

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

POLAND: ANNUAL REVIEW FOR 1989

Summary

1. After the Round Table discussions and the elections in June, Mazowiecki forms in September the first government in Eastern Europe for over forty years that is not led by the Communists. (Paragraph 1 - 4).
2. PZPR retains control of Defence and Internal Affairs but a good start made on democratising public life. (Paragraph 5 - 6).
3. The Mazowiecki government faces an economic situation that was out of control. Main priority to reduce inflation and stabilise the economy. Steps towards a market economy but the vital agreement with the IMF concluded only at the year's end. Remains to be seen whether the people will accept belt-tightening and whether the real economy will adapt quickly enough. (Paragraph 7 - 10).
4. New government accepted by Soviet Union. Poles concerned at prospect of German reunification, but are helped by events elsewhere in Eastern Europe. (Paragraph 11).
5. Good Anglo/Polish relations: visits and the Know How Fund. (Paragraph 12).
6. Progress is likely but will depend on leadership and how the economy reacts. Final outcome may still be in doubt at end of 1990. (Paragraph 13).
7. Events have swamped this Embassy's formal post objectives. (Paragraph 14).

BRITISH EMBASSY
WARSAW

2 January 1990.

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

Sir,

POLAND: ANNUAL REVIEW FOR 1989

1. The extraordinary, immensely stirring and largely unpredicted events in Eastern Europe in 1989 have encompassed the collapse of the system imposed by the Soviet Union after the Second World War. The new era has yet to consolidate itself and Poland faces a difficult year.

2. The Polish United Workers' Party (PZPR) began 1989 by debating whether or not to hold discussions with the Solidarity forces they had so long sought to suppress and ignore. They decided on a controlled dialogue intended to draw Solidarity into the political system. This step had momentous consequences: what actually took place in 1989 was a breakout towards a society finding its inspiration

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in the Western world. It is a sign of the times that the PZPR are likely to decide in January 1990 that their party has no future as it has hitherto existed. At the end of the year the Polish Parliament gave formal recognition to the changes that had occurred by removing from the Constitution the reference to the leading role of the Party and by restoring to the country its former name of "the Polish Republic" (and by returning a crown to its symbolic eagle). [REDACTED]
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3. Four main phases in 1989 can be distinguished:-

- (a) the period up to early April in which Party and Government met Solidarity in the framework of the Round Table;
- (b) the election campaign from mid-April to mid-June;
- (c) the period between the election of Jaruzelski as President and the formation of a Solidarity-led government under Tadeusz Mazowiecki, a key Solidarity negotiator and newspaper editor;
- (d) the last quarter of the year, dominated by the need to put together a policy that would stabilise the economy internally and externally.

4. It soon became apparent that the process begun at the Round Table in February had set in motion political forces of greater dynamism than the participants had expected.

The Round Table deal had been recognition of Solidarity and agreement on partly free elections in return for support for Jaruzelski's candidature for the Presidency and continued Party control over the forces of law and order. It had been expected that the PZPR would lead the new government.

5. The election results altered the political equation agreed at the Round Table. Solidarity's sweeping victory was the greater for being accompanied by the humiliation of the leading figures of the old regime who failed to be elected despite a special system designed to secure their safe passage. The handwriting first appeared on the wall when Jaruzelski was only elected President by the narrowest possible margin. Typically, Walesa was among the first to catch the changed mood. His proposal on 7 August that Solidarity should undertake the formation of a coalition government swept into oblivion the possibility that General Kiszczak, Rakowski's Minister of the Interior, might construct a coalition around the PZPR.

6. On 12 September Mazowiecki's cabinet was approved by the Sejm (Lower House) and for the first time in over forty years a government not led by Communists took office in Eastern Europe. As had been agreed at the Round Table, the portfolios of Defence and Internal Affairs remained in the hands of the PZPR and were filled by the previous incumbents (Generals Siwicki and Kiszczak respectively). The post of Minister of Foreign Affairs went to Professor Skubiszewski, a respected professor of international law. In the spheres

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of the economy, social affairs, information, culture and education the new government would be guided by people committed to reform in the direction of Western principles and values. As a result, the power of the nomenklatura in the central administration is lessening, but the problem of the regional and local bureaucracies remains to be tackled in 1990. A good start has been made towards a free judicial system and on creating true freedom for the press and television. The workers' militia (ORMO) has been disbanded and the loathed paramilitary ZOMO are no longer effectively the private army of the Party.

7. While Poland was deciding its political future an economic bill was being run up. The Round Table had not helped: expectations were bid up on all sides and inflation was institutionalised by a form of indexation that was undone only towards the end of the year. In the first seven months of the year the plight of the economy worsened as the PZPR virtually abandoned any pretence to an economic policy in favour of rampant short-termism. The policy vacuum continued until the new government took over. Wages rushed ahead of prices, not to mention productivity; taxes were not collected; subsidies and cheap credits were poured out to increasingly unprofitable industries; government finance was taken over by the printing press. Inflation mounted to a level where the year-on-year figure by the end of 1989 could be 900%. The symptoms of hyper-inflation appeared: falling production; a flight from the zloty; market disruption.

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8. The first task of the Mazowiecki government was to bring inflation under control. They moved quickly and boldly. Steps were taken to begin to free the market from the irrational system of controlled and administered prices. The Polish people felt the effect at once as food prices rose above the rate of inflation and real disposable income began to fall by the end of the year. The government also declared its intention to reduce the size of the swollen and arthritic state sector by a combination of privatisation and demonopolisation with the aim of making Polish industry more competitive and efficient.

9. There was no doubt that without assistance the Polish economy could not generate sufficient exports both to repay an external debt of nearly \$40 billion and to finance the import of investment goods, raw materials and consumer items that were critically needed. Poland required Western economic assistance on a scale estimated at \$10 billion over three years or so. All turned on negotiating an adjustment programme with the International Monetary Fund. Agreement was reached just before Christmas and is expected to be confirmed by the IMF Executive Board in January. This will open the door to access to Western loans and credits, a \$1 billion Stabilization Fund to defend the Zloty in the move towards convertibility, debt relief from the Paris Club and (from some countries) a resumption of medium-term credit insurance for exports to Poland.

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10. Many unknowns remain. It is not known if a weary but impatient population will accept the drop in the standard of living and loss of employment involved in reducing inflation and restructuring the economy under IMF supervision. OKP as the political wing of Solidarity is unhappy at the conflict between market disciplines and the welfare interests of its supporters. The contradiction between urban and rural elements in Solidarity remains unresolved. Changes in structures, skills and attitudes may not happen in time to produce beneficial changes in the real economy. It is not clear how soon new opportunities and knowledge can be converted into profitable economic activity by managers and workers in industrial structures that are themselves changing. Housing difficulties limit mobility of labour. New foreign investment remains chary of Polish uncertainties and has yet to make a significant contribution to industrial recovery.

External

11. Poland's external relations in 1989 reflected internal developments in the country. Gorbachev's acceptance of Mazowiecki and his government as people he can do business with disposed of the pernicious doctrine that only the PZPR can assure good Polish/Soviet relations. Polish pressure for glasnost over the Katyn massacres has brought the Soviet Union a little nearer the truth. The visits by President Bush in July and Chancellor Kohl in November were occasions for major Western support for the reform process in Poland. What the Poles see as the Chancellor's continued

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equivocation over the Eastern frontiers of a re-united Germany tarnished the impact of the latter visit. A few weeks earlier Poland had been one of the Eastern European countries to which refugees from the GDR had gone in their ultimately successful bid to get to the Federal Republic. While the overwhelming majority of Poles were delighted by subsequent events in Berlin, Prague and Bucharest, the prospect of a powerful reunified Germany disturbs most people here. The reasons run from historical memories, through a fear that the GDR will attract the lion's share of Western German economic assistance, to an anxiety that a Poland placed between two powerful neighbours would have less freedom of manoeuvre. Meanwhile, the conclusion of a co-operation agreement with the European Community and growing involvement in the activities of the Council of Europe have helped to strengthen Poland's links with the Western world. Better opportunities for Polish exports are a highly cost-effective form of assistance and the Poles can be expected to pursue this objective in 1990. Internal developments in Poland in the first half of 1989 permitted the conclusion of a long-delayed agreement between the Polish authorities and the Vatican, following which a Papal Nuncio [REDACTED] [REDACTED] was appointed for the first time since 1939.

Polish/British Relations

12. These have kept up the momentum begun by the Prime Minister's visit here in November 1988. Visits to Poland were made by the Health Secretary, the Minister of State in

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the FCO, the Trade Minister, the Minister for the Arts. The Minister of State for the Armed Forces led the British delegation that took part in Polish commemoration of the fiftieth anniversary of the outbreak of World War II. Both General Jaruzelski and Lech Walesa visited the UK. Commercially, we have had a better year than had originally been expected. British exports are likely to be close to £200 million by the end of the year (an increase of over 10%). A good sign for the future is a marked increase in the number and level of British businessmen beginning to probe for the opportunities that may come when the economy revives. We have begun to fulfil the Prime Minister's pledge in November 1988 to assist a process of reform introduced by a government enjoying popular support - first, by the creation of the Know How Fund (announced when General Jaruzelski visited the UK in June between the two rounds of the Polish elections); and second, by doubling the Fund to £50 million over five years and announcing a British contribution of \$100 million to the IMF Stabilization Fund when Lech Walesa was flying to the UK in November. The Poles understand that our purse is not the deepest in the Western world, but they appreciate our role in keeping Poland and Eastern Europe on the high-level Western agenda.

Prospects

13. The legitimacy of the Mazowiecki government rests at present on the moral credit of Solidarity and on the general resolve not to regress to Communism. The Poles sense that they have history on their side and are encouraged by the increasing evidence that others are travelling in the same direction. But they face a difficult

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period - at least six months and quite probably two or three years - and a failure of government unity or determination cannot be excluded. Even with Western assistance to help prevent economic or social breakdown, the future is uncertain unless the real economy of industry and agriculture responds positively to the new possibilities. Poland's strength in the difficult time ahead lies in the growing resilience of pluralist structures and institutions. With continued good leadership the Poles can make progress in 1990, but I believe that at the end of the year the final outcome may still be in doubt. If this is right, Western countries - through the Know How Fund and major Western economic institutions - will have to continue to provide the finance, knowledge and skills that the Poles need to build a secure democracy.

Objectives

14. I attach a set of this post's objectives for 1989 together with an assessment of performance. The high level of achievement masks the extent to which developments in Poland have transformed and greatly added to the work of this Embassy. Our political objectives were met in the larger context of reporting the peaceful revolution which has taken place here. The output of the Consular and Commercial Sections has also risen by 50%. The creation of the Know How Fund and the proliferation of visitors have added a new element of transacting business which has increasingly involved all sections of the Embassy (and British Council). An engine designed for an era of stagnation and East/West rivalry has had to run at peak revolutions to adapt to conditions of change and co-operation.

15. I am sending copies of this Despatch to
HM Representatives in other East European posts, Bonn,
Paris, Washington, the Holy See, UKDEL NATO and
UKREP Brussels.

I am, Sir
Yours faithfully

Stephen J. Barrett

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