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## **ESTABLISHING THE GREAT ECONOMIC ORGANIZATIONS: ASSUMPTIONS OF THE INDUSTRY REFORM OF THE POLISH PEOPLE'S REPUBLIC IN THE 1970S**

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### **Abstract**

The article describes the actions taken by the communist authorities as part of the implementation of the reform of the Great Economic Organizations (the so-called WOG reform). It was an extensive reform of industry management in a centrally planned economy. Its main assumption was the decentralization of industrial production management by granting a number of allowances to economic organizations. The second part of the text is devoted to the general principles of functioning of economic organizations in the new economic and financial system, focusing on the issue of production, wage fund and investment. The research method used is the analysis of the content, both of the existing studies from the period and archival official documents.

**Keywords:** the Polish People's Republic, industry, WOG, Edward Gierek

### **Introduction**

The WOG reform (the Great Economic Organizations reform), a flagship project to manage individual units under a centrally planned economy implemented by the team of Edward Gierek, was a very ambitious plan to reform the economic system of the Polish People's Republic (PPR). Despite all the high-flown talk and great expectations, the reform was thoroughly trimmed down almost immediately after it had been introduced. The extent to which its failure can be attributed

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to the general economic situation of the 1970s or to internal dissonances embedded in the system of real socialism is open to debate. The objective of this article is to describe the course of action taken to frame the concept of the WOG-reform and theoretical assumptions behind it. My primary focus was the period between 1971 and 1973,<sup>1</sup> namely the preparatory stage and the first year of the reform being in force.<sup>2</sup> The year 1973 was an unusual one as the 24 WOGs, which adopted the new system back then, were the only organizations to undergo the complete 3-year period of the proper WOG system being in full force. This fact raises serious doubts as to the possibilities of comparing them to those units which joined the system later. The year 1973 was the only one when the reform was binding without any limits imposed on the wage fund. Therefore, it is justifiable to thoroughly analyse the tendency of units to increase employment and average wages in comparison to the previous period.

The article is divided into two parts. The first part focuses on the activities taken by the PPL authorities with the aim of implementing the reform, beginning with general declarations made during the 8<sup>th</sup> Plenary Session of the Polish United Workers' Party (PUWP) through the 6<sup>th</sup> Convention of this party to December of 1973 when the new system was introduced by virtue of the resolution of the Council of Ministers. The second half of the article deals with general principles governing the functioning of the economic organizations under the new system narrowing the focus down to the issues of production, wage fund and investments. The annex presents a list of economic results achieved by WOGs in 1973 and their comparison with the previous period.

## 1. Genesis and reform preparation

The very first subtle hints about the reform of the economic system of the PPR were given by Edward Gierek in his speech delivered at the 8<sup>th</sup> Plenary Session of the Central Committee of the PUWP in 1971. In his speech, Gierek concentrated on critiquing the model prevalent in the 1960s, whereas the direction of the future

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<sup>1</sup> The WOG reform was officially binding between 1973 and 1981, but as early as in 1974 there was a shift from its initial assumptions based on a gradual reduction of competencies granted to unions. Beginning with 1977 the so-called modified WOG system was binding, in which most competencies were returned to the ministry level.

<sup>2</sup> I have used the term 'the proper WOG system' to distinguish it from the modified WOG system binding later on.

reforms was formulated rather vaguely.<sup>3</sup> Following the changes of March 1971, the Party-Government Committee for the Economic System and the State Modernization was established. Comprising 220 members-experts working in 11 teams (including scientists, enterprise directors, and managers of central administrative authorities), the Committee's goal was, in theory, to devolve the decision-making process regarding the development direction of the socialist economy. In practice, however, the presidium of the committee became dominated by the PUWP apparatchiks. Jan Szydlak was appointed the head of the committee (hence, the colloquial term 'Szydlak's committee'). Other presidium members included, among others: F. Szlachcic, J. Pińkowski, S. Kowalczyk, T. Wrzaszczyk, Z. Madej, K. Olszewski, J. Olszewski, J. Szczepański and J. Pajestka.<sup>4</sup> Consequently, the Committee's operations were dominated by the representatives of the party's apparatus. In the course of its work, the Committee formed the concept of the Great Economic Organization as a union, conglomerate, or great industrial plant, whose operations were to be based on the principles of an economic settlement.<sup>5</sup> The main argument for giving preference to big enterprises was the economics of scale as well as linking production and technical research.<sup>6</sup> The memorandum prepared by the Committee, referred to as the guidelines, was presented to the delegates to the 6<sup>th</sup> Convention of PUWP.<sup>7</sup> In his speech Edward Gierek stated: 'Modernizing our planning and management system, we should aim at improving the effectiveness of central planning and managing the national economy; at the same time increasing autonomy and encouraging initiative of unions, conglomerates and establishments with regard to their performance of production-related tasks.'<sup>8</sup> Piotr Jaroszewicz, the Prime Minister, also mentioned the reform in his speech. He announced granting more competencies to enterprise directors. What Jaroszewicz pointed out was the fact that the reform would initially be implemented exclusively in selected organizations on an experimental basis.<sup>9</sup>

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<sup>3</sup> See: VIII Plenum KC PZPR 6–7 lutego 1971. *Przemówienie Edwarda Gierka, uchwały*, Warszawa 1971, *passim*.

<sup>4</sup> P. Bożyk, *Marzenia i rzeczywistość, czyli anatomia polskiego kryzysu*, Państwowy Instytut Wydawniczy, Warszawa 1983, p. 58. In the studies, the lack of economic qualifications of J. Szydlak is often mentioned.

<sup>5</sup> *Doskonalenie procesu planowania, zarządzania i kierowania gospodarką narodową. Materiały z plenarnego posiedzenia Komisji Partyjno-Rządowej dla Unowocześnienia Systemu Gospodarki i Państwa*, Instytut Planowania, Warszawa 1972, p. 31.

<sup>6</sup> *Ibidem*, p. 30.

<sup>7</sup> It is worth noting that these were never presented to the public and remained an unofficial document.

<sup>8</sup> *Referat Programowy Biura Politycznego*, [in:] VI Zjazd Polskiej Zjednoczonej Partii Robotniczej. *Stenogram*, Książka i Wiedza, Warszawa 1972, p. 160.

<sup>9</sup> *Założenia rozwoju gospodarczego kraju w latach 1971–1975*, [in:] VI Zjazd Polskiej Zjednoczonej Partii Robotniczej. *Stenogram*, Książka i Wiedza, Warszawa 1972, p. 297.

The shape of the reform was also debated among the Task Force Team no. 4 ‘Improving the system of planning, managing and governing the national economy.’ This is how the team’s leader, Józef Pajestka, defined the direction of the economic reform in his speech opening the session: ‘Making the planning and managing system more effective should involve providing such operating conditions for establishments and economic organizations that they could strengthen their autonomy with regard to taking production-related initiatives and responsibilities for proper management; namely, achieving good results with the maximum input savings.’<sup>10</sup> As a result of the deliberations, the following recommendations regarding the shape of the reform were put forward:<sup>11</sup>

- the managing system must be based on big industrial units – unions, conglomerates, and big establishments;
- unions should become establishments, not administrative levels;
- autonomy and responsibilities of enterprises regarding current economic decisions should be increased;
- it is necessary to abolish the fixed limits on wage funds in enterprises;
- the 5-year plan should be given more significance; it should become the main political tool for developing the economy;
- changes should be introduced gradually.

Finally, in its resolution the 6<sup>th</sup> Convention recommended giving more significance to the 5-year plans; basing the operations of Great Economic Organizations on the principles of an economic settlement and granting units forming unions and conglomerates competencies allowing for autonomous management with regard to specific tasks and owed funds. The importance of implementing the reform in a complex manner was also emphasized.<sup>12</sup> The idea to base the operations of organizations on the principles of an economic settlement was a novelty under the socialist economy. As Bohdan Gliński would comment later on, ‘We have grown used to the mode of thought that profit, or any other synthetic measure of the economic effectiveness for that matter, is not the goal of economic units in socialism, but that their goal is to meet social needs in connection with the specialization of a specific enterprise.’<sup>13</sup>

The 6<sup>th</sup> Convention gave a strong impetus for the work on the reform of the operating system of organizations. By virtue of the Ordinance of the Prime Minister no. 43

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<sup>10</sup> VI Zjazd Polskiej Zjednoczonej Partii Robotniczej. *Obrady w zespołach problemowych*, vol. I, Książka i Wiedza, Warszawa 1972, p. 419.

<sup>11</sup> Ibidem, pp. 537–545.

<sup>12</sup> VI Zjazd Polskiej Zjednoczonej Partii Robotniczej. *Stenogram*, op.cit., p. 586.

<sup>13</sup> B. Gliński, *Przedsiębiorstwa socjalistyczne lat siedemdziesiątych. Nowe zjawiska i problemy*, “Przegląd Organizacji” No. 4–5, 1976, p. 137.

of 15 May 1973, a team in charge of implementations initiating extensive changes in the methods of planning and managing the national economy was set up under the Planning Committee. J. Pińkowski and J. Pajestka served as its chairman and vice-chairman, respectively. The team consisted of, among others, the chairman of the National Bank of Poland, Minister of Finance, undersecretary of state representing industrial ministries and vice-chairman of the State Committee for Prices. The tasks of the team included preparing, following the guidelines provided by the Party-Government Committee, extensive changes in the methods of managing organizations, selecting organizations where the reform was to be introduced as well as evaluating its results. The following criteria to be met by selected units were specified in the Ordinance:

- 1) the possibility of using a financial result as a synthetic measure of evaluating activity;
- 2) limited impact of external supplies on the achieved economic result;
- 3) little dependence on distribution of material and technical supplies.

It was also suggested in the document that the originators should include mostly 'unions, conglomerates, and big establishments forming a coherent whole with regard to production and trade'. Simultaneously, the team was granted quite a considerable degree of autonomy in making choices. It was decided that the new system would not be introduced as a one-off event but through gradual implementation of the new principles to economic organizations (the so-called reform of open nature).<sup>14</sup> In mid-1972 Pińkowski's team prepared a document referred to as 'The operating principles of originators'. Based to a large extent on the work of the Party-Government Committee, it focused on the organizational reform, omitting the issue of prices reform that had been raised. At a later date, this document laid a foundation for drawing detailed rules and regulations binding in specific WOGs. Alongside establishing the procedures for implementing new organizational solutions, the authorities conducted an analysis of the economic situation as well as social and working conditions in great organizations. This was exactly the reason why by virtue of the Ordinance no. 89 of the Prime Minister of 1 December 1972, the Governmental Committee was set up with the Deputy Prime Minister, Franciszek Kaim, as its head.

The fact that the economic growth was based on Great Economic Organizations resulted in a diminishing role of smaller enterprises. It particularly affected establishments from the regional industry. In accordance with the Decision of the Presidium of the Government no. 98/72 of 4 August 1972 on the organizational improvement

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<sup>14</sup> U. Wojciechowska, *Założenia, modyfikacje i kierunki doskonalenia systemu WOG*, [in:] *Studia nad systemem Wielkich Organizacji Gospodarczych*, U. Wojciechowska, (Ed.), PWE, Warszawa 1978, p. 19.

of the state-owned regional industry and work cooperatives with regard to their manufacturing activities and provision of services, 55 establishments were brought under the control of sector ministries, while 17 under the control of the Ministry of Domestic Trade and Purchasing. The reform aimed at leaving only those establishments of the regional industry, which were considered indispensable for providing services and performing market-related tasks. At the same time, their cooperation with key industry establishments was limited. In the document entitled 'Assumptions for improving the organization of the state-owned regional industry and work cooperatives' of May 1972, the Planning Committee called for incorporating the majority of regional industry establishments into the union structures and trade headquarters. In total, establishments employing more than 26 thousand workers were brought under the control of ministries.

The first decisions regarding the switch of economic organizations to the new economic and financial system were taken in the 4<sup>th</sup> quarter of 1972. Officially referred to as the new economic and financial system, the WOG reform was formally implemented by virtue of the Resolution of the Council of Ministers of 22 December 1972 regarding the introduction of extensive economic and financial principles in some economic units and organizations. The resolution allowed specific ministers to modify the WOG system in such a manner as to better address the needs of specific enterprises. It also imposed a tax on originators on account of a surcharge on work funds, interest rates on own funds financing fixed assets and management bonus funds; as well as charges on write-offs for the enterprise fund. Apart from that, originators were still subject to the turnover tax. The first group consisted of 12 economic organizations which started operating in compliance with the new principles on 1 January 1973. They included:

- 1) The Union of the Aerospace Industry and Engine Manufacturing 'PZL';
- 2) The Union of Electric Machines and Equipment 'Erg';
- 3) The Union of the Automatic Industry and Measuring Equipment 'Mera';
- 4) The Union of the Electronic Industry 'Unitra';
- 5) The Union of the Refining and Petrochemical Industry 'Petrochemia';
- 6) The Union of the Pharmaceutical Industry 'Polfa';
- 7) The Union of the Household Chemicals Industry 'Pollena';
- 8) The Union of the Confectionery Industry Enterprises;
- 9) The Union of the Furniture Industry;
- 10) The Union of the Glass and Ceramics Industry;
- 11) Lighting Technology Conglomerate 'Polam';
- 12) The Polish Spirits Industry 'Polmos'.

**Table 1. Economic structure of 24 originators in the industry and specific sectors in 1973 (in %)**

	Sold production	Employment	Fixed assets
Industry in general	100	100	100
24 originators	100	100	100
The non-ferruginous metals Industry	3.0	1.4	3.5
Originators	3.5	3.1	8.3
The electronics and machinery industry	25.2	31.9	19.1
Originators	28.7	44.7	23.5
The chemical and fuel industry	11.9	8.1	16.6
Originators	40.0	29.7	54.8
The food industry	21.3	11.1	9.3
Originators	19.4	3.8	2.1
The glass industry	0.5	1.3	0.7
Originators	3.1	9.1	5.9
The woodworking industry	3.4	4.7	2.0
Originators	5.3	9.7	3.6

Source: Z. Mikołajczyk, *Gospodarka przemysłowych jednostek inicjujących w latach 1973–75*, [in:] *Studia nad systemem Wielkich Organizacji Gospodarczych 1973–1975*, U. Wojciechowska, (Ed.), PWE, Warszawa 1978, p. 53.

By the end of 1973 the new economic and financial system was implemented in 24 industrial units, one union from the construction sector, and two headquarters of international trade. It is worth noticing that the industrial units where the new economic and financial system was introduced in 1973 were unrepresentative with regard to the industry in general and its specific sectors as shown in Table 1. This supports the thesis that the key factor in deciding about incorporating the unit to the WOG system was not a properly designed research sample but rather the management's voluntarism. The presented data shows that the first organizations to undergo the reform were the ones producing above average results, which hindered a proper evaluation of the reform's outcomes at a later date. As Bohdan Gliński openly admitted, 'The [faster production increase in originators – M.B.] should not be considered a proof for the superiority of the system implemented in those units. [...] the units, which have switched to the new system so far, represent, as a rule, the sectors developing more dynamically than the entire economy. They mostly include units from the chemical, machinery, and construction materials industries.'<sup>15</sup> The leading role of both the chemical and machinery industry seems to be the aftermath of Gomułka's idea of selective development, whereas the fact that there were no units under the control of the Ministry of Light Industry and a very limited and highly specific

<sup>15</sup> B. Gliński, *Węzłowe problemy rozszerzania systemu wdrożonego w jednostkach inicjujących*, "Przegląd Organizacji" No. 4, 1974, pp. 146–147.

representation of the food industry indicates that after the events of 1970 the authorities were afraid to increase the autonomy of the sector of consumer goods production, most probably due to the potential risk of an increase in prices.

## 2. General principles governing the operations of originators

Three main features of WOGs are mentioned in the literature from the 1970s.<sup>16</sup> First, the Great Economic Organization was supposed to be a grouping of enterprises or establishments. WOGs were officially granted the status of an enterprise and, as mentioned before, operated on the basis of an economic settlement. Second, each originator was under the direct control of a sector ministry. The third criterion was the implementation of the new economic and financial system.<sup>17</sup> The size criterion gave rise to serious doubts. Although all organizations which implemented the new principles in 1973 were multi-employer entities, they differed greatly in terms of the employment level. For example, the Plant of the Refining and Petrochemical Industry 'Petrochemia' employed nearly 80 thousand workers, whereas the Plant of the Household Chemicals Industry 'Pollena' merely 12.5 thousand.<sup>18</sup>

Robert Korsak classified WOGs in accordance with the criterion of a centralization level. In line with this classification, there were WOGs operating as unions, conglomerates, and multi-employer establishments.<sup>19</sup> As for unions, Korsak introduced an additional division into corporation type unions (operating in the industry) and unions of establishments. The former ones were characterized by a strongly centralized structure and a wide range of redistribution of funds within the grouping. Despite having a legal personality and operating on the basis of an economic settlement, internal establishments remained under a strong control of the union's headquarters. Organizations of this type usually held a national monopoly. As for unions of establishments, the enterprises enjoyed much more autonomy. They settled

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<sup>16</sup> J. Pajestka *et al.*, *Zarys Systemu Funkcjonowania Jednostek Inicjujących*, Instytut Planowania, Warszawa 1973, p. 26.

<sup>17</sup> Specialists dealing with WOGs often referred to this characteristic as a distinguishing feature of originators even though it is a tautology.

<sup>18</sup> By comparison, the Union of the Cotton Industry, which was incorporated to the WOG in the subsequent years, employed over 100 thousand workers (i.e. nearly 1/8 of the total employment of 24 WOGs in 1973).

<sup>19</sup> R. Korsak, *Zmiany w układzie stosunków wewnętrznych w wielkich organizacjach gospodarczych*, [in:] *Studia nad systemem Wielkich Organizacji Gospodarczych*, U. Wojciechowska, (Ed.), PWE, Warszawa 1978, p.353.



accounts with the state budget on their own, operated under their own trademark, competed on the market against other units forming the union, and were often authorized to take out investment loans.<sup>20</sup> Under the WOG reform, the status of enterprises was also granted to units forming unions. On the contrary, establishments controlled by conglomerates were not given the status of an enterprise and were legally subject to the leading establishment.

The so-called added production served as the basic effectiveness measure of an originator. It was a difference between sales value (on the national market at selling prices also referred to as realization prices; on the foreign market at transactional prices) and costs of materials (materials, energy, and third-party services), instalments of investment loans and turnover tax.<sup>21</sup> A socialist enterprise could record its growth by means of increasing sales value as well as reducing material consumption during production. Analysing the resolution of the 6<sup>th</sup> Convention and documents from the implementation period of the WOG reform, it is easily noticeable that both policy makers and economic analysts had a strong conviction that the key factor in production growth would be the reduction of material consumption whether by means of a better management of materials or introducing technical innovations.<sup>22</sup>

The new economic and financial system introduced the so-called direction compliance between the economic organization plan and the central plan. The WOG reform officially changed the role of economic organizations' plans. From then on, they were to serve central institutions as an informative material rather than a tool for enforcing the management results.<sup>23</sup> A set of economic parameters was laid down to ensure the said direction compliance. The most important one was the so-called 'R' standard, defining the growth of wage fund in relation to the growth of added production. For example, with  $R = 0.6$  the growth of added production by 10% allowed for the growth of wage fund by 6%. Being part of the economic policy, the value of

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<sup>20</sup> B. Gliński, T. Kierczyński, A. Topiński, *Zmiany w systemie zarządzania przemysłem*, Książka i Wiedza, Warszawa 1975, p. 30.

<sup>21</sup> M. Bałtowski, *Gospodarka socjalistyczna w Polsce. Geneza – Rozwój – Upadek*, PWN, Warszawa 2009, p. 227.

<sup>22</sup> See: *Uchwała VI Zjazdu PZPR*, [in:] *VI Zjazd...*, op.cit., p. 587; B. Gliński, *Węzłowe problemy...*, op.cit., p. 147 and J. Pajestka *et al.*, op.cit., p. 149. Even then, some voices were raised suggesting that the added production formula poses a risk of unjustifiable price rises. See: U. Płowiec, *WOG a handel zagraniczny*, "Życie Gospodarcze" No. 50, 1972. As history has shown, economic "organizations chose this method to increase the added production index, specifically after the union directors were granted the right to set prices for new products. See: W. Kuczyński, *Po Wielkim Skoku*, PWE, Warszawa 1982, p. 36; P. Bożyk, op.cit., p. 60.

<sup>23</sup> It was a theoretical assumption. As Waldemar Kuczyński points out, central planners were not willing to give up the means allowing them to control specific levels of economy. W. Kuczyński, op.cit., p. 33. In practice, tasks assigned to unions as orientation indicators were treated by directors as obligatory. See *ibidem*, p. 37.

the standard was awarded to an economic organization by the ministry.<sup>24</sup> Under the reform, all work-related remuneration was incorporated into the wage fund with the exception of the management bonus, an annual bonus, the so-called thirteenth salary, awards for technical and economic progress and awards for rationalization. All other remuneration (including bonuses) provided the foundation for the fund in 1973. In the forthcoming years, the growth was to take place on the basis of the increase in added production.<sup>25</sup> If a unit failed to use the whole wage fund, it was required to transfer its part (a minimum of 25% of the surplus) to the reserve fund.<sup>26</sup> It is worth bearing in mind that the year of 1973 was the only one when no limits applied to WOGs' wage funds. The director of a unit was authorised to grant or abolish bonus entitlements. Even though added production was considered the key effectiveness indicator of an enterprise on which the volume of the wage fund was based, the authorities failed to formulate rules for converting production growth to specific tasks performed by employees. Thus, bonuses were awarded on a discretionary basis and were not correlated with results of specific employees.<sup>27</sup> It is worth noting that the methodology of calculating the volume of the wage fund used by some unions contained serious errors. For example, two enterprises controlled by the Ministry of Food Industry and Purchasing: the Plant of the Confectionery Industry and "Polmos" first used the 'R' standard to calculate the wage fund, and then the volume of the wage fund to calculate the 'R' standard. As a result, a tautological equation was created allowing for a justification of any volume of the wage fund.<sup>28</sup> This is just one of many errors which illustrate the fact that the management of the unions did not fully understand the functioning of the new system.

The increase in the wage fund as a result of the growth of added production (which, as it was believed, was going to take place mainly through reducing material consumption) may be interpreted as an attempt to replace capital expenditures with the work factor. In the context of Edward Gierek's declaration regarding the issue of flexible employment policy and the role of an increase in employment as the factor behind the economic growth,<sup>29</sup> a justifiable question arises whether one of the

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<sup>24</sup> In the majority of the evaluated economic organizations there were no guidelines as for the deadlines of updating standards. It was known for the volumes to be long-term. It was planned for them to be updated in accordance with the rolling method.

<sup>25</sup> B. Gliński, T. Kierczyński, A. Topiński, op.cit., p. 61.

<sup>26</sup> R. Ćwiertnia, *Nowe zasady działania Wielkiej Organizacji Gospodarczej*, "Gospodarka Planowa" No. 2, 1973, p. 101.

<sup>27</sup> E. Budzich, *Problemy funkcjonowania nowego systemu ekonomiczno-financeowego w handlu*, "Przegląd Organizacji" No 3, 1975, p. 98.

<sup>28</sup> J. Pajestka et al., op.cit., p. 102.

<sup>29</sup> *Referat Programowy...*, op.cit., p. 146.

unwritten objectives of the reform was to provide unions with measures to absorb the human resources of the post-war demographic boom which was entering the job market in the 1970s. This issue has not been addressed so far in the studies on the WOG reform.

Another important parameter for the functioning of an economic organization was the 'N' standard, which defined the growth of the management bonus fund in relation to the net profit growth.<sup>30</sup> The net profit was the value of added production adjusted by employment costs. The bonus fund was not calculated in operating expenses but was an element of the distribution of the generated profit.<sup>31</sup> It was assumed that the mechanism would help to prevent an excessive increase in employment in enterprises, whereas taxes imposed on the bonus fund were to shield from excessive bonuses. Relative growth of the fund served as the basis for taxation. Tax rates are presented in Table 2 below.

**Table 2. Tax rates of the WOG management bonus fund**

Bonus fund growth (in percentage points)	Tax rate (in %)
Up to 2	10
2–5	25
5–10	50
10+	80

Source: B. Gliński, T. Kierczyński, A. Topiński, *Zmiany w systemie zarządzania przemysłem*, Książka i Wiedza, Warszawa 1975, p. 66.

The WOG system introduced several fundamental changes in the system of executing investments, of which there were three main types: restoration and modernization investments in existing enterprises, improvement investments in existing enterprises and improvement investments involving the construction of new enterprises. The first group was financed solely from the union or enterprise improvement fund. The enterprise fund had its source in profits which were left after the management bonus fund was established and depreciation charges of entities financed from own funds.<sup>32</sup> Improvement investments were usually financed from bank loans. As a result of the WOG reform, bank loan interest rates increased to the level of 8%. Funds to pay off

<sup>30</sup> The rules governing the management bonus funds were set forth in the Resolution no. 298 of the Council of Ministers of 25 November 1972 regarding procedures of bonus awarding to office workers employed in state-owned industrial enterprises and unions where they were grouped. It is worth noting that in the Resolution, the term 'management' was defined very broadly, ranging from a director of a union to a foreman.

<sup>31</sup> R. Ćwiertnia, op.cit., p. 101.

<sup>32</sup> J. Pajestka *et al.*, op.cit., p. 115.

bank loans were to be obtained from investment depreciation charges and profit generated by WOGs. It is worth remembering that costs of paying off loans placed a burden on added production. It was supposed to provide the impetus for executing only such investments which generated sales revenues higher than expenditures of paying off bank loans. Interest rates of the investment loan were fixed at the level of 8% annually.<sup>33</sup> When the investment was incorporated by the central body into the plan of an originator, there was a chance for partially paying off part of the loan from budget funds. The condition was for the investment to be non-productive or not capable of providing the enterprise with a specific profit. Budget funds obtained in such a manner were non-refundable.

## Conclusion

The WOG reform was very much in line with the decentralization trend of the socialist economy, which started by N. Hrustsov's reforms in the Soviet Union, swept across the Eastern Block in the 1960s and 1970s. Yet, the decentralization of competencies went hand in hand with organizational centralization. The originators of the reform were clearly fascinated with the economies of scale. Upon close analysis of the theoretical principles behind WOGs operations, it becomes apparent that it was a formal attempt at an evolutionary development of the existing system of unions.<sup>34</sup> Taking into account the execution of the reform, it all points to a conclusion that the selection of entities where the new economic and financial system was to be introduced failed to represent the economic structure of the PPR. This, in turn, had a considerable impact on the subsequent erroneous evaluation of the reform's outcomes. Its fragmentary nature became one of the reasons for its failure.

Undoubtedly, the WOG reform was an important attempt to correct the imperfections of the centrally-planned economy. The introduction of the parameters system and application of the rules of an economic settlement to the organization operations were supposed to make production decisions more flexible, and, consequently, meet the needs of the economy in a better way. Unfortunately, the unwillingness of central institutions to effectively delegate competencies put an end to the

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<sup>33</sup> Ibidem, p. 52.

<sup>34</sup> The WOG reform was criticized for not being an actual reform but merely 'old unions under a new brand', W. Kuczyński, op.cit., p. 34.

reform. One more time, policy took precedence over economy as was often the case in socialist economies.<sup>35</sup>

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## Annex. Values and dynamics of production and employment in WOGs in the industry in 1973.

	Added production		Average employment		Average wage dynamics (1972 = 100)
	in PLN million	1972 = 100	in thousand	1972 = 100	
Originators in general	92 811.5	131.5	811.2	105.0	108.7
KGHM	4 598.1	125.6	26.9	106.7	104.6
The Ministry of Machinery Industry					
Plant of the Automatic Industry and Measuring Equipment "Mera"	3 880.4	128.9	45.9	110.3	106.8
Plant of the Aerospace Industry and Engine Manufacturing "PZL"	9 317.8	128.3	88.7	104.9	108.1
Plant of Electronic Machinery and Equipment "Ema"	4 479.0	116.6	57.6	103.3	107.9
Plant of the Electronic Industry "Unitra"	6 070.2	129.2	80.9	108.1	108.1
Lighting Technology Conglomerate "Polam"	1 379.1	116.6	17.7	104.3	110.4
Tool Industry Conglomerate	1 110.6	123.4	10.8	106.0	113.2
Plant of the Tractors Industry "Ursus"	2 361.3	121.7	21.1	100.4	109.7

	Added production		Average employment		Average wage dynamics (1972 = 100)
	in PLN million	1972 = 100	in thousand	1972 = 100	
Ministry of Chemical Industry					
Plant of the Refining and Petrochemical Industry "Petrochemia"	16 430.5	150.7	79.6	104.0	110.7
The Union of the Quarrying of Chemical Materials	3216.1	119.5	22.3	102.7	108.6
Plant of the Plastics Industry "Erg"	2 576.1	135.7	25.4	105.6	111.0
Plant of Synthetic Fibres Industry "Chemitex"	4 286.8	142.2	38.2	102.4	107.3
Plant of the Paints and Lacquers Industry "Polifarb"	1 729.8	129.5	6.8	104.8	107.0
Plant of Household Chemicals Industry "Pollena"	1 890.2	135.9	12.5	106.1	107.3
Plant of the Pharmaceutical Industry "Polfa"	2 930.7	121.2	20.9	102.7	107.7
Plant of the Rubber Industry "Stomil"	3 039.2	123.9	37.5	104.0	111.5
Industrial and Commercial Enterprise "Polish Chemical Reagents"	278.2	120.4	1.6	103.1	102.1
Ministry of Food Industry and Purchasing					
The Union of the Confectionery Industry Enterprises	1 868.4	137.6	18.0	102.4	111.5
The Enterprise of the Spirits Industry "Polmos"	5 316.9	146.1	10.4	103.2	108.7
Ministry of Construction and Construction Materials Industry					
Plant of Glass and Ceramics Industry	4 789.6	120.0	69.3	104.0	111.5
The Union of Mechanized Construction "Zremb"	3 261.5	132.1	25.8	108.0	106.2
Plant of the Construction Carpentry Industry	1 058.1	134.5	11.7	115.0	103.9
Ministry of Forestry and Woodworking Industry					
Plant of the Furniture Industry	4 656.4	124.0	62.3	104.4	108.2
Ministry of Shipping					
The Union of Marine Renovation Shipyards	2 218.2	132.7	19.2	102.9	109.8

Source: *Informacja: wyniki gospodarcze jednostek inicjujących w 1973*, GUS, Warszawa 1974 (a confidential document at the time, today available at the Central Statistical Library); *Rocznik Statystyczny Przemysłu 1974*, GUS, Warszawa 1974; *Nakłady i wyniki przemysłu uspołecznionego styczeń–grudzień 1973*, GUS, Warszawa 1974 (a confidential document at the time, today available at the Central Statistical Library).