

MEMORANDUM FOR: Mr. Dulles:

You may be interested in looking over the attached report of Secretary of Commerce Mueller on the recent visit of the U. S. Delegation to Poland. We received this report from the Liaison and Collection Division of OCR, and this has been distributed to OCI and ORR.



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VISIT OF U.S. DELEGATION TO POLAND NOVEMBER 14-25, 1959

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While the official purpose of the trip was to return the visit of a Polish delegation to the United States in October 1958, the overall mission of the U.S. delegation was to reaffirm United States interest in Poland and the Polish people, and to foster a better public understanding of the mutual interests between our two countries.

The delegation was headed by Frederick H. Mueller, Secretary of Commerce, and included Bertha S. Adkins, Under Secretary, Department of Health, Education and Welfare; Gabriel Hauge, Chairman of the Finance Committee of the Manufacturers Trust Company, and Edgar R. Baker, Managing Director, Time-Life International. The delegation was accompanied by George H. Becker, Jr., Special Assistant to Secretary Mueller. Miss Adkins' presence on the delegation was particularly fortunate since she became the first woman from the United States to serve on an official delegation to Poland and her selection was well received in that country as U.S. recognition of the many contributions made by Polish women during the post-war reconstruction period.

The broadly-based composition of the delegation permitted the members, singly and collectively, to explore a wide range of subjects bearing on United States-Polish relations, e.g., foreign trade, internal economic planning, agricultural policies and many questions in the field of public welfare.

During the course of its brief stay in Poland the delegation visited Warsaw, the old university city of Krakow, the Silesian mining province of Katowice, farm communities near Poznan and the ports of Gdansk and Gdynia, as well as smaller towns and other places of special interest. In the latter category were the Lenin steel mill at Nova Huta near Krakow; the former Nazi concentration camp at Oswiecim (Auschwitz); a diesel engine factory at Andrychow and other industries in the Silesian coal mining basin; a vocational training school and the "Palace of Youth," a center for extra-curricular school activities in Katowice; State, cooperative and private farms in the Poznan area, and shipyard facilities in Poland's two ports on the Baltic.

(EXECUTIVE SECRETARIES)

- 2 -

In Warsaw the delegation met with the First Deputy Prime Minister, the Ministers of Foreign Affairs, Finance, Agriculture and Foreign Trade, the Chairman of the Economic Planning Commission and numerous other government officials occupying positions of interest to individual members of the delegation.

From our arrival in Warsaw and throughout the entire trip we were warmly received by members of the central government, provincial officials and particularly by the Polish people. Our itinerary was followed closely by the press and the coverage was extensive and friendly. Since the delegation's primary objective was to promote goodwill between the Polish and the American people, it can be said that the mission was a success.

It should be noted here that while the delegation had ample opportunity to discuss all phases of U.S.-Polish relations, it carefully refrained from discussing controversial political questions or other matters, both political and economic, subject to negotiation between our two countries. Nevertheless it was possible to observe at firsthand some aspects of current political thinking, economic trends and social conditions in Poland.

One must be careful of drawing conclusions about the overall situation in Poland after such a short visit but some general impressions may be useful to those concerned with the state of U.S.-Polish relations.

POLITICAL

Perhaps the most important factor affecting Poland's relations with the West is its traditional hatred of Germany and suspicion as to its present motives which colors the thinking of all Poles to a degree not found elsewhere in Europe.

References to the systematic razing of Warsaw and the destruction of other cities by the Germans and the threat of a remilitarized Germany were encountered at every point along the trip. Even the Minister of Foreign Affairs in a parting comment to the delegation flatly stated that he could not understand the U.S. position on Germany and intimated that this was the most troublesome difference of opinion between our countries in the field of foreign affairs.

- 3 -

The Polish government included a visit to the Oswiecim concentration camp on the itinerary to reindoctrinate the delegation in the horrors of Nazi atrocities in Poland.

Even though we are on record to the effect that Poland's borders should be settled at a future peace treaty on Germany, it was quite apparent that the United States position on this issue has been interpreted by the Poles as a barrier to better political relations between our countries.

At the present time there is no indication of any willingness to negotiate the Oder Neisse boundary question since the passage of time has made the Polish people look upon its western boundary as an established fact.

Any weakening of U.S. policy on this question in favor of Western Germany would be a serious blow to the Polish nation and would have a devastating effect on the traditional friendship of the Polish people for the United States.

ECONOMIC

Recent changes among top officials in the Polish government have caused some observers to assume that these developments were prompted by political unrest or on orders from Moscow.

On the basis of our conversations with Polish officials these internal shifts in government and party personnel suggest a trend towards greater centralization of the government's economic and public welfare activities to correct past mistakes and assure more coordinated planning in the years ahead. These decisions appear to be based on internal considerations and we uncovered no evidence that they were dictated by the Soviet Union. As long as Poland desires to increase its contacts with the West, domestic shifts in emphasis do not warrant a change in U.S. policy towards Poland at the present time. Poland is our only window through the Iron Curtain and this advantage should not be sacrificed until it is clear that Poland is on a course designed to revive the conditions that prevailed before October 1956.

All officials whom we met recognize the basic differences between our economic systems but did not see this as a hindrance to increased trade and closer economic relations with the United States. The central theme of all discussions in this area was that we have the same objectives in mind and this was considered to be the important factor from their point of view.

- 4 -

Perhaps the most talked about subject in Polish economic circles is the possibility of increased trade with the West, particularly the United States. Poland's terms of trade with the West have shifted against her as a result of a decline in coal exports over the past few years (down from 70% to 30%). This trend coupled with a chronic shortage of foreign exchange has prompted the government to launch a campaign to increase Polish exports to the West (under the current plan, exports should increase 9-10% a year while the import rate will increase only 2% a year). Practically all funds earned through exports will be invested in the export industries to gradually narrow the gap in its balance of payments. Until a better balance has been achieved, Poland will have to rely on outside credits to make up the difference. The government is grateful for the \$254.8 million in economic credits Poland has received to date from the United States and it is likely that we will be called upon for additional assistance in the future.

The question of re-extending MFN treatment to Poland was raised by the Poles at every opportunity. In their view it is not solely a matter of prestige because officials in the Ministry of Foreign Trade argued that MFN treatment will raise the level of Polish exports to the United States thereby permitting Poland to invest the foreign exchange earned through increased exports in the development of other industries earmarked for the production of exports for Western markets. Since trade within the Bloc is largely on a barter basis, imports required from outside the Bloc can only be financed through increased exports or economic assistance. It would appear to be in our interest to help Poland increase its exports which is a more satisfactory way to pay for imports than reliance upon economic credits year after year. The initiative with respect to an expansion of her export trade rests with Poland but appropriate advice and counsel from U.S. government and private institutions would be in order.

One of the most serious domestic problems in Poland today is the planned readjustment of industrial workers output quotas in some of the State-owned enterprises. Unrealistic quotas (norms) in certain industries were set by the State early in the post-war period which has made it possible for many workers to exceed the established work norms without a real increase in productivity. As a result the purchasing power of many workers rose quickly, increasing the demand for consumer goods, particularly meat and other food items.

- 5 -

The imbalance between meat production and consumption reached dangerous proportions this year and the government was forced to increase the average price of meat approximately 25% in order to divert consumer purchasing power to other products.

Increases in meat product prices and the expected revision in the "norms" of industrial workers are arbitrary decisions of the government which hopes that the workers will accept them for the good of the country. As of this moment the individual workers are not aware of the exact nature of the proposed changes in work "norms." Once a worker realizes his "norms" have been increased there is bound to be friction among certain groups of workers.

The proposed changes in industrial work norms coupled with a shortage of meat and other items this winter will undoubtedly cause unrest among the workers which, if prolonged, will affect industrial output and the goals set in the current five-year plan.

The unfolding of these events and worker reaction to them in the months ahead should indicate if the present government has judged correctly the mood of the people and the extent to which it can cope with disenchantment among the workers.

Poland wants to develop its petrochemical industry in order to be less dependent on the Soviet Union and the Bloc countries. In view of its large coal deposits, Poland could become a relatively efficient producer of petrochemicals if it had the necessary equipment and technology. As long as we do not provide Poland with more advanced know-how than that available in the Soviet Union, we would bolster her economy by making her in time partially self sufficient in this area and no longer as dependent on the Soviet Union. Even though the Bloc presently pools its resources, the demand for petrochemicals to develop Polish industry is such that she would not have any products available for sharing with the Bloc for sometime to come. All production would be used to broaden the base of the Polish civilian economy which is the cornerstone of our present policy towards Poland.

The Deputy Prime Minister made it clear that ownership of production by foreigners is not permitted in Poland because in their eyes this would be a step backward, but royalty payments on licensed equipment and protection of

- 6 -

patent rights is observed. American firms could install equipment and supervise production as long as ownership remained with the State. Poland has several arrangements of this kind with foreign companies at the present time but it is uncertain if U.S. firms would be interested in a situation that might not give enough return on their investment. Nevertheless, all opportunities should be explored because the influence of American businessmen in various sectors of the economy would be in the U.S. interest.

Some private enterprise still exists in Poland but it is tolerated by the State only because it satisfies a demand that cannot be met economically by the State at this early stage of industrialization. Once the State can fulfill a particular demand the private firms operating in the field will be absorbed by the State after appropriate compensation to the owners. While the existence of some private enterprise in Poland is encouraging, we must not lose sight of the fact that under their economic system it is just a matter of time before the State will be all powerful in every aspect of economic life in Poland.

Many of our discussions in the economic field lacked meaning since it was often difficult to understand one another's point of view on a particular subject. One example of this inability to communicate with Polish communists took place during the delegation's visit with the Minister of Finance. Money in a socialist state is not used as a measure of the accumulation of capital but simply as an element in the distribution of production and as a means of controlling the activities of state-owned enterprises. Also, the terms profit, capital and tax do not mean the same as in our private enterprise society.

Profit is a relative term under socialism which can refer to "social profit" as well as profit in an absolute sense. Some deficit industries in Poland are obliged to sell under the cost of production and rarely operate at a profit but still produce goods which is considered a "social profit" since the benefits of production are distributed to the people.

Capital is not the aggregation of economic goods used to promote the production of other goods as understood in our economy but rather a combination of the labor and technical progress of the people.

- 7 -

Taxes are levied in Poland but the approach to taxation is totally different than in our economic system. The most common tax in Poland and the one that produces the greatest amount of revenue for the State is the "turnover tax." It is an insidious tax designed to equalize the amount of profits between State enterprises but which has the net effect of punishing the most efficient producer. The State taxes everything above costs of production, funds authorized for investment and a small margin of profit to cover incentive programs. But there is no real incentive to reduce production costs or other allowable expenses since the turnover tax absorbs everything that is left over after all essential costs have been met. In fact, this tax penalizes the efficient industries and rewards the less efficient because those in the latter category do not feel compelled to achieve economies in their operations. The turnover tax is levied by commodity groups and not separate industries and is levied once at the source of production based upon the previous year's rate of income.

The language of capitalism and socialism are totally different as used by some of the key people in the Polish government. Until we can understand what we mean when discussing our respective economic systems some discussions are fruitless. More qualified economists should be included in the Exchange of Persons Program because until we comprehend the inner workings of their economic system as well as they know ours, we will always be negotiating from weakness in the economic field.

AGRICULTURE

The former Minister of Agriculture Ochab has been replaced by a younger man dedicated to the theory of collectivization but realistic enough to know that this can only be accomplished in stages and on a voluntary basis. As outlined by Minister Jagielski, the current agricultural program under the five-year plan calls for greater farm mechanization (40,000 tractors a year for five years) improvements in agriculture methods and the construction of rural processing plants.

There are more farmers in Poland than in the United States but they can't support the food needs of the population. Over three million farms and just as many horses make it difficult to mechanize and increase production.

- 2 -

Approximately 500,000 farmers in Poland belong to "Agricultural Circles" (groups of individual farmers who pool government-provided mechanized equipment). Poland has 1,900 collective farms and the government believes that the agricultural circle movement will lead eventually to more collectives which will permit more efficient use of the land, greater mechanization of farms and increased production. A sizeable increase in investments for agriculture are planned (45 billion zlotys by 1965). Poland can't afford to import what it needs so an increase in domestic agricultural production is essential.

Farm equipment plants are being built and next year Poland will start to manufacture its own tractors but it is unlikely that she will be able to produce the 40,000 a year called for in the Plan. Some will have to be imported and this will mean a greater burden on the economy because of the shortage of foreign exchange.

It was clear that economic credits will be needed to finance the purchase of 1,500,000 tons of feed grains required next year but no government official stated that additional credits of this type will be sought from the United States.

Some government officials are convinced that complete collectivization is the only answer while others believe that effective use of expanded agricultural circles is more in keeping with the independent spirit of the average Polish farmer.

We spoke with one private farmer who appeared quite independent. He did not want to join a collective because he was doing all right but had joined the circle to have more access to more equipment. If there are many farmers like this one in Poland the Government will find it difficult to force them into collectivized farms.

Although agricultural circles are a step in the socialization of Polish agriculture, they are far removed from the forced collectivization favored by the pre-Gomulka regime. As long as the small-scale cooperative movements remain voluntary it would be difficult to oppose their formation since the voluntary pooling of resources is one way to increase agriculture production in Poland. We favor private land ownership but it would be unrealistic to denounce voluntary cooperation among private farmers since it is a common approach to many farm problems in the United States.

SOCIAL - CULTURAL

The Polish people have traditionally looked to the West rather than the East and this historical attitude should be encouraged to prevent a gradual erosion of their faith in the West by the USSR and the more dominated Bloc countries.

One glaring example of socialist approach to education was at the "Palace of Youth" in Katowice. Here students are encouraged to participate several hours a week after school in courses devoted to science, art, music, vocational training and sports. The age group is from 6-20 and the supervision provided makes it possible for the state to indoctrinate the children in all aspects of socialism. English courses are available and the level of instruction was good but Uncle Tom's Cabin, Moby Dick and Jack London's Martin Eden are the titles in use. In fact Martin Eden is compulsory reading for all students in the English courses. More American books, periodicals and newspapers are needed in Poland. A restricted number enter now but since Embassy activities in this field are limited the emphasis should be on the sale and distribution of commercially published periodicals such as Time, Harpers and others. Ed Baker met with government officials and some progress was made. 200 copies of Time will be available for sale to the public and several other titles will soon be sold in Poland on a limited basis.

The standard of living in Poland is low by American standards but it would be a serious mistake not to recognize the progress that has been made compared to the prewar period. Poland never experienced capitalism as we know it having passed abruptly from Capitalistic exploitation to enforced Socialism.

Anyone exposed to socialism as practiced in Eastern Europe knows that some measure of freedom and individual expression is smothered, but it would be folly not to recognize that socialist discipline among suppressed peoples can channel resources and human activity into the areas of greatest social need with the result that the man who had nothing begins to believe in the system.

Even though it is not possible to turn back the clock in Poland we should endeavor to make the Polish people aware of the benefits of modern capitalism and Western ideas by

- 10 -

keeping a steady flow of exchanges between our two countries. Since funds are scarce Poland should be treated as a priority country under the IES program and private institutions (Ford and Rockefeller) should be encouraged to earmark funds for this purpose. The emphasis should be on more Poles studying in this country under private and Government grants since a Pole who has been in the United States can be more effective and influential at home than an American in that country.