

1989 - sad Polish reality

Preparation time: 45 minutes,

Negotiation time: 75 minutes.

Empty counters in shops are a burden for an average Pole. The black market full of products is slowly rejecting national currency, more and more frequently requesting foreign currencies. Poland is threatened by an economic crisis, which may take place in the upcoming few months. Hyperinflation which does not seem to slow down occurred a few months ago. Last year it was estimated to reach +639.6%, and national debt amounted to 64% of Polish GDP.

Polish economy has been centrally planned so far. Communist system caused ineffective management and waste of resources. At the same time, workers' health care was neglected by allowing enterprises not to regulate high concentration of poisonous substances exceeding norms heavily. Moreover, censorship did not grant a permission for media to broadcast information about natural disasters, working accidents, and mining conditions.

On 5 April 1989 the Round Table's deliberations, crucial for Poland's future, between the ruling party (PZPR) and opposition came to an end. After first, partly free elections, Tadeusz Mazowiecki became a new prime minister. The primary objective for the newly created government was to prepare economic reforms, which had to be radical and ruthless to the present state of the country.

TEAM A – Stefan, Liberal reformist.

"Dear Mr. Marshall and Supreme Chamber! The government assigned me an honorable task to present to the Supreme Chamber a proposition of a great importance (...)" a draft of one of the most significant and historic speech in post-war Poland, is ready for vice prime minister and minister of finance. Everyone agrees that, it is necessary to stop disruptive hyperinflation and build an economy based on the well-known practices. The reforms have been already discussed, however, the details still remain unsettled. As a liberal you insist on the introduction of shock therapy in order to heal Polish economy. Of course, workers' protection and social welfare system are important, nevertheless, economic problems are overwhelming. We are trying to go after western standards after all, right?

Another politician, Marian, does not agree with some of your ideas - “the people’s man”, who is afraid of too radical shock for ordinary consumer.

There is only one hour left before a meeting with vice prime minister on Wiejska street. He is expecting final resolutions, which are about to change millions of Polish citizens’ lives.

You are sitting in front of Marian, drinking a flavorful cappuccino (a little bit of Western reality) and together you need to clarify some of the agreements. Are you ready to truly change Poland and grant fellow citizens a decent future?

The agreements to be talked through are listed below:

1. **Free prices** - list of subsidized groups of products and services must be reduced or removed. The groups of goods mentioned above are: food, transport, communal and real estate sector, fuel, energy and coal. The purpose of negotiations is to agree if the prices of each group will be:
 - a) fixed and imposed;
 - b) protected by subsidies;
 - c) market-based.

You support an idea to totally free up the market, however, subsidies will be better than leaving prices completely fixed. You know that for Marian some of the groups are crucial, as they are key to the survival of an average citizen. For you, the objective is to free prices in sectors, which are known of huge money flows, in order to introduce marketization in the biggest fraction of Polish economy. These are: real estate sector, fuel, energy sector, food, coal and transport.

2. **Existence guarantee for national enterprises** - socialistic existence of national enterprises must come to an end regardless of financial records and production effectiveness. Privatization of existing country’s assets will be sold in public shares sales. The immediate effect sale (100 % of shares) would be great in the following sectors; mining, health care, industry and energy. You especially care about marketization of highly unprofitable mining sector. You also believe in A. Smith’s ‘invisible hand’. However, you are aware of the fact that privatization of health care is rather unacceptable for Marian, as it is a milestone for Polish citizens’ wellness.

3. **Social security** - upcoming times will require financial rigor. Initiated acts will probably cause massive amount of dismissals, and in effect a huge rate of unemployment. Therefore, it is crucial to convince Poles to fund their own enterprises. Fiscal privileges are insupportable. Marian will surely demand couple of ways to secure Polish people. These are:

- ✓ Social welfare system reform and organizing civic activities in aid of people in need – in the hard times people should be aware of the importance of social engagement and civic activities for the whole society. However, let's not make this a big deal, there's no need to put huge amounts of money in social campaigns right away. You would rather cut the expenses for this project.
- ✓ Maintaining quarterly valorization of retirements and pensions with regard to the expected increase in remunerations, and more favorable terms of establishing the lowest retirement and pension – it is a very expensive initiative these days as well. Perhaps it is considerable in more distant future, but for now, you would also like to limit the expenses for this realm.
- ✓ Effective aid system for the unemployed and willing to work – it is sort of investment, which makes it acceptable for you.
- ✓ 'Decent allowances' for the unemployed – rather a short-sighted wealth distribution, you would like to avoid it.

Warning! In order to simplify the negotiations we assume those variants are ZERO-ONE i.e. "we limit the expenses for this project" or "we support this idea". Do not try to create any mid-terms deals like "we cut the expenses for this project by 25%, and another one will be supported with 15 billion PLN".

4. **Anti-inflationary anchor** - you are aware of the fact that for some period of time stable dollar currency rate is necessary. Surely it will cause decrease of consumer power and debt in dollars, but the process is indispensable. We cannot exceed 8 000-10 000 range, because of the following currency convertibility issue. The optimal rate would be 9 500 PLN to 1 USD. You accept of Zloty being weaker as it will enable increased competitiveness of Polish economy and would make export easier. Moreover this rate of exchange would encourage Western investors to act in Poland.

5. **Introduction of “popiwek”** – “popiwek” is a high tax for the above-standard salaries. It is one of the tools to fight hyperinflation. Blocking the increase of salaries is crucial to keep monetary market stable - people’s finances cannot surpass the value of goods offered on the market. The increase in compensations above the X index will be burdened with a high Y tax. The X index (range: 0.2-0.4) should be as low as possible, and Y tax index (range: 300-500%) should be as high as plausible. This operation will block growth of salaries withdrawn from ‘flat money’ and will reduce inflation.
6. **Informing citizens** – in case of free prices and significant cut in amount of money in the market the enterprises will start bankrupting. You think that you should inform people about this process. On the other hand, if you inform society about it in advance, there might occur strikes and riots which can force the government to make concessions. That is why, it is better to inform people post-factum, after the reforms enter into force.
7. **Date of newly created acts implementation** - each day Poland is closer to a disaster. Therapy should be introduced as quickly as possible.
8. **Abandoning preferential rate of interest**, which blur the differences between credits and subsidies. The banks have to operate in the market-based economy, which will prevent them from subsidizing ineffective society.

SCORE:

- I. Freeing/subsidizing/fixing prices of the following groups of goods:

<i>Prices</i> <i>Group of goods</i>	<i>Fixed and imposed prices</i>	<i>Prices protected by subsidies</i>	<i>Market-based prices</i>
<i>COAL</i>	<i>0 pts</i>	<i>55 pts</i>	<i>100 pts</i>
<i>FOOD</i>	<i>0 pts</i>	<i>60 pts</i>	<i>120 pts</i>
<i>FUEL</i>	<i>0 pts</i>	<i>45 pts</i>	<i>150 pts</i>
<i>ENERGY</i>	<i>0 pts</i>	<i>55 pts</i>	<i>140 pts</i>
<i>TRANSPORT</i>	<i>0 pts</i>	<i>60 pts</i>	<i>80 pts</i>
<i>COMMUNAL AND REAL ESTATE SECTOR</i>	<i>0 pts</i>	<i>50 pts</i>	<i>250 pts</i>

- II. Privatization of national enterprises:

Mining: for 0% you obtain 0 pts. For every 1% more you obtain 3.5 pts. Max: 350 pts.

Energy: for 0% you obtain 0 pts. For every 1% more you obtain 3 pts. Max: 300 pts.

Industry: for 0% you obtain 0 pts. For every 1% more you obtain 2.5 pts. Max: 250 pts.

Health care: for 0% you obtain 0 pts. For every 1% more you obtain 1 pt. Max: 100 pts.

- III. Anti-inflationary anchor:

Optimum rate for you is 9 500 PLN to 1 USD. For this rate you obtain 500 pts.

For every 100 PLN more/less than 9 500 PLN you obtain 30 pts less than 500. Thus, for 10 000 PLN to 1 USD you obtain 350 pts, and for 8 000 PLN to 1 USD you obtain 50 pts.

Warning! The range, in which you can negotiate is from 8 000 to 10 000 PLN.

IV. “Popiwek”

a. Maximum level of increase in salaries per month permitted by the government:

0.2 = 400 pts

0.3 = 150 pts

0.4 = 100 pts

b. Tax imposed for exceeding permitted level

300% = 100 pts

Every 1% more means you obtain 1 pt more

500% = 300 pts

Warning! The range, in which you can negotiate is from 300 to 500%.

V. Social security:

Organizing civic activities in favor of needy people:

Cost reduction: 40 pts; support for the initiative: 0 pts

Valorization of retirements and pensions:

Cost reduction: 50 pts; support for the initiative: 0 pts

Aid system for the unemployed to help them find a job:

Cost reduction: 0 pts; support for the initiative: 30 pts

“Decent” allowances:

Cost reduction: +70 pts; support for the initiative: 0 pts

VI. Informing citizens of upcoming difficult times:

No = 100 pts

Yes, in advance = 150 pts

Yes, post-factum = 250 pts

VII. Bank loan's preferential rate of interest:

For no preferential rate of interest you obtain 200 pts.

If it is introduced, you obtain 150 pts, but for every 1 % less you lose 30 pts (Range: 1-5%). E.g. 0 pts for 5%.

VIII. Date of newly created acts implementation:

The end of 1989 = you obtain 0 pts

First half of 1990 = you lose -400 pts

1989 - sad Polish reality

Preparation time: 45 minutes, Negotiation time: 75 minutes.

Empty counters in shops are a burden for an average Pole. The black market full of products is slowly rejecting national currency, more and more frequently requesting foreign currencies. Poland is threatened by an economic crisis, which may take place in the upcoming few months. Hyperinflation which does not seem to slow down occurred a few months ago. Last year it was estimated to reach +639.6%, and national debt amounted to 64% of Polish GDP.

Polish economy has been centrally planned so far. Communist system caused ineffective management and waste of resources. At the same time, workers' health care was neglected by allowing enterprises not to regulate high concentration of poisonous substances exceeding norms heavily. Moreover, censorship did not grant a permission for media to broadcast information about natural disasters, working accidents, and mining conditions.

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TEAM B – Marian – "People's man"

"Dear Mr. Marshall and Supreme Chamber! The government assigned me an honorable task to present to the Supreme Chamber a proposition of a great importance (...) - a draft of one of the most significant and historic speech in post-war Poland, is ready for vice prime minister and minister of finance. Everyone agrees that, it is necessary to stop disruptive hyperinflation and build an economy based on the best practices. The reforms have been already discussed, however, the details still remain unknown.

Your father was a miner, and your mother a housekeeper. You are aware of the importance of a governmental aid to the society. Free market, privatization, entrepreneurship - three times 'yes'. We are about to chase the western world, but Rome wasn't built in a day, was it? Healing Polish economy needs to be carried out step by step if we do not want to harm Polish people.

Another team member, Stefan-radical liberal, doesn't agree with some of your ideas. He is demanding introduction of shock therapy. Stefan does not understand, that complete marketization of the economy will cause protests and progressive poverty. You know that your demands may slow down reconstruction of the state's economy, however, the society would not suffer during the whole process so much, and every citizen would be treated fairly.

There is only one hour left before a meeting with vice prime minister on Wiejska street. He is expecting final resolutions, which are about to change millions of Polish citizens' lives.

You are sitting in front of Stefan, drinking aromatic latte (a little bit of western reality), and together you need to clarify some of the agreements. Are you ready to truly change Poland and provide fellow citizens with a decent future?

The agreements to be talked through are listed below:

- I. **Social security** - upcoming times will require financial rigor. Initiated acts will probably cause massive amount of dismissals and in effect a huge rate of unemployment. Therefore, it is crucial to convince Poles to fund their own enterprises. However, leaving citizens on their own with no support would be cruel. Feeling that your existence is under a threat is something no man should ever feel. The main spheres of social security are:
 - ✓ Social welfare system reform and organizing civic activities in aid of people in need – in the hard times people should be aware of the importance of social engagement and civic activities for the whole society.
 - ✓ Maintaining quarterly valorization of retirements and pensions with regard to the expected increase in remunerations, and more favorable terms of establishing the lowest retirement and pension – the people who remember both wars deserve a dignified old age.
 - ✓ Effective aid system for the temporarily unemployed and willing to work – market economy will plausibly leave a lot of citizens with no employment, we cannot abandon them with no support while they are trying to find a job.
 - ✓ 'Decent allowances' for the unemployed – when the prospective shock therapy starts functioning, the unemployed will be living in a dreadful poverty.

Warning! In order to simplify the negotiations we assume those variants are ZERO-ONE i.e. “we limit the expenses for this project” or “we support this idea”. Do not try to create any mid-terms deals like “we limit the expenses for this project by 25%, and another one will be supported with 15 billion PLN”.

- II. **Free prices** - Stefan will try to implement complete marketization of prices, while you would rather protect the prices of basic goods. Those groups of goods are: food, transport, communal and real estate sector, fuel, energy, and coal. The purpose of negotiations is to agree if the prices of each group will be:

- a) fixed and imposed;
- b) protected by subsidies;
- c) market-based.

You are not an advocate of centrally planned economy, so you would agree that fixed prices are archaic, however prices protected by subsidies would be a more reasonable option for Polish people's sake. You demand aid for every citizen, therefore, you want to avoid price increase of the fundamental goods. Those goods are: food, flats, energy, fuel, coal and transport.

- III. **Guarantee of existence for national enterprises** - socialistic existence of national enterprises must come to an end regardless of financial records and production effectiveness. Privatization of existing state's assets will be sold in public shares sales. However, for the people's well-being, control over key sectors-mining, health care, industry and energy sector-must be distributed gradually.

- 1) Health care is a top priority for you, as the citizen's wellness is at stake.
- 2) You agree with the statement that partial privatization of national companies is needed because of the low profitability. Nevertheless, energy security in Poland must not be threatened. That is why the government should keep majority of shares in energy sector.
- 3) Industry and mining are not so important for you. However, you also know (out of experience) that miners will not let go so easily. It is a waste of time, money and reputation to go fight with them.

- IV. **Anti-inflationary anchor** - you are aware of the fact that for some period of time stable dollar currency rate is necessary. For sure it will cause decrease of consumer power and national debt in dollars, but the process is indispensable. We cannot exceed 8 000-10 000 range, because of the following currency convertibility issue. The optimal rate would be exactly 8 000 PLN to 1 USD. You want Zloty to be a strong currency because it would limit the scope of buyouts of Polish enterprises by foreign capital. This exchange rate would also allow Polish workers to buy more goods from the west.
- V. **Introduction of “popiwek”** – “popiwek” is a high tax for the above-standard salaries. It is one of the tools to fight hyperinflation. Blocking the increase of salaries is crucial to keep monetary market stable - people’s finances cannot surpass the value of goods offered on the market. The increase in compensations above the X index will be burdened with a high Y tax. The X index (between 0.2-0.4) should be as high as possible, and Y tax index (300-500% range suggested) should be as low as plausible. This operation will block growth of salaries withdrawn from ‘flat money’ and will reduce inflation. However, you are an advocate of making “baby steps” during this process.
- VI. **Abandoning preferential rate of interest**, which blur the differences between crediting and subsidies. The banks have to operate in market-based economy but maintaining preferential rate of interest would be well perceived by the society. The percentage of rate of interest is less relevant.
- VII. **Informing citizens** – in case of free prices and significant cut in amount of money in the market the enterprises will start bankrupting. You find it important to inform Polish people before it actually happens. Citizens will need a while to prepare themselves for upcoming difficult times.
- VIII. **Date of newly created acts implementation** - the acts will be introduced whether you want it or not. Thus, there is no need to postpone it.

SCORE:

- I. Freeing/subsidizing/fixing prices of the following groups of goods:

<i>Prices</i> <i>Group of goods</i>	<i>Fixed and imposed prices</i>	<i>Prices protected by subsidies</i>	<i>Market-based prices</i>
<i>COAL</i>	<i>20 pts</i>	<i>120 pts</i>	<i>60 pts</i>
<i>FOOD</i>	<i>180 pts</i>	<i>300 pts</i>	<i>0 pts</i>
<i>FUEL</i>	<i>50 pts</i>	<i>150 pts</i>	<i>40 pts</i>
<i>ENERGY</i>	<i>55 pts</i>	<i>160 pts</i>	<i>45 pts</i>
<i>TRANSPORT</i>	<i>10 pts</i>	<i>80 pts</i>	<i>50 pts</i>
<i>COMMUNAL AND REAL ESTATE SECTOR</i>	<i>100 pts</i>	<i>200 pts</i>	<i>20 pts</i>

II. Privatization of companies:

Health care:

for 0% you obtain 300 pts. For every 1% you obtain 3 pts less. E.g. 100% means you obtain 0 pts.

Energy sector:

for 0% you obtain 200 pts. For every 1% more in range 0-30% you obtain 1 pt less, e.g. 170 pts for 30%. For every 1% more in range 30-60% you obtain 2 pts less, e.g. 110 pts for 60%. For every 1% more in range of 60-90% you obtain 3 pts less, e.g. 20 pts for 90%. For every 1% more in range of 90-100% you obtain 5 pts less, e.g. you lose 30 pts for 100%.

Mining:

for 0% you obtain 150 pts. For every 1% more you obtain 1.5 pt less. E.g. 0 pts for 100%.

Industry:

for 0% you obtain 100 pts. For every 1% more you obtain 1 pt less. E.g. 0 pts for 100%.

III. Anti-inflationary anchor:

You aim at stronger PLN – 8 000 PLN to 1 USD. For this rate you obtain 500 pts.

For every 100 PLN more than 8 000 PLN you obtain 15 pts less than 500 pts. Thus, for 10 000 PLN to 1 USD you lose 100 pts.

Warning! The range, in which you can negotiate is from 8 000 to 10 000 PLN.

IV. “Popiwiek”

i. Maximum level of increase in salaries per month permitted by the government:

0.2 = 0 pts

0.3 = 150 pts

0.4 = 350 pts

ii. Tax imposed for exceeding permitted level

300% = 250 pts

Every 1% more means you obtain 1 pt less

500% = 50 pts

Warning! The range, in which you can negotiate is from 300 to 500%.

V. Social security:

Organizing civic activities in favor of needy people:

Cost reduction: 0 pts; support for the initiative: 55 pts

Valorization of retirements and pensions:

Cost reduction: +0 pts; support for the initiative: 120 pts

Aid system for the unemployed to help them find a job:

Cost reduction: 0 pts; support for the initiative: 90 pts

“Decent” allowances:

Cost reduction: 0 pts; support for the initiative: 80 pts

VI. Informing citizens of upcoming difficult times:

No = 50 pts

Yes, in advance = 150 pts

Yes, post-factum = 90 pts

VII. Bank loan's preferential rate of interest:

For sole introduction of preferential rate of interest (minimum 1%) you obtain 100 pts. If it is not introduced you obtain 0 pts.

For 1% more you obtain 15 pts more (Range: 1-5%). E.g. for 5% you obtain 160 pts.

VIII. Date of newly created acts implementation

The end of 1989 = 0 pts

First half of 1990 = 0 pts

PROTOCOL

- I. Prices for particular groups of goods (mark an "X" in a right spot):

<i>Prices</i> <i>Group of goods</i>	<i>Fixed and imposed prices</i>	<i>Prices protected by subsidies</i>	<i>Market-based prices</i>
<i>COAL</i>			
<i>FOOD</i>			
<i>FUEL</i>			
<i>ENERGY</i>			
<i>TRANSPORT</i>			
<i>COMMUNAL AND REAL ESTATE SECTOR</i>			

- II. The extent of privatization of national companies (write a figure):

<i>Mining</i>	<input type="text"/>	%
<i>Energy sector</i>	<input type="text"/>	%
<i>Industry</i>	<input type="text"/>	%
<i>Health care</i>	<input type="text"/>	%

- III. Inflationary anchor (write a figure):

PLN for 1 USD

IV.

- i. "Popiwek" - maximum level of increase in salaries per month permitted by the government (choose only one):

0.2 / 0.3 / 0.4

- ii. "Popiwek" - tax imposed for exceeding permitted level:

%

V. Society's safety and social campaigns (choose every option to be supported, do not circle those, for which budget is limited)

- Organizing civic activities in favor of needy people
- Valorization of retirements and pensions
- Aid system for the unemployed to support their job search
- "Decent" allowances

VI. Informing citizens of upcoming difficult times (choose only one):

NO / YES, IN ADVANCE / YES, POST-FACTUM

VII. Bank loan's preferential rate of interest:

YES / NO ; if YES, level of subsidies: %

VIII. Date of newly created acts implementation:

the end of 1989 / first half of 1990

SIGNATURES:

Stefan

Marian