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POLAND: Economic Strategy

Premier Jaruzelski in his speech to the Central Committee plenum on Wednesday again indicated that his economic strategy is to coerce enough output from a crippled economy and a beleaguered population to ease Poland's financial problems with the West and to lay the basis for recovery. To achieve these goals, Warsaw is reducing living standards, considering forced agricultural deliveries, and seeking aid from its allies. Austerity, however, risks intensifying discontent and jeopardizes Jaruzelski's hopes of reaching an accommodation with the people.

After earlier periods of unrest, Polish leaders rapidly increased wages and food supplies to reduce political tension. Jaruzelski does not have this option, however, because of Poland's huge hard currency debt and limited access to new credits. He also has to contend with widespread shortages of food and consumer goods, excess money in circulation, and the reluctance of farmers to sell to the state.

Western sanctions compound these problems by reducing imports and production and by complicating Poland's financial situation. Sanctions prevent Warsaw from importing on credit and using export earnings to pay interest to banks. This reduces the amounts of vital supplies of materials and food that can be purchased from the West.

Jaruzelski seeks to increase output to a maximum by requiring a six-day week in key industries and by slashing Western imports. The regime plans to run a \$530 million trade surplus with the West in the first half of 1982 in order to pay some debt service and reassure Western creditors.

Enforced Austerity

The Premier is relying primarily on massive retail price increases to force down living standards, absorb excess money, and correct market disorder. The price

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hikes enacted on 1 February on food and utilities raised the overall cost of living by more than 50 percent while wages were increased by only an estimated 20 percent. The regime also has reduced the real value of private savings by adjusting savings accounts upward by only 20 percent and by crediting the adjustment only after February 1985.

Almost one-fifth of the population--including private and collective farmers, craftsmen, many service employees, and clergymen--has not received any compensation under these measures. Private farmers, moreover, have to contend with price hikes on equipment, fertilizer, and other supplies that outweigh the increases in prices they receive for their products.

Consumers also face more retail price increases on manufactured goods this year, although the government will monitor price changes by enterprises and consider further wage compensation. The impact of the additional burden may be just as severe as the food price increases.

Jaruzelski clearly hopes that higher retail prices will reduce hoarding, shorten lines, and leave more goods available for sale. This might help to mollify consumers and give farmers more incentive to sell to the state. The price increases on 1 February apparently have helped keep more goods available, although some of the improvement probably reflects government efforts to put more goods on the market to cushion the blow.

CEMA Assistance

Warsaw is seeking help from its CEMA allies to compensate for reduced supplies of Western materials. The Poles have asked for large trade deficits, a grain "loan," additional raw materials, and accelerated deliveries in order to reduce idle production capacity. In addition, they almost certainly want hard currency assistance.

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The USSR has been more responsive than East European countries in allowing a 1.2-billion-ruble deficit this year. This is less than the deficit of 1.5 billion rubles in 1981, but double what the Poles sought last fall.

The Soviets also have agreed to reduce machinery exports in favor of more useful goods and to provide some above-plan shipments. These concessions do not cover Poland's needs, however, and Jaruzelski will keep pushing for more help.

One concession by CEMA will help only temporarily. The CEMA countries agreed--apparently to help soften the impact of martial law--to ship a larger share of planned deliveries of a wide variety of goods for 1982 in the first three months of the year and to let Poland defer temporarily some exports. Warsaw is required, however, to increase exports substantially from April through June and to make do with fewer imports.

Outlook

Jaruzelski is aware that his economic policy is a gamble, requiring patience by the Polish people and Western creditors as well as generous aid from other members of CEMA. At best, Poland probably will only be able to pay less than half of the \$2.5 billion interest obligations due this year to private bankers, thereby keeping default an ever-present possibility.

Polish consumers may well react to further reductions in their living standards by increasing resistance. The likely failure of Poland's allies to grant enough assistance will generate tensions within the Bloc. It also may undercut the arguments of Polish hardliners that Poland should rely completely on the East and push Warsaw back toward the West.

The combination of martial law restrictions under declining living standards reduces the chance that any accommodation with the populace will be reached or significant economic reform be made. Compulsory agricultural deliveries would bring the regime into conflict with private farmers and the Church. Jaruzelski's economic policy, thus, will favor perpetuating a strong martial law apparatus.

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