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RECENT DEVELOPMENTS IN THE POLISH ECONOMY: PERFORMANCE AND PLANS



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RECENT DEVELOPMENTS IN THE POLISH ECONOMY:
PERFORMANCE AND PLANS

Polish economic development in the first 18 months of the Second Five Year Plan (1961-65) was rapid and generally smooth; but strains in some areas may make rapid growth in the future more difficult. The growth of industrial production during 1961-62 was faster than planned, and although some slowdown is planned for next year, output at the end of 1963 should be at about the level originally projected in the Second Five Year Plan. Polish agricultural production this year stands at nearly the planned level, and consumption has increased about as planned. Foreign trade has increased at an above-plan rate since 1960, but Poland faces future difficulty in continuing to increase trade with the industrial West. Capital investment has lagged somewhat behind the pace set forth in the Second Five Year Plan, and some aspects of the investment program for 1963-65 are to be revised this year. However, unlike recent plan changes in East Germany and Czechoslovakia, which were the result of serious economic difficulties, Polish plan revisions are likely to be limited in scope and probably will not constitute an abandonment of either the basic proportions or the general rate of economic development set down in the Second Five Year Plan.

Performance

Industrial production in Poland in the first half of 1962 continued to increase more rapidly than planned and reportedly was 9.7 percent higher than in the first half of 1961. Although above-plan growth was achieved mainly by enlarging the industrial labor force, labor productivity in the first half of 1962, as in 1961, also increased somewhat more than planned. Favorable results have been shown in all major sectors of industry, including ferrous metals, machinery, and chemicals, and there has been no evidence of unusual shortages of key materials such as electric power, coal, steel, and cement. The Poles, however, continue to have difficulty in producing goods of the

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type and quality that are most in demand at home and abroad. Consequently, a greater-than-planned portion of industrial output went into stocks during 1961-62.

In agriculture, although Poland may be falling somewhat behind the very ambitious pace set in the Second Five Year Plan, production continued to increase much more rapidly than in any other European Satellite. In spite of unfavorable weather this year, the Poles are expecting only a small decline in the total agricultural output from the record level of 1961. The effect of poor weather on crop yields this year has been partly mitigated by the rapid increase in the last 18 months of inputs of artificial fertilizers, pesticides, and quality seed, as well as by the hard work of Poland's private farmers.

Investments in the socialized economy increased by about 8 percent in 1961. Growth was somewhat slower in the first half of 1962 because of poor weather that held up construction activity. Construction picked up considerably in June and July, however, and if good weather prevails for the rest of the year, investment outlays this year probably will increase at about the same rate as in 1961. Even with this fairly rapid rate of increase, Polish investments have been falling somewhat short of the pace set forth in the Second Five Year Plan both in terms of money outlay and in terms of projects completed. The investment program for 1961-62 has put heavy demands on the technical competence of Polish planners and engineers and on the capacity of the construction industry, and the Poles have encountered some difficulty in meeting planned deadlines for completion of projects and in holding investment costs to planned amounts. This difficulty has been particularly noticeable in branches of industry, such as chemicals, in which the Poles are relatively inexperienced.

The per capita consumption of the Polish population has risen by about 6 percent in real terms since 1960. Nearly all of this increase, however, was registered in 1961, when the rapid growth of industry and agriculture was accompanied by a large increase in the incomes of both workers and peasants. The low rate of employment of construction workers, who on the average probably spent a higher portion

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of their income than industrial workers, and the increases in the prices of some foods were reflected in a below-plan increase in the volume of retail trade in the first few months of this year. Although retail sales had picked up considerably by midyear, a smaller increase in consumption can be expected in 1962 than in 1961. The regime is unlikely to allow urban incomes to grow as much as last year, and rural incomes probably will rise little if at all above the level of 1961.

Polish foreign trade continued to grow very rapidly in the first 18 months of the Second Five Year Plan. Total exports have increased considerably faster than planned, in large measure because of the rapid growth of agricultural and food exports in 1961. The sizable growth of exports as well as the heavy drawings on credits were used to pay for the above-plan volume of imports needed to support the large increase of industrial production in 1961-62. These credits, most of which had not been accounted for in the plan, allowed Poland to run large deficits on current account in 1961 and the first half of 1962.

Polish trade with the Sino-Soviet Bloc increased very rapidly in the first half of 1962, and there was little evidence of the difficulty in exporting machinery and equipment to other Bloc countries that the Poles had experienced in 1961. On the other hand, the Poles anticipate future difficulty in increasing their trade with hard currency areas. Poland faces the prospect of continued decline in the prices of many of its traditional exports to the industrial West. Moreover, further expansion of agricultural exports to Western countries is likely to be difficult both because of the expected slower growth of Polish agricultural production compared with that in 1961 and because of the commercial policies of the Common Market. In addition, the Poles face uncertainty as to the size of future credits from the US. For these reasons, Poland is giving higher priority to the development of new lines of exports to the West, is adding new urgency to its campaign to improve quality and delivery standards for export production, and may be looking for alternative sources of required imports within the Bloc.

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Plans

In spite of the generally favorable results shown by the Polish economy during 1961 and the first half of 1962, preliminary plans for 1963 call for a reduced rate of growth of industrial production -- 6.4 percent compared with 7.6 percent and 8.4 percent, respectively, planned for 1961 and 1962. The slower growth scheduled for next year -- a rate that the Poles probably expect to exceed by 1 or 2 percentage points -- would put industrial production at the end of 1963 at about the level projected in the Second Five Year Plan. The slowdown undoubtedly reflects the realization by Polish planners that some of the conditions which contributed to the very rapid increase of industrial output in 1961-62 are likely to be less favorable in the later years of the plan period.

Probably the most important of these conditions is the decline in agricultural production during this year and the likelihood that the sharp increase in such production in 1961 will not soon be repeated. A decline in agricultural production will be reflected directly in the output of Poland's food processing industry, which rose very rapidly in 1961-62 and which accounts for more than one-fourth of the gross value of industrial production in Poland. As previously indicated, the decline in agricultural production along with the anticipated slower rate of future growth also is likely to limit Poland's foreign currency earnings and thereby its ability to increase imports of industrial materials to the extent of such increases in 1961-62. Finally, the leveling off of agricultural production may lead to a more restrictive employment policy. The large stocks of foodstuffs available in 1961 and the first part of 1962 gave the regime leeway to expand industrial employment above the planned level without causing any strain on the consumer market. In 1963, however, the food supply in urban areas is unlikely to increase significantly, and consequently the regime may be unable to raise industrial employment at recent rates without causing food shortages or further raising food prices.

Another factor tending to reduce the rate of industrial growth is a reduction in the number of easily exploited opportunities to raise

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labor productivity. Increases in labor productivity depend to a large extent on improvements in technology and in the organization of production. For the most part those improvements that could be made most easily and cheaply have already been put into effect, and further improvements are likely to be more difficult and to require larger investments.

The plan for 1963 probably reflects not only a less favorable outlook for Polish industry but also increased concern on the part of the regime for the quality and variety of production, especially that directed toward exports. Polish planners apparently feel that increased efficiency in industry and an improvement in the assortment and quality of industrial goods can be promoted best by setting production goals that are not difficult to achieve. Plant managers receive premiums on the basis of profits, conditional on the fulfillment of production plans. When the production plan is very demanding, managers are likely to neglect plans for technical and organizational improvements which do not immediately reduce costs or which may even cause a temporary disruption of production, and they often do not deliver the planned quality and assortment of goods. The regime probably expects that more rapid progress in these areas will stimulate output in the later years of the plan, if not in 1963.

As often occurs about midway in a plan period, the Polish regime now is engaged in a reappraisal of the capabilities of the economy and in this connection reportedly is revising the 5-year investment program. Because of the generally favorable development of the economy since the beginning of the plan, it is probable that the revisions will be limited in scope and will not constitute an abandonment of either the basic proportions or the general rate of economic development set down in the 1961-65 plan. These revisions, therefore, would appear to have little in common with those in East Germany and Czechoslovakia, where the long-term plans in fact were abandoned as a result of serious economic difficulties.

The substance of the reported revision of the 1963-65 investment program has not yet been announced but is likely to include some reduction in the number of projects to be undertaken during this period. The

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Polish regime probably believes that the current Five Year Plan for investments cannot be fulfilled in all its aspects and prefers to cancel or postpone a few projects that would have only a marginal effect on output in the 1963-65 period rather than to spread its resources too thinly and risk noncompletion of key investment projects. Along this line the Poles have expressed the intention of limiting the number of new projects to be included in the annual plan for 1963, a measure that will affect particularly projects of provincial and local governments and decentralized investment by individual enterprises.

The underfulfillment of investment plans in 1961-62 probably is only one of a number of factors that will enter into a revision of the Polish investment program. The entire economic program is currently in the process of review in preparation for a Plenum of the Central Committee that is to take place in the fall and for the Party Congress scheduled for next spring. Besides being a natural focus for discussion of long-term policies and plans -- through 1970 and perhaps beyond -- these meetings provide an excellent opportunity to exclude from the current Five Year Plan certain projects that have been found to be impractical because of incomplete project plans or the inability to import the required machinery or technology or because of other reasons. Moreover, since mid-1960 the Poles have been conducting an intensive review of investment plans for many sectors of industry. Substantial economies have been made by eliminating unnecessary outlays and by finding less costly ways of carrying out various projects. In addition, means have been sought, particularly in recent months, to increase the capacity for export production in some branches of industry with fairly small investments. The results of these efforts are very likely to be written into the revised program.

Poland undoubtedly would like to reduce the cost of its investment program by getting other Bloc countries to share the cost of large projects in basic industries. It is likely that this desire is one of the major reasons for Polish interest in the CEMA meeting in June 1962. If the Poles were successful in presenting their case, additional investment credits from East Germany and Czechoslovakia, which are

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already committed to assisting in the development of Polish brown coal, copper, and sulphur deposits, may be included in the revised investment program. Along the same line, decisions on further specialization in industry reached at the CEMA meeting may be reflected in increased investment in such Polish industries as shipbuilding.

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