Dilemmas in Implementing an Outward Economic Orientation: The Case of Poland During the 1980s

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I. Internal Versus External Orientation in the Development Strategy of Socialist Countries: Reasons for Re-appraisal

1. Theoretical and historical background

A distinct feature of the development strategy in virtually all socialist countries (SC) has been its overwhelming preoccupation with internal priorities and problems. Reasons for it are rather complex, comprising historical, political and doctrinal aspects. The relevant experience is greatly conditioned by the situation of the first socialist industrializer: the USSR. Consequences of policy choices made in development strategy at an early stage of USSR's development have been overwhelming, both in positive and in negative sense. Therefore, it seems relevant to open this discussing with some brief summary and overall assessment of that strategy, due to its profound impact upon all SC and their present and future changes and their rate. The argument which follows relates mainly to "developmental doctrine" rather than factography and quantitative evidence which seems to be well known. Attention will be drawn in this discussion especially to problems related to external environment and its treatment in domestic planning process before, at present, and in the future.

Due to historical and political course of events, the socialist system has originated, contrary to the Marxian prophesy, first in a very backward area of Europe and Asia. Besides, due to external political hostility, the source of growth and technology have been sought in all SC primarily within these economies. In an underdeveloped economy, these potential sources include mostly surplus manpower and natural riches. The task of the institutional set up under a socialist doctrine has been to harness these abundant resources for the cause of basic industrialization. Structural lines of this industrial expansion, under conditions of backwardness, on the one hand, and faced with an indicated political environment on the other, quite logically have been oriented to sectors and branches turning out capital goods as well as those related to a

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military defense. These considerations have permeated for a very long, clearly too long a time, the shape and content of most systemic and institutional arrangements undertaken under the centralistic planning set-up.

In conditions of acute poverty that has been a reality of the first socialist industrializer, i.e. Soviet Union/, deliberations about lines and sequencies in industrial development were treated as somewhat irrelevant nuisance/apart the military and political considerations indicated above. If virtually everything is lacking, whatever additions have been made to gross output, they could be seen as desired in framing the developmental plan, as the opportunity cost of alternative use of human resource has been close to zero. This has been true also with respect to choice between potentially traded goods vis-a-vis nontradables: in a country following practically autonomous, or vitually autarchic path, consideration related to "comparative advantage", Heockscher-Ohlin-type goods to be selected for external trade, etc. have had no relevance whatsoever, at least at an early stage. Instead, the fundamental strategic line has been to reach a path of self-sustaining industrial expansion, lying foundations for further rapid growth based on mobilization and "productivization" of manpower surpluses.

It seems important to touch upon, at this juncture, the question of cost and benefit of making policy choices under the early stage of centralistic planning. Normally, this question is solved by economic efficiency calculus using true market signals parameters, like price, cost, interest and exchange rate, etc. Under the socialist planning system, however, there is no place for such an approach in the meaningful sense that would influence the real decision-making process. The socialist ecnomic doctrine has developed as one of its fundamentals an alternative concept or whole theoretical construct of economic calculus. The plan rather than the capitalist market has been put forth as the ultimate judge of what is economically useful, or needed by the state or society, in standard jargon while material and human inputs necessary for generation of the needed outputs have been selected included into the plan document by means of well-known material balancing technique that later on has been the main instrument of plan elaboration, substituting the true market mechanism. For additional comments on marco-rationality, see Appendix 1.

The specific question of cost-benefit judgement, particularly at an early stage of socialist industrialization, could be compared to some extent to economic reasoning taking place in a typical peasant household. Under a peasant family-farming system, an objective of economic activity is gross real output whereas on the input side a main factor is family labour. In such household economy, there is no place for paying out wages to individual family members, as an equivalent for their labour input. More importantly, in a typical non-market oriented peasant economy, there is no "opportunity-cost" calculus, implying that family labour does not have much alternative use, except the one decided "paternalistically" by the family chief. Any family-labour input adding to gross real output has been seen useful and desirable under that system. On the other hand, remuneration has been executed in the family-farm peasant economy on considerations not directly in proportion to individual labour input. Rather, a primary consideration guiding "income distribution" has been subsistence for all family labour.

Indeed, this comparison seems to reflect will the basic tennets of developmental doctrine established by the SC, tailored specifically to the strategy of overcoming development by means of massive mobilization of domestic resources, notably manpower. Centralistic planning system has accomplished the objective of overcoming underdevelopment by relying chiefly on internal resources, quite well, particularly from a quantitative point of view, not to mention its military achievement in defense industrial costs whose true dimension can not be estimated for lack of even approximate economic parameters. What matters for the topic of this conference, is its consequence for relations and linkages with external economic environment. We shall touch upon these implications that have proved quite profund and persistent.

These consequences are illustrated best with respect to the function and role played by the foreign trade. From the above brief review of the developmental doctrine established by the socialist system it immediately follows that it is essence, this doctrine has called for entirely new, non-market type of links and relations among economic units. This has necessitated a similar type of links among individual national economies, although the resemblance is somewhat superficial. Having been formed with the basic task to serve the internal needs and priorities, this doctrine has subordinated the external economic links and foreign trade in particular, to serve the above objective. Its main task has been to meet the needs established in the plan. The plan itself, in turn, has been elaborated by means of balancing domestic priorities i.e., quantitative targets relevant for respective industries, branches, product lines, etc., with available material and human input. Major role of foreign trade has consisted in closing the material balance gaps: on the input side it has been the imports in particular so called essential imports that provided the imports not produced at home, or supplied in insufficient quantities, whereas various groups of output has provided the volume of goods and services to be sold abroad in order to earn the ncessary forex needed to pay for the import to cover the plan gaps. By the very nature of balancing technique used in plan elaboration, the volume of export has consisted in surplus goods and services, obtained after providing for domestic clients, exports being placed in the planned documents as separate category of final demand. Under this planned mechanism the true economic calculus has been deemed superfluous and in fact, impossible, in spite of great intellectual effort undertaken towards working out various formulae based on concepts like "shadow pricing", and the like.

Quite naturally and logically, such orientation of economic strategy generally and that of foreign trade in particular, did not allow for an active transmission of economic and other signals about constantly changing reality on the world market. On the contrary, SC have been at pains to isolate their central planners from the vegaries of free market, by various means and arragements including agreements among states, counter-trade deals and barter, and similar measures, all aiming at provision of security, stability and some degree of certainty so much needed for central planning mechanisms. It need not be extensively argued that the above undertakings tried in vain to obviate, or isolate the policy makers in SC from the real, true nature of economic processes and phenomena whose essential flexibility, never-ending change, frictions, new patterns and structures, and the like. It need not be stressed besides that such isolation proved rather disastrous at the period of particularly dramatic changes taking place in world markets during "oil crisis", rapid exchange rate changes, transformations in the world financial and banking systems including world-wide trends for securitization, appearance of mew, powerful competitors from East Asia, etc. It was only after very deep and protracted crises/or-pre-crisis situations, like those claimed in the USSR/ that negative consequences of this passive and hampering role of foreign trade has been duly realized, and comprehended.

2. Towards strategic reappraisal of dynamising role of foreign economic relations, coupled with collapse of "command system"

With the lapse of time, the economy of individual SC has expanded becoming, through accumulation processes and constant drive for industrialization, quite diversified. More importantly, along with meeting the basic needs of SC populations and in effect of vast improvement in education cultural advancement etc., the aspirations of ordinary citizens have greately increased. However, standard of living in originally "hostile" external environment has jumped up even more rapidly with a great variety of new goods constantly attraction consumer's attention, making for their rising outlook, productivity, skills, etc. consumers in SC economies have not been untouched by these trends and processes taking place at ever increasing pace in virtually all market economies, involving several so called developing countries notably NICs of Asia notwithstanding.

However, the centralistic planning system you so called command economy proved increasingly unable to effectively meet these challenges, both with respect to human aspirations as much as regards rapid structural, financial and technological transformations taking place the non-socialist world over. All of a sudden, several SC economies have realized that their industrial structures have become outdated with little chance to compete with new, aggressive players on the world economic game. The political and economic-institutional solutions developed much earlier under the centralistic planning stage have become virtually irrelevent vis-a-vis new tasks and challenges. Certain of these political and institutional structures and mechanisms proved unable to quickly "modernize" and face the new challenge, leading thus towards the situation nicknamed by M. S. Gorbachev as "brake mechanism" ending up in either pre-crisis, or virtual crises, some of them, e.g. in Poland, of dimensions unprecedented in civil times.

Fortunately, with lapse of time profound criticism and re-appraisals have gained strength helping to face up the realities of situation to comprehend the depth of various gaps between previously "self-imposed isolated" SC economies, and the world market economy.

First and foremost, the comprehension of the state of the world has profoundly changed in the political sense, on part of the SC policy makers. The rise and awareness of several global issues, the real danger of nuclear disaster, rapidly growing interrelatedness and interdependence has made it imperative for the two world systems to abandon past hostilities, making it indispensable, for the very survival of the whole mankind, the substitution of past military rivarlies and hostilities by true cooperation, peaceful coexistence and mutual trust in most fundamental global matters. In the political and also in military sense, leaders have come to understand that striving towards "global victory" of either system has definitely lost its sense against the rise of global dangers.

The political necessity of peaceful cooperation based on now comprehension of global realities and global threats, has paved the way to new comprehension of world economy, as well. Although somewhat slowly and gradually, it nevertheless has become clear to political leaders that visions of "two alternative worlds", of "different world economies" governed by opposite mechanisms and laws, are simply detached from reality. While socio-economic and socio-political systems chosen by individual states and societies may differ in substance very much, nevertheless the true nature of world economy, world material civilization and global economic mechanisms cannot be treated separately, according to one's political dreams or wishes, but that it has got the objective, uniform sense, pattern and structure. The socialist system claiming to be a new stage in the humankind's history should first duly incorporate and absorb what the mankind has painfully been discovering and developing, before offering meaningful alternatives. Thus, the leading role of the market, and of the market forces, both at the world scale and within individual economies has become one of the basic components of this new comprehension of world realities taking place throughout the socialist countries worldwide. Market has come to be comprehended in its most important role: as the one of greatest achievements in human progress and civilisation, rather than "capitalist device for exploitation". Market however, must be seen in this profound civilization role: as a type of socio-economic linkages between and among individuals, economic units, enterprises and states, rather than as a market place where people keep bargaining over individual commodities and their pricing. Clearly, the market as a system and as civilizational progress is not, and cannot be, free of negative side-effects and consequences. It is, obviously up to a given socialist system to modify, constrain and regulate the market mechanism, in order to tailor it to the socialist ideals. Regulating the market however implies accepting its leading role, rather than rejection its and trying to find its substitutes. Does this imply that the one of distinct feature of socialist economic system: central planning-—is also to be abandoned?

Quite to the contrary, Central plan must assume however new, much more effective difficult role to play: to secure an undisturbed functioning of the true market forces coupled with socialistic ideas and priorities. In order to play such a role, planning must be liberated from over-involvement in too great variety of details ending up in virtual paralysis. More effective impact of the plan implies thus substantially less direct involvement in everyday economic course of events. This, however, is much easier to be agreed upon theoretically than implemented in practice. Therefore, there should be no surprise that practically in all SC this process of Economic reform is rather slow, painful, needs considerable time. The trouble in the process of reforming the state and planning organs consists, inter alia, in the fact that there is no objective and independent "driving force", or mechanism that stimulates change; all major undertakings must be initiated and implemented by practically the same people, leaders and policy-makers than before. The true built-in mechanism for self-correction, self-education and evolution is yet to be devised in all SC, and this is true equally in regard to political set up, instutional solutions as much as to economic processes and phenomena. Still, the process of reassessment and strategic reappraisal initiated on political grounds has already gained considerable momentum in economic sphere as well. Some of the most important elements of the new economic system related to foreign trade could thus be presented.

Historical experience of most advanced economies as well as spectacular success of certain NICs, has made it abundantly clear that economic openess and active, or even aggressive expansion of export could become one of the fundamentals of economic efficiency, dynamism and rapid structural change. Export expansion provides not only the ultimate proves convincingly that a most active participation in the international division of labour does play—particularly for smaller and mediumsize countries—the basic efficience-enhancing function; also, it provides true economic signals concerning the baisc efficinecy-enhnacing function; also, it provides true economic signals concerning the structural aspects of development making it possible to evolve structures that are optimal and stand the test of the world market.

Although rather obvious and natural for the market economics, this conclusion is rather revolutionary for policy makers in the SC hitherto living in semi-autonomous, command-type planning systems. In order to evolve from that system into the desired, market-type one, policy makers in SC must however first and foremost "dismantle" the old institutional and economic decision-making mechanism. In relation to problems of the foreign trade planning and policy, in particular, this shift must include fundamental change in approach to plan elaboration. Pro-efficiency and optimality-enhancing function of the foreign trade cannot be arrived at, if exports are treated as "residuals", after meeting the needs of domestic clients. Similarly, imports must provde a source of external competition for domestically produced goods, rather than simply closing the material balance gaps. Export specialization should thus be seen as the objective in itself, and not as a subordinate sector at the service of old type of plan fulfillment. For concrete enterprises, supplies for external markets must constitute one of the basic means of capacity utilization and optimality of structure, while imports would help to secure competition and help to overcome the power of existing monopolies. Indeed, active participation in world market should make economic life toublesome rather than comfortable, as has been the case under the command system for economic agents, but overcoming those troubles will be rewarded duly.

In order to set up such a market-based export oriented mechanism, various incentives and measures should be undertaken so as to embrace the whole socio-economic organism. In relation to foreign trade, this will include such measures as expansion of direct productive linkages with external agents/be it enterprises, TNCs, banks, etc./ in order to secure, at mutually beneficial terms, the technology transfer and access to the foreign market. On the import side, a gradual liberalization must be arrived at, ensuring competition, securing quality and servicing standards. All these objectives could be ultimately achieved only if enterprises are given the true autonomy in their decision-making, forex disposal, type of links, choices concerning investment, including the imported equipment. On a theoretical plane, there is little dispute about not only desirability but indispensability of such strategic shift. In practice, however, enormous obstacles mount, and they need a separate discussion.

II. External and Domestic Obstacles Hampering the Outward Economic Orientation: the Case of Poland

1. Attempts at activation the role of external relations undertaking before: reasons of failure.

It is not only during the 1980s that SC planners have come to realize that past system of links with world economy is outdated and plays a hampering role in overall development. In many SC serveral attempts have been undertaken even during the 1960s, unfortunately in vain. Poland has made a rather spectacular choice during the 1970s when external conditions have been particularly favourable. That attempt at a strategy of outward orientation has relied, in particular, upon massive credits so easily obtained particularly in the first half of 1970s, that have been thought to help in modernizing the industrial structures, making it competitive and export-oriented. Enterprises in virtual euphoria have been contracting technologies, supplies, etc., hoping for easy "repayment" on the basis of equipment obained from abroad on credit. This attempt at opening up the economy and active participation in world trade has ended up however in unprecedented collapse. Reasons of it are complex bearing heavily on a number of future choices. They will be reviewed in concise way, for a lack of space.

First and foremost, the indicated strategy has been conceived and implemented in a very incomplete way. Economy has opened up one-sidedly, chiefly on an import side. This has been greatly fostered by a considerably imprudence on part of western financial spheres seeking throughout the world the outlets for surplus capital originated from so called recycling of petrodollars as well as from enormously expanding liquidity made possible as a result of the US de-link of the dollar from gold. Polish exports have lagged behind considerably, due to various reasons. All in all, the economy has ultimately ended up in enormous indebtedness exceeding by several times any reasonable prospects of its prompt servicing.

Secondly, the attempts at opening up and export-oriented restructuring based on massive imports, has been undertaken in Poland chiefly in the foreign trade sector, with the rest of the economy remaining virtually unchanged, and still functioning under the command system. Enterprises deprived of meaningful decision-making autonomy and power have made their best to take as much imports as possible, which help them to fulfill and overfulfill the planned targets, while economic responsibility for this import euphoria has rested with the state. It was the central planner that made most decisions concerned with massive imports, imposing his decisions upon enterprises in case of attractive imports, to their great comfort.

Thirdly, the stiffness of the command system has not made possible to effectively transmit the changes and signals about what's going on externally, to the internal economy. However illogical it may be seen, and later on proved so costly, economic processes taking place in Poland in the second half of 1970s have run exactly counter the trends prevailing in the world market economy. For exmaple, whereas in all Western economies heavily hit by the "oil crisis" massive investments were made aimed at energy-saving technologies, reducing thus to some extent inremental energy consumption and diminishing the dependence on imported oil, Poland on the other hand, has continued her old-fashioned energy-intensive structural strategy, expanding coal maining very costly in case of Poland due to deep mining and worsening geological conditions, putting up new very costly and energy-intensive steel-mills, etc. Understanding of the intricacies of the capitalist financial system, its trends towards global securitization, tendencies concerning volatility of exchange rates, etc. has been close to zero at least at the planning level e.g., for most of the 1970s the amount of indebtedness and its servicing burden has been treated as a state secret. There has been virtually no transmission of incentives and signals from the world market, directly to the enterpises, in order to guide their adjustment process. What is more important, the command system prevailing still at that time has precluded any meaningful economic calculus, particularly at an enterprise level, throwing up all financial and payments consequences upon rather abstract "government". Consequences of this have been dramatic, indeed.

2. New qualitative features in the world economy: implications for Polish efforts aimed at economic reform

Over the decades since the end of the World War II, the substance and nature of international division of labour has greatly changed. However, as it has taken place over very long period, these changes have come about almost unnoticed, at least for the centralistically planning economies of SC. The long-established, historical pattern of the international division of labour among nations and continents consisting of complementary flows of manufactures vis-a-vis primary commodities, enery, food etc., has undegone a profound change: towards the competitive one, based on exchange of technologically sophisticated goods, the trade in primary goods being relegated from top positions. This profound transformation has facilitated an unprecedented rate of trade expansion, as modern technologies are amenable to segmentation reaping thus economies of scale and helping to close technological gaps between individual economies. The rate of technical progress has accelerated profoundly, leading to enormous efficiency gains and reducing incremental unit costs. This process taking place gradually, over time has accumulated into a kind of "explosion", a virtual jump in a degree of openess and interdependence among individual OECD economies. Some of the most dynamic developing countries, particularly those of Asia, have been capable of absorbing actively these trends and harnessing the external relations towards the cause of their own domestic progress. Under the competitive pattern of international division of labour the relative, and sometimes even absolute role of primary processing and unit consumption of raw materials and energy has substantially diminished, the above trend being particularly pronounced after so called "oil crisis" of mid-seventies. A very rapid internationalization of productive forces taking place throughout the world market economy has been pioneered and managed primarily by the activities of TNCs—an entirely new king of "econmic animal" unknown so far in the economic history of manking. Decision taken by these powerful units, their economic rationale, pattern and rate of geographic coverage so called world-wide sourcing may quite often run counter the national interests of individual, state-based economies. Hence, the unprecedented trend towards economic integration in a veriety of ways, substantially modifying a traditional concept of national sovereignty, in order to accomodate the trends and rationale governing the TNCs activities. It is, therefore, only logical that differences between national and international economic policies have tended to diminish and converge. Indeed, rapidly increasing internationalization of domestic economic activities, of economic thinking and running the technological and econmic processes, has gradually become a dominant feature in all successful world exporters. This has been induced and accelerated by various institutional arrangements and measures that greately enhance a multilateral rather than bilateral, as still prevailing among e.g. SC members of the CMEA type of international norms and regulations. These processes are greatly reinforced by virtual revolution taking place in international finance, capital and payments systems.

Still another characteristics of world contemporary processes in concerned with a shift from "bi-polar", to "poly-centric" type of relations among individual states, in effect of unprecedented rise in economic power and global significance of such countries like Jupan, Federal German Republic, and most recently Asian NICs led by South Korea, at an expense of formerly domination USA. All above trends and processes have generated a qualitatively new system of international interdependence among nations and states. One of the consequences of these processes has been, and has increased vulnerability of individual economies with respect to external events and shocks, swings in business, exchange rates, etc. On the other hand, measures aimed at international coordination of undesired effects of domestic policies have greatly increased either, in order to cushion the negative effects of graver vulnerability. A remarkable feature of domestic economic strategies of individual countries-notably the Asian NICs—has been unprecedented flexibility and adaptability with respect to new trends and phenomena taking place externally. These countries particularly have discovered a very right proportions in their domestic policies, between effective intervention, import liberalization, types of linkages with TNCs helping to reach the sources of most modern technologies, together with high quality labour, capability in transitions of prudence, hard work, subordination to higher authority. These characteristics have shown their utmost strength in times of substantial slack in world business cycle at the end of 1970s and early 1980s, enabling these NICs to accommodate relatively easily to new external conditions and challenge.

Most unfortunately, for several decades the economic processes taking place domestically and internationally among the SC members of the CMEA, have run counter the indicated trends. I do not think it would be far from reality to nickname these policies as "antiopeness", as rightly emphasised by one of Polish authors. Consequences of this are many and persistent. First, for too long a time the very nature of changes taking place in the world economy have not been duly and timely comprehended by the policy makers in SC. Unable to understand and or accomodate these new trends, several of the SC economies have within their systems developed "a brake-mechanism" that in some SC has generated, as indicated before, "precrisis" or outright crisis of unprecedented proportions in civil times, as has been the case in Poland. Against this experience, SC have since been determined to break with the past, and conceive and implement new political, economic and institutional set up that would be appropriate to meet the challenge of modern times.

It is, however, not only the great dynamism, flexibility and coordination that has been taking place recently in international world market economy. Some of the measures taken by big Western powers as a reaction to problems and efforts made by SC, Poland in particular, have had a deliberate, politically motivated aim to dwarf these newly arising undertakings. Treatment of Polish debt by some of the Western economies could well serve as a glaring example of politically motivated unfairness in economic relations; being beset by a deep internal crisis and trapped in a virtual "noose" as far as debt servicing is concerned—this country has had to face a package of economic sanctions, whose main target was "to punish" the crisis-driven economy, on political grounds. It will be difficult to find in the world economic history a comparable example of an attitute on part of creditors with respect to their debtor. A net effect of this could not be otherwise than further aggravation of the crisis and postponement of recovery. These unprecedented events have, quite naturally, produced a sort of "allergy" on part of some SC who, having comprehended a changed nature of the world economy, have decided to take up an active part in it, but who have been faced with truly unfair 'rules of game'.

Apart from the unfriendly events on part of some Western countries, with which certain SC have had to cope with, yet another type of developments has been revealed in the world economy most recently. Contrary to trends prevailing during the 1960s and most of 1970s, the situation in the world export markets has greatly deteriorated, both as regards prospects for traditional exports like primary commodities or energy, as well as with respect to manufactures. Conditions for "late-comers" have become thus still more difficult. Besides, new technological trends and particular the new computerbased equipment has added yet another obstacle for countries lagging behind in world manufactures but striving to overcome their relative backwardness concerning the technology. As it is well known, the SC are faced by strict embargo in so far as leading computer and electronic technology is concerned—this being the remnant of long tradition of "cold war", including then created COCOM and simlar measures. Thus certain crucial technologies simply cannot be purchased by SC on normal commercial terms. In short, the "menu" of obstacles faced externally by SC is quite extensive and persistent. It is one of the causes of the SC hesitancy in an outright acceptance of "world market system" which, in its actual functioning, may well show up symptoms of "unfair play".

3. A desired "new economic order": position of socialist countries

It has been made clear enough, I think, in the previous discussion that SC are nowadays pretty well aware that economic weakness of SC economies and their declining external competitiveness must be seen mainly in the rigidities of their own past institutional solutions and insufficient determination to get rid of the command system, in its all dimensions. Yet, having elaborated a complex blueprint of overcoming that system and having initiated political fundamental changes that would make this modernization process irreversible, the SC have at the same time also their own reservations against the certain aspects of the world market mechanism, with which SC have come across recently. It cannot be overemphasised that all SC, and Poland in particular, are deeply commited to find their own active position in the world economy. In order to achieve this, they are politically determined to go through the painful adjustment process necessitating the required profound transformations in the political, economic and institutional vertebra of their internal set up. Yet, the external conditions, regulations and attitudes on part of world economy partners could either help, or hamper these internal efforts. Hence, the SC have formulated their own judgement with respect to the type of international economic order and international "rules of game" the SC consider as fair and just for all the parties involved, irrespective of their own internal systems. We discuss briefly main components of this position, leaving to a separate section a specific case of Poland with her rather extraordinarily difficult balance of payments position.

Having freshly in mind that openess, acceptance of "free market rules" in international economic life, may be beset with certain dangers, may be best with certain dangers, SC would like to draw lessons from their previous attempts at joining the market systems. Overcommittment to these rules and excessive openess could well endanger economic and even political safety of countries insufficiently cautious with respect to vagaries of "free competition". Experience collected during 1970s and 1980s by SC in this field shows that excessive reliance on imported inputs, technologies and markets could well be abused by unfriendly partners for political ends. Examples of such situations are many. Therefore, in discussion future "rules of game" in international economic relations, SC have—against an indicated experience—formulated the concept of economic security as one of underlying principles of these relations. The concept of economic security implies fairness, full equality of rights, full political and economic sovereignty. Contrary to certain simplified interpretations, the discussed idea is determined to provide a solid base for the operation of market mechanism and market forces, and does not—as sometimes implied—intend to seek for some bureaucratic arrangements on a worldwide scale that would pre-judge about economic processes, distribution of economic gains, sharing the costs, etc. Contrariwise, the concept of economic security aims to strengthen the competitive forces but would like to guard against unfair competition, using military or economic power to achieve political ends, suppressing sovereignty by uncotrolled activities of TNCs, and similar undesired effects often disguised under the slogan of "free play of market forces." Market is always good for strong and powerful, but could be quite dangerous for the weak and small. Hence, the fair play of the market mechanism should, in SC judgement become the fundamental ingredient of future "world order" governing international economic relations.

The discussed idea has a certain relation to the programme of New International Economic Order proclaimed by developing countries some dozen years ago. NIEO has since then however lost its high momentum of mid 1970s, and sometimes even being forgotten as old but romantic idea. Developing countries however have not abandoned this program. What SC would add to NIEO in a search of its revival, is full equality of partners rather than one-sided and pre-judged privilidged position of certain group of countries, at an expense of others; dismissal of a search of "alternative world system" or so called delinking from world market economy sometimes addressed in too radical versions of NIEO: providing preferential treatment for poor developing countries on the basis of sovereignty, justice, and humanking solidarity, having in mind responsibility of more advanced nations for the future of this planet and achievement of true global rationality. In this sense, the idea of economic security could be seen as extension and enrichment of NIEO, rather than contradiction to it. Politically, SC are only natural allies for developing countries being themselves subject often to unfair treatment under apparently unrestrained freedom to market mechanism.

4. Dilemma of adjusting to the balance of payments crisis: the case of Poland during the 1980s and beyond

The excessive debt; burden now specific for more than 60 countries from all geographic and political areas, has become one of most acute global problems. Heavily indebted countries, Poland notwithstanding, have a vital stake in a fair resolution of this global issue, to the benefit of creditors, but with some meaningful prospects for debtors as well. For debtors, a most pressing issue is restoration of growth and development and such restructuring of domestic economy and export orientation that would ensure that prompt servicing of the debt is accomplished from rising export receipts, rather than from compressing imports, consumption, investment, at the danger of blocking the future growth possibilities. Creditors, on the other hand, press mainly for regaining by debtors of market and banking creditorwithness, this being a basic criterion for resumption of capital flows to developing world. It seems understandable that an author, taking up a global debt issue and coming from an indebted country, may sympathize more with the lost of other debtors both now and in future, rather than with sorrows of creditors. Hence the reader would excuse perhaps a bit one-sided type of argument that follows.

The present paper does not allow to dwell upon origins of the debt problem and its recent past. What seems relevant however, in potential future course is that solution of this dilemma may take. Here, position of debtors vis-a-vis creditors and their institutions like IMF or IBRD, differ sometimes quite drastically. This difference however, does not reach the unacceptable limits, e.g., that debtors intend not to be obliged by their credit agreements, etc. However, the course taken by creditors and their institutions with respect to curing "the debt disease" does raise serious reservations, particularly with respect to its long-range implications and prospects. Since the outbreak of the debt crisis in 1982, all debtors all over the world have been subject to rather severe austerity treatment by IMF, known as adjustment programmes. Essense of this approach, at a risk of oversimplification, consists of such "belt-tightening" by the debtor country, such restructuring of its economy that would provide for solid export orientation, unrestrained functioning of the market mechanism and freedom for foreign capital, and gradual revival of an economy up to regaining by it creditworthiness. This would restore a given country's bankability, resume trust and profitability of foreign investment, and a debtor country would come back to "normal treatment" by world creditors. This receive however, seems not to work, when applied not to individual and isolated cases but to the debt issue in its global dimension. Why is it so, why after some half dozen years of IMF-type treatment, the debt disease keeps continuing, IMF and IBRD rushing here and there to help with neverending crises, negotiations, renegotiations, threats of default, sometimes actual defaults, IMF-type friots, and the like?

Judgements of reasons for this outcome vary. The present author shares the following diagnosis. The IMF-type treatment cannot be relevant, when applied to too great a number of debtors in dramatically changed, global economic situation. Argument put forward by IMF, is beset with "fallacy of composition" dagner. What is good for a single country in favourable external situation, could be poisonous for a bulk of countries in dramatically wrosened international scene. The present and future international debt is nothing comparable to the balance of payments deterioration, for which typical IMF adjustment programmes have originally been worked out, on the basis of famous J. Polak model of late 1950s, with its "financial exercises", demand management prescriptions, expenditure-switching postulates, and the like, reality of the global debt is quantitatively and also qualitatively different nowadays as compared with isolated cases of payments crises, to whose resolution the original IMF approach has been enriched and modified, its essense nevertheless remains the same. The present global debt is a very peculiar and unprecedented one. First of all, its size is such that for some 60 countries or so a simple arithemetics of compound interest shows that debt practically never can be repaid not to speak of surplus in terms of goods which the creditor countries should absorb as equivalent of capital to be repaid by the debtors. Second, even prompt servicing of the debt becomes very seriously problematic, if for individual economies debt-servicing ratios are close to 100 per cent of their export earnings. This is clear and logical to everbody, but on political grounds no one is ready to admit the conclusions that should be drawn from this reality. Even once-at-a-time closure of current account by individual debtor here or there, is illusory and deceiving as the real problem consists in "debt overhang" behind the given current payments situation. Debt overhang—whose approximate size could be judged from figures on creditworthiness found on so called secondary markets, does not only indicated a loss in this creditworthiness. Equally, it points to the amount, by which debt cannot be served, in fact, by a given economy and its payments potential. If exhortations and plea for "restructuring", reforming, export-promotions, outward orientation are addressed to all debtors worldwide, while the actual servicing situation remains unchanged, and no meaningful relief is in sight—then the debtors are logically prompted to one-sided rejection of debt burden. A country undertaking a fundamental restructuring programme, requiring painful efforts, sacrifice, enormous shifts in distribution of economic gains within individual groups and strata, must be given a certain vision of her future that will be qualitatively different than the past. In case of balance of payment crisis, it seems to the long-run interest of the creditors, that they provide such a vision to the debor that would be helpful and reform-encouraging, rather than dwarfing it. If debtors are very far rightwards on "debt-burden Laffer curve" (for explanation of this see Appendix 2) i.e., curve relating real servicing possiblities in relation to the size of debt, then certain debt relief could increase rather than curtail actual and prospective servicing possibilities on part of debtors. Indeed, it could be in the well—understood interest of creditors to work out a future payments vision of a given debtor that will be opposite to the past. Besides, such an alternative payments in future would greatly enhance domestic prospects for reforms, restructuring, pro-market, and pro-efficiency transformations requiring great pains and sacrifice, but much more likely to be accepted by great societies in the indebitors. Prospects for meaningful expansion of export receipts must be estimated realistically, if all debtors are taken into account. Against potential export receipts and their realistically assessed expansion, one should compare current and future servicing payments, as well as prospects for levels of real interest rate and interest payments. If a hypothetical calculus of such a type accomplished on realistic figure shows that interest rate in real terms would exceed the rate of expansion of export reality rather than about dreams and wishes, however noble they may seem.

Concluding this, rather pessimistic argument: the following concusion may be formulated. The creditors wishing to extract as much as possible from their debtors should first and foremost do their best to help, rather than dwarf, in efforts aimed at instituting profound economic reforms, and the like. One of most helpful aspects of creditors' action may consist in assisting the heavily indebted countries in working out a realistic but alternative too the past balance of payments position over a long run. Only under such a provision, a given debtor country could viably implement its reforms, while long-term benefits to the creditors could be maximized.

III. Long-Run Potentialities Derived From SC Outward Orientation

1. Factors making for expansion of trade and cooperation

A strategic position of SC for strategic change towards openness and export promotion, is by no means easy. In recent past, virtually all SC have faced their share in world exports falling; composition of trade displays disproportions and asymetries, structural and geographical; several new and aggressive competitors have grown on a world market marginalizing those suppliers that are unable to withstand the fierce competition; balance of payments crisis in some SC adds up to all other obstacles. Hence a likely transition to openness could hardly be deemed as spectacular. It could only be very gradual, step by step. Nevertheless, their past industrialization effort, rather diversified industrial structures, skills of employees—all these features do provide a certain solid base for initiating the process of opening and reorientation.

Even in the existing structural lines of industrial development, SC do show some degree of attractiveness and complementary for countries that have industrialized on other presumptions. For example, several developing countries guided in their export-promotion efforts by the signals of domestic and world markets, have concentrated their manufacturing on final stages, with a relative neglect of basic industries. The latter industries, on the other hand, seem to be exactly those "over-developed" in most socialist economies. Dynamic, long-term cooperation could well reap the benefis of this potential complementarity. Certain rapidly developing countries, particularly the NICs, have, besides, shown somewhat excessive concentration on very few export markets that may become a potentially vulnerable situation genrating dependence and dangers of over-concentration. Faced with a pressure to be "graduate", some Asian NICs would probably see their long-run interest in diversifying the geographical range of export outlets. SC with their vast potential market, abundant natural resources could well be one of such potential partners, the more so if account is taken of acutely small initial share of SC in NICs' external trade.

Institutional, economic and political processes of deep economic reform taking plaçe in most SC, seem to provide a solid ground for future expansion of trade and cooperation with all partners, and those from developing world in particular. This future expansion, contrary to past experience, must however be based on direct linkages and economic ties among individual enterpises and firms who possess a best knowledge regarding the desired volume and structure of mutual flows of goods and services. On part of the SC, this is facilitated and certainly will be much more developed in the future by granting a needed degree of economic and financial autonomy to these enterprieses, particularly those specializing in export production. Already now in Poland, for example, enterprises with high share of export in their final output enjoy the right of disposing a portion of foreign exchange earned, for their own independently decided uses while the rest of forex must be sold to the state, in order to provide for import, debt servicing, etc. This autonomy is intended to considerably strengthen and expand, including autonomous investment expenditure made by individual enterprises, direct commercial and capital links with foreign partners, etc.

Poland intends, besides, to expand greatly the scope and volume of capital cooperation with OECD and developing countries, that may wish to invest directly in our economy. The recently passed law on joint ventures and foreign capital provides assurances of profit remmitances, tax holidays at initial years, and several other stipulations that, hopefully, would attract foreign investors. Already at present there is some experience collected in the field of participation of foreign capital based on foreign investors with a Polish family background. Gradually improved current account constraint could provide also for a step by step import liberalization, making room for supplies from abroad and extending space for competition with external partners. In Poland, there is a determined policy stand to balance the current account balance in about three years since now, and this country hopes for assistance and acceptance of her adjustment efforts by institutions such as IMF and IBRD. Elaboration of adjustment programme is well under way at present and there are prospects of its conclusion with the IMF before next year. This, we hope, could encourage certain institutional investors and bank circles to resume normal capital cooperation. It will be noticed by the way that until now, Poland has been treated rather very harshly as far as current imports and capital cooperation is concerned. Due to certain political motivations indicated before, for several years now Poland is forced to make virtually all her purchases on a cash basis—the case hardly met in normal commercial dealings.

2. Premises of long-run structural adjustment and openness

Over a long run, restructuring of industrial and manufacturing base in SC indispensable to meet the challenge of outward orientation must be based on capital investment. In this process, all SC, Poland in particular, are greatly interested in evolving such future structure of industry that would be amenable to long-term cooperation with the foreign partners, particularly from the developing world. It is here that probably the greatest potential is hidden. Industrial re-development processes taking place worldwide could facilitate in achieving dynamic complementary between industrial expansion in SC and partners in the Third World. SC, by their nature, would like to elaborate and implement this process on a mutually agreed, planned way that would allow for appropriate investment undertakings, industrial cooperation schemes and direct capital involvement. As indicated before, this process would be accomplished mostly at an enterpise level, while government and states would serve as overall "umbrella" providing legal assurnace and concluding the necessary arrangements at a state level.

By ventures of this type, SC intend to materialize their determination to take an active part in world restructuring processes contributing thus to their own and global economic security. At the same time, Poland, as much as other SC, is ready to expand trade and long-term cooperation with developing countries being ready to provide preferential treatment to poorer partners on the ground of solidarity and in a search of measures to raise the future growth potentialities in those poorer countries. Therefore, while SC are not ready to accept the claim addressed to them by some of the NIEO postulates and concerned with obligatory financial or capital flows to LDCs similarly to the obligations addressed to the former colonial powers, nevertheless the SC also feel responsible for the future of the Third World countries and are ready to contribute materially to making it better and dynamic, according to their possibilities. Still, long-term restructuring of SC economies to meet the challenge of outward orientation and export expansion, in case of cooperation with the

Third World can not be accomplished on the basis of net capital outflow from SC but on the basis of mutually agreed investments whose pattern should suit the factor endowments of respective partners maximizing their future benefits. Preferential treatment and assistance is one thing while industrial re-deployment and restructuring is another issue that, according to SC, should be implemented taking into account the real systemic nature of socialist economy. By this, we have in mind the following distinction. An inherent characteristic of the developed capitalist economy is the problem of capacity utilization and effective demand stimulation. Export surplus including capital outflow could greatly contribute to the utilization of domestic capacity raising thus a level of economic activity and employment. Thus, export surplus, inlcuding capital assitance, while beneficial for receiving countries at a first place, could also be of importance for the donors as well, stimulating by a mechanism of multiplier, the level of domestic economic activity and employment. In socialist countries, on the other hand, as well as in most developing economies, the opposite situation is true, as made clear on theoretical grounds long ago by well-known Polish economist M. Kalecki SC, as much as LDCs, are "supply-constrained", and this constraint could be removed by capital investment process since the feature of less developed economy consists in insufficiency of capital plant in relation to manpower surpluses contrary to the case of mature capitalist economy. Under such a situation, export surplus and particularly capital outflow would imply for SC a real sacrifice of domestic capacity capactiy expansion. Capital aid to developing countries can not thus be unequalifies obligation for SC, although, as already emphasized, they are willing and ready to contribute on their own to the future of LDCs. Still, in the context of the discussed problem of potential future cooperaiton and trade among SC and LDCs, best propects seem to lie in re-deployment processes, mutually beneficial long-term structural adjustment and industrial cooperation that would be based upon coordinated and planned investment processes undertaken in both groups of countries on the ground of mutual advantage and dynamic industrial complementarity. It is on these grounds that future plans of expanding the trade and cooperation links between SC, including Poland, and LDCs, are being framed, hoping for the a reciprocal consideration in policy-making circles in our partners.

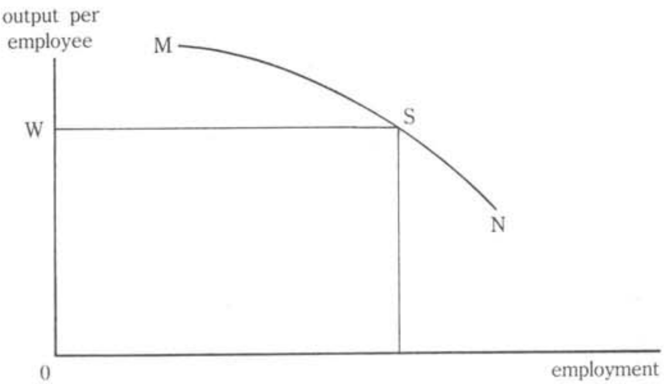

Fig. 1.

Source: J. Sechs, H. Huizinga, "The US Banks and the Developing Countries Debt Crisis", *Brookings Paper on Economic Activity*, No. 2, 1987.

APPENDIX 1

Dilemma in Private Versus Social Cost-Benefit Calculus in a Centralistic Planning

Theoreitcal and practical novelty of the socialist developmental doctrine applied at a stage of economic backwardness, is closely linked to superiority of macro-rationality, over private or individual enterprise cost-benefit calculus, raionality. This note serves to highlight this important distinction, applying one of the standard tools of neoclassical economics, and specifically, using a well-known growth model developed in early 1950s by W.A. Lewis. We stick in our argument to the problem of maximizing output through absorbing surplus manpower.

For an individual enterpise or any other economic agent, operating under the market criteria, an equilibrium point concerning employment expansion is set by the point of intersection of marginal productivity curve MN, with the going real wage rate line WS.(Figure 1) Such equilibrium point need not, however, and usually does not correspond to the employment euilibrium position considered from the viewpoint of maximizing gross real output for the economy as a whole.

Under a very egalitarian type of poor socialist economy, it has been considered beneficial from a developmental doctrine point of view, to "violate" a narrow, private cost-benefit rationality criterion applied with respect to employment at an individual enterpise level, in order to meet the macro-rationality

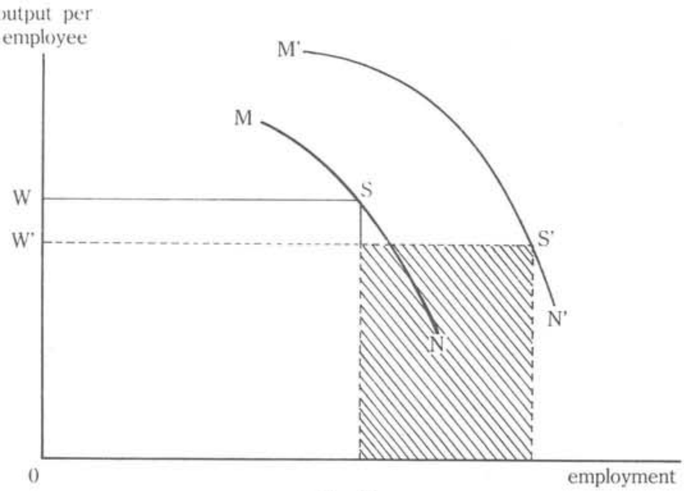

Fig. 2.

Source: J. Sechs, H. Huizinga, "The US Banks and the Developing Countries Debt Crisis", *Brookings Paper on Economic Activity*, No. 2, 1987.

criteria had priorities, i.e. maximization of gross real output from all available resources. This could be obtained by several measure: setting temporarily the real wage level below initial position but compensating the employment, e.g. within individual families; in extreme cases, apparently loss-producing units could be temporaily accepted, particularly if their output has been of crucial importance, e.g., in removing other bottlenecks in production processes. Fig. 2 illustrates this case: WS line stands for new real wage level making possible much greater number of gainful employment expansion is subsequently made possible by investment and capacity expansion which is illustrated, as in the original W. A. Lewis model by an upward shift of marginal productivity curve MN.

APPENDIX 2

Debt-Relief Dilemma: Trade-Off Between Reducing Debt Overhang and Increasing Real Servicing Capacity

A term "debt overhang" may be loosely defined as such a size of net indebtness that significantly exceeds a given country's real servicing capability over medium and long run. Approximation to a quantitative estimate of this overhang could be obtained, inter alia, from secondary market debt trading deals or swamps that show a discounted value of debt for respective countries.

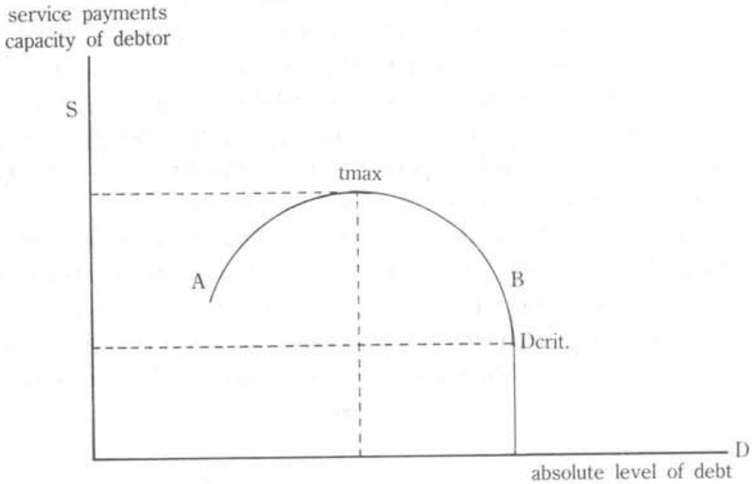

Fig. 3.

Source: J. Sechs, H. Huizinga, "The US Banks and the Developing Countries Debt Crisis", *Brookings Paper on Economic Activity*, No. 2, 1987.

It indicates, on a one hand, a loss in creditworthiness of a given debtor, but on the other hand, it also points to an excess of debt burden that could not be promptly served *ceteris paribus*. Granting a meaningful, long-term debt relief, under such a case, could benefit not only a given debtor country but could be beneficial for a creditor side as well. The following model illustrates this argument.

Let the ordinate on Fig. 3 denote service payments S to the creditors, while the abscissa represents an increment in absolute amount of indebtness D. The curve AB represents a changing payments possibilities of a debtor along with rising volume of debt. Initially, on a left to the point tmax, greater debt size is positively associalted with real payment to creditors, but a rate of this link is declining, reaching a maximum servicing capcity point tmax. Further growth in indebtedness over and above the point tmax, generates smaller and smaller real service flows to creditors. This position of a debtor country—rightwards on this "debt-relief Laffer curve"—illustrate the case of "debt trap", or debt noose. A given debtor country is increasingly unable to service its debts pomptly, whose aboslute size may grow at a rate determined by a difference in nominal interest rate on past credits, and rate at which export earnings destined for servicing increase. In short, further growth in indebtedness over and above tmax generates declining servicing capacity, under assumption that creditors apply their standard "medicine", i.e. press for current account balance at any cost, by means of cuts in imports, consumption, investments, real per capita income, etc., nominally and legally, creditors could well deem this pressure justified on a ground of "pacta sunt servanda". Further course of events: increase in indebtedness and nominal servicing burden is however not endless: sooner or later a debtor is prompted to declare onesidedly a default, being left is a desperate, entirely hopeless position. Hence the AB curve falls down horizontally to the abscissa, after critical level of D crit.

This argument serves to illustrate the benefits of meaningful debt relief not only for the debtors, but for the creditors as well. If a debtor is indeed on a rightward side of above "debt Laffer curve"—then there is a strong case for increasing the real servicing potential by reducing the debt overhand. It need not be further argued that debtor's position on the right to the point tmax, is entirely not an abstract, modeling hypothesis.

*This note has been worked out on an inspiration of the following reference: J. Sachs, H. Huizinga, "US Commercial Banks and the Developing Countries Debt Crisis", *Brookings Paper on Economic Activity,* No. 2, 1987, pp. 535-601, and discussion that following it.

Bibliography and Notes

This paper is based upon auther's own judgement based on "common wisdom" available at present in Poland and greatly inspiration and assisted by the authors whose work is presented below. Extremely pressed by the time, he wishes to apologize to Readers and Editor for not placing all the necessary footnotes. He benefited particularly from an intellectual assistance of Profs. M. Pereszynski, J. Pajestka, M. Paszynski, as well as from comments for colleagues from the Department of World Economy at his Institute in Warsaw. He thanks them all but implicate none. Source of inspiration and a source of additional argument is pressed below according to sequence of this paper.

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