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ECONOMIC REVIEW OF EAST EUROPEAN COUNTRIES

POLAND

Note by the Chairman of the Committee of Economic Advisers

In the second series of examining sessions on the economic developments of East European countries, a special session was devoted to Poland with the participation of experts from various capitals.

2. The Committee of Economic Advisers thought that the Council might be interested in the results of this review which, in accordance with the agreed procedure, are summarised in the attached report.

(Signed) A. VINCENT

OTAN/NATO,
Brussels, 39.

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ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES:

POLAND

Report by the Committee of Economic Advisers

I. SUMMARY AND CONCLUSIONS

1. In recent years Poland's economy has grown at a fairly high rate, but the expansion has been much faster in industry than in agriculture, and in industry itself there has been more progress in capital than in consumer goods. Agriculture, in particular, is still backward. It is largely in private hands, and because of the large number of small units and the ageing rural population its productivity is low. Serious efforts would be necessary to modernise it.

2. One of the main economic problems in Poland is that of providing employment in industry and services for the large number of people who will reach working age in the coming years. This might be achieved, but it would mean increased migration of workers to the towns, thus aggravating the shortage of housing, transport and other services. The widespread dissatisfaction of the urban population with living conditions could, therefore, grow and have serious political implications.

3. Economic reforms in Poland are still very limited. The first attempts at reform in 1956-1958 failed. The question rose again in 1964 and certain measures were decided upon which are supposed to be implemented gradually. More flexibility is envisaged in the working of enterprises, and corporations (Trusts), operating as a link between the central authorities and the enterprises, are being set up. This system is being tried out in certain branches of industry. The question of fixing prices, which is one of the key issues in the economic reforms in other Eastern European countries is not going to be tackled at this stage. So long as most industrial enterprises remain subject to strict central control, prices will, in any case, play a subordinate rôle in decisions on production.

4. Poland is still heavily dependent for her trade on other Communist countries, and there has been no change in this respect over recent years. Indeed, since 1955, 63% of Poland's trade has been with other Communist countries, the share of the industrialised countries of the Free World being some 29% and that of developing countries about 8%. Despite the persistence of this trade pattern substantial credits have been granted to Poland by the West. Poland, while continuing her participation in COMECON, has been pressing for more flexibility in this Organization. She has become a member of

GATT, in which she has shown a co-operative attitude. This may be related to the assurance she has received that her traditional agricultural exports will continue to be accepted by her partners at the 1963/1964 level. The Poles are no longer attacking the Common Market on ideological grounds but, on the contrary, have recently been inclined to recognise it as a going concern.

5. Although Poland, for various reasons - political, military and economic - is still largely dependent on the Soviet Union and other Communist countries, there is room for an expansion of her economic relations with the West. This would be to the advantage of both Poland and the Western countries, but it would require efforts on both sides. For their part, the Poles should seek to improve their products so as to make them more attractive on Western markets. Western countries should take the steps they consider appropriate to facilitate the entry of Polish exports and maintain a flexible and co-operative attitude on various other aspects of trade, including credits, with a view to establishing closer relations between that country and the West.

II. THE POLISH ECONOMY

6. Some ten years ago Poland was considered to be the most liberal of all Communist countries. During the years 1956-1958 the peasants were allowed to leave the co-operatives and resume control of their land, and economic reforms were freely discussed in public, some reformers even suggesting that Poland should adopt the mechanism of the market and that the rôle of planning should be limited to co-ordination. This was opposed by the dogmatic elements of the Party. True, they were not able to force the peasants back into collective farming, but they did succeed in blocking practically all the reforms proposed. As a result, Poland has a dual economy: it is the only Communist country with an almost completely decentralised, parcelled-out and highly traditional agricultural set-up. About 85% of the cultivated land is privately owned and accounts for over 88% of gross agricultural production. At the same time, the other sectors of the economy are planned and controlled within a rigidly centralised system.

7. On the whole, these mixed arrangements have produced quite satisfactory results. Poland has succeeded in restoring the economic and human potential destroyed during the last war. National income increased by an annual average of almost 7% in the period 1963-1966. It rose by 6% in 1967 (against a planned figure of only 3.4%), and it is planned to increase by 4.8% in 1968, with a yearly average of 6% over the period 1966-1970. However, these figures conceal some underlying structural weaknesses: a backward agriculture and an unbalanced industry - the result of giving priority to heavy industry. Information

available on retail sales of various finished goods and food-stuffs indicates some improvement in the standard of living but, on the whole, this progress can only have been relatively slow, given the modest increase in real wages(1).

Industry

8. Over the past years, industrial growth has been quite impressive. In the period 1961-1965 gross output rose at an annual average of 8.5% and in 1966 and 1967 it was still 7.4% and 7.5% respectively. The first three months of 1968 even showed an increase of 10.4% as compared with the same period in 1967. The plan for 1966-1970 does not suggest any significant change in this respect; the annual growth for capital goods is expected to be 8.2% against 6.4% for consumer goods. In fact, in 1966, the respective increases were 8.0% and 6.4%. It is intended to carry further the industrialisation of the country; the share of industry in total investment was planned to rise from 41.7% in 1961-1965 to 42.2% in 1966-1967. The actual figures were 40.1% in 1966 and 41.0% in 1967; the planned figure for 1968 is now 41.2%. A new feature of the plan is the emphasis placed on mechanical and electrical engineering (investment in which should increase by 62% over the five year period) and on the chemical industry (investment in which should rise by 77%).

9. The growth in industrial output has been helped by a rapid increase in employment, which held back the growth of productivity, wages and consumption. During the planning period 1966-1970, new jobs will have to be created for some 1.5 million people. If investment continues at the same high rate as in previous years, Poland might succeed in putting to work most of the new entrants to the labour force. But this implies, in any case, a large movement of the population from the country to the towns. The shortage of housing, transport and other services could result in growing popular discontent, with consequent major political implications.

Agriculture

10. The rural community is still largely isolated from the rest of the economy and participates only marginally in the domestic market. Peasant families live as self-sufficient units, largely on their own products. During bad years, supplies for urban centres are not easily obtainable, but this is true for

(1) Real wages per wage earner were supposed to increase annually by 4.2% in the period 1961-1965 but in fact rose only 1.6%; they are planned to rise 1.9% in 1966-1970, one of the smallest increments in East Europe.

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collectivised farms as well. On the whole, it appears that the decision of the Polish Government in 1956 to abandon collectivisation has paid off. To be sure, output has increased less rapidly than in Bulgaria and Rumania, but the costs to the régime in terms of inputs has been much less than that for any other East European country (except Yugoslavia).

11. Given the large amount of agricultural produce which is consumed on the farm, official statistics on agriculture seem to be somewhat unreliable. They indicate that agriculture in 1966 accounted for 18.8% of the national income but this seems to refer to that part of production which was marketed. The figure, therefore, significantly understates output. The rate of growth of agricultural production, according to official statistics was 2.8% in 1961-1965, 5.4% in 1966 and 2.3% in 1967; it is planned to be 2.4% annually over the whole period 1966-1970. The plan for 1968 provides even for a decrease of -1.5%. The reduced growth is all the more surprising in that, in the 1966-1970 plan, the share of agriculture in total investment is expected to rise from 13.7% (1961-1965) to 17.5%. This is a break with traditional Communist priorities. This may be due to the declared policy of reducing the country's dependence on grain imports which, in recent years, have often reached about 2 million tons per year. However, it seems that this increased effort in agriculture will not result in Poland's becoming self-sufficient in grain by 1970. Nor will it have any significant effect on the volume of agricultural exports which over the last fifteen years have remained fairly stable - between 16% and 18% of total exports.

12. With a very large rural population, a great number of small units and a high proportion of old peasants, agriculture in Poland badly needs modernisation. Central authorities are trying to concentrate holdings and also, whenever possible, to enlarge the State farms by purchasing private land. The peasants have been encouraged to set up agricultural circles from which they may hire agricultural equipment, such as tractors, harvesters, etc.

Economic Reforms

13. Despite the decision not to introduce economic reforms in 1956-1958, eventually it had to be conceded that as the types of industrial products were becoming more diversified and production processes more complex, a highly centralised system of economic management had many drawbacks. Consequently, there has been a second wave of discussion about the desirability of introducing economic reforms. At the Fourth Party Congress in June 1964 agreement in principle was reached, and in 1965 the Fourth Plenum of the Central Committee decided to implement these reforms within the next three years. But, again, a brake has been put on this process. The new measures envisaged so

far for the period 1966-1970 entail only slight changes, aiming at improving central planning and re-organizing economic management.

14. New industrial corporations or trusts have been created. They are intended to operate independently at a level between the central authorities and the individual enterprises, but so far they seem to be nothing more than executive organs of the ministries. Other reform measures are similar to those adopted in other Communist countries, such as the introduction of a capital charge, the revision of the system of success indicators (one set showing the relationship of profit to cost of production, the other the relationship of profit to capital, both applying over a two year period), and measures giving enterprises more freedom to finance investment from their own funds. Nine corporations and fifty-four enterprises have been experimenting with these new measures in 1966/1967. It seems that the results so far achieved have strengthened rather than relaxed the caution of the régime about economic reforms. Certainly there has been no major change in the price system. Wholesale prices were last completely recast in 1960, but in 1962 and 1966 there was some readjustment to take account of real costs. Contrary to what is happening in other East European countries, where changing the price system is one of the key issues in the economic reforms, no such alteration is contemplated in Poland for the time being. In any case, so long as most industrial enterprises remain organized in monopolies, with continuing central control over much of output, over allocation of scarce commodities and over foreign trade transactions, prices can only play a subordinate rôle in decisions on production.

Foreign Economic Relations

15. Foreign trade plays a lesser part in Poland than in most other East European countries. The Poles are buying from the West both goods of a high technical level and raw materials such as cereals and non-ferrous metals. Foreign trade has grown rapidly in recent years, and imports have increased faster than exports. There has been a constant trade deficit over the past twelve years (except for 1964), most of which has been off-set by earnings from services, although Poland has also received important credits. Outstanding credits from NATO countries alone amounted to \$411.4 million by 30th June, 1967, of which \$116 million were for more than five years. There has been no shift in Polish trade from Communist to Western countries in recent years. In fact, the geographical distribution of trade has remained remarkably stable since 1955, the share of Communist countries being about 63%, that of the industrialised regions of the Free World about 29% and that of developing countries about 8%. Broadly speaking, the pattern of exports and imports is the same as that of trade as a whole.

16. As far as the commodity structure of Poland's trade is concerned, imports of fuel and raw materials have increased much faster than exports of these products. Dependence on the Soviet Union is particularly high for imports of crude oil, natural gas, electric power, pig iron and cotton. In 1966, there was a decrease in both imports and exports of agricultural products, but it may be premature to deduce from this one year's figures that this represents the trend for the future, although this seems to be the policy of the Polish Authorities. Exports of machinery and equipment have increased more in volume than imports in the last three 5-year periods. Machinery and equipment have generally averaged about one-third of total Polish imports and have accounted for a steadily increasing share of total Polish exports. Almost the entire export of Polish machinery and equipment goes, and will probably continue to go, to the Communist world and the less-developed countries. The willingness of the USSR in particular to import Polish machinery has been the key factor in the rise of Polish machinery exports.

17. Poland became a full fledged member of GATT in 1967 and apparently has proved very co-operative; it is still too early, however, to assess the real effects of her participation in this Organization.

18. Poland favours more flexible policies in COMECON matters. She has advocated multilateral trade among members and the right to use a surplus with one trading partner to offset a deficit with another. As regards the period 1966-1970, Poland has concluded long-term agreements with her COMECON partners which envisage increases in the trade turnover with these countries ranging from 40% to 70%. The Polish planners hope that the share of machinery in exports will increase, but it may in fact be difficult to achieve this aim.

Note: All figures contained in this statistical Annex are taken from official Polish sources.

NATIONAL INCOME

(percentage changes over the previous year)

	1963	1964	1965	1966	1967	Plan 1968
Produced	6.9	6.8	7.0	7.2	6.0	4.8
Distributed	6.3	4.9	8.3	7.4	5.0	4.8

Contribution to national income by sectors of the economy

(in current prices)

	1960	1965	1966
	%	%	%
Industry	47.6	51.6	51.9
Agriculture	23.6	21.1	20.7
of which collective	1.6	1.5	1.3
Building	9.4	8.9	9.0
Other	17.8	16.9	17.1

INVESTMENT

	1965	1966	1967	Plan 1968	1966- 1970
Growth rate of fixed investment:	9.8	8.6	9.4	9.2	8.0
Fixed investment as % of national income:	27.4	27.8	28.7	29.9	27.3
Percentage share of:					
Industry	41.0	40.1	41.0	41.2	42.2
Agriculture	15.7	15.9	16.4	16.4	17.5
Construction	3.8	4.1	3.7	3.1	5.9
Trade	3.3	3.5	3.9	3.8	
Other	36.2	36.4	35.0	36.5	34.4

INDUSTRY

(percentage changes over the previous year)

	1964	1965	1966	1967	Plan 1968
Global output	9.3	9.0	7.4	7.5	7.1
Employment	2.0	4.9	3.5	3.8	2.8
Output per man	7.2	3.9	3.7	3.5	4.4

AGRICULTURE

(percentage changes over the the previous year)

	1964	1965	1966	1967	Plan 1968
Total output	1.3	7.7	5.4	2.3	-1.5
arable products	0.5	8.4	5.5	3.2	-3.0
animal products	2.3	6.6	5.4	0.8	0.6-0.9

LIVING STANDARD

(percentage changes over the previous year)

	1964	1965	1966	1967	Plan 1968
Nominal wages	3.1	2.6	4.5	4.0	2.5
Cost of Living	1.0	2.6	1.2	1.5	-
Real wages	2.1	0	3.3	2.5	-
Money income of peasants	5.0	10.0	7.0	n.a.	-
Increment in cash- holdings and savings	9.5	9.5	45.8	n.a.	-
			(9.6 had been foreseen in the Plan for 1966)		
of which: saving deposits	22.6	21.0	29.5	14.4	-

n.a. = not available

FOREIGN TRADE

(percentage changes over the previous year)

in 1960 prices

	1960	1961	1962	1963	1964	1965	1966	1967
Turnover	10.3	13.9	11.8	5.1	10.0	11.6	6.8	
Exports	16.6	14.3	11.1	4.6	18.0	8.1	3.7	(11.3)
Imports	5.3	13.6	12.4	5.6	3.1	15.1	9.5	(5.6)

Geographical distribution
(in percentages)

	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1966</u>
Communist countries	59.1	63.9	62.6	63.0
COMECON	58.4	59.3	56.8	58.1
Non-Communist	40.9	36.1	37.4	37.0
Industrialised	37.7	28.5	29.8	29.4
Developing	3.2	7.6	7.6	7.6

Commodity distribution
(in percentages)

	<u>Imports</u> (as shares of total)			
	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1966</u>
Machinery and equipment:	32.4	30.9	27.1	35.1
Fuels and raw material:	53.1	51.7	51.5	47.2
Agricultural products:	11.2	13.1	16.0	11.5
Industrial consumer goods:	3.3	4.3	5.4	6.2

	<u>Exports</u> (as shares of total)			
	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1966</u>
Machinery and equipment:	7.8	13.1	28.0	35.3
Fuels and raw material:	56.0	64.4	43.8	34.3
Agricultural products:	24.0	15.3	18.1	16.6
Industrial consumer goods:	12.2	7.2	10.1	13.8

Annual average growth in percentages
(1960 prices)

	<u>Imports</u>		
	<u>1956-60</u>	<u>1961-65</u>	<u>1966</u>
Total	10.5	9.9	9.8
Machinery and equipment:	7.1	13.2	15.6
Fuels and raw materials:	10.4	8.3	13.6
Agricultural products:	16.8	6.0	-10.5
Industrial consumer goods:	15.4	15.8	-3.7

	<u>Exports</u>		
	<u>1956-60</u>	<u>1961-65</u>	<u>1966</u>
Total:	8.9	11.0	3.7
Machinery and equipment:	25.3	16.0	6.8
Fuels and raw materials:	1.0	6.6	2.8
Agricultural products:	12.0	9.3	-7.7
Industrial consumer goods:	18.2	17.0	12.4

BALANCE OF TRADE

(in million foreign exchange zloty at current prices)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Communist countries	-454	-453	-847	-812	+178	-555	-815
Non-Communist countries	-223	-279	-110	-24	-81	+105	-73
Total	-677	-732	-957	-836	+77	-450	-888