

**ECONOMIC INTELLIGENCE REPORT**

**RECENT TRENDS IN THE ECONOMY OF POLAND**



**CIA/RR ER 60-3**

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**CENTRAL INTELLIGENCE AGENCY**

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FOREWORD

This report is concerned with the most important recent developments in the economy of Poland. It covers primarily 1958 and that part of 1959 for which statistical data are available. Because data for the full year 1959 are not yet known, estimates of the economic trends and relationships in that year must be considered provisional. Although occasional references are made to long-term economic trends, an analysis of these trends is not the principal purpose of this report.

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RECENT TRENDS IN THE ECONOMY OF POLAND

Summary

In 1958, Poland appears to have begun a new industrialization drive under which capital investments increased substantially for the first time since 1953. By 1959, new strains developed in the Polish economy as a result of even larger increases in investments combined with difficulties encountered in agriculture.

In 1958 the Polish economy operated more smoothly than it had for many years, partly because of the reforms introduced by the Gomulka regime and the large foreign credits obtained. In 1959, however, a sharp increase in the rate of investment under conditions of comparatively loose control over wages led to a rise in the money income of the urban population far beyond planned levels. In the meantime, difficulties in agriculture were causing a reduction in supplies of meat. The resulting gap between supply and demand on the consumer market is being filled partly by raising the price of meat and partly by reducing investments and increasing the deficit in foreign trade. Recent economic difficulties probably will not result in fundamental changes in Polish economic policies, but the regime will implement these policies more strictly than before.

As a result of the increase in Polish capital investments and of an exceptionally large accumulation of stocks, there was little increase in personal consumption per capita in 1958. A planned increase of 7 percent in personal consumption may have been approached in 1959 in spite of a decline in the last quarter of the year, but the deficit in foreign trade was larger than planned. In prospect for 1960 are only a small increase in consumption and, as a result, greater popular dissatisfaction.

The basic economic policies of the Gomulka regime have undergone very little change since 1958. In agriculture, there is still no sign of a return to forced collectivization. The promotion of "agricultural circles" and the organization of an "agricultural development fund" may be interpreted as steps toward eventual collectivization, but these steps also can be defended on economic grounds, at least with regard to their long-term effects. There have been no remarkable innovations in economic planning and management outside agriculture. Reforms initiated in 1957, which gave enterprises and local governments more freedom from central control in certain areas, helped to increase the productivity of labor. Nevertheless, the system of looser controls served to promote

the inflationary increase in wages in 1959, for reforms had not progressed to the point where discipline imposed from above could be replaced by market forces. In order to improve prospects for fulfillment of future plans for investments and other aspects of the industrialization drive, the Polish regime has announced measures, including shifts in high-ranking personnel, that will tend to increase central control over the economy. Most of the innovations of the Gomulka regime in the area of economic planning and management probably will be retained, and other innovations, such as a reform of the price structure, may be introduced eventually, but the "new Polish economic model," regarded as a system in which only broad or key decisions are made at the top, now appears to be defunct.

The share of the West in the total foreign trade of Poland increased from 41 percent in 1957 to 44 percent in 1958. In 1959-60, however, because of the oversupply of coal in Western Europe and of the increasing significance in Polish exports of machinery -- which, generally, only countries of the Sino-Soviet Bloc will accept -- the share of the West in Polish foreign trade is expected to decline.

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## 1. General

The Polish economy operated more smoothly in 1958 than it had for many years. Strengthened by reforms introduced since 1956 and by large foreign credits, the economy maintained a fairly rapid rate of economic growth: about 7 percent in industry, 3 percent in agriculture, and 5 percent in the national income.\* The productivity of labor increased significantly, the deficit in the balance of payments was reduced under adverse circumstances, and an approximate balance between total supply and demand in the market for consumer goods was achieved after many years of general shortage. In contrast to the previous 2 years, however, there was only a very small rise in personal consumption. Other negative aspects of the Polish economic situation in 1958 were the persistence of very poor housing conditions and the apparent reluctance of the government to undertake the basic reforms in the system of industrial prices and incentives on which many improvements in industrial efficiency may depend.

In 1959, new strains appeared in the economy of Poland. These strains were caused primarily by a sharp increase in the rate of investment under conditions of reduced economic controls and by a drought together with planning errors that kept agricultural production slightly below the level of 1958.

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\* See Tables 1 and 2, pp. 3 and 4, respectively, below. Data in Table 1 are given in 1956 zlotys. At the official rate of exchange for noncommercial transactions the US dollar is worth 24 zlotys, but this figure does not necessarily reflect the actual purchasing power of the zloty.

Major Components of the National Income of Poland  
1955, 1957, 1958, and 1959, 1960, and 1965 Plans

Billion 1956 Zlotys

	<u>1955 a/</u>	<u>1957 b/</u>	<u>1958 c/</u>	<u>1959 Plan d/</u>	<u>1960 Plan e/</u>	<u>1965 Plan f/</u>
National income g/	<u>236.7</u>	<u>277.3</u>	<u>292.3</u>	<u>309.8</u>	<u>344.0</u>	<u>482.0</u>
Personal consumption h/	170.7	212.6	220.7	236.6	252.0	338.0
Government purchases i/	13.1	14.1	15.1	15.9	17.0	N.A.
Net capital investment j/	36.3	39.4	42.7	49.4	56.0	83.0
Increase in stocks k/	16.3	21.9	21.0	13.7	19.0	N.A.
Net foreign investment l/	0.3	-10.7	-7.2	-5.8	0	N.A.

a. 1/ (For serially numbered source references, see the Appendix.)

b. 2/

c. 3/

d. 4/

e. 5/. Goals under the Five Year Plan. Because of different treatments of the distribution of total consumption (between personal consumption and government purchases), personal consumption has been calculated as a residual by deducting the other categories from the national income.

f. 6/. Indexes for 1965 (on the basis of 1960 equals 100) were applied to planned values for 1960.

g. National income, by Marxist definition, is the sum of income originating in all productive sectors calculated as the sum of the differences between the gross value of production in each sector and the cost of materials, including depreciation. Income originating in nonproductive occupations (private services, government services, passenger transport, rent, and interest) is not included. National income equals net national product (US definition) exclusive of income originating in nonproductive occupations.

h. Personal consumption of goods includes all expenditures of individuals for consumer goods, the value of the goods obtained as payment in kind by the urban population valued at market prices, farm income in kind valued at above-quota delivery prices, and the value of materials contained in private services to consumers.

i. Government purchases of goods include the value of materials and contracted services used by state organizations (administrative, social-cultural, and military) and by passenger transport. The category also includes the value of goods passing through the state budget but finally consumed by individuals.

j. Net capital investment equals gross investment in fixed capital (producer's plant and equipment and other construction) plus capital repairs less depreciation.

k. Increase in stocks covers all levels of inventories and state stockpiles.

l. Net foreign investment is the internal value of the foreign balance on goods and services (exports less imports). When exports exceed imports, the balance is added to the sum of other components of the national income; when imports exceed exports, the balance is deducted.



Table 2

Indexes of Production and Employment in Poland  
1956-58 and 1959 and 1960 Plans

	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u> <u>Plan a/</u>	<u>1960</u> <u>Plan b/</u>
1955 = 100					
Industrial production					
Official index	109.0 <u>c/</u>	119.8 <u>c/</u>	131.5 <u>c/</u>	141.2	149.0
Estimated index <u>d/</u>	107.0	117.6	125.8	N.A.	N.A.
Industrial employment	104.4 <u>c/</u>	110.5 <u>c/</u>	111.8 <u>c/</u>	113.8	117.3
Agricultural production	107.4 <u>e/</u>	111.9 <u>c/</u>	115.3 <u>c/</u>	120.0	125.0
Previous year = 100					
Industrial production					
Official index	109.0	109.9	109.8	107.4	N.A.
Estimated index	107.0	109.9	107.0	N.A.	N.A.
Industrial employment	104.4	105.8	101.2	101.8	N.A.
Agricultural production	107.4	104.2	103.0	104.2	N.A.
a.	<u>7/</u>				d. Estimate.
b.	<u>Under the Five Year Plan. 8/</u>				e. <u>10/</u>
c.	<u>9/</u>				

A large increase in investments had been planned for 1959, but investments exceeded the plan during the first half of the year, largely because of inadequate control over projects financed by the retained earnings of enterprises under the program of partial decentralization. The sharply rising demand for investment goods and construction labor and reduced control over wages led, in turn, to a rise in consumer incomes far in excess of the plan, and the dispersion of investment resources in favor of decentralized projects extended the time schedules for the construction of centralized projects on which the government placed a high priority. Inflationary conditions developed in the consumer market because of the unplanned rise in money incomes and were exacerbated by the drop in supplies of meat. These conditions have necessitated a decline in real wages from the high levels of the first half of 1959 and probably will bring about a larger deficit in foreign trade and a reduction in investments. Apparently also the position of certain elements in the Polish Party that advocate a tightening of central economic controls to facilitate the implementation of the plan has been strengthened, although there is no indication of a fundamental shift in economic policy.

From a long-term perspective, the year 1958 marks the end of a period of economic stabilization -- when the principal objective was the correction of the imbalance caused by excessive pressure on resources under the Stalinist regime -- and the beginning of a new industrialization drive. At the same time that greater economic balance was being attained, capital investments increased substantially in 1958 for the first time since 1953. After several years in which most increases in production were obtained by completing new plants and by utilizing existing capacity more fully, large new construction projects were initiated. Even larger increases in investments took place in 1959, and those planned for subsequent years exceed in percentage terms the increase in the national income.

The investment program of 1959-60, the last 2 years of the present Five Year Plan (1956-60), is closely linked to the goals for production in the next Five Year Plan (1961-65). Drafts of a long-term plan through 1975 also have been published. Through 1965, investment is scheduled to increase somewhat faster than consumption, but the new form of industrialization probably will be much more balanced than that of the early 1950's. In the long run, therefore, a steady, perhaps a considerable, improvement in standards of living probably can be expected.

A sharp decline in the rate of growth of personal consumption in 1958 compared with 1957 was inevitable and indeed had been planned. The shift in resources from current consumption to capital investment was called for not only by the rapid disappearance of unused productive capacity but also by a decline in available foreign credits. Yet, because of a rise in stocks in excess of expected levels, even the planned level of personal consumption was not achieved. A large planned increase in wholesale and retail inventories, which previously had been

very low, was exceeded. There also was an unexpected accumulation of industrial stocks, which already had increased greatly in the previous year.\* To a considerable extent this large accumulation of stocks reflects the achievement of greater balance in the consumer market. Moreover, although large stocks also are partly a result of planning errors in past years, such stocks are a source of considerable flexibility to the government in its planning for future years.

The plan for consumption in 1959, which called for an increase of 7 percent compared with 1958, may have been almost fulfilled, but not in the expected manner. Consumption increased faster than had been planned during the first half of the year, but figures for the last quarter of the year probably will show a decline, primarily as a result of decreasing supplies of meat. Capital investments also exceeded planned levels during the first half of 1959 but may have been reduced in the last quarter of the year. Because of shortfalls in agricultural production and worsening terms of trade, the deficit in foreign trade is expected to have been larger in 1959 than in 1958.

Unless large new foreign credits are obtained, a significant increase in personal consumption in 1960 is unlikely, because of poor prospects for the winter crop in agriculture, increasing investments, and the decreasing inclination of the regime to modify significantly its program of industrialization in favor of the consumer. This situation may be expected to cause growing dissatisfaction with the regime even though the promise of an increase of 30 percent in consumption per capita between 1955 and 1960 was fulfilled ahead of time. Because popular expectations are for a continuous increase in consumption, even a slight and temporary decline will be badly received.

The balance of foreign payments will remain a problem for many years to come. In spite of an unfavorable trend in the terms of foreign trade, much of the short-term debt of Poland to the West was repaid in 1958, and the deficit in commodity trade with the Soviet Bloc was reduced. Poland was able to increase greatly the volume of exports in 1958 by taking advantage of unused capacity in the machinery industry and a surplus of certain agricultural products. Exports of machinery went primarily to the Bloc and agricultural exports to the West. These sources of export earnings are not likely to increase so rapidly in the future, however, and funds from old credits extended to Poland are being exhausted. At the same time, imports in support of the industrialization drive must be increased, and repayments of old credits will begin. The Western market for Polish coal, which has been badly depressed, deteriorated further in 1959. Moreover, the decline in production of meat in Poland not only has reduced

\* See Table 3, p. 7, below. Data in Table 3 are given in current zlotys. At the official rate of exchange for noncommercial transactions the US dollar is worth 24 zlotys, but this figure does not necessarily reflect the actual purchasing power of the zloty.

Table 3

Changes in Stocks in the Economy of Poland  
1955-58 and 1958 and 1959 Plans

	Billion Current Zlotys					
	1955	1956	1957	1958		1959 Plan
				Actual	Plan	
Total stocks, including state reserves	<u>16.0</u> a/	<u>14.2</u> a/	<u>22.9</u> b/	<u>25.5</u> c/	<u>15.8</u> d/	<u>16.9</u> d/
Stocks, excluding reserves	11.0 e/	8.2 e/	16.8 e/	N.A.	N.A.	N.A.
Of which:						
Industrial stocks	3.0 e/	5.3 e/	10.6 e/	9.0 f/	N.A. g/	4.0 d/
Trade stocks	8.0	2.9	6.2	9.9 d/	8.0 d/	5.0 d/
Other				N.A.	N.A.	N.A.
State reserves	5.0	6.0	6.1	N.A.	N.A.	N.A.

a. 11/b. 12/c. 13/d. 14/e. 15/f. 16/

g. The plan for industrial stocks in 1958 is not known, but it certainly called for a much smaller increase than was actually achieved, as indicated both by official statements and by the fact that only a small part of the excess of actual over planned accumulation of all stocks is accounted for by the overfulfillment of the plan for trade stocks.

exports but actually has led to imports of meat. Although US credits and sales of agricultural surpluses to Poland of \$50 million\* in June 1959 were supplemented by a similar agreement of \$11 million in October, the share of the West in Polish trade, which increased in 1958, declined in 1959.

The Gomulka regime has introduced few changes since 1957 in its basic economic policies, which are essentially avoidance of forced collectivization, maintenance of a balanced pattern in the allocation of resources, and encouragement of initiative at lower levels of economic administration within a framework of central planning. An important variation of the basic agricultural policy has been introduced, however, and there is evidence that central control over investments, production, wages, and farm incomes will be tightened.

A major campaign has been launched to obtain voluntary mass participation in the very loose forms of cooperative farming called "agricultural circles." These agricultural circles will receive large amounts of agricultural machinery financed primarily by profits of the state from continued compulsory deliveries of agricultural products at low prices through 1965. Because this new program entails an increase in capital investments, it probably will be paid for, in the final analysis, by the general consumer. The effectiveness of this program in increasing agricultural production is questionable, at least in the next few years, because of the reluctance of the peasants to join agricultural circles and because of the planned concentration of additional investments on mechanization, which cannot be expected to have a large effect on crop yields in Poland.

There have been no remarkable innovations in Polish economic planning and management in 1958 or in 1959. Reforms that were introduced in 1957 gave enterprise managers and local government officials more freedom from central control in certain specified areas of production, trade, and investments and in the utilization of the wage bill. The reforms were partly successful in stimulating initiative at lower levels of administration but did not bring into play market forces to replace the partial loss of administratively imposed discipline. As long as plans for production and investment were set moderately, these reforms probably increased the productivity of labor. With the increase in the rate of investment in 1959, however, the reforms also facilitated the unexpectedly large increase in wages, which in turn created inflationary pressures. This situation threatened certain aspects of the plan for investment in 1959 and, if repeated in future years, could make fulfillment of the new Five Year Plan very difficult. Shifts in government and Party personnel and announcements of plans to increase central controls over the economy, particularly over wages, could well be directed primarily at this problem. A return to the institutions and methods in effect when Gomulka came to power appears most unlikely, but it is possible that elements in the program of liberalization, which were appropriate when the pressure on resources

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\* Dollar values are given in current US dollars throughout this report.

was slight, are no longer considered useful. In any event, the well-publicized "new Polish economic model," regarded as a system in which only broad or key decisions are made centrally, probably is defunct. Eventually there may be a major revision of the pricing system, similar to that recently introduced in Hungary, which would tend to improve the efficiency of both planning and management. Nevertheless, short-run prospects at least seem to favor an increase in central planning and control.

## 2. Foreign Trade and Balance of Payments

One of the principal economic objectives of Poland in 1958 was to improve its balance of payments, particularly with the West. In 1957, Poland had substantial deficits with the West, both on commodity trade account (amounting to \$76 million, about 15 percent of imports from the West\*) and on services account. Drawings on long-term and medium-term Western credits were insufficient to cover these deficits, with the result that Poland had contracted high-interest, short-term debts to Western countries of \$56 million -- considerably above the usual level -- by the end of the year. Not only did these short-term credits have to be repaid or refunded in 1958, but also foreign exchange had to be found to repay some of the medium-term credits. The deficit in commodity trade with the Soviet Bloc was even larger than that with the West -- more than \$200 million in 1957 -- but this deficit was partly offset by a surplus on services account. No repayments of long-term credits from the Bloc were scheduled for 1958.

Polish efforts, aided by US credits and sales arrangements, improved the balance of payments in 1958. Exports to both the West and the Soviet Bloc increased, and total imports declined slightly, a decrease in imports from the Soviet Bloc more than offsetting an increase in imports from the West. As a result, the deficit in commodity trade with Western countries was reduced slightly and that with Bloc countries by 50 percent, from \$201 million to \$100 million. Available long-term Western credits not only covered current obligations but also permitted the repayment of short-term debts to the extent of \$25 million. It appears that scheduled drawings from credits extended by the Bloc also were adequate to cover the deficit on current account with this area.

The extent of these achievements can be appreciated better in light of the very unfavorable terms of foreign trade which prevailed in 1958. Prices obtained for coal -- the most important single export of Poland -- declined very sharply. As a result, total foreign currency receipts from this commodity decreased by 23 percent, even though a planned increase of 21 percent in the volume of coal exports was achieved. There was also a decline in prices paid for certain imported raw materials, although this decline did not offset the loss on exports. It is estimated that, as a result of this shift in the net

\* See Table 4, p. 10, below.

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Table 4

Foreign Trade of Poland  
1955 - June 1959

Million Current US Dollars

	1955 <u>a/</u>	1956 <u>b/</u>	1957 <u>c/</u>	1958			1959
				January - June <u>d/</u>	July - December <u>d/</u>	Year <u>e/</u>	January - June <u>f/</u>
<b>Imports</b>							
Total	<u>932</u>	<u>1,022</u>	<u>1,252</u>	<u>550</u>	<u>677</u>	<u>1,227</u>	<u>658</u>
From the Soviet Bloc	601	669	760	305	380	685	416
From the West	331	353	492	245	297	542	242
<b>Exports</b>							
Total	<u>910</u>	<u>985</u>	<u>975</u>	<u>452</u>	<u>607</u>	<u>1,059</u>	<u>534</u>
To the Soviet Bloc	565	573	559	228	357	585	311
To the West	345	412	416	224	250	474	223
<b>Trade balance</b>							
Total	<u>-22</u>	<u>-37</u>	<u>-277</u>	<u>-98</u>	<u>-70</u>	<u>-168</u>	<u>-124</u>
With the Soviet Bloc	-36	-96	-201	-77	-23	-100	-105
With the West	+14	+59	-76	-21	-47	-68	-19

a. 17/  
b. 18/

c. 19/  
d. 20/

e. 21/  
f. 22/

terms of trade, it was necessary to export 5 percent more in 1958 than in 1957 to purchase one dollar's worth of imports. The total cost of the shift in the net terms of trade in 1958 was approximately \$50 million, or 30 percent of the total trade deficit in that year.

Partly to overcome the effect of lower export prices on receipts of foreign exchange, the volume of Polish exports increased by more than 20 percent, whereas the volume of imports fell slightly. Unutilized capacity in the machinery industry permitted exports of machinery, directed primarily to the Soviet Bloc, to increase by 46 percent. Deliveries of agricultural products by farmers in 1958 were unexpectedly high, so that agricultural exports also increased rapidly. At the same time, imports of grain and of certain industrial materials such as iron ore were reduced in 1958, partly because of the existence of large stocks accumulated in 1957.

The possibilities that existed in 1958 for increasing exports and for reducing imports were not present in 1959. Prices for Polish coal have declined even further. Moreover, in the second half of 1959 an unforeseen need has arisen to supply more imported fodder to agriculture and even to import sizable amounts of unprocessed meat for the urban market while cutting down on exports of processed meat.\* Finally, imports of machinery and equipment are increasing because of the rise in investments. It is probable, therefore, that Poland's trade deficit was substantially larger in 1959 than in 1958.

The composition of Polish exports is changing very rapidly, coal being replaced by machinery and equipment. Exports of coal for the next few years are scheduled to remain at the level of 1958 but will decline in relative importance. Exports of capital equipment, meanwhile, are planned to represent about 40 percent of the total value of exports in 1965, compared with 20 percent in 1957 and 27 percent in 1958.

The share of the West in the foreign trade of Poland increased from 41 percent in 1957 to about 44 percent in 1958. Because of difficulties in increasing Polish exports to Western Europe and a decline in the availability of Western credits, the relative importance of Polish trade with the West declined in 1959, possibly to below the level in 1957. Without credits totaling \$61 million from the US, this decline would be significantly larger.

In the absence of additional credits, there is likely to be a decrease in the share of the West in Polish foreign trade during the next few years. The Western market for Polish coal probably will continue to be poor, and possibilities for increasing Polish exports of agricultural products to the West are limited by the recent decline in Polish production of meat and by a lack of demand in the West. At the same time, agreements between Poland and countries of the Soviet

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\* For an analysis of the shortage of meat, see p. 16, below.



Bloc call for a rapid increase in trade. The range of Polish commodities salable in the West should broaden considerably in time, but the general pattern of economic development in Poland and the intensive Soviet efforts to increase the mutual dependence of the "socialist market" make any economic shift by Poland away from the Bloc quite improbable.

### 3. Industry

The percentage increase in the productivity of labor in Polish industry was probably greater in 1958 than in any year since 1950. Industrial production increased by about 7 percent, as it had in 1956, but less than in 1957, with virtually no increase in industrial employment. By contrast, employment had increased considerably faster than productivity under the Six Year Plan (1950-55), at about the same rate as productivity in 1956, and about half as fast as productivity in 1957. A slightly smaller increase in production than in 1958, with very little increase in employment, may have taken place in 1959.

These favorable developments during 1957, 1958, and 1959 may be attributed directly to some of the new economic policies introduced by the Gomulka regime. As pressure to fulfill goals for production was moderated and as the goals themselves were set more conservatively, there was less incentive to hire new workers. Some progress was made in reducing overemployment by releasing pensioners and administrative staffs. In addition, greatly increased imports of raw materials, especially in 1957, helped to eliminate the recurrent shortages of materials that had caused work stoppages and thus had hampered the productivity of labor.

The stabilization of industrial employment in 1958 was not accompanied by a shift of labor to other nonagricultural occupations, inasmuch as total employment outside agriculture remained constant. This stabilization does not appear to have resulted in greater unemployment, however, because increments to the population of working age were small and agricultural work was attractive.

One of the major specific achievements of Polish industry in 1958 was in coal mining, where production increased after a decline in 1957 and where the productivity of labor increased for the first time since the early 1950's. Another bright spot was the rapid development of the chemical industry. In many industries, labor discipline improved, and unjustified absenteeism was reduced. In 1958, special difficulties persisted in the meat industry, in which productive capacity was insufficient to process the increased supplies of meat, making it necessary to export some of the available surpluses of meat on the hoof. This problem was eased in 1959, when state procurement of meat declined as a result of a reduction in herds of livestock. Investments in the food industry and in light industry, where restrictions in capacity also exist, are increasing and are scheduled to increase much faster than total industrial investments during 1959-65.

Considerable opportunity exists for increasing the productivity of labor in Polish industry at a rapid rate in the next few years, for example, by a modernization of plants in certain industries and by further reductions of surplus industrial labor. More than three-quarters of the substantial increases in industrial production planned for 1959-65 are to be achieved by increases in the productivity of labor, but such large increases in productivity will be more difficult to obtain than in 1957-58. The achievement of these objectives will require greater investments than in 1957-58 and also fundamental changes in industrial organization. In addition, after 1961, jobs will have to be found for a more rapidly increasing population of working age. It now appears that a substantial number of these new workers will be channeled into trade and services, areas that have undergone little development.

#### 4. Agriculture

The year 1958 was, like 1957, a good one for Polish agriculture; there has not been a really bad year since 1953. The value of animal production increased by more than 4 percent, permitting an increase not only in agricultural exports but also in urban consumption of meat and dairy products, and the grain harvest remained at the high level of 1957 in spite of a slight decline in yields. As in 1957, there was an increase in rural (especially housing) construction because of higher farm incomes, larger deliveries of materials, and continued interest on the part of farmers.

In the absence of large areas of uncultivated land in Poland, further increase in production of crops must come from higher yields, but prospects during the next few years for even a small increase in yields, especially of grains, are uncertain. In particular, the odds are against a continuation of the good weather of the last two seasons. In fact, during the summer of 1959, large areas of Poland were affected by a partial drought which reduced yields of most fodder crops to a level below that of 1958 and which could sharply reduce winter crops in 1960.

The lack of interest on the part of private farmers in the more intensive use of chemical fertilizer has been another impediment to increasing yields. In 1958, sales of fertilizer to farmers declined in spite of a large increase in production of fertilizer, and large stocks of unsold fertilizer were accumulated or exported. This situation resulted primarily from the excessive prices of fertilizer. Late in 1958, prices were cut, and sales in 1959 returned to the levels of 1957. A significant increase in the use of fertilizer, however, will come about only if a more favorable pricing policy is combined with efforts to overcome the reluctance of farmers to adopt the new techniques that must accompany the increased use of fertilizer.

Immediate prospects for further increases in production are even less favorable for animal products than for crops. In recent years the increase in herds of livestock has outstripped production of

fodder, and in 1959 the number of hogs, the main source of meat in Poland, declined by 5 percent. Errors in pricing policy, which encouraged the use of potatoes as food rather than as feed for hogs, were partly responsible for this situation. Moreover, the potato harvest was not expected to be any better in 1959 than in 1958, when the crop was less than average, and the drought has adversely affected forage crops. During the crop year 1959/60 the regime plans to expand its imports of feed grain and to reduce industrial uses of potatoes, but these measures may not be sufficient to avert a further reduction in production of meat animals or a decline in slaughtering. In the long run, several factors should work for a gradual increase in the supply of fodder and, as a result, in the output of animal products. Crop yields should increase slowly with the increased application of chemical fertilizer, consumption of grains per capita may decline with the increase in real income, and mechanization eventually should reduce the number of draft horses. Much more uncertain, however, is the course and effect of governmental policy relating to the organization of agriculture and to prices.

The agricultural policy of Poland continues to be extremely liberal in comparison with that of the rest of the Soviet Bloc. The area under collective farming has remained virtually unchanged since the debacle in the fall of 1956, and there is no indication that the government intends to force farmers into collective farms. In addition, private farmers continue to receive good prices for their products as well as increased supplies of tools and materials. Recent measures indicate, however, that the government is anxious to gain more political and economic control over Polish agriculture. An agricultural development fund, used primarily to promote mechanization, has been established and is to be financed with state profits from compulsory deliveries of agricultural products at low prices. The principal beneficiaries of this new fund are to be the agricultural circles which the government hopes to transform into mass organizations by means of economic inducements and propaganda. These measures involve a certain change in agricultural policy. Until recently the Polish government had appeared almost certain to eliminate compulsory deliveries before the end of 1960, and the reasons for the change, although not entirely clear, certainly are both economic and political.

From an economic point of view, the new measures increase investments in agriculture and insure that these increases will be devoted to productive purposes. During the past few years, peasants spent very little of their larger incomes on productive investments, but their level of consumption and the construction of housing in rural areas increased greatly. The improved lot of the farmer and the beneficial effect of a liberal policy on incentives gave an impetus to agricultural production in the past 2 years, but incentives alone are not likely to bring further substantial gains in production. Moreover, the elimination of compulsory deliveries would tend to increase farm incomes at the expense of urban incomes or at least to give to farmers a larger than proportionate share of the increased supply of consumer goods, thus continuing a situation that has certainly been a source of concern to the government since 1956.

At the same time, the new agricultural policy adopted by the Gomulka regime has great virtue, from the political point of view, in that it may be considered as a tangible step toward the eventual goal of collectivization. Thus the policy meets some of the main criticism elsewhere in the Soviet Bloc but is moderate enough so that it probably will not greatly antagonize the Polish peasants. The agricultural circles probably will help to extend Communist Party influence and to develop a park of tractors and agricultural machinery that would greatly facilitate collectivization later. These political gains, however, are not without economic costs. Agricultural production probably would benefit more if the additional funds earmarked for agricultural investments were used for a variety of purposes, including chemical fertilizer, selected seeds, land improvements, and farm construction, rather than primarily for mechanization. In any case, there are many difficulties in the application of the new policies. Only 15 percent of the independent farms have participated in agricultural circles until now, and only a very small portion of the existing circles have been organized to promote mechanization. In addition, Polish-made agricultural machinery is of poor quality, and imported machinery is not yet available in large quantities. There is little likelihood that the new agricultural program will have much effect on agricultural production in Poland in the next few years.

#### 5. Standards of Living

Consumption per capita in Poland increased a little more than 2 percent in 1958 in contrast to a gain of 10 percent in 1957. There was no marked improvement in the standards of living of the Polish population and probably no change at all for anyone but farmers and some of the lowest paid urban workers. This slackening in the rate of increase in consumption was planned, however, and does not indicate a major change in economic policy. In the first half of 1959, consumption per capita in urban areas increased about 6 percent compared with the 1958 average, but in the last quarter of the year there probably will be a decline of about 3 percent from the level of the first 6 months. The goal of an increase of 30 percent in personal consumption per capita between 1955 and 1960 probably was reached early in 1959, but any increase in the standard of living in 1960 probably will be very small, perhaps imperceptible.

In 1958, money wages in nonagricultural occupations increased somewhat less than did the productivity of labor, thus reversing the trend of the preceding 4 years. The real purchasing power of workers (except teachers, other service personnel, military personnel, and certain comparatively low-paid industrial workers) increased scarcely at all, because of the effect of price increases that had taken place in the summer and fall of 1957 and of other increases, not recorded in the cost-of-living index, that resulted from production of more of the high-priced grades and less of the low-priced grades of certain goods. During the first half of 1959, however, there was an increase of 10 percent in average wages compared with the same period of 1958. This increase, which was considerably in excess of the plan, was

supplemented by increased payments to workers from the retained profits of enterprises. To a considerable extent the bidding up of wages was a result of the program for investment, the wage bill in the construction industry, for example, increasing by 23 percent.

In 1958 and the first part of 1959, many people benefited from an improved balance in the market for consumer goods, which was reflected in fewer queues in front of stores and in a larger and more varied selection of goods. The shift from extreme shortage to a generally balanced market, however, involved certain difficulties. In spite of rapid increases in the supply of consumer durable goods, such as bicycles, washing machines, and refrigerators, shortages of these commodities persisted. At the same time, the volume of sales of textiles and clothing declined considerably, and trade stocks of these goods increased by 50 percent, indicating that prices of many clothing items had been set too high in relation to demand. In mid-1959, prices of certain articles of textiles and clothing were reduced to meet this situation, and the price of railroad tickets was increased substantially. Housing is a major exception to the general practice of rationing by price, and rents continue to be far below the cost of maintaining the buildings, although some rents increased slightly in 1958. Proposals for a substantial increase in rents have been widely discussed, but no date for their implementation has been set.

In 1958 and early 1959 the continuing increase in sales of meat, which in 1958 resulted in an increase of about 20 percent in consumption of meat in urban areas, constituted the most striking improvement in the pattern of urban consumption. During the first half of 1959, however, retail sales were ahead of state purchases of meat from the farms. This situation resulted at first in a reduction in meat reserves, in an increase in beef prices, in the introduction of "meatless Mondays," and in other minor forms of direct rationing. Finally, in October, prices of all meats and meat products were increased by an average of 25 percent. The need to increase the price of meat without compensating declines in the prices of other goods indicates that the consumer market as a whole had been thrown out of balance. To ease the shortage of meat, the government not only reduced exports of meat but actually imported meat from the USSR and feed grains from the US. Supplies of meat may decline further in the winter and spring of 1960 and are likely to remain below the level of 1957-58, although above the levels of earlier years, until well into 1960 at least.

Aside from food, prospects for the supplies of consumer goods in the next few years are favorable only for consumer durables. Radios and bicycles in particular are becoming available to wide groups of the population. There also is more variety in the assortment of manufactured consumer goods, including imports, placed on the market, and some effort is being made to improve state and municipal services and the retail trade network.

No appreciable relief of the severe shortage of housing, however, is likely for several years. About 350,000 new urban rooms per year

are needed to compensate for the deterioration of existing dwellings and for the increase in the urban population. Such a level of construction is not planned until 1961-62, and only 230,000 rooms, about two-thirds of minimum requirements, were completed in 1958. The regime intends to derive a large part of the increase in the funds planned to be invested in housing in the next few years from the savings of consumers through their participation in private, cooperative, and factory-sponsored housing, the rapid expansion of which is being encouraged.

Real income in rural areas increased between 1955 and 1958 at about the same rate as real wages, or by slightly more than 20 percent. The increase of more than 4 percent in 1958 was less than that in previous years but probably greater on a per capita basis than that of urban real income. Particularly striking has been the increase in net cash income among peasants at an annual rate of 8 to 10 percent in recent years. Net cash income now accounts for a larger share of total farm income than consumption in kind. As a result, there has been a sharp increase in purchases of industrial consumer goods by the peasants. This increase in purchases, however, did not prevent a slow but constant increase in the consumption by the peasants of most of the foods that they produced. Rural consumption of meat, however, declined, the increase in sales of meat far exceeding the increase in production of meat in 1958, a trend that continued in 1959.

## APPENDIX

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