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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY
ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES

POLAND

Note by the Chairman

In the series of periodic reviews of East European economies, a meeting on Poland was held on 25th September, 1969, with the participation of experts from France, the United Kingdom and the United States(1).

2. The attached Draft Report is based on these discussions and on the Note prepared by the French Authorities(2). The purpose of this report is to call attention to the recent performance and future prospects of the Polish economy and to update the figures contained in the last report which was submitted to the Council in July 1968(3).

3. This draft will be put on the Agenda of the meeting of the Sub-Committee on 6th November, 1969.

(Signed) Y. LAULAN

OTAN/NATO,
Brussels, 39.

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- (1) For a summary record of this meeting see AC/89-D/63
(2) AC/89-WP/276
(3) C-M(68)32

NATO CONFIDENTIAL

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW OF INDIVIDUAL EAST EUROPEAN COUNTRIES

Draft Report (1969) to the Committee of Economic Advisers

POLAND

I. ECONOMIC PERFORMANCE

1. By reason of its size, population and production, Poland is the most important economic unit in Eastern Europe after the USSR, but in output and consumption per head performance is not particularly satisfactory; it is calculated that if present trends continue, Poland will have the lowest GNP per head of all the COMECON countries in the seventies. Judging by official figures, national income (net material product) increased 8% in 1968, whereas in 1969 a rise of 5% is envisaged. It should be added that Western experts regard these figures of growth somewhat exaggerated, and one group maintains that the Poles themselves admit that the real rise in national income in 1968 was of the order of 5%.

2. It is admitted that the Polish economy is beset by a number of problems: rapid population growth, an agriculture not properly integrated in the rest of the economy, inadequate production of consumer goods, inflation, an inappropriate industrial structure and an unsatisfactory pattern of investment. Despite the recognition of the need for change, there is an extremely hesitant attitude to reform on the part of the régime.

(a) Manpower

3. The severe losses of the war have been made good. Population, which had fallen to 24.5 million in 1949, rose to 30.3 in 1968. The natural growth rate was around 19 per thousand in the period 1950-56, after which it fell consistently to 8.3 per thousand in 1969. Over the years 1965-76 the age group 16-59 is rising at the rate of 1.8% a year and after 1975 it will rise about 1.2% per year. As a result of this expansion of population and labour in Poland, the authorities have been faced with the need to provide many new jobs every year. Their policy of investing in expansion rather than in modernisation might, to some extent, be justified on these grounds. On the other hand, the increase in employment, particularly of women, has been greater than planned; the annual increase in labour envisaged in the period 1966-70 was 2.1%; in fact the increase in 1968 was 3.4%. Enterprises have apparently found it in their interests to take on more labour than the planners considered necessary.

(b) Agriculture

4. Almost 40% of the total Polish labour is still engaged in agriculture. According to Polish figures, which probably understate the weight of this sector, agriculture accounts for somewhat less than 20% of the net material product. About 60% of the land is still in private hands, most of the rest consists of state farms. Private holdings tend to be small: in 1960 two-thirds were less than 5 hectares, one-third less than 2 hectares. The private farms continue to be run on traditional lines and the proportion of elderly women working on them is rising. These farms are virtually isolated from the rest of the economy owing to mutual mistrust between the peasants and the régime: the selfemployed peasants receive relatively little from industry and contribute only a small part of the overall output.

5. Over recent years agricultural output has been rising - 2.3% in 1967 and 4.4% in 1968. It was not expected that a further increase would be achieved in 1969; and indeed reports indicate that owing mainly to the hard winter there will be a fall in agricultural output this year.

(c) Industry

6. As in other Communist countries, industry is the favoured sector of the Polish economy and accounts for over half the net material product. Industry has always had a generous share of total investment - 40% in the 1966-68 period. Great attention was paid to industrial expansion but too little to modernisation.

7. A high rate of growth has been maintained in industry, 8% in 1967 and over 9% in 1968 which was somewhat in excess of plan. Above-average results were obtained in the engineering and chemical branches, less impressive results in raw material output and meat processing. Much the same picture emerges from an examination of the figures for the first half of 1969. It appears that relative to last year, the production of ships, marine engines and railway wagons is down. It is not yet clear whether this is the result of policy or merely a shortfall in production.

8. The industrial structure as developed in the post-war period is unsatisfactory in several respects. Industry was indeed favoured at the expense of agriculture, but the output of consumer goods was insufficiently promoted and branches of industry were developed which were not suited to Polish conditions. In particular the output of raw materials and fuel was neglected relative to engineering, and investment in transport was insufficient.

(d) Investment

9. According to Polish figures a high proportion of the net material product goes to investment - over 29% in 1967 and 1968. An average annual increase of 8% was envisaged in the 1966-70 Plan and this has been more than achieved so far. Although an increase of 8.1% is claimed for 1968, there was considerable delay in commissioning new capacity; only 78% of capacity scheduled was actually handed over, and apparently half the total only in December.

(e) Defence

10. Precise figures of defence spending are not available. Currently about 9% of the budget is allotted to defence; in 1969 the defence vote rose 9.7%. It is not certain, however, whether the extra funds voted represent a real increase in the defence effort or whether the change is merely the result of more realistic accounting.

(f) Consumption

11. Money wages in the socialised sector rose by 3.9% in 1968; prices are said to have risen 2.4% so that the increase in real wages was about 1.5%.

12. For some time Poland has suffered from a form of inflation. Employment tends to rise faster than the rate planned. Enterprises are content to use more labour than they really require so that the wage bill and purchasing power expand beyond the capacity of planned consumer goods and services to keep pace. In fact there must be a large volume of services not officially recorded. There is a tendency for prices to rise; in 1968 the price of meat went up considerably, and housing, transport and tobacco were also affected.

(g) Foreign Trade

13. Foreign trade turnover amounted to some \$5.17 million in 1967 and \$5.71 in 1968, an increase of over 10%. It is expected to reach \$6.4 million in 1970 which, however, represents only about \$200 per head of the population. This is quite a modest figure; in 1967 foreign trade represented \$400 per head in the Soviet Zone and Czechoslovakia and \$350 in Bulgaria.

14. In recent years imports have exceeded exports by an appreciable amount, about \$150 million per year between 1965 and 1967. In 1968, however, trade was about balanced owing to a 13.2% rise in exports with imports rising only 8.3%. The trade position is less reassuring than it might seem. The big rise in exports was to the Communist countries (16.6%) while imports fell 6.1% - exports to Czechoslovakia jumped 20% whereas imports

declined over 2.0%. On the other hand, imports from the West rose especially as regards engineering products, while sales of such items to non-Communist countries increased by only 4% and that largely to Third World countries engaged in conflict (North Vietnam, Nigeria, U.A.R.).

II. ECONOMIC POLICY

15. Whereas in the past the Polish leaders have been content to develop industry extensively, making maximum use of the growing labour force, they are now conscious of the need to aim at more intensive development by raising the technological level of industry and productivity of labour. They are prepared to increase the output of manufactured consumer goods so that incentives can be made meaningful in terms of consumer satisfaction.

16. The authorities intend to increase investment in agriculture. In previous periods only about 15% of total investment was devoted to agriculture; during the 1966-70 plan period it is intended to allocate 16-17%. The authorities apparently do not expect too much from agriculture, they would, however, wish to increase supplies to the home market and eliminate or reduce the need to import grain. It was hoped to attain self-sufficiency in grain by the seventies. Home supplies of grain suffice for human needs and it is the feeding of livestock that makes imports necessary. There is a difference of opinion as to the rationality of Polish grain imports. Some say it makes sense to import grain and export livestock products, others point to the high cost of imported grain, especially when it has to be bought for hard currency. Presumably there would not be the same case against trading Polish goods against Soviet grain and Polish livestock products against Western technology.

17. The Polish leaders attach great importance to increased co-operation within COMECON as a means of realising their economic aims. It is hoped that if the concept of greater specialisation and closer co-operation within the organization and especially among the countries of Eastern Europe is agreed it will be possible in Poland to concentrate more on a limited number of industries, notably engineering and chemicals, and to achieve a level of quality which will enable them to sell not only to their COMECON partners but to the outside world. To this end they require investment capital which they would like to receive especially from Czechoslovakia and the Soviet Zone. They are in favour of working towards a rational price system in the COMECON area and convertibility of COMECON currencies. Generally speaking, their ideas on these matters tally with those of the Hungarians and the Czechoslovaks, but the Russians do not appear to be greatly enthusiastic.

18. The Poles do not intend to neglect their trade with the West; they are anxious to supplement if not replace their existing exports of farm produce by engineering products, and they appear to think that by becoming full members of GATT it will in some way be easier to sell machinery to the West.

19. The economic reform programme of 1965 may be regarded as a means of effecting some of the changes necessary to bring Poland's economy up to date. It was proposed to introduce new success indicators for enterprises, decentralise the financing of investment, extend the rights of managements, introduce price changes and promote initiative. In effect little seems to have been accomplished so far, despite the continuing interest in raising the effectiveness of planning, giving greater scope to economic criteria, promoting efficiency and decentralising operational management. A limited price reform was approved in November 1968. So far none of the measures adopted imply any weakening of party control of the economy.

III. CONCLUSIONS

20. Over recent years, some aspects of economic performance in Poland have been satisfactory. The Party has indeed succeeded in industrialising and in providing work for the rising population and living standards have slowly risen.

21. However, there is no disguising the fact that living standards in this country, which in normal circumstances would seem destined to play a leading part in the affairs of Eastern Europe, are low relative even to its southern neighbours, let alone the more advanced countries such as Czechoslovakia and the Soviet Zone of Germany. Though considerable industrial potential has been created, it is not particularly efficient and could be increasingly non-competitive in the future. The leaders have failed either to discipline or to conciliate the peasantry. If the task for the future is viewed in terms of raising productivity of labour in industry and agriculture and improving living standards, it clearly is formidable. It does not appear that the type of economic reform which might induce the Polish peasants, workers and intellectuals to co-operate willingly in abandoning old practices and adopting more efficient methods would be to the liking of the Polish leaders. If, therefore, the leaders cannot find some way of getting the economy to operate on more rational lines, the long-term outlook is indeed sombre.

STATISTICAL ANNEX

(Figures taken from official Polish sources or ECE)

I. AREA 312,700 sq.km.

Land Utilisation (million hectares)

Arable farming	15.2
Pasture, meadows, orchards	4.5
Forestry	8.3
Other uses	3.2

II. CHIEF TOWNS (1968)

Warsaw	1,279,000
Krakow	565,000
Lodz	750,000
Poznan	457,000
Wroclaw	512,000

III. POPULATION (December 1968)

(a) Total 32,426,000

Urban 51.2%
Rural 48.8%

(b) Active age

Men (16-50) 9,028,000
Women (16-54) 8,596,000

IV. NATIONAL INCOME

(a) Net material domestic product (sector contribution)

	1965	1966	1967	1968 (prov.)
<u>Value</u> (million zlotys) (current prices)	526.2	558.8	519.6	..
<u>All Sectors</u>	100	100	100	100
Industry	51.6	51.9	50.4	52.7
Construction	8.9	9.0	9.7	9.7
Agriculture	21.1	20.7	20.2	20.0
Forestry	1.7	1.7	1.6	17.6
Transport and Communications	5.9	6.1	6.2	
Trade	9.3	9.1	10.3	
Other	1.5	1.5	1.6	

(b) Distribution of National Income

	1965	1966	1967
Value (million zlotys) (current prices)	527.6	566.0	597.5
<u>All uses</u>	100	100	100
Consumption	74.1	73.4	74.3
Personal	64.9	64.1	64.5
Other	9.2	9.3	9.8
Accumulation	25.9	26.6	25.7
Fixed assets (net)	17.6	18.2	19.5
Increase in stocks	8.3	8.4	6.2

(c) Growth of National Income (ECE figures)

	1965	1966	1967	1968	1969 (plan)
Produced	7.0	7.2	5.6	8.0(1)	(5)
Distributed	8.3	7.4	4.4	7.0	(5)

V. PRODUCTIONOutput of Key Commodities

	1965	1966	1967	1968
Electric power (kwh million)	43.8	47.4	51.3	55.5
Coal (million tons)	119	122	124	129
Steel " "	9.0	9.9	10.5	11.0
Grain " "	15.7	15.3	15.9	17.6

(1) 9%, according to a recent Polish statement

VI. INVESTMENT

(milliard zlotys)

	1965	1966	1967	1968
Total (current prices)	138.8	149.9	166.8	180.8
Total (1961 prices)	140.4	152.5	169.9	184.0
<u>By Sector (ECE figures)</u>				
Industry		40.0	39.9	40.2
Building		4.2	4.5	4.0
Agriculture		15.9	15.7	16.0
Transport		3.6	3.9	3.7
Other (housing, education, health, etc)		36.3	36.0	36.1
<u>Growth of fixed Investment (%)</u>		8.6	11.5	8.1

VII. FOREIGN TRADE

(a) Development of Foreign Trade

(million zlotys)

	Total	Exports	Imports	Balance
1965	18,272	8,911	9,361	- 450
1966	19,064	9,088	9,976	- 888
1967	20,685	10,106	10,579	- 473
1968	22,843	11,431	11,412	+ 19

(b) Geographical Distribution of Trade

	1965	1966	1967	1968
Total trade	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<u>Socialist countries</u>	<u>64.7</u>	<u>63.0</u>	<u>64.7</u>	<u>65.1</u>
COMECON	60.5	58.1	61.1	61.5
Others	4.2	4.9	3.6	3.6
<u>Non-Socialist countries</u>	<u>35.3</u>	<u>37.0</u>	<u>35.3</u>	<u>34.9</u>
Developed	26.6	29.4	28.7	28.1
Developing	8.7	7.6	6.6	6.8

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(c) Commodity Structure of Trade

	1965	1966	1967	1968
<u>Exports</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Machinery and equipment	34.4	35.3	36.1	37.0
Fuels and materials	35.1	34.3	33.0	33.1
Agricultural products	18.2	16.6	15.5	14.0
Consumer foods (Industrial)	12.3	13.8	15.4	15.9
<u>Imports</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Machinery and equipment	32.8	35.1	37.0	35.9
Fuels and materials	47.3	47.2	46.5	47.1
Agricultural products and foodstuffs	13.2	11.5	10.9	11.3
Consumer good (Industrial)	6.7	6.2	5.6	5.7