

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

POLAND: ANNUAL REVIEW FOR 1990

Summary

1. Faulty leadership, growing strains but some progress. Bad policy or instability could quickly cause things to get worse: it will be years before the reforms are consolidated (paragraph 1).
2. Election of Walesa as President following collapse of popular support for Mazowiecki. A costly experience, leading to problems for the future (paragraph 2-6).
3. The Balcerowicz reforms got off to a good start but by mid-year social pressure began to force concessions. Inflationary pressures and need to restructure remain. \$4 billion trade surplus unlikely to be repeated (paragraph 7-9).
4. Poles settle their border with Germany. Remain concerned about the Soviet Union. Need close association with Western countries (paragraph 10).
5. An excellent bilateral year, helped by many ministerial visits and the Know How Fund. Objectives largely fulfilled (paragraph 11-12).

BRITISH EMBASSY
WARSAW

2 January 1991

The Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign
and Commonwealth Affairs
LONDON SW1

Sir,

POLAND: ANNUAL REVIEW FOR 1990

1. In last year's review* I concluded that "with continued good leadership, the Poles could make progress in 1990, but ... at the end of the day the final outcome may still be in doubt". The verdict on 1990 must be that leadership was faulty, progress was indeed made, but growing strains in Poland make the quality, direction and consistency of leadership even more important for 1991 than in 1990. Like other countries emerging from communism, Poland must overcome the disabilities that are communism's legacy at all levels and in all areas of political and economic activity. There are harsh and unforgiving time factors. At any time six months of bad policy or internal instability could destroy much of the progress already made, but it will be years before the reforms are reliably rooted. Poland has left communism behind but will need continuing

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* DD 1990/20

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support if the country is to become a secure and stable democracy.

Assessment and Prospects

2. At the start of the year Walesa occupied an anomalous position - a figure of national and international importance isolated in Gdansk without clear function or purpose in Polish politics. Walesa had selected Mazowiecki as Solidarity's Prime Minister and Mazowiecki's government enjoyed popular support. This gave them the legitimacy to introduce the drastic economic reforms of the Balcerowicz plan. Though the government were never adept at presenting their case, their real weakness lay in the extent to which public acceptance of their policy depended on unity within Solidarity. When the attack came, it was from Walesa who criticised the government for its elitism and the Balcerowicz plan for its rigour. In December Walesa became Poland's first president elected by popular election following the humiliation of Mazowiecki and the resignation of his government on the grounds that it no longer had the confidence of the nation. The year ended with Walesa giving Bielecki, a young businessman, the task of forming a government - a process still in train as this despatch goes to press.

3. These events have been costly both politically and economically. Momentum has been lost, public patience diminished, and there is less room to manoeuvre. The discrediting or paralysis of useful political talent and decline of faith in the political process have been part of the price paid for the way in which Walesa secured the

Presidency. There is a whiff of populism in the air. Although Walesa rallied round the Balcerowicz programme towards the end of the election campaign, there is pressure to tamper with the reforms to suit powerful interest groups and fulfil election promises. The precise content of the slogan of "the Balcerowicz plan with corrections" has yet to be tested. Time will show whether Walesa has the political sense, energy and authority to back a government that can suppress inflation and maintain popular support for painful but necessary economic reform, or whether concern about his ability to hold a consistent course and keep a competent team together will prove justified.

Internal Political

4. The beginning of the year showed few early dangers to economic reform and the position of the government. In January the Polish United Workers Party (PZPR) dissolved itself and regrouped unconvincingly under a social democratic standard - two to be precise, for the party split. The replacement of Generals Kiszczak and Siwicki as Ministers of the Interior and Defence by, respectively, a Solidarity journalist and a professional member of the Armed Forces marked the ending of the communist stranglehold over law and order. When General Jaruzelski bowed to the inevitable and announced in September his readiness to surrender the presidency as soon as a successor was elected, the unravelling of the formal structure of the communist state was virtually complete. With Walesa now installed as President, it remains only for free parliamentary elections to be held,

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probably by June 1991 at the latest, for Poland to end the process of transforming its political institutions into democratic structures.

5. But the year showed that demolition of communism and its institutions is easier than the construction of responsible participatory democracy. The Citizens Parliamentary Club (OKP) as the political wing of Solidarity showed stress lines at an early stage as the rift grew between Gdansk and Warsaw and economic reform got under way. In May the Centre Alliance was formed as the first major group within the OKP. Its members took the view that Poland and their own chances of securing high positions would be better served with Walesa as president. The Centre Alliance's challenge to Mazowiecki was taken up in July by the formation of the Citizens Movement - Democratic Alliance, known by its Polish acronym ROAD and comprising ministerial and intellectual talent drawn from Warsaw and Krakow. They were joined by Bujak and Frasyuniuk, men with impeccable union backgrounds but distrusting Walesa's style and ability to steer a democratic course.

6. The presidential campaign was rough and left a bitter aftertaste. Walesa claimed that Warsaw needed a good airing, there should be "war at the top", the nomenklatura were still entrenched in the administration and the economy, the government was ignoring the interests of the farmers and out of touch with the people. He argued for "acceleration" to cut through the problems of reform and hasten privatisation.

/Mazowiecki

Mazowiecki defended his government's programme and achievements. But gradually policy differences dissolved and personalities and character became the central issues. Charges of anti-intellectualism and harbouring dictatorial tendencies were levelled against Walesa. There was a suspicion of anti-semitism in dark corners. The atmosphere corroded the spirit of Solidarity: signs of civil war within the movement upset many Poles and discouraged political participation. Turnout for local government elections in May had been 42% of the electorate. In December lack of confidence in Poland's political establishment led to a poor turnout in the presidential elections and to a quarter of those voting supporting Tyminski's half-baked policies which promised rapid transformation and instant prosperity. Mazowiecki was no doubt right to warn the Sejm in December of the danger of raising expectations that cannot be fulfilled. Developments in the last quarter of the year brought grief, shame and anxiety to many Poles and have made more difficult the task of forming stable political parties based on issues rather than personalities.

Economic

7. The Balcerowicz reforms, Poland's "big bang", had to overcome hyperinflation, an inefficient economy characterised by shortages and uncompetitive products, and a discredited currency that was neither a medium of exchange nor a store of value. The strategy chosen was rapid stabilisation, to be followed in the second part of the year by measures to restructure the economy along more responsive, market-oriented

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and efficient lines. The methods used were removal of many of the subsidies that had befogged decision-taking, allowing prices to find their own level, introduction of positive real interest rates, a tax making wage increases intolerably expensive for industry, and making the zloty convertible for current transactions by Polish citizens.

8. The macroeconomic results were sharp and immediate at the outset, mixed by mid-year, but threw darker shadows by the year's end. In January the monthly inflation rate fell to over 70% (well above the target figure) and to single figures in March. Shops began to fill up and street trading, in food and other articles, became part of the Polish way of life. The dollar/zloty rate established at the start of the year remained stable and people were willing to hold zloties. The reverse side of the coin was recession and social pain feeding back into the political situation. Disposable income dropped sharply and stocks accumulated in factories. Claims that production or incomes fell by 25% or so can be disregarded: a better estimate is on the order of 12-15%. But unemployment rose, to reach about 1.1 million by the end of the year. In the middle of the year strikes took place in the mines and railways. Farmers staged demonstrations to win credit concessions from a government that had no clear policy on agriculture. Interest rates were then eased to relieve social pressure, inflation rose as wages outstripped price increases and target figures agreed with the IMF were exceeded. In

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this atmosphere restructuring lagged. Despite a growing private retail and service sector, by the end of the year Polish industry had not yet adapted to a market economy. In short, the Balcerowicz reforms have not been consolidated: powerful inflationary pressures remain below the surface and much still has to be done on the supply side.

9. The shortage of cash and credit and the drop in production had one positive result. Imports fell sharply and exports recorded an encouraging increase in volume. By the end of the year Poland was heading for a balance of trade surplus approaching \$4 billion. However, the decline of the Soviet and former East German markets and the need to buy oil on the world market are likely to make this figure look merely erratic in a year's time.

External

10. The new situation in Europe created three interrelated objectives for Poland. First, reunification of Germany should be accompanied by a final settlement of the Polish/German border, with Poland involved in the process. The Poles were grateful for the ready support which we gave them. They participated in the relevant 2+4 discussions and in November Poland and Germany signed a Border Treaty, with ratification scheduled for February 1991. The Poles hope to conclude the wider treaty on Polish/German relations early in 1991 and have welcomed the readiness of the Bonn government (subject to the agreement of their Schengen partners) to abolish the visa requirement for normal Polish visitors. Second, the disintegration of the Warsaw Pact

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should not create a security vacuum in Eastern Europe. The Poles fear the consequences of instability in the Soviet Union and the revival of regional disputes suppressed under communism. With significant Polish minorities in Lithuania, Byelorussia and the Ukraine and with Ukrainians and Byelorussians living in Poland, they are aware that they must tread carefully. Their aim remains to do nothing that might increase internal instability in the Soviet Union or give a pretext for Gorbachev's opponents to move against him. Within this framework they sought to develop contacts with the neighbouring republics of the Soviet Union. In this spirit Skubiszewski visited Kiev, Minsk and Moscow (but not Vilnius). Likewise, their approach to the wider problems of European and regional security has been to avoid alarming the Soviets while drawing the attention of NATO countries to the need to think through how they should articulate their security interests in Eastern Europe. The third objective has been to maximise Polish involvement in the main institutions of Western Europe. 1991 is likely to see them full members of the Council of Europe, with an enriched association agreement with the Community and developing contacts with NATO.

Anglo/Polish Relations

11. It has been an excellent year. You were among eight past or present members of the Cabinet who visited Poland. Mazowiecki visited Britain at Mrs Thatcher's invitation in February and other Polish Ministers followed in the second half of the year. These visits have strengthened

a bilateral relationship that is warm and mutually advantageous in all areas. 1990 was also the year in which the Know How Fund came on stream. We have supported a range of activities extending from privatisation and accountancy training to the reform of the Ministry of the Interior. Visiting British Ministers and others can now expect to be told by their Polish hosts that the KHF is a model of its kind: quick and responsive and closely tailored to specific Polish requirements. It has generated a stream of articles in the Polish press (based on this embassy's press releases) which have helped keep Britain in the Polish field of vision. Finally, in a year in which Polish imports have contracted severely, the out-turn for 1990 for British exports may be in the region of £190 million, only just below last year's figure. British business visitors to Poland are active but are likely to await confirmation of underlying political and economic stability before they invest significantly here.

Objectives

12. As instructed, I attach a copy of this post's objectives for 1990 together with an assessment of performance. The lesson of the past year is that the normal level of activity of the embassy has increased out of all recognition. The additional staff resources in prospect should help us to cope with an expanding bilateral relationship and keep up a dialogue with the Poles on a range of key issues.

13. I am sending copies of this despatch to HM Representatives in other East European Posts, Bonn, Paris, Rome, Washington, the Holy See, UKDEL NATO, UKREP Brussels and UKDEL Strasbourg.

I am, Sir
Yours faithfully

Stephen J. Barrett

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