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**Poland:
Settlement Implications***

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**APPROVED FOR RELEASE
DATE: APR 2002**

The agreement this week between the government and strikers along the Baltic and in Silesia apparently is ending Poland's immediate labor crisis. The agreements, however, will usher in a period of political turmoil that could last several years. During this poststrike period, a weakened party leadership can be expected to engage in a contest of will and guile with a defiant and politically conscious working class. Political dissidents, emboldened by the workers' success, will seek to give the new free trade unions political direction.

The Soviets, whether or not consulted about the final accord, will be watching events with great suspicion, and Polish-Soviet relations will be tense. The accord allowing free and independent trade unions will differentiate Poland even more from its Warsaw Pact allies, giving it an independent workers' lobby to go along with an independent Church and independent farmers. For the time being, therefore, Poland will move toward a more liberal and open society.

The Trade Union Issue

The regime conceded the issue of free trade unions because it was running out of time and options. It tried, at the same time, to remove the political sting from this concession by obligating the new unions to recognize Communism and the party as the sources of authority. These provisions were necessary to sell the agreement to the party leadership and perhaps to Moscow. What form the new trade unions will take and what powers they will have remain to be settled. The regime has obligated itself to draft a new law on trade unions and has guaranteed that the new unions will be able to participate in its preparation. No time limit has been set for completing this draft.

* This article was prepared jointly by the Office of Economic Research and the Office of Political Analysis. (U)

Although it would not blatantly renege on its commitment to permit free trade unions, the government will seek to keep their powers and rights to a minimum. Presumably, the regime does not want to go beyond allowing individual unions that are authorized to negotiate only on peripheral economic issues—safety regulations, working conditions, and piece rates, for example—and limited largely to an advisory or consultative role. The workers obviously will strive for unions with more clout. But—previously united only by a shared goal of wresting some power from the authorities—they may now be expected to put forward differing views on how the unions are to be organized and what functions they are to perform.

The key to whether the new unions will emerge as a genuine and effective force in representing worker interests lies in whether they gain the right to negotiate wage agreements, with the right to strike to support their demands. Winning the right to bargain wage agreements would make sharp inroads on central planning as now practiced in Poland because the government would relinquish a large measure of control over incomes and consumer purchasing power. Moreover, the political victory that formation of independent unions represents is not likely to be followed by the increases in real income that the workers expect. Disappointment over unrealized improvements in the standard of living could well trigger new civil disturbances.

Economic Impact

The strike settlements do not improve the outlook for Poland's economy; the dilemma of how to service the huge foreign debt without lowering the standard of living remains. Indeed, satisfying these objectives simultaneously is not possible without large-scale aid from the West and from the USSR.

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Settlement Terms. The key element of the Gdansk and Szczecin settlements—which evidently are serving as a model for worker-government agreements throughout Poland—is the authorization of (a) the formation of independent trade unions and (b) the right to strike. These pacts also grant many other worker demands, though in some instances either incompletely or with a delay.

The major concessions include:

- A gradual increase in wages according to job category and industrial sector, with larger hikes for lower paid workers. The first phase of increases will be completed by the end of this month, and another agreement will be reached by the end of October to raise wages in January 1981 for the lowest paid and families with many children.
- Price controls to stabilize the cost of living and elimination of hidden inflation. The government also promised to present a plan for compensating workers for increases in the cost of living.
- A government plan to be worked out by the end of the year to improve food supplies—particularly of meat—by increasing the profitability of agricultural production, reducing meat exports, and increasing imports. Meat rationing will be considered.
- Annual adjustment of pensions and an increase in the lowest pensions in 1981.

The agreement reached between the coal miners and government differs little from the Gdansk and Szczecin pacts. Miners, however, did succeed in winning three specific demands of particular importance to them—a five-day work week, improved safety measures in the mines, and a reduction in the retirement age from 55 to 50.

Consumption and External Balance. The concessions to the workers are more likely to intensify inflationary pressures than to raise Polish living standards in the long run. In the immediate after-

math of the settlements, consumption may rise, but only if the regime allocates additional resources to the consumer sector. Such a shift can only take place by reducing exports and increasing imports, thus worsening the hard currency deficit. Even before the strikes began, we estimated that Poland's current account deficit with non-Communist countries in 1980 would be about the same as the \$3 billion incurred last year and could be higher in 1981. Losses from production and transportation disruptions due to the strikes and the need for the government to import more and/or export less consumer goods to conciliate the workers could add at least several hundred million dollars to the 1980 hard currency deficit. The hard currency cost of the wage package alone could reach \$1 billion on an annual basis.

Poland will find it difficult, if not impossible, to borrow the funds needed to cover these costs. Even before the strikes, Poland's borrowing ability was very limited; the strikes have increased Western banker reluctance to lend to Warsaw.
 some US banks are becoming increasingly wary of extending even trade credits to Warsaw.

The USSR may be willing to provide enough hard currency assistance to cover Poland's additional needs for the next few months, but probably would be unwilling to help support an improved Polish standard of living on a continuing basis.

If Poland attempts to carry through on its economic promises in the absence of more Soviet or Western aid, Warsaw would not be able to service its foreign debt and general rescheduling would be a virtual certainty. Even before the disturbances of this summer we were projecting rising debt servicing costs, reaching \$8 billion this year. Debt rescheduling, however, would not eliminate Poland's need to set its house in order through some sort of austerity program.

Setback for Economic Reform. The events of the last two months and the settlements of the last few days have not only foreclosed implementation

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of the austerity measures needed to bring spending more in line with hard currency resources, but have all but eliminated the possibility of introducing basic systemic changes. The strikes were triggered two months ago by a small, timid, and long overdue step in the direction of economic rationality—the boosting of some meat prices. Thus, one casualty of the turmoil this summer is the regime's willingness or ability to raise consumer prices, even though freedom to do so is indispensable not only to restraining consumer demand but to promoting more efficient resources allocation. The strike settlements commit the regime to price stability through price controls. Hidden price increases will continue to be widespread, however, as long as wage increases continue to outstrip increases in availability of consumer goods.

The leadership shakeup in late August supposedly elevated to power in economic affairs officials dedicated to far-reaching reform. But these people primarily advocate managerial improvements—including some decentralization—while rejecting the introduction of important elements of market-type economies.

This essentially administrative approach to economic reform has not in the past significantly boosted efficiency in Poland or elsewhere.

The new leadership is not totally powerless to improve economic performance in the absence of fundamental economic reform. It could, for example, by central directive, reallocate investment to neglected sectors such as agriculture and perhaps permit more private activity in services. But the decline in overall investment dictated by the need to improve the balance of payments and to maintain growth in consumption limits the benefits to be gained from more rational allocation of investment.

The Leadership

The party leadership has been weakened and divided by the crisis, and the lengthy process of implementation of the agreement will generate even more pressure and conflicts. It is doubtful that Gierek can ever play the leading role he once did, and he probably has already come under strong pressure to step down. The Soviets, however, might want Gierek to remain in place as a sign that the party leadership has not been undermined by the concessions. Nevertheless, political leadership will probably fall increasingly to the younger generation including Olszowski and Stanislaw Kania, a party secretary who played a major role in the crisis.

Dissidents

Polish dissidents will probably increase their activities and gain new adherents. They have long argued that society should make demands of its rulers. The dissidents have advised the workers over the past two months and will try to help the fledgling unions, but the regime will make a determined effort to prevent the dissidents from giving political direction to union work.

The Church

The status of the Church will probably not be much affected. The regime undoubtedly needed and appreciated its calming influence. But the Church did not play the key role in resolving the crisis, and the regime probably feels under no great compulsion to grant the Church many of its long-standing demands. Because Polish Catholicism runs deep, the Church probably did not lose any standing with the population even though many Poles initially saw its statements as siding too closely with the government's position.

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The Soviets

Moscow's belated acknowledgement of the settlement, its refusal to permit details of the accord to reach domestic Soviet audiences, its attacks since the settlements on "antisocialist elements" in Poland (including the strike leader, Lech Walesa), and its indirect criticism of Gierek's "weak leadership" indicate deep concern about the accords, their implication for Polish politics, and their potential impact on the Soviet domestic scene. The Soviets, nonetheless, appear to have given grudging acceptance to the accords and have offered a measure of endorsement to the regime's tactics in resolving the crisis. They have apparently decided that however unpalatable the concessions on independent trade unions and relaxation of censorship, they were essential to defuse the immediate crisis.