

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

NATO UNCLASSIFIED
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PUBLIC DISCLOSED

EXEMPLAIRE - N° 369
COPY

ORIGINAL: FRENCH/ENGLISH
30th April, 1957

~~NATO CONFIDENTIAL~~
~~DOCUMENT~~
~~C-M(57)45(Final)~~

ECONOMIC RELATIONS WITH POLAND

Report by the Committee of Political Advisers

On the instructions of the Council, the Committee of Political Advisers has studied the question of economic aid to Poland(1). The conclusions of its study are set out in the attached report.

2. During the discussions, however, it became apparent that the problem of economic aid was only one aspect of the overall problem of the relations of the NATO countries with Poland. The Committee therefore considered it advisable to call the Council's attention to the following points:

- (a) the general question of political relations between NATO countries and Poland is dealt with in the document on the satellites now in preparation, which is to be submitted shortly to the Council;
- (b) the special question of individual and group visits, and of cultural exchanges in general, is being studied by the Committee on Information and Cultural Relations, which is also to report to the Council.

3. The Committee of Political Advisers suggests that the Council, if it agrees with the contents of this report, communicate it to member governments so that they can act in accordance with its findings, and invite them to inform the Council of any important decisions they may take as regards their economic relations with Poland.

(Signed) A. CASARDI

Palais de Chaillot,
Paris, XVIIe.

(1) C-R(57)10, Item VII

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ECONOMIC RELATIONS WITH POLAND

1. The Committee of Political Advisers has examined the problem and has come to the conclusion that the question cannot easily be separated from that of economic relations with this country. In the circumstances it believes that the Council would wish to be appraised of the following facts:

(a) Despite uncertainty as to the strength and stability of Mr. Gomulka's government, it is to the advantage of the West for it to remain in power. Mr. Gomulka is known to be a doctrinaire Communist. However, certain measures of liberalisation have been taken in the domestic field, and the Polish Government has, moreover, achieved a greater measure of independence from the Soviet Union besides seeking to develop its economic and cultural relations with the West.

There is, however, no reason to think Soviet leaders will easily abandon efforts to keep Poland dependent on the Soviet Bloc, or that Mr. Gomulka at present intends his country to seek independence.

(b) Although Mr. Gomulka received what amounts to a unanimous vote of confidence at the February elections, his political position will undoubtedly be weakened if there is no improvement in the economic field. Poland's present economic situation is far from sound (see Annex to this paper prepared by the economic section of the Economics and Finance Division). There are many reasons for this, including a shortage of raw materials, inadequate production more especially of coal, a decline in industrial activity and agricultural output, unduly high wage scales. To absorb this increased purchasing power, the Polish Government has curtailed capital investment and increased imports of consumer goods. The balance-of-payments position, which was already strained, has thus deteriorated still further while the danger of inflation has not been reduced.

(c) The First Secretary of the Party has called for a renewed effort from his fellow-countrymen, but has also pointed to the need for foreign aid. The cancellation of the debt to the USSR and the Soviet loan of 700 million zlotys can only give inadequate temporary relief, and Poland is therefore bound to turn to other countries.

(d) It would seem to be in the interests of the Western Powers to give their support to Mr. Gomulka's economic plans, so as to prevent his regime's collapse, which might allow the Soviet Union to resume complete control over Poland. The Western Powers should therefore fall in with any moves likely to attract Poland's foreign trade towards the West and to this end each of them should, according to its ability, offer to expand its trade with Poland, by means of commercial inducements including even credit facilities. Economic and technical assistance should also be envisaged if sought by the Polish Government.

(e) The economic policy of the Western Powers with respect to Poland should, however, be carefully adjusted so as to cover only the needs of Poland itself. It should not be overlooked that this country still has a Communist government, that its trade with the

Sino-Soviet bloc is extensive and that the Soviet Union is likely to make every effort to keep Poland in economic dependence. It is therefore essential that the advantages granted, while sufficient to avert the fall of the Gomulka Government for economic reasons, should not be too generous and should be framed in such a way as to minimize benefits to the Sino-Soviet bloc as a whole.

(f) The implications of the policy of the Western Powers towards Poland with respect of the control of strategic materials, will be dealt with, should occasion arise, by COCOM.

(g) The position of the Western Powers as regards their economic relations with Poland and economic aid to that country should be reviewed from time to time in the light of the latest developments in the situation.

THE ECONOMIC SITUATION IN POLAND

Summary

1. Poland's present economic situation is difficult, with little hope of improvement. As a result of territorial shifts and postwar industrialisation, Poland has changed from an agricultural, grain-exporting nation to an industrialised country highly dependent upon foreign trade. This has been achieved at the expense of the standard of living of the Polish people who are badly housed, have few luxuries, and must struggle to provide a bare subsistence diet for their families. The export of coal has become the principle means of obtaining foreign exchange to pay for the greatly increased import demands arising from the changed economic structure of Poland. But exports of coal have been falling, as greater internal demands for fuel swallow up a relatively less adequate output of coal. Incentives in the form of higher living standards, to help increase coal output, call for resources which compete with the industrial needs of the country. The balance of payments situation will become more difficult in 1957, and this will be aggravated by inflation engendered by wage-increases given to ward off political agitation.

2. Recent measures by the Polish Government to stimulate private enterprise in agriculture and small scale industry, will not be effective for some time to come, and to this extent, Poland will require outside assistance. Loans from the USSR and cancellation of some Polish debts by Russia, have not in reality improved the Polish position. Poland is attempting to raise credits from Western countries, particularly from the United Kingdom and the United States. The United Kingdom is not in a position to grant any governmental loans.

Economic background

3. Recent announced changes in economic policy in Poland, in particular, the revisions of the 1956-1960 five-year plan, point up the severe economic problems which have been developing since the end of World War II. The efforts of rebuilding war devastated areas, of establishing heavy industry at the expense of consumer goods industry and agriculture, and of imposing heavy defence expenditures on the country, have all combined to keep the standard of living of the Polish peoples at very low levels. A study published by the Economic Commission for Europe (1), and based on official Polish sources, demonstrated that the majority of workers in Poland did not earn enough to provide for their basic needs, and that hardships could be avoided only by the additional incomes of other wage

(1) Economic Bulletin for Europe, Vol. 8, No.2, August, 1956, page 38.

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earners in the household.(2) It has been reported that there are over 300,000 unemployed in Poland, and it is not likely that this situation will improve in the near future.

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4. The economic structure of Poland has been greatly changed since 1939, partly due to territorial shifts. The loss of grain-growing areas in the east to Russia, was partially offset by the acquisition of a rich coal area from Germany on the western border. Policies adopted after the war also affected the economic structure, as planned increases in heavy industry and a drastic shift in foreign trade towards the USSR and its satellites, were accompanied by lagging agricultural output. Thus, whereas prewar Poland was a predominantly agricultural country which exported grain, meat, mineral fuels and timber, which imported industrial materials and manufactured goods, and which conducted nine-tenths of its foreign trade with the West, postwar Poland was more heavily industrialised and far more dependent on the Communist bloc for its foreign trade. While less than one-tenth of the prewar Polish labour force was in industry, the postwar ratio was at about one-third. By 1954, only 30 per cent of Polish trade was with the West, although a substantial change has taken place in the past two years, and in 1956, 41 per cent of Poland's trade was with the West.

5. The economic and geographic changes in Poland have led to a greater importance of foreign trade in the economy. Whereas exports were only 3.6 per cent of the Polish gross national product in 1937, by 1953 the percentage had risen to 6.5 per cent, and is undoubtedly higher for more recent years. At the same time, the composition of exports changed markedly, with coal, timber and machinery being the most significant items. The growing importance of machinery, mainly the simpler types, has been reflected in a sharp increase in the past few years in the share of Polish trade to underdeveloped areas, which amounted to about one-quarter in 1955. Timber exports have been limited by lack of modern transport, as well as by problems of conservation. The rise in coal exports, on the other hand, has been limited by increasing internal demands for industry and by lack of incentives for the miners. Nevertheless, exports of coal have grown in importance, filling the gap caused by the failure in the postwar agricultural programme, and the territorial shift. Poland is today a net importer of grains in contrast

(2) The position of the Polish worker vis-à-vis workers in other Communist countries is shown in the same article:

Number of subsistence food baskets purchasable
with one average wage

<u>Country</u>	<u>No. of baskets</u>	<u>Country</u>	<u>No. of baskets</u>
Eastern Germany	4.1	Poland	3.1
Czechoslovakia	3.9	Bulgaria	2.9
Soviet Union	3.4	Rumania	2.7
Hungary	3.2		

with the prewar position. The sharp changes in the composition of Polish trade are shown below:

Percentage Composition of Poland's Foreign Trade

	<u>Exports</u>		<u>Imports</u>	
	<u>1938</u>	<u>1955</u>	<u>1938</u>	<u>1955</u>
Raw materials	45	65 ⁽¹⁾	54	52
Equipment goods	0	13	23	31
Consumer goods	13	7	10	4
Foodstuffs	42	15	13	13
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	100	100	100	100
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(1) 47 per cent for coal and coke, against 19 per cent in 1938.

6. The changed structure of the Polish economy and pattern of foreign trade has led: to larger imports of food, to make up for losses due to lower agricultural output; to greater needs for raw materials such as iron ore and cotton to meet the expanded industrial capacity, and to increased imports of specialised machinery for industry, mining, transport and agriculture.

Poland's dilemma

7. The dilemma of Poland is that the resources needed to provide incentives compete strongly with those needed to strengthen the economic base. The economic situation can be improved by modernising industry and transport, which will require larger imports of machinery. In turn this could be paid for by larger exports of coal. However, unless more incentives are provided to the miners, by way of increased supplies of consumer goods, it is not likely that production will be raised significantly.

8. Furthermore, the economic situation in Poland is highly inflationary. As a by-product of last year's political agitation, wage increases have already been granted to 2 million workers and other increases are pending. The wage bill has risen 15 per cent over the past year, and it is clear that the government cannot hold the price line. Gomulka has called for restraint by the workers in their demands, and has painted a dismal picture of their future, pointing out that increases in their living conditions will be slow and small. The government has arranged for sharp increases in consumer goods imports, to meet the immediate demands of the workers, but it is evident that the long-term outlook for the Polish workers is bleak.

The coal situation

9. The recent announced changes in the five-year plan

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show a decline in coal production in 1957, which follows upon small increases in the past few years. At the same time, exports have been falling as internal needs for coal, aggravated by the inefficient use of power, have been rising.

The Coal Situation in Poland

	<u>Production</u>	<u>Exports</u>
	(millions of tons of hard coal)	
1950-1955 average	87.2	25.0
1954	91.6	21.6
1955	94.5	24.3
1956	95.2(e)	19.7
1957 (plan)	93.0	11.0

(e) = estimate.

Large increases have been granted to the miners and the number of 12-day shifts has been reduced from 23 in 1956 to 12 in 1957, with complete abolition planned for 1958.

The agricultural situation

10. Changes recently announced to attempt to increase agricultural output are as follows:

- (a) Farm collectives are allowed to disband. This may increase output, since productivity on private farms is one-fifth higher than that of collectives. However, it appears as if the efficient farms are disbanding, with the inefficient ones anticipating state subsidies. The number of farms in collectives has been sharply reduced in the past few months, from 10,000 units to 2,000 units, and very little of Polish agriculture is presently run by collectives or state farms.
- (b) A reduction in the amount of compulsory deliveries to the state by farmers.
- (c) An increase of 100 per cent in the delivery price of cereals.
- (d) Private farmers can now own farm machinery, and in fact, the state has made available credits for purchase of machinery.

11. Despite these changes, only a small increase in agricultural output has been arranged for in the 1957 plan, and increased imports of materials, including a \$10 million purchase of surplus United States cotton, have been announced. The 1956 grain crop was not up to the level of the previous few years, and an increase in deliveries from the USSR has been arranged to make up part of this deficit. The 1956 sugar crop has been a failure and delivery of 200,000 tons from the USSR has been cancelled.

The balance of payments

12. The 1957 balance of payments situation of Poland will be difficult. More trade will be conducted with the West, imports will rise sharply, while the rise in exports will be limited. Poland will attempt to minimise this problem by conducting its trade on the cheapest market principle; this represents a radical change for a communist country which had previously given priority to other countries in the communist bloc. A multiple exchange rate has been set up for the zloty, maintaining its parity with the rouble, but devaluing it to one-sixth of its former value in Western currencies. Although all trade with the West is usually quoted in sterling and will not be affected by the devaluation, the cost to Western businessmen of trips to Poland will now be only one-sixth of its previous level, and should be a stimulus to trading relations.

13. To meet the needs of the 1957 plan, there will be large increases in imports of some consumer goods and raw materials for industry (over 100%), foodstuffs (38%), and other raw materials and fuels (24%). Exports of coal will be lower, although the reduction will be in deliveries to the USSR and its satellites and not to the West. Poland has insisted on payment in hard currency from Finland on coal deliveries, which previously had been made as part of a three-cornered arrangement between Poland, Finland and the USSR, to clear up a Finnish surplus vis-à-vis the USSR.

14. It is possible that the proportion of trade with the West in 1957 may rise to over 50 per cent of total Polish trade. A trade agreement signed with the United Kingdom for 1957 provided for a sharp increase in imports by Poland, while France has granted a \$28 million credit to Poland for purchase of industrial equipment.

Construction and investments

15. Revisions in the five-year plan show the proportion of investment devoted to housing rising from 10.7 per cent to 14.4 per cent, and it is expected that 183,000 apartment units will be built in 1957. Savings derived from cutbacks in other construction will be devoted to housing, but the overall situation will still be critical. Ochab has stated that even if the goals of the five-year plan are achieved "there will still be the very acute housing problem which today haunts like a nightmare hundreds of thousands of families in Poland."

16. The 1957 plan provides for a 50 per cent increase in the output of consumer durable goods, including motorcycles, bicycles, television sets and wireless sets. On the other hand, the planned increases in the textile and footwear industries are generally below those planned for heavy industry.

Encouragement to small-scale private enterprises

17. Resulting from severe legislation, the number of small scale enterprises fell from 200,000 before the war to 94,000 today, with those employed in small enterprises falling more sharply from 1,000,000 to 130,000 persons. This legislation has now been relaxed, and more encouragements have been offered to artisans engaged in trade, repair, tailoring and baking.

Changes instituted include more liberal taxation, credit facilities and allotment of materials and premises.

Foreign Aid

18. Poland has received from the USSR loans totalling \$275 millions, consisting of:

\$100 million in grains, to be delivered in early 1957

\$175 million in rouble currency, to be drawn in 1958 and 1959.

At the same time, Russian postwar claims on Poland, amounting to \$500 million have been dropped.

19. However, Poland is little better off as a result of the granting of these loans in that this has apparently entailed the cancellation of a 100 million rouble credit which was granted in September 1956 and was payable partly in gold and has entailed also the cancellation of other credits which Poland had obtained from Russia but not so far used. Moreover the new currency loan will not be drawn upon for a year and the Russians could postpone it indefinitely as they recently postponed the Yugoslav loan for an aluminium project. As regards the dropping of the \$500 million claim, mentioned in paragraph 18 above, this by no means compensates Poland for previous Russian depredations. In the past ten years Russia purchased 60 million tons of Polish coal at a reported price of \$2.00 a ton, when the world price ranged between \$12.00 and \$22.00 a ton. Poland may thus have incurred a loss of between \$600 million and \$1.0 billion.

20. At the present time, Polish negotiators are in London and Washington seeking credits from the West. The United Kingdom is not in a position to grant governmental credits to Poland. The Canadian Minister of Trade and Commerce announced on 18th March the completion of negotiations with Poland, extending the repayment period of a previous credit to Poland, against an undertaking by Poland to make further purchases of wheat. A new credit has been arranged to finance these future purchases.