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C I7/OER/IM 72-69 Doc/Ser

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Poland: Gomulka's Economy in Gierek's Hands

Confidential

ER IM 72-69
April 1972

Copy No. [illegible]

M-204

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
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INTELLIGENCE MEMORANDUM

POLAND: GOMULKA'S ECONOMY IN GIEREK'S HANDS

Summary

1. In the year and a quarter since the Polish riots, Edward Gierek has patched the damage done by meat shortages and Gomulka's attempts to reform prices and the wage system. Favorable economic trends in 1971 – particularly in exports and consumption – together with measures that dealt a carrot to nearly every economic interest group, have put Gierek's new style of economic policy well on the road to public acceptance.

2. Gierek reacted swiftly to the crisis in December 1970, scrapping the reforms, importing emergency meat supplies, and going directly to the workers to get their support – and their patience. He also rewrote the plan for 1971-75, trying to squeeze out extra benefits for the consumer as well as more progress in raising economic efficiency. As Gierek knows, and as he has been telling the people, dramatic gains in either of these respects cannot be achieved by 1975, or 1980. Even slow progress, however, combined with Gierek's careful but candid approach to policy should be enough to earn the confidence of both the public and politicians.

Discussion

Fifteen Years Under Gomulka

3. During Gomulka's rule, much of the growing frustration and cynicism of the Polish people was focused on economic issues – in particular, lax safety regulations, incompetent and indifferent managers and supervisors, uncertain rural land tenure, long lines for food and other consumer goods, and cramped, rundown housing. In most of these respects, the urban population perceived little improvement over the 15 years, and

Note: This memorandum was prepared by the Office of Economic Research.

the urban standard of living increased very slowly. The peasants who stayed on the farm had the fewest complaints, and had the largest increase in real incomes. But the peasants also were uneasy – chiefly about the government's future farm policies.

4. To the old grievances, Gomulka added new ones in the last years, and moments, of his regime. He tried to clamp down on the growth of employment and wages, to impose a new incentive plan on workers, and to restrain consumer demand for meat and other food products by raising prices. Gomulka, who came into power on the heels of the Poznan bread riots in 1956, went out in the wake of the worker-housewives riots in December 1970.

5. The economy under Gomulka was rapidly industrializing but steadily falling behind in technological change and managerial skills, even by East European standards. During 1956-70 the growth of industrial output (over 8% a year according to official figures) was well above the rates for the other northern East European countries – East Germany, Czechoslovakia, and Hungary. In the 1960s, however, the growth of productivity slowed down to the lowest rate in Eastern Europe. There were two main reasons for the developing problems. Less had been done than in the other countries to stimulate technical progress and to rejuvenate management, and Gomulka's conservative trade policies kept Poland from participating fully in the boom of imports from the West, particularly of machinery.

6. Poland's trade with the West has grown rapidly, but the structure of Poland's exports to the West has reflected a relatively backward economy; the structure of imports, a limited interest in technological change. The West, for example, accounts for more than one-third of Poland's total trade but only for about one-fifth of Poland's total imports of machinery, most of which comes from the USSR. The mainstay of Poland's exports to the West is foodstuffs and raw materials, and, although there is a lively trade both ways in chemicals and semifinished metal products, machinery and other finished goods make up only a small share of Polish exports to the developed West. Trade with the United States is focused even more heavily on agricultural and raw materials – Polish canned hams in fact account for 30% of all US imports from Eastern Europe.

7. Gomulka's trade policies, however, left Gierek with a relatively low debt to the West. At the end of 1970, total indebtedness to the developed West was estimated at US $1 billion, of which $450 million was owed to the United States. Excluding some $350 million in very long-term, interest-free PL 480 debts left from US credits through 1964, Poland's debt amounts to about two-thirds of its annual exports to the West. This ratio is one of the lowest in Eastern Europe. The Poles have run a cumulative

$249 million trade surplus with the United States during the last seven years, and it has thus been easy for them to manage the small annual debt payments on US account.

8. Gomulka did very little to modernize the management of the economy. His important early reforms were all in agriculture: he abandoned forced collectivization, raised agricultural procurement prices, reduced the volume of compulsory deliveries of foodstuffs, and increased the availability of machinery and fertilizer to private as well as state farmers. However, early proposals for decentralizing decision-making in industry were swept away by a wave of recentralization in response to inflation in 1959. As a result, the Polish system remained basically a command economy through the 1960s. The government handed down production goals, dominated investment and foreign trade, and regulated the distribution of enterprise earnings.

9. In the winter of 1969-70, Gomulka finally gave in to Party pressure for renewed reform. A key part of the program consisted of tightening control of employment and introducing incentive wages and bonuses into industry. This part of the reform was hard for the workers to swallow; implementation led to drastic reductions in 1970 in overtime work and to a slowdown in the rise of employment and real wages. At this time, the regime unveiled its new incentives system, a complicated formula for tying bonuses to profitability, among other things. A special twist was devised for shipbuilding – linking bonuses in part to the sales price received for ships. About 80% of ship output through 1975 was targeted for sales abroad, and the workers understandably resented having their bonuses depend on factors outside their control – foreign market conditions and the ability of Polish designers, engineers, and salesmen.

10. All of these measures were capped by the retail price changes announced in December 1970. Prices of foods and other consumer items, representing about one-third of sales in retail trade, were raised sharply -- in particular an 18% increase for meat and meat products. The price reductions for some home appliances, synthetic textiles, clothing, and a few other products which occurred at the same time seemed less important to consumers. Planners and economists had long sought to revamp the structure of prices in an effort to channel excess demand to consumer manufactures and away from heavily subsidized food products. By the end of 1970, impending shortages of meat and other agricultural products seemed to make action necessary.

11. The increase in prices was sufficient provocation for the workers in shipyards of Gdansk and Szczecin, who were already chafing under the proposed incentive plan, and for the housewives, who were trying to lay in extra food for the Christmas season. Gomulka was preoccupied with

international matters and uncharacteristically placed a fatal degree of faith in his economic advisers. Some $40 million worth of imported meat could have deferred the price increases until after the new year, a small cost for a continued career.

Fifteen Months Under Gierek

12. Gierek's immediate response to the riots was to announce a freeze on food price increases, to arrange for substantial meat imports, to scrap the incentives system (except for experiments earlier under way in selected enterprises), and to disburse some 7 billion zlotys to raise minimum wages, family allowances, and pensions. Then in March 1972 he rescinded the 1970 food price increases, keeping the price changes that had been prescribed for consumer manufactures.

13. Gierek's early policy had something for everyone. Peasants were given a health insurance plan, higher procurement prices, and clear title to their land. Expectant working mothers were given extended leave. Former church lands in Western Poland were restored. And, in a broad appeal to nationalism, Gierek promised to rebuild the prewar national palace and restored the Polish eagle as the national symbol instead of replacing Gomulka's picture with his own. Perhaps most effective, Gierek moved to talk with the workers -- first in the strike ports of Gdansk and Szczecin and later throughout the country. He listened to worker complaints, putting into motion a series of local steps to improve working conditions and promising to put greater stress on the output of consumer goods. In return, the workers listened as Gierek described Poland's economic problems -- especially the lack of resources to engineer any significant overnight improvement in the general standard of living.

14. Gierek's appeal for patience and understanding was helped by favorable economic trends in his first year. Personal consumption rose strongly in 1971, stimulated by some 150,000 metric tons of imported meat -- which was made possible by a Soviet loan of $100 million in hard currency -- and by a 17% rise in imports of consumer goods. Consumer spending also was encouraged by a decline in prices of domestic consumer manufactures. Thanks to the added imports, meat consumption per capita rose from 53 kilograms in 1970 to 57 kilograms in 1971 -- the first increase since 1967.

15. Growth goals for 1971 generally were met or exceeded throughout the economy. Investment grew by 9% and industrial output by 8%, as shown in Table 1. There were no major shifts within industry. The largest gains in output came in machine building, nonferrous metals, and electronics -- the only above average increase within light industry was in the clothing industry. There was a healthy growth in agricultural production, sparked

Table 1

Poland: Economic Indicators

	Percentage Increase over Corresponding Period in Previous Year		
	1970	1971	Jan-Feb 1972
Industrial production	9	8	14
Agricultural production	2	4	N.A.
Employment	2	2	N.A.
Real wages	1	5	N.A.
Retail prices	1	0.5	N.A.
Exports	13	9	42
Communist	10	8	48
West	19	12	32
Imports	12	12	28
Communist	17	10	17
West	3	16	50

by a rebound in livestock production, which had declined in 1970. Trade trends were also favorable. A surplus – $123 million – was achieved in trade with the West.

16. Trends so far in 1972 have been mixed. In January-February, industrial output was increasing at an annual rate of 14% – partly reflecting a relatively bad first two months of 1971 but still well above plan. On the other hand, the outlook for Polish agriculture this year is uncertain -- the Poles were spared the worst of the drought that affected most of Eastern Europe over the last six months, but ample rainfall is still needed through the spring to avoid significant crop losses. The livestock sector reportedly is developing well; only eggs have been reported to be in short supply so far this year.

17. Although early results may be misleading, Poland's trade was booming in the first months of 1972, particularly with the West. In spite of a rapid rise in imports, Poland still is running a small trade surplus with the West.

The Plan for 1975

18. Gierek's longer run economic policy is aimed at raising both the rate of economic growth and the share of growth devoted to consumer welfare. Gierek's goals for 1971-75, as announced in March 1972, are in some cases higher than in last year's draft plan and are generally higher than in Gomulka's first draft of 1969. The plan is fairly ambitious in that it projects a more rapid rise than achieved in 1966-70 for national income and real wages, but with a slower growth for investment and employment. Market supplies of meat and processed food are scheduled to rise 33% in the period, twice the gain in 1966-70. Projected increases in 1971-75 and actual results in 1966-70 are compared in Table 2.

Table 2

Poland: Five-Year Plan 1971-75
and Results 1966-70

Average Annual Percentage Increase

	1971-75 Plan	1966-70 Actual
National income	7.0	6.0
Personal consumption	6.9	5.5
Investment	7.7	8.0
Industrial production	8.5	8.3
Heavy industry	8.6	9.5
Consumer goods	8.2	6.3
Agricultural production	3.6-3.9	1.8
Employment	2.1	2.6
Real wages	3.4	1.8
Labor productivity	5.4	4.6
Housing construction	4.7	4.6
Exports	9.2	9.2
Imports	9.7	8.3

19. On the other hand, Gierek has resigned himself to a worsening of the housing shortage through the mid-1970s, even though housing is generally considered Poland's "number one welfare problem." The rate of growth planned in housing construction (4.7% per year) is barely above the actual rate in 1966-70. More to the point, the 1.1 million dwellings to be built by 1975 are, by Polish estimates, 600,000 fewer than needed simply to house the expected additional population, given the replacement of "uninhabitable" dwellings and projected moves to the city and changes in family structure.

20. In foreign trade, Gierek plans for a continued growth of exports at the rate of the 1960s in order to speed up the growth of imports, especially imports from the West. This export plan is probably too optimistic. If the machinery industries meet production goals, exports to the Communist world may run close to plan; in any case, Poland's major raw material supplies are guaranteed by the USSR. But prospects for sales to the West remain in doubt because of the shortage of manufactures that can readily be sold in the West and the poor prospects for sales of important raw materials and meat and dairy products. Yet in any case, Gierek intends to double purchases from the West of machinery and equipment, and can easily do so because of Poland's relatively low hard currency debt. West Germany probably figures as the major supplier, but the Poles would also hope -- if suitable credit can be arranged -- to buy some $350 million worth of US equipment, particularly for the petroleum, copper, electronic, and light and food industries. The regime would also like to promote US investment in joint ventures in Polish mining and manufacturing.

Public Relations Versus Economic Change

21. By 1975 – even by 1980 – Gierek is apt to have changed the style of policy much more than actual economic results. As he has repeatedly pointed out, substantial progress in raising the standard of living as well as improving the structure, quality, and efficiency of production will be a long-run affair. As an efficient administrator, Gierek may be able to get firms and ministries to run more smoothly. And his style, geared toward maximizing public confidence, should go a long way toward improving the atmosphere.

22. Gierek will move cautiously with major changes in economic policy. Unlike the reticent Gomulka, he will continue to go to the people in an effort to explain and gain support for his policies. And he will certainly try to avoid the sudden policy shifts that brought Gomulka down. He will, however, be quick to enact emergency measures to maintain essential consumer supplies – through additional imports, better allocation, and, if need be, rationing. This style – even with barely perceptible improvements in the lot of the consumer – should be enough to solidify the Gierek regime.