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POLAND: Reaction to Price Increases

*Strikes and work slowdowns in at least several Polish cities reportedly continued yesterday, but the regime has indicated that it will not rescind the measures that led to this week's unrest.*

The regime has claimed that the situation is normal, but [redacted] job actions continue in the important Ursus plant outside Warsaw and in an aircraft factory in southeast Poland. [redacted] unconfirmed reports that labor protests were taking place in many parts of the country. Thus far, however, there have been no demonstrations outside of the plants, and there has been no violence. It appears the authorities hope to wait out the workers and will not use coercive action as long as the protests are contained in the factories. [redacted]

The Polish workers are reacting to the government's quiet attempts to impose de facto price increases on some luxury meat items by moving the sale of these products from highly subsidized regular state stores to nonsubsidized commercial stores. Restaurant prices for meat dishes also were increased by perhaps as much as 50 percent. Prices in state and commercial stores have not changed. The de facto increases will affect the consumer price level only moderately since Polish meat staples, pork and chicken, were not affected. [redacted]

Double-digit inflation over the past few years has made workers sensitive to price increases, particularly for meat. The workers' reaction probably was also due in part to the regime's failure to prepare them and the rest of the population adequately for the changes and to make clear the nature of the changes. The Polish rumor mill likely exaggerated the extent of the increases. [redacted]

Government spokesmen have indicated [redacted] that tactical mistakes had been made. They also have said, however, that the regime will not back down as it did in 1976, when widespread strikes and riots occurred. Polish leaders probably believe that the

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changes were very moderate and that to capitulate would tie their hands on implementing the austerity measures that are required if Poland is to cope with its massive hard currency debt. (C)

The regime probably hopes that its offers of limited wage compensation will help calm the populace. According to the Embassy, however, at least some workers at the Ursus plant have rejected the authorities' offer of a wage increase. The strikes may convince the leadership that it must be very careful in its tactical decisions and provide specific information to the Polish people about price increases. The leadership does not seem to have learned well from past experience, however, and additional missteps could lead to more strikes and political tension.

The uncertain situation may delay final action on a major balance-of-payments loan to Poland, discussed by Western bankers on Thursday. If Warsaw keeps the situation under control, however, the bankers may be encouraged to proceed, especially since the introduction of price increases is a sign that Warsaw has begun to carry out at least one aspect of a stabilization program.