspirations became, first of all, a most powerful factor in socio-economic progress. It lay behind the strong drive aiming at fast economic growth, shared by societal forces and by the state. A nation without aspirations can never become dynamic. Imparting aspirations upon the society can be, therefore, considered an initial step in development policy.

In further process, however, this element of socio-economic mechanism changed. A wide chasm developed between aspirations and their realization. Aspirations were degenerating, operating more and more as demands addressed to the state. This phenomenon can be particularly observed in the Polish case. There appeared, resulting from the gap: great social frustration and discontent, socio-political manifestations and conflicts, weakening of the state in performing the function of protection of long-run societal interests and — as a result — slowing down of the rate of progress. This historical experience gives grounds for an observation that the policy was evidently incapable to turn aspirations into strong motivations for progress. It was not, of course, the policy alone which should be made responsible for the final outcome, but the ideology and the institutional mechanism, influencing also the policy.

The described process was taking place throughout most of post-war development of Poland, with increasing intensity. It was not clearly perceived and understood, by the analysts, and by the policy. Its impact on the social consciousness and on patterns of economic behaviour is evident nowadays. It deserves the name of a social disease that must be cured. And just this should be one of the long-term aims of the economic reform. The reform should bring about conditions that would prevent egalitarianism from undermining the motivations for progress, that would not allow human aspirations to undermine social discipline, to undermine the capability of the state to carry on long-term policy, and that would make these aspirations a strong motivation for progress.

The above cannot be realized in a short period of time, it must be a long-term aim of the reform, supported by appropriate conceptual /ideological/ premises. Polish reform only started to acquire this orientation. It



is still fighting with initial obstacles and difficulties, with overcoming opposing forces and unfavourable external conditions. There exists, however, an understanding, that reforming of rules and institutions can be effective only if it leads to changing the patterns of human behaviour. And the later requires time.

The above aim of the reform should be translated into the language of practical solutions. Most important are solutions in the fields of:

a) the relations of employment and the policy of employment where, under the Polish conditions, economic pressures by means of mass unemployment cannot be applied. A solution must therefore be found that would prevent the relations in this field from undermining the motivation for good work. If this solution is not found, a conflict between the principle of full employment and the aim of the reform will have to be faced.

b) The financial, pricing, etc. policies, which create relations that allow every firm to survive, no matter whether it brings advantages to society or not, and no matter what the advantages or losses. The Polish reform starts a radical change in this field. A law on bankruptcy has been accepted by the Polish Sejm, and there are cases of its application. Still, it is very far from full application of the iron logic of economic efficiency. One might wonder how it came about that the principle of justice, that should find application within the scope of interhuman relations, came to be applied for economic organizations. This was the fact, however, and to eradicate the practices connected with it proves to be quite a problem;

c) the incomes and wages policy, where steps have been taken to ensure stronger motivations for good work, but it is very doubtful whether they will work sufficiently. There seems to be a long way towards real improvement of the remuneration system.

It should be seen from the above that in attempts to install a new linkage between the social justice and the motivations for good work the economic reform is only on the beginning of the road. Human expectations still operate following old pattern. They appear in the form of socio-political pressure rather than as motivations which bring dynamic enterprise, innovation, productivity, etc. The conviction still prevails in social psychology that the success of an individual is determined more by the state than by own activity. It is perhaps most clearly seen just in this area what human attitudes the reform must overcome to produce the intended long-term results.

In developing strong motivations for progress linked with social justice the Polish reform still stands on the beginning of the road. This objective appears only on the banner of future intentions. To delude oneself that "the reform has already been introduced", that the matter is already

settled, is to embark on the road of ineffective activity in reforming the economy and social relations. Without an orientation toward new type of social relations, new value system there is no chance for effective action. We reform institutions and rules, but involved are human values and attitudes.

A system of relations, called the "welfare state" has taken form in conjunction with the struggle for social justice. The struggle for justice and the functions of the socialist state led by their nature to the fact that the state became the main enforcer of this justice. Justice has many aspects, but one of them is equal opportunity in education and access to culture, care for handicapped people, for good living conditions in old age, etc. All this can be embraced by the concept of the welfare state. There seem to be no grounds for radical criticism of these functions. and of this nature of the socialist state.

Historical experience shows, however, that a certain critical attitude to the social /welfare/ functions of the state is justified. Two problems emerge in this context.

The first is to take care that, in performing the social functions, the state does not undermine the motivations for good work. The second is an appropriate division of duties between the state and the family.

At one time the idea was pushed forth that the socialist state should take over many functions of the family. In light of historical experience, it does not seem that this should find itself on the horizon of the foreseeable future. In Poland it has been rejected strongly. We can and must, therefore, take a systematic look at the division of responsibility between the state and the family, what is not devoid of motivational implications. New solutions are looked for in this field, but it is not in this area that I wish to raise an issue of importance.

A most important problem for the institutional set up is the development of features of the welfare state not only in relations between the state and the citizen, but also between the state and the firms and other organizations. No justification can be found for that in the principles of socialism. The socialist ideology used to put a great emphasis on social justice, but it never demanded justice for firms. Much could be said on the rise of state patronage over firms. In my opinion, its origin lies in a specific syndrome of institutionalized interests. In Poland, of important role was the peculiar institutional development in which the alignment of the s.c. branch ministries, which directly defended specific interests, gained in strength while the institutions supposed to defend the general societal interests grew weak.

Leaving the historical evaluations aside, I am inclined to state what

follows.

a) There can be no strong motivation for progress in economic organizations if their relations with the state are shaped along the pattern of a "welfare state", since this institutional pattern tends to obscure the objective efficiency and directs the efforts of firms not towards the struggle for efficiency but towards various methods of influencing the state authorities.

b) A welfare state for firms is essentially a very soft state, and while it is soft in relations with firms it must be hard on the people. In such a system a lasting socio-political balance cannot be ensured.

c) Experience shows that when taking the presented position, the state does not exert economic pressure on efficiency of the firms and, therefore, it is not in a position to program and to realize sound structural transformations. Those phenomena are clearly visible in working of the Polish reform, precisely thanks to the circumstance that it not only failed to change the attitude of the state apparatus described but may even have strengthened it.

d) Institutional transformations must be considered from the point of view of proper balance between the position of the state, supposed to protect long-term national interests and the position of industries and territories /regions/. There is some experience showing how a wrong balance may upset prosperous development of the country.

While there are many aspects of institutional change to be watched carefully, crucial problem for the Polish reform is that of changing relations between the state apparatus and economic organizations by departing from the welfare state pattern. Without achieving this objective, not much can be expected from the reform.