

POLAND: ANNUAL REVIEW for 1988

HER MAJESTY'S AMBASSADOR AT WARSAW TO THE SECRETARY
OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

SUMMARY

1. Legitimacy and efficiency still absent, but after a dramatic year prospects for internal dialogue and economic reform a little brighter (paragraph 1).
2. The struggle to influence the content of Polish pluralism. The idea of a dialogue at a Round Table takes shape after two waves of strikes. Rakowski's appointment as Prime Minister in October an initial setback but Wałesa and Solidarity enhance their standing by the end of the year. The dialogue may yet begin in early 1989 (paragraphs 2 - 4).
3. Deteriorating economic and social conditions. The new government begins to introduce substantial measures of liberalisation (paragraphs 5 - 9).
4. Importance of Prime Minister's visit (paragraph 11).
5. A difficult year ahead. Tough economic measures will be needed but results will take time to show. Will the authorities allow freedoms to become entrenched? Failure could imperil the leadership (paragraph 13).

BRITISH EMBASSY
WARSAW

10 January 1989

The Right Honourable
Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
LONDON SW1

Sir,

POLAND: ANNUAL REVIEW FOR 1988

Introduction

1. Events in Poland in 1988 have again highlighted the deep and persistent problems of the country. Legitimacy and efficiency continue to elude the Communist leadership. After the drama of the worst industrial unrest since martial law and a change of government, elements of a more market-oriented economic policy are appearing at the end of the year and the prospects for a dialogue with the Opposition are flickering somewhat more brightly. But major uncertainties remain.

Political Developments

2. The central question in 1988 has been what pluralism should mean in Poland. The answer, when it comes, will be important beyond Poland's borders. Changes in the Soviet Union and Poland interact. What happens here (along with

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parallel developments in Hungary) may mark out the limits of change and liberalisation achievable in Eastern Europe for the next decade or so. Substantial liberties already exist in Poland, albeit alongside intermittent harassment of opposition activists. All ideas not hostile to the established order (meaning the leading role of the Party and Poland's place in the Soviet bloc) can be discussed and, in large measure, written about. The Church enjoys and practices a robust autonomy. Foreign travel is relatively easy and getting easier. But the call for national reconciliation and dialogue goes beyond this in recognising that the regime needs at least the acquiescence of the Opposition if it is to govern effectively and reform the economy. This in turn translates into the question of how to incorporate the major elements of the coalition of forces represented by Solidarity in a process of national reconciliation controlled by the Party. The authorities wish to harness pluralism for their own ends, to give legitimacy to the system. More specifically, they wish to channel and neutralise the influence of Solidarity. For their part Solidarity leaders are ready to take part in a wide dialogue but are also wary of being drawn into fruitless discussions or compromises that might isolate them from their power base. They therefore insist on early legalisation of the movement. This is for them not only proof of the regime's good faith, needed more than ever after the decision, on the eve of the Prime Minister's

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visit, to close the Lenin Shipyard in Gdansk. It is also the touchstone of the Party's attitude to pluralism. Solidarity's cause is at this point the cause of all who want to see freedom and liberties anchored in law, not rewards doled out at the Party's discretion in return for good behaviour and support.

3. Progress towards dialogue between the government and Opposition was erratic in 1988. Talk of national reconciliation has been in the air for some time, but the idea of a Round Table meeting did not acquire substance until a second series of strikes took place in August (thus confirming Solidarity in their view that concessions have to be forced from the authorities). A setback occurred two months later when Rakowski became Prime Minister. The Politburo probably had no agreed view on what the results of the Round Table should be. Many in the Party remained opposed to any power-sharing. Now there was a Prime Minister who disliked the idea of his government talking with a movement which in his view had brought Poland near ruin and the ultimate disaster of Soviet intervention in 1981. Personally committed to projecting an impression of authority and dynamism, he made his priority economic reform, calculating that success here would weaken Solidarity.

4. However, the December part of the split 10th Plenum strengthened the pragmatists and reformers in the Politburo and found Rakowski cautiously praising Walesa's conciliatory attitude. This surprising turn of events was the result

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of the controlled and effective performance by Wałesa when, after being kept off the country's television screens since 1981, he took part in an unprecedented television debate on 30 November with the leader of the official trade union movement. He reinforced this success by showing statesmanlike restraint when allowed to travel to Paris for the celebrations commemorating the 40th anniversary of the Declaration on Human Rights. It may also be that the leadership had reflected further on what the Prime Minister had told General Jaruzelski in November about the strength and moderation she had found in Solidarity. At the turn of the year the expectation is that some form of Round Table discussion will replace informal contacts between Government and Opposition before 1989 is very old, and there is a little more hope that a deal on recognition of Solidarity can be worked out that will give Wałesa and his supporters the political justification they need to participate in a dialogue on political, economic and social policy with Rakowski's government.

The Economic Background

5. The state of the Polish economy has been for Poles a daily reminder of the systemic failure and lack of credibility of their leaders. The standard of living of most Poles remains below what it was a decade ago. The flight from the zloty into goods (where available) or the dollar (at whatever price) is accelerating. Shops are poorly stocked; meat is rationed (with extra supplies available at prices many cannot easily afford); schools

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and medical services continue to deteriorate; the pollution of Polish water supplies is a major health hazard and a national disgrace; shortage of toilet paper is a fundamental issue; the Party admits that fifteen years or so is the average time that a newly-married couple might wait for a flat. When the Minister of Industry can speak of the stink of socialism, it is clear that there is an unacceptable level of public squalor, matched by private resentment at continuing shortages.

6. The major waves of strikes in May and again in August were set off by local economic grievances centred round pay and working conditions. Solidarity nevertheless succeeded in harnessing political demands to the protests, making legalisation of the union top of the list. The strikes involved many younger men with little or nothing to lose. Among them were some who might in due course inherit - or seize - the mantle of the Solidarity leadership of 1980-81.

7. Buying off workers' discontent by granting wage increases bought social peace at the cost of coherence of policy.

The strikes exposed holes in the crumbling edifice of the economic policy of the Messner government. In June the appointment of Baka (formerly Governor of the National Bank) to the Politburo signalled the beginning of the end for the policy, crippled by the legacy of the 1987 referendum, of trying to use price increases to balance the economy.

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In September Poland witnessed the unusual spectacle of the official trade union federation (OPZZ), led by one member of the Politburo, being one of the main forces behind the vote of no confidence in the Sejm that caused the resignation of a government led by another Politburo member.

8. The government formed by Rakowski in mid-October set out firmly on a path of major economic reform. The Minister for Industry and his colleague at the Ministry of Foreign Economic Co-operation, both men with experience of success in the private sector, embarked on what in Polish terms is a bonfire of controls. The central planning function has been drastically pruned. The scope for ministerial, bureaucratic or Party interference, is to be reduced. Tackling inflation is to be a main priority, along with measures to increase agricultural production and the output of the food processing industry. There is to be equality of standing and treatment for all sectors of the economy; the private sector is no longer to be handicapped by discriminatory controls on what can be produced, inputs or the size of the workforce, nor subjected to tax rates that undermine enterprise. As far as the new Minister of Industry is concerned, small is beautiful: steps are to be taken to limit the extent to which heavy industry is a black hole sucking in investment. Foreign trade and access to foreign exchange are to be liberalised. Foreign nationals and companies are to be able to own up to 100% of joint ventures. Such at least is the promise of legislation now

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before the Sejm in draft. Provided the new measures are not in their turn sterilised by other controls and regulations, Poland seems on its way to creating the legal and administrative framework in which the economy can at last move forward.

9. At the turn of the year the response of the real economy is patchy. Both capital and consumer goods remain in short supply. Inflation is around 70/80%; the gap between money supply and goods continues to grow. There must be doubts as to the rapidity with which Polish manufacturers, however entrepreneurial, can mobilise the inputs of capital and labour necessary to increase production and competitiveness to a marked degree. Polish exports have responded well to the fall in the value of the zloty throughout the year, but 1989 is not expected to see any major improvement in the balance of trade. The balance of payments surplus is still insufficient to meet the demands of modernisation and debt repayment. The Poles made no real attempt in 1988 to fulfil their obligation to conclude bilateral agreements with their creditors in the Paris Club, evidently because they could see no profit for them in paying out some \$500 million with no prospects of fresh money from any Western source. The same immobilism characterised their relations for most of the year with the IMF. The practical consequence is that a year's worth of precious time has been lost and the infrastructure of Polish industry has slipped further behind.

International

10. Gorbachev's visit in July turned out to be something of a disappointment. He failed to deal with the major issues in

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Polish/Soviet relations, contenting himself with a call to speed up the work of the Joint Commission of historians looking into the blank spots in the bilateral relations of the two countries i.e. primarily the Katyn murders. For the Polish leadership the visit was a modestly useful reaffirmation of the support Gorbachev had given to Jaruzelski at the time of the 1986 PZPR Congress. In the latter half of the year the main events were the initial journeys of Rakowski to the Soviet Union, the DDR and Austria. It is not easy to see these as more than the normal pattern of courtesy visits undertaken by a new Prime Minister.

Anglo/Polish Bilateral Relations

11. These were dominated by the visit of the Prime Minister, first scheduled for May, postponed because of the Moscow Summit until mid-October, then postponed again because the October dates would have found the Rakowski government barely in the saddle and then finally achieved between 2 and 4 November. As I reported at the time, the visit was a very great success, allowing the Prime Minister to press strongly on Jaruzelski and Rakowski her view that economic reform would not get far unless accompanied by measures of political and social reform. Her meeting with Solidarity leaders in Gdansk made a significant contribution to bolstering their standing and self-confidence. We are now well placed to continue the dialogue.

12. There were also useful visits in both directions at Ministerial and other high levels in the areas of commerce and

culture. These are recorded in the Calendar of Events. British exports to Poland are likely to be marginally down on 1987, a disappointing result reflecting mainly the state of the Polish economy and the lack of credit to underpin trade.

Prospects

13. Rakowski's calculation is that if he can make the economy work better there will be no need to concede real power to the Opposition. I believe that this mixture of cynicism and realism underestimates both the stickiness of the economy and the extent to which Polish society wishes to have freedoms that are properly entrenched. Accordingly, much is likely to turn on whether the dialogue between government and opposition begins in earnest and brings enough results for the government to attract broader acquiescence, if not support, for measures certain to increase economic and social pain before any wider benefits appear. This in turn depends on whether the Party is willing to allow pluralism to come nearer the top level of Party and State power. Without some form of recognition of Solidarity, fresh strikes in the spring could call in question the survival of the present Polish leadership. Difficulties in the economy will remain and could threaten the stability of the regime itself. 1989 will be an interesting and perhaps turbulent year, calling for firm and sophisticated policies from the West.

14. I am sending copies of this Despatch to HM Representatives at Moscow, other East European posts, Bonn, Paris, Washington, The Holy See, UKDEL NATO and UKDEL CSCE Vienna.

I am, Sir
Yours faithfully

Stephen J. Barrett

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