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Economic Intelligence Report

THE ECONOMIC POLICY
OF THE GOMULKA REGIME IN POLAND:
TRENDS AND PROSPECTS



CIA/RR ER 62-44

December 1962

CENTRAL INTELLIGENCE AGENCY

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FOREWORD

The purpose of this report is to examine the economic and political factors that have influenced the development of the economic policy of the Gomulka regime in Poland in order to reach preliminary conclusions on the probable direction of policy over the next few years. The effect of economic factors on the development of policy is generously and frankly reported on by Polish officials. The role of specific political factors is more difficult to isolate, however, as are the complex relationships between the various economic and political influences on policy. These relationships generally are not revealed in the public statements of officials,

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Nevertheless, the major operative forces usually can be discerned, even when the underlying motive of the regime is not clear.

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In tracing the evolution of economic policy, considerable attention in this report is directed to analyzing the expectations of the Gomulka regime as expressed in economic plans. For this reason, official Polish definitions and statistical data are used whenever planned and actual changes in economic aggregates (for example, national income, industrial production) are discussed. Independent studies by this Office indicate that most of Polish economic data published since 1956 measures fairly accurately what is purported to be measured. Appendix A contains a brief analysis of Polish definitions and data as used in this report.

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THE ECONOMIC POLICY OF THE GOMULKA REGIME IN POLAND:
TRENDS AND PROSPECTS*

Summary and Conclusions

The distinctive characteristic of Polish economic policy since 1956 has been the consistent commitment of the Gomulka regime to moderate and realistic programs for the development of the economy. The regime has tolerated the predominance of private ownership in agriculture as well as other, more minor deviations from the standards of the Soviet Bloc, and Polish economic plans, in contrast to those of several of the other European Satellites, have been based on reasonable estimates of the potential of the economy, with very little political or exhortative content added. No change in the basic character of Polish policy is likely to occur over the next few years. On the other hand, the Gomulka regime faces the necessity of reducing many of its economic goals for 1963-65, the final years of Poland's current Five Year Plan (1961-65). There has been a definite trend in Polish economic plans since 1956 toward increasing the share of national resources directed to the support of long-term economic expansion at the expense of the share devoted to the immediate improvement of living conditions, and, therefore, the prospects are that goals for personal consumption will be trimmed somewhat more heavily than those for capital investment.

Since its inception in October 1956 the Gomulka regime has relied on relatively moderate and realistic programs to attain traditional Communist economic goals. The basic objectives of Gomulka's economic policy have been identical with those pursued by Communist regimes in the European Satellites throughout the postwar period -- rapid economic growth and consolidation of state control over the economy. In Poland during the early 1950's, Stalinist policies of full-blast expansion of heavy industry and coercion of workers and peasants had forced considerable progress toward these objectives but at high cost to the economy and to the welfare of the population. By 1956 these policies had given rise to serious obstacles to continued rapid economic expansion as well as to an intense popular discontent that exploded in the Poznan riots in June of that year. The Gomulka regime, in contrast, has placed great emphasis on balanced and sustained economic growth and on gradual accommodation of the population to Communist objectives. The keynote

* The estimates and conclusions in this report represent the best judgment of this Office as of 1 December 1962.

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of Gomulka's policy was sounded by his chief economic advisor at a plenary session of the Central Committee of the Polish Communist Party (called the "United Workers Party"): progress toward basic goals "without shocks and stumbles -- without Poznans."

On first taking office the primary attention of the Gomulka regime was directed toward removing the immediate obstacles to political stability and economic growth posed by the intense discontent of the population. Top priority, consequently, was given to improving living conditions, and during 1956-57 personal consumption was permitted to expand much more rapidly than national income, as state capital investment was held in check and a large import surplus was obtained through foreign credits.* Living conditions also were improved by reforming numerous practices that previously had been sources of economic grievances, principally the elimination of forced collectivization in agriculture, and by permitting a large measure of personal, religious, and cultural freedom.

By 1958-59, after living conditions had improved substantially and popular discontent largely had lost its incendiary character, the primary emphasis of economic policy was shifted to considerations of the long-term growth of the economy. The new emphasis was underscored in the program for economic development through 1965 adopted at the Third Congress of the Polish Communist Party in March 1959, which called for a sharp rise in capital investment and a marked slowing of the growth of personal consumption. The Congress program, nevertheless, was distinctly more moderate and realistic than contemporary pronouncements of economic policy by the other European Satellites. Plans for the growth of national income and of investment in industry and other productive sectors of the economy were set moderately by Bloc standards, and firm commitments were made for providing a steady and cumulatively significant growth of personal consumption and for launching a major investment drive in housing, a key remaining focus of economic dissatisfaction. Apparently the Gomulka regime feared the possibility of a rekindling of intense worker discontent. The Congress program, in addition, reaffirmed the policy of voluntary collectivization in agriculture, thereby acknowledging the continued predominance of private ownership, a glaring institutional deviation from the standard of the Soviet Bloc.

During 1960, however, there was a further modification of Polish economic policy, reflected in revisions of the Congress program. The target for the growth of national income during 1961-65 was raised slightly, and, at the same time, preliminary goals for the post-1965

* For an explanation of Polish definitions of "national income" and other economic aggregates referred to in this report, see Appendix A.

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period were increased appreciably. To support these changes, the plan for the expansion of productive investment* during 1961-65 was raised considerably, while goals for investment in housing were cut back sharply and those for the growth of personal consumption also were reduced. Moreover, the pledge to provide a steady growth of consumption was abandoned. Per capita consumption was permitted to decline during 1960, and under the revised plans only minor increases were promised for the opening years of the 1961-65 period. In effect, the extent to which concern for consumer welfare was permitted to act as a restraint on economic growth was reduced, and Polish plans for the distribution of national income between investment and consumption were made quite similar to current plans of most of the other Satellites.

The economic policy of the Gomulka regime, nevertheless, has largely retained its distinctive character. First, the regime still permits private ownership to predominate in agriculture and has retained a variety of other deviations from the general practice elsewhere in the Soviet Bloc, such as pursuit of extensive economic relations with Western countries, including acceptance of long-term credits. Second, in spite of recent changes, goals for the Polish economy under the final version of the Second Five Year Plan (1961-65) (adopted in February 1961) still are more realistic than those set forth in the multiyear plans of most of the other Satellites. In Poland, moreover, the operative annual and quarterly plans have remained predominantly the province of the professional economist, with very little political or exhortative content added. Annual plans for 1961-63 generally have set targets for economic growth more conservative than the pace demanded by the Five Year Plan; and in setting these targets, planners so far have proved to be highly responsive to unexpected problems and changes in economic prospects.

The major factor in the continued reliance of the Gomulka regime on moderate and realistic economic programs is the deeply rooted pragmatism of the current leadership of the Polish Communist Party, which also is evidenced in the policies of the regime on personal, cultural, and religious freedom. The Polish regime, like those of all countries of the Soviet Bloc, pursues the traditional goals of Communist policy -- rapid economic growth and extension of economic controls -- with a view to enhancing the power and prestige of the state and ultimately of the Party. Decisions on economic policy are made by the Politburo of the Central Committee, which gives great weight to their effect on progress toward Communist goals. Under the leadership of First Secretary Gomulka, however, great weight also is given to the special conditions of Poland: the complicated problems of a semi-industrialized economy that had been mismanaged in the past, the independent spirit of the population and its

* For definitions of productive and other types of investment, see Appendix A.

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almost universal rejection of orthodox Communist institutions and practices, and the limited size and effectiveness of the Communist Party, one of the smallest per capita in the Soviet Bloc. As a result, the decisions of the Politburo usually reflect a willingness to sacrifice time and ideological conformity in Poland's progress toward "Communism" in order to avoid economic "shocks and stumbles" as well as "Poznans."

Within the framework of the underlying pragmatism of the Gomulka regime, the changes in policy and plans following the Third Congress primarily reflected changes in the estimates of the regime of economic and political prospects for Poland. By mid-1959 a large increase in the estimated investments needed to support plans for agricultural production had necessitated important changes in over-all plans for 1961-65. The disappointing performance of the economy during 1959 dissipated the Politburo's support of the Congress program and the policies underlying it. The fact that the performance of the economy during 1960 was better than expected, on the other hand, lent support to those who advocated more rapid economic expansion for political reasons.

The decision to alter the basic relationship between investment and consumption of the Congress program, however, was essentially a political one. The Politburo inevitably was interested in accelerating the planned rate of economic growth, and political developments during the year following the Third Congress generated a greater confidence among the leaders of the regime in the willingness of the population to accommodate itself to a less rewarding program of consumer benefits. In a sense the Politburo concluded that the Congress program had been unduly influenced by fears of a resurgence of popular dissatisfaction. The increased confidence of the Politburo was in large measure the result of the surprisingly mild reaction of the population to an emergency deflationary program introduced late in October 1959 and, undoubtedly, also was related to the return to political favor late in 1959 of a group of Party officials who previously had been critics of the Congress program and advocates of bolder economic planning.

The development of Polish economic policy following the Third Congress was subject to external as well as internal political influences, although not nearly to the same extent as in the Stalinist period, when direct Soviet intervention in Polish planning had been the rule. The decision of the Politburo to accelerate the pace of long-term economic growth in Poland was at least in part a reaction to criticism of the Congress program by the more orthodox Satellites and possibly by the USSR and the desire of the Gomulka regime, consequently, to reduce the discrepancy between Polish plans and the bolder ones of other Bloc countries.

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The Fourth Congress of the Polish Communist Party is scheduled to convene in the spring of 1963. Following the precedent of the Third Congress, the Politburo currently is preparing a program on the development of the Polish economy through 1970 and possibly 1980 for presentation to the Party Congress. Little has been revealed so far about the content of the new program, which will constitute a restatement of the economic policy of the Gomulka regime. It is believed, nevertheless, that no change in the basic character of Polish economic policy will be forthcoming. The forces that have promoted moderate and realistic programs in Poland since 1956 still are operative: the pragmatism of Party leaders and their awareness of the special conditions of the Polish economy, population, and Party apparatus. Moreover, the relatively favorable performance of the Polish economy during 1961-62 compared with the considerable difficulties encountered during the period by Czechoslovakia and East Germany, two of the more orthodox Satellites, has greatly raised the prestige within the Soviet Bloc of Polish policies of moderate and reasonable programs.

The new Congress program, on the other hand, probably will reveal some modification of the Five Year Plan for 1961-65. Although the performance of the economy since 1960 has been generally favorable, there are numerous indications that reductions in production goals for 1965 probably will be necessary, and the compensatory revision of targets for investment and consumption probably is the key issue facing the drafters of the new program. Prospects are for a further, although probably minor, redefinition of relative priorities in favor of long-term growth and at the expense of short-term consumer well-being. A decision to continue to plan only minor increases in personal consumption through 1965 would reflect still a further erosion of the regime's fear of a possible rekindling of intense popular discontent because of economic grievances.

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I. Foundations of Gomulka's Economic Program for 1961-65

A. General

Poland currently is operating under its Second Five Year Plan (1961-65), the final version of which was adopted in February 1961. From the start the primary emphasis of the Gomulka regime in drafting an economic program for the post-1960 period was on the promotion of the long-term growth of the Polish economy through a rapid expansion of capital investment. This emphasis on capital investment was a natural outgrowth of economic developments during the 1950's. Stalinist policies during the early 1950's of unbridled expansion of investment in heavy industry and gross neglect of the welfare of the population had provided both the economic opportunity and the political imperative for Gomulka's immediate program (1956-57) of stabilizing state investments and expanding personal consumption as rapidly as possible. By 1958-59, however, when planning for the post-1960 period became a major concern for the leaders of the regime, popular discontent had become much less incendiary. In addition, the opportunities for expanding production by completing and putting into full operation projects initiated earlier and by reforming practices that previously had depressed the productivity of workers and peasants were beginning to diminish. During 1958-60, therefore, it became both politically feasible and economically necessary to reduce sharply the rate of growth of consumption and expand rapidly capital investments. For the post-1960 period the need for a substantial buildup of capital investment stemmed from the expected further diminution of opportunities for expanding production in existing plants and from past neglect of key sectors of the economy, problems in foreign trade, and demographic trends.

B. Economic Problems under the Six Year Plan (1950-55)

A policy of rapid industrialization for Poland -- inevitable under Communist rule -- was consistent with the considerable industrial potential acquired in the postwar shift of Polish boundaries* and with the major prewar problems of extensive agricultural overpopulation and low levels of personal consumption. Under the Six Year Plan (1950-55), however, the policy of industrialization was implemented in a way that imposed a heavy toll on the Polish economy and on the living conditions of the population. During the immediate postwar years, reconstruction of the heavily damaged economy had been carried out fairly effectively,

* Poland obtained substantial increases in capacity in most industries in the Western territories acquired from Germany and lost very little industrially in the Eastern territories ceded to the USSR.

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with rapid recovery in agriculture and personal consumption as well as in industry. The original Polish version of the Six Year Plan, moreover, had established high but not unreasonable targets for industrial expansion. Under direct dictation from the USSR, however, the Plan was revised in 1950, and a program of full-blast expansion of heavy industry was launched. According to the revised Plan, industrial output was to increase by an average of 17 percent a year during 1950-55. Starting in 1951, moreover, annual production targets were raised still higher to support an armaments program laid on by the USSR following the outbreak of the Korean War. 1/*

In pursuit of unrealistically high production goals, capital investment in industry was expanded by about 230 percent from 1949 to 1953, an average of 34 percent per year. 2/ The bulk of investment projects, moreover, were concentrated in the priority sectors -- ferrous metallurgy and machine building, including a substantial share for defense plants. On the other hand, agriculture, food processing, and light industry, which at the time employed nearly 70 percent of the labor force, received well below 20 percent of total investment, and outlays for coal mining, building materials, and basic chemicals also were small in relation to the importance of these sectors to the economy. 3/ The distribution of the short supply of technologically trained workers and of imported raw materials reflected the same priorities as the distribution of investment expenditures.

The pattern of breakneck expansion of metallurgy and machine building and the neglect of nonpriority sectors produced a great strain on Polish economic resources. This strain was aggravated by the depressing effect on production of Stalinist policies of forced collectivization in agriculture, liquidation of private enterprise in handicrafts and services, and general coercion and harassment of the population. In time the strain was manifested in a series of economic difficulties that both threatened to disrupt the rapid expansion of the economy and contributed to the rise of an intense popular discontent. In turn, growing popular discontent threatened the political stability of the Communist regime.

The major problem in industry was the unbalanced structure of expansion. In some sectors of metallurgy and machine building, considerable excess capacity developed in new plants, primarily because of delays in completing complementary plants. Manufacturing in general suffered from frequent production stoppages because of shortages of power, raw materials, and semifabricates. Although the rate of growth of industrial output was rapid -- an estimated 11 percent a year during 1950-53 -- it was far below plans, and targets were missed for most key

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commodities, while output of consumer goods stagnated. Industrial employment, moreover, was expanded nearly as rapidly as output, as increased use was made of old plant. The new workers were predominantly unskilled peasants and women, and, as a result, costs of production rose in most industrial sectors and the quality of products worsened. 4/

The major problem in agriculture was a decline in output during 1951-53, after the prewar level had been reached in 1950. The great bulk of the limited supplies of fertilizer, machinery, and building materials made available for agriculture was channeled to the highly inefficient state farms and collectives, which together controlled only 20 percent of arable land in 1953. Moreover, to promote collectivization, private farmers were harassed by harsh price and tax policies that discriminated sharply against the larger, more efficient producers. As a result of these policies, peasant sales of produce declined more sharply than output, especially for meat and other animal products that were greatly in demand among the rapidly expanding urban population. 5/

Production difficulties in industry and agriculture soon intensified Poland's perennial shortage of foreign currency. The expansion of heavy industry greatly increased domestic demand for imports and for traditional export items (particularly coal), without providing substitute exports in sufficient quantities. Neglect of light industry and agriculture depressed foreign exchange earnings from traditional exports in these areas. By 1953, inability to pay for needed quantities of imported raw materials and machine parts had become a major factor in production stoppages, which in turn impeded Poland's ability to expand exports. 6/

Finally, living conditions worsened from 1950 to 1953, sharply so for the urban population. In addition to a decline in per capita consumption of quality foods and products of light industry, housing conditions, which were already poor by European standards, deteriorated noticeably. The growth in urban population, stimulated by rural migrations, greatly outpaced the increase in housing supply, and the quality of housing worsened from excessive occupancy and inadequate repairs. During this period of declining levels of personal consumption, moreover, the energy and patience of the urban population were taxed more heavily by longer hours of work, numerous compulsory meetings, prolonged queueing at retail stores, and a variety of arbitrary and discriminatory practices. 7/

Growing tensions throughout the economy forced some modification of policy during the "new course" of 1954-55. Capital investment was stabilized at the level of 1953, with some redistribution in favor of lagging sectors. The growth of industrial output slackened, but production of industrial consumer goods was expanded at the expense of investment and military goods. Agricultural output increased substantially,

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in response to favorable weather and higher state purchase prices, and surpassed the level of 1950. Stockpiles of consumer goods accumulated during the Korean War were released. As a result of these developments, personal consumption increased noticeably. But the per capita level in 1955 was only slightly higher than in 1950. Moreover, most of the gain was registered by the peasants, and urban discontent was not reduced appreciably. Most importantly, "new course" policies did little to alleviate the underlying causes of economic strain. In industry, abandonment of partly completed investment projects tended, at least over the short run, to perpetuate structural imbalances. In agriculture, peasant incentives were shaken anew by an intensified collectivization drive initiated in mid-1954. And in foreign trade, increased imports of grains and raw materials for light industry and decreased exports of coal because of enlarged household consumption added to the strain on the balance of payments. 8/

No decisive measures for promoting orderly economic expansion were undertaken in 1956 prior to Gomulka's coming to power. The First Five Year Plan (1956-60) was launched, but, in response to indications of rising popular unrest, plans for renewed rapid expansion of industrial investment were shelved, and large "emergency" increases in money incomes of workers and peasants were permitted, especially after the Poznan riots in June. Stockpiles were reduced further, but by the final months of the year a considerable inflationary pressure had built up in retail trade. 9/

C. Early Gomulka Period, 1956-57*

The foremost economic objective of the Gomulka regime on taking office in October 1956 was to improve living conditions as rapidly as possible in order to remove the threat to both political stability and economic growth posed by intense popular discontent with existing conditions. This discontent had sparked the Poznan riots of June 1956 and contributed to the disturbances surrounding the October revolution and was to incite a series of disturbances in urban centers during the early months of 1957. Discontent also was partly responsible for depressed levels of productivity by industrial workers and of food deliveries by farmers. The disruptive effect on production of economic dissatisfaction was underscored during the early months of 1957 by the widespread incidence of unjustified absenteeism and of drunkenness and vandalism on the job that followed the lifting of coercive forms of worker discipline.

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For an analysis of Polish definitions of the economic aggregates discussed in this section and of the reliability of official statistical data, see Appendix A.

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The Gomulka regime, in its early economic program, sought in effect to provide the consumer goods to cover the large increases in money income conceded to the population since the beginning of 1956. The program was largely successful, and the level of per capita consumption in 1957 rose nearly 20 percent above that of 1955. The two most dramatic measures undertaken to increase the supply of consumer goods were the liberalization of agricultural policy and heavy foreign borrowing, including borrowing from Western countries.

Under Gomulka's agricultural policy, collectivization was made voluntary, thereby prompting the dissolution of nearly all collective farms. By the end of 1957, private farmers controlled 86 percent of arable land in Poland. 11/ Increased production and deliveries by private farmers were encouraged also by reductions in taxes and increases in state purchase prices for farm produce as well as in supplies of fertilizer, building materials, and farm machinery. Direct state investment in agriculture was increased, and a liberal credit policy encouraged private investment. Largely as a result of the new agricultural policy, but with assistance from continued good weather, gross agricultural output in 1957 rose 12 percent above the level of 1955. In the case of animal products, moreover, peasant deliveries for urban distribution increased more rapidly than output.

Results in industry also were favorable. Output increased by 17 percent during 1956-57, accompanied by a further shift in structure from investment and military goods to consumer items. Industrial efficiency was stimulated both by a substantial expansion of inventories of raw materials and semifabricates, partly imported through foreign credits, and by reforms in management in the direction of more realistic planning, less rigid central controls, and increased emphasis on monetary incentives.

The national income of Poland in 1957 was 15 percent higher than in 1955. Domestic expenditures rose even more rapidly, by 22 percent, largely because of a substantial import surplus financed through foreign credits procured from both Bloc and Western countries. The import surplus in 1957 totaled US \$277 million 12/ and accounted for one-fifth of the increment in domestic expenditures between 1955 and 1957. State capital investment, meanwhile, was held in check (private investment and state inventories rose, however), and personal consumption increased by 23 percent from 1955 to 1957, providing a substantial improvement in all areas with the exception of housing. The gains of urban workers, moreover, were at least equal on a per capita basis to those of peasants. 13/ The improvement in living conditions became particularly noticeable toward the end of 1957, when earlier inflationary pressures subsided, retail stocks expanded, and the variety and quality of goods improved. The latter developments were partly the result of the regime's encouragement of private handicrafts and services.

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Increases in personal consumption during the early Gomulka period were supplemented by improvements in living conditions arising from reforms of numerous practices that previously had been sources of economic discontent. For peasants the key change was the elimination of forced collectivization and of general harassment of private farmers. Urban workers benefited from the elimination of coercion in everyday economic life -- for example, compulsory meetings were discontinued -- and from a sharp decline in discrimination for political reasons in the distribution of better jobs, scarce consumer goods, and housing. In addition, daily life for the entire population was made much more tolerable by the introduction of a large measure of personal, cultural, and religious freedom.

D. Basic Premises in Planning for the Post-1960 Period

In mid-1957, turning for the moment from the immediate problems of political and economic stability, the Gomulka regime set forth a program for economic development through 1960 in a revised version of the First Five Year Plan (1956-60). Although improvement of living conditions was made the paramount objective of the Plan, considerable emphasis was given to maintaining a rapid rate of economic growth. National income was expected to increase by 46 percent during 1956-60, including increases of 49 percent for industrial output and 25 percent for agricultural output. For the period as a whole, personal consumption and capital investment were expected to increase at about the same rate as national income. The growth of consumption, however, was to decline from an annual rate of 11 percent expected for 1956-57 to one of 6 percent during 1958-60, whereas the growth of investment was to be stepped up from an annual pace of 4 to 5 percent during 1956-57 to one of 11 percent during the final 3 years of the Plan. The planned structure of capital investment during 1956-60 underlined the concern of the Gomulka regime for balanced economic expansion. Increased shares of total investment were assigned to the previously neglected areas of agriculture, housing, and social-cultural facilities and, within industry, to fuels and power, building materials, basic chemicals, light industry, and food processing. 14/

Planning for the post-1960 period also was initiated in 1957, soon after the redrafting of the Five Year Plan. In effect, the expected results for the 1956-60 period were used as a base for formulating premises on the development of the economy during 1961-65, the period scheduled for a second 5-year plan. The major assumptions of preliminary planning for the post-1960 period were that the substantial buildup in capital investment scheduled for 1958-60 would have to be sustained through 1965 and that the growth of personal consumption during 1961-65 would have to be substantially slower than during 1956-60 as a whole.

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It was believed by planners that economic growth after 1960 would be much more dependent on large-scale capital investment than during the early Gomulka period. Prospects for economic expansion in 1956-60 were favored both by the investments undertaken during the Six Year Plan (1950-55) and by the errors in policy made in that period. In industry, and especially in metallurgy and machine building, there were in 1956 a large number of partially constructed projects, the completion of which, at relatively low costs, would eliminate bottlenecks and permit much fuller utilization of capacity in other plants. At the same time, in both industry and agriculture, large gains in economic efficiency were expected from the reform of practices that previously had depressed incentives and from simple improvements in planning, management, and organization.

The 1961-65 period, in contrast, was viewed as one in which large investment expenditures would be required for initiation of projects that would not reach full production until subsequent periods. Also, improvements in efficiency were expected to be obtained less easily during 1961-65 than during the preceding period, thereby placing a larger burden on investment for sustaining growth in production. Advances in efficiency in industry would be more closely related to improvements in technology and therefore to investment outlays, and the more obvious corrective measures in economic institutions and management (such as decollectivization in agriculture) would already have been undertaken and would be bringing smaller returns.

Another factor supporting the need for a high level of capital investment in setting up preliminary plans for 1961-65 was the considerable increase in the annual level of new recruits to the labor force expected toward the end of the period. Increases in new workers were expected to remain fairly small through 1962, reflecting relatively low birth rates during World War II. Starting in 1963-64, however, and continuing through the early 1970's, increases were expected to be unusually large as a result of high birth rates during the first postwar decade. For example, the number of new entrants to the labor force was expected to climb from about 50,000 in 1960 to about 250,000 in 1965. Thus large investments would be needed, especially in underdeveloped regions of the country, to implement a policy of relatively full employment.

Finally, anticipated developments in foreign trade were expected to set limits on the growth of personal consumption as well as to reinforce the priority of capital investment. During 1956-60, imports were expected to grow much more rapidly than exports, with the trade deficit covered for the most part by foreign credits. During 1961-65, in contrast, exports were to be increased more rapidly than imports to provide the trade surplus needed for partial repayment of previous credits. As a result, domestic expenditures as a whole were expected to grow less rapidly than national income, the opposite trend of 1956-60. The demands of targets in foreign trade would require large investments to stimulate export production and to reduce dependence on imports in certain lines. 15/

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II. Evolution of the Economic Program for 1961-65

A. General

Although a substantial increase in capital investment and a decline in the rate of growth of personal consumption were generally accepted in Poland as the major premises of an economic program for the post-1960 period, specific relationships had to be worked out for the distribution of national income that would satisfy both the economic criteria of planners and the political criteria of Party leaders. Basic decisions had to be made concerning the maximum growth of productive investment consistent with an efficient use of economic resources and the minimum growth of personal consumption consistent with the continued subsidence of popular discontent as a political and economic problem.

The first widely publicized program for 1961-65 was approved by the Politburo late in 1958 and adopted by the Third Congress of the Polish Communist Party in March 1959. The Congress program, drafted while Polish economists and Party leaders still were very close psychologically to the Poznan riots and the "shocks and stumbles" of the Six Year Plan, was unusually moderate and realistic by the standards of the multiyear plans of the other European Satellites in its projection of the growth of national income and of its distribution between personal consumption and productive investment. A final version of the Five Year Plan for 1961-65 was approved by the Politburo late in 1960 and ratified by the Sejm (the Polish parliament) in February 1961. The final program, more distant from Poznan and the Six Year Plan, was much closer in basic outline to the current multiyear plans of the other Satellites. The evolution of the post-1960 program for the Polish economy reveals both the political and the economic setting in which the Congress program was drafted and the influences on the development of the economic policy of the Gomulka regime during the past few years.

B. Congress Program of March 1959

Preliminary economic planning for the post-1960 period was conducted by a special staff within the Planning Commission under the direction of Michal Kalecki, an internationally known economist. By mid-1958 the Kalecki staff had completed a detailed draft of a 5-year plan for 1961-65 within the framework of a 15-year plan running through 1975. 16/ In September 1958, Stefan Jedrychowski, Chairman of the Planning Commission and chief economic advisor to Gomulka on the Politburo, prepared a resolution on the development of the Polish economy during 1959-65 that incorporated the goals set forth in Kalecki's draft

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plan. The resolution won the approval of the Politburo and was submitted in October to a plenary session of the Central Committee for examination before its presentation to the Third Congress of the Party. The Central Committee adopted the resolution apparently without amendment but touched off a vigorous debate on economic plans for the post-1960 period that persisted until the Congress met in March 1959. Finally, the Congress adopted the resolution as presented by Jedrychowski, who had incorporated numerous changes, without altering, however, the basic character of his original program.*

The Congress program, which set down minor revisions of targets for the final years of the First Five Year Plan as well as preliminary goals for the Second Five Year Plan, placed major emphasis, as expected, on the need for a rapid expansion of capital investment. Firm pledges were given, however, to provide a steady and cumulatively significant growth of personal consumption and to initiate a major drive to alleviate the oppressive housing shortage. By the standards of the Soviet Bloc, therefore, a relatively small share of national income was allocated to productive investment. Underlying the Congress program, moreover, were conservative estimates of the probable gains from improvements in economic efficiency during 1961-65. As a result, a decline in the rate of economic growth was projected for the post-1960 period. The special character of the Congress program also was revealed by its reaffirmation of Gomulka's policy of voluntary collectivization, an acknowledgement of the continued predominance of private agriculture in Poland at a time when the other European Satellites were intensifying their efforts toward socialization.

Under the Congress program an increase in national income of just below 40 percent was planned for 1961-65 compared with the increase of 46 percent then anticipated for 1956-60. The Kalecki draft of mid-1958 had indicated only an increase of 38 percent for 1961-65, 19/ but this had been raised prior to the October plenum of the Central Committee, either at the initiative of Jedrychowski or at the insistence of the Politburo. According to the Congress program, industrial output was to rise by 50 percent during 1961-65, slightly below the revised projection for 1956-60 of a growth of 52 percent.** Growth in all other sectors of the economy was expected to decline more sharply, however, including a decline for agriculture from 25 percent during 1956-60 to 21 percent during 1961-65.

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Total capital investment was scheduled to rise by 49 percent (1961-65 above 1956-60). Investment in productive sectors was to increase by only 44 percent, however, and investment in industry by only 41 percent. Investment in housing, on the other hand, was to increase by 68 percent, and the share of outlays for housing, social-cultural facilities, and municipal improvements was to rise from 31 percent of total outlays during 1956-60 to 34 percent during 1961-65. Personal consumption was to increase by 33 to 35 percent during 1961-65, thereby insuring approximately the same absolute growth of consumption as the increase of 46 percent then anticipated for 1956-60. The growth of consumption, moreover, was to be spaced fairly evenly over the 1961-65 period and not concentrated in the final years of the period.

The support given by Gomulka and other Party leaders to the moderate character of the Congress program reflected the political and economic currents of the period. The major political consideration that limited plans for productive investment and economic growth was the concern of Party leaders about popular discontent. The Poznan riots and subsequent manifestations of workers' unrest had gravely disturbed Gomulka, who, with the Hungarian example in mind, probably feared that Soviet military intervention would follow if the Polish Communist Party lost control of the domestic situation. By late 1958 and early 1959, Party leaders probably recognized that popular discontent, although still very widespread, had largely lost its incendiary character. But apparently they were convinced that it still was essential to provide for systematic and appreciable improvements in consumer welfare both to prevent a rekindling of the Poznan spirit and to encourage popular support of regime programs. In an address to the Central Committee, Jedrychowski defended the provisions of his program relating to consumption as follows 21/:

... If we want to maintain the link between the Party and state authority and the working masses, we must combine the need for a rapid ... development of our socialist economy with the need for a steady and systematic raising of the standard of living of the working masses, the real earnings of workers and white-collar employees, as well as the income of the working peasants not only in general, over periods of several years, but regularly, constantly, year after year, at least several percent annually.

The special emphasis on housing in the Congress program was based on the belief that depressed housing conditions -- called by one member

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of the Politburo "the most painful and grievous problem in the daily lives of the population" 22/ -- were the major remaining focus of economic discontent and that a dramatic improvement in housing would strongly enhance the prestige of the Communist regime.

The restraint placed on the level of productive investment and the rate of economic expansion by the fears of political leaders of a possible resurgence of popular discontent was reinforced by the conservative economic views of those who drafted the plan for 1961-65. Kalecki developed and Jedrychowski supported the thesis that various bottlenecks in the Polish economy would limit sharply the increase in output from any attempt to expand productive investment more rapidly than proposed under the Congress program. The most important of these bottlenecks were the short supply of basic materials, the long construction period needed to complete new capacity to relieve the shortage, and the expected strain in the balance of payments (because of the need to repay former credits) that would limit Poland's ability to relieve the shortage through imports. Under these conditions, it was argued, any attempt to accelerate investment would tend to raise the cost and delay the completion of projects. Underlying the thesis were fairly conservative estimates on the probable improvements in labor and managerial efficiency in industry and construction that could be expected by 1965. 23/

The willingness of Gomulka and his political lieutenants to rely on the judgment of a conservative professional economist in setting up the Congress program was symptomatic of the grave impression left by the economic disturbances of the Six Year Plan, which were attributed to unrealistic estimates by Party leaders of the potential of the economy and to unbalanced commitment of resources to heavy industry. Gomulka, defending the Jedrychowski program at the Third Congress, reminded the delegates that Poland's past experience emphasized the importance of adopting an economic program that ensured "the most proportional development possible," for disproportions not only upset the general development of the economy "but, in the final analysis, check the advance of Socialist transformation of society." 24/

The concern of the regime for proportional development of the economy underlies the resolution on agriculture adopted at the Congress.* Primary emphasis was placed on increasing agricultural production, and efforts toward socialization were to be restricted to encouraging simple forms of cooperation among peasants. Coercion in agriculture was rejected because the experience of the early 1950's had shown that the

* The major report on agricultural policy at the Congress was delivered by Politburo member Edward Ochab, at the time Minister of Agriculture. 25/

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depression of peasant incentives retards the growth of output. In turn, agricultural stagnation disrupts plans for the growth of the economy in general and for personal consumption in particular.

C. Early Opposition to the Congress Program

In spite of full support by the Politburo, Jedrychowski's draft program had been vigorously criticized at the plenum of the Central Committee in October 1958 by members then associated with the Natolin (Stalinist) faction of the Party. The program was attacked for its general lack of dynamism, its failure to promote sufficiently the building of socialism in Poland, and its inadequate contribution to the strength of the Communist Bloc at a crucial moment in the struggle with imperialist powers. Gomulka's political supremacy had been established conclusively prior to the plenum, and the Natolin group, which had suffered considerable reverses since 1956, apparently was attempting through its criticism only to extend its influence over Gomulka and weaken that of Jedrychowski and other moderates.

The attack on the Congress program and the moderate policies underlying it was led by Eugeniusz Szyr, Jedrychowski's predecessor as Chairman of the Planning Commission.* Szyr insisted that the Polish economy could and should be expanded more rapidly than had been proposed. He claimed that Poland had great "reserves" for continued rapid growth, citing as evidence the numerous examples given by Gomulka in his address opening the plenum of the considerable lags between Polish levels of labor productivity, material costs of production, and periods of construction and those of more advanced industrial nations. The unreasonable cautiousness of Jedrychowski and his colleagues in the face of such "reserves" was attributed to a one-sided interpretation of the Six Year Plan, which emphasized its shortcomings while overlooking the rapid growth attained. Szyr described the bold programs then being undertaken by other Bloc countries, whose planners were not deterred by exaggerated fears of possible disproportions from rapid expansion. He emphasized in particular the progress of Communist China, then engaged in the early, seemingly successful phase of its "leap forward." Poland also could expand simultaneously productive investment and personal consumption at rapid rates, Szyr concluded, if the Party pursued "farsighted and energetic" policies for mobilizing existing reserves -- primarily the establishment of more effective state controls over the economy, including more rapid socialization of agriculture.

The supporters of Gomulka's policies as expressed in the Jedrychowski program -- the vast majority of the Central Committee -- replied in kind to the charges of the Natolin critics. The proposed

* 26/. See also the speeches by S. Lapot and B. Ruminski.

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program was defended as one that encompassed an ambitious rate of growth considering Polish conditions. It was conceded that large "reserves" did indeed exist in the Polish economy and that a more rapid rate of growth might be possible. In Poland, however, there was characteristically "a very long distance between the possible and the real," and expectations on exploiting "reserves" had to be based on the existing capabilities of the Party and the state apparatus. To combine once again overambitious planning with policies of coercion in agriculture and elsewhere would lead only to a repetition of the special problems of the Six Year Plan. Jedrychowski personally replied to the charge that under his program Poland would not be meeting its obligation to the Soviet Bloc, and in so doing he underlined the basic pragmatic character of the economic policy of the Gomulka regime:

No one demands from us [that is, the Polish Communist Party] or imposes upon us any kind of pace for industrial development We should define our pace of economic development ourselves, on the basis of our own most conscientious appraisal of our conditions, needs, and possibilities; and undoubtedly, the best contribution to the joint effort toward developing ... the socialist bloc ... will be such a rate of economic development which will enable us at the same time to develop steadily our economy, raise the prosperity of our working masses without shocks and stumbles -- without Poznans -- as well as conscientiously to fulfill the obligations toward other socialist countries which we have taken upon ourselves.*

Gomulka, in his address closing the plenum, attempted to minimize the disagreement on basic policy that had been expressed, and Jedrychowski's resolution was adopted unanimously. ^{28/} Nevertheless, in the widespread discussion of the details of the program encouraged by the regime in preparation for the Third Congress, criticism of its underlying principles persisted. Lively debates on economic policy were conducted before the Economic Council, an advisory body to the Council of Ministers. Once again the Natolin criticism and the Jedrychowski, or "centrist," defense of the program were set forth. In addition, the thesis, unrepresented at the plenum, was set forth that targets for 1961-65 had not been set conservatively enough. This view was generally associated with the "liberal" economists on

* ^{27/}. See also the speeches by I. Loga-Sowinski and K. Zemajtis.

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the Council, including Chairman Oskar Lange, who supported a program of greater decentralization of the economy and who believed that such a program would operate most efficiently under plans with very moderate production targets. The "liberal" economists had almost no direct political influence, however, and their program for further decentralization had already been shelved by early 1959. 29/

The Third Congress in March 1959 produced no real debate on economic issues. The Natolin criticism had been discredited, and members of the group suffered further losses in Party influence at the Congress. The representations for greater caution on the part of the "liberal" economists, meanwhile, had been undermined by the fact that the performance of the economy had been better than expected during the final months of 1958 and the opening months of 1959. In fact, Jedrychowski, largely reflecting increased optimism on economic prospects,* introduced a large number of minor upward revisions in targets for production and investment for both 1960 and 1965. Rates of growth for the most part were not altered, and the basic proportions of the program for 1961-65 were unaffected.

The proceedings at the Congress, however, did reveal still another pressure against a restrained investment program -- the "pork barrel" tactics familiar to US politics. The final program had raised investments planned for 1961-65 by 4 percent above the original goal without changing the share for productive investment. During the pre-Congress discussions, provincial and local governing councils, Central Ministries and their subdivisions, and individual enterprises had called for new projects that would have added 65 billion additional zlotys,** or 13 percent, to the level of the final program. However, although some projects suggested in the pre-Congress discussions had been adopted and some previously approved projects had been deleted, any further substantial increase in the investment program was rejected on the grounds that it would undermine the plan for the growth of consumption and overtax the capabilities of the economy. 31/

In their speeches at the Congress, both Gomulka and Jedrychowski called for continued scrutiny of the plan for 1961-65 in anticipation of the need for further changes in detail based on the experience of the economy during 1959-60. As the Congress adjourned, however, there seemingly was widespread and unconditional support among the leaders of the Polish Communist Party for the basic proportions of the Congress program and for the underlying policies of moderate and realistic planning.

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** Approximately US \$2 billion at the conversion rate used by the Poles for international comparisons of investments.

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D. Revision of the Congress Program

1. Revision of June 1960

In spite of the general support given to the Congress program at the time of its adoption, within a year the Politburo was preparing fundamental revisions that were presented to the Central Committee for approval in June 1960. According to the resolution adopted by the Central Committee, 32/ the level of productive investment planned for 1961-65 was increased by 12 percent. The over-all level of capital investment was raised by 6 percent, and the level of investment expenditures on housing was cut by 14 percent (the goal for construction of dwelling rooms was reduced by 450,000, or 16 percent). As a result of these changes, the share of expenditures planned for investment in housing, social-cultural facilities, and municipal improvements was reduced from 34 percent of the total to 30 percent, about the same share as in 1956-60.

Plans for the growth of personal consumption also were downgraded. In place of the increase of 33 to 35 percent for 1961-65 promised under the Congress program, an increase within the range of 30 to 33 percent now was projected. More importantly, the pledge for an evenly paced growth in consumption was abandoned in order to permit a rapid takeoff in the expansion of productive investment. Per capita consumption was permitted to decline during 1960, and continued austerity was predicted for the early years of the 1961-65 period. Along the same line the bulk of the growth in investment in housing and other nonproductive sectors was to be delayed until the final years of the period.

In spite of the sizable increase in the planned level of productive investment under the resolution of the Central Committee, the planned rate of growth for national income during 1961-65 was raised by only 1 percent, from slightly below to slightly above 40 percent. Such a rate, however, represented a much bolder undertaking than had seemed to be the case at the Third Congress, for by mid-1960 it had become clear that the increase in national product during 1956-60 would fall far short of the projected 46 percent (the final official claim was for an increase of 39 percent). The proposed rate of expansion for industry during 1961-65 was raised from 50 to 52 percent, with a decided shift in planned structure from consumption-oriented to investment-oriented output. The planned rate for agricultural expansion was raised from 21 to 23 percent. The absolute level projected for 1965 was reduced compared with the Congress program, however, in recognition that the level of output in 1960 would fall well below previous expectations.

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Production plans for the post-1965 period, on the other hand, were raised appreciably at the time of the revision of the Congress program in June 1960, and much of the additional investment under the revised program was directed toward projects that would have little effect on production until after 1965. 33/ Under Kalecki's draft plan for 1961-75 the annual rate of growth for industrial production had been expected to decline from an average of 8.5 percent during 1961-65 to 7.7 percent during 1966-75. Under the revised version of the 15-year plan, in contrast, the annual rate was to be maintained at an average of 8.7 percent throughout the 1961-75 period. 34/

The revision of the Congress program in June 1960 represented a modification of the economic policy of the Gomulka regime: the extent to which concern for consumer welfare was to be permitted to restrict the rate of economic expansion had been reduced appreciably. The decision to alter the relative priorities for productive investment and personal consumption was closely related to the course of economic developments in Poland during the 15 months following the adjournment of the Third Congress. First, in June 1959, on the advice of economic planners, the level of investment in agriculture planned for 1961-65 was raised substantially, and although no other changes were announced at the time, a general review of the post-1960 investment program became inevitable. Second, unexpected economic strains during 1959 apparently dissipated the support of the Politburo for the Congress program and set the mood for a revision of the economic policies on which the program was based. And, third, the successful implementation of restrictive economic policies during the first half of 1960 strengthened the position of the advocates of more rapid expansion of productive investment. In the final analysis, however, the change in policy was primarily the result of a reappraisal of political prospects on the part of the Politburo that led to increased confidence on the issue of popular acceptance of Communist rule in Poland. Developments in intra-Bloc political relations, meanwhile, tended to reinforce the Politburo's inevitable desire to accelerate Polish plans for long-term economic growth.

2. Economic Factors

a. Change in Agricultural Plans

At the time of the Third Congress the goal for the growth of agricultural production generally had been considered the most strained part of the 1961-65 plan as well as of plans for the post-1965 period. 35/ Consequently, a review of investment requirements for agriculture was undertaken, and a significant increase above the level proposed in the Congress program was recommended. The Politburo, in a resolution approved by the Central Committee in June

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1959, 36/ linked an increase in planned investment with a program for transforming agricultural circles -- informal and relatively independent types of peasant cooperatives -- into instruments for advancing the socialization of the countryside. A large part of the investment in agriculture scheduled for 1960-65 was to be channeled through special funds held by the circles, with emphasis on purchase of machinery for joint use. At the same time, a campaign was to be launched for expanding the membership of circles and for extending Party controls over them. In the form adopted the program for increasing agricultural investment in large part was directed toward adding badly needed "socialist content" to the regime's agricultural policy. This objective was indicated by the emphasis on mechanization that, given the fragmentation of farm ownership in Poland and the low level of technical competence of the farmers, would not contribute as immediately to expanding output as would investment in land improvement or in facilities for increasing production of chemical fertilizers and pesticides. Targets for all forms of agricultural investment were raised, however, and the stress on mechanization was economically supportable with reference to the long-term development of agriculture.

In the revision of the Congress program in June 1960 the new emphasis on agricultural investment was written into the Five Year Plan for 1961-65, and nearly one-half of the increase in the planned level of productive investment was assigned to agriculture and to sectors of industry that directly support agriculture (agricultural machinery and chemical fertilizers). In June 1959, however, no other adjustments of the Five Year Plan were announced, although from the size of the increase in planned agricultural investment (nearly 20 billion zlotys,* or 4 percent of the level of over-all investment for 1961-65 under the Congress program) such adjustments were inevitable. Possibly the Politburo had intended to await the development of the economy during 1959-60 before deciding how to account for the cost of the new agricultural program. Apparently, there was some hope, reflecting the optimistic mood of planners and policymakers early in 1959, that part of the cost could be absorbed by a faster-than-planned expansion of the economy during 1961-65.

b. Unexpected Economic Strains in 1959

The prevailing mood among Party leaders and economic planners alike at the time of the Third Congress had been one of considerable confidence and optimism as to economic prospects largely because of the very favorable performance of the economy during 1958. Strengthened by the reforms in policy introduced under Gomulka and

* Approximately US \$650 million at the conversion rate used by the Poles for international comparisons of investment.

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the large inventories of imported materials built up in 1957, the economy had operated more smoothly in 1958 than it had in years. Expansion continued at a rapid pace: 6-1/2 percent for national income, more than 8 percent for industrial output, and 3 or 4 percent for agricultural output. The increase in industry, moreover, was almost entirely the result of gains in labor productivity. Of key importance, capital investment was expanded by nearly 11 percent -- the first large increase since 1953 -- without signs of major strain. Personal consumption grew by only 3 percent, well below the plan for the year, but the continued strengthening of market stability (a trend started late in 1957) permitted a consolidation of the considerable gains in consumption since 1956, as evidenced in particular by a marked decline in queueing for everyday purchases. Also in 1958, there had been a considerable success in reducing the foreign trade deficit (by 40 percent) in spite of a sharp decline in world prices for Polish coal. 37/

The annual plan for 1959, reflecting the confidence of the Congress period, was the most ambitious of the Gomulka period. 38/ It called for a simultaneous rapid expansion of capital investment (12 percent) and personal consumption (7 percent), to be supported by a slight acceleration of the growth of national income; a small rise in the foreign trade deficit; and a sharp cutback in the growth of inventories, which had considerably exceeded plans in 1958. As the year progressed, however, a decline in agricultural production combined with a growth of domestic expenditures considerably in excess of plans produced a marked strain on resources, which abruptly terminated the mood of economic confidence.

During the early months of 1959, industrial and especially investment activity expanded very rapidly because of unusually mild weather and unexpectedly large expenditures by enterprises under a program of decentralized investment introduced late in the previous year. Under the pressure of the expanded activity the generally loose controls over enterprises that had been instituted since 1956 permitted increases in employment and average wages considerably above the rates scheduled for the year. The inflationary pressure of the sharp rise in personal income that resulted was exacerbated by a decline in meat supplies, caused by drought and by planning errors. By midyear, prolonged queueing for quality foods had become general again. The expansion of capital investment, meanwhile, continued at about twice the planned rate, reinforcing the pressures on the retail market and placing a great strain on inventories of building materials. 39/

The regime delayed resolute action until October, possibly reflecting differences of opinion within the Politburo on remedial measures. Finally, an emergency plenum of the Central Committee was assembled, at which a sharply deflationary program was proposed and

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adopted. Real wages were reduced by means of an increase of 25 per cent in retail prices of meat and animal fats, which largely relieved the imbalance between supply and demand for quality foods, and by cutbacks in employment in construction and industry. The slowdown in construction, in turn, eased the strain on building materials. The deflationary program was accompanied by a restrengthening of central controls over enterprise activities, including more stringent bank controls of expenditures and closer supervision of plan fulfillment by the Planning Commission. 40/

By the time of the October plenum and during the final months of the year, when the annual plan for 1960 was drafted, the mood of the leaders of the regime had become one of disappointment and growing concern over economic prospects. Although industrial output rose by 8 percent during 1959, somewhat faster than planned, agricultural output declined by 1 to 2 percent, and the growth of national income lagged behind plans. Domestic expenditures, on the other hand, considerably exceeded planned levels in spite of the retrenchment during the final quarter. Consequently, the foreign trade deficit swelled considerably higher than intended, reaching the peak level of 1957 and necessitating emergency foreign credits. Moreover, the growth of domestic expenditures deviated seriously from the planned direction and pace. Although capital investment rose 17 percent, centrally controlled projects ran behind schedule, in large measure because of the competition of decentralized projects for labor and materials. Personal consumption increased by 6 percent for the year as a whole, nearly twice the rate of 1958, but the forced cutback toward the end of the year was particularly annoying to the regime, which had just pledged steady improvement of living conditions. Finally, inventories in 1959 again exceeded planned levels by a considerable margin, indicating continued difficulties in adjusting the structure and quality of industrial production to the demand of intermediate and final consumers. 41/

c. Developments in 1960

The major emphasis of the annual plan for 1960 was on restricting the growth of domestic expenditures in order to reduce the foreign trade deficit and permit a full recovery from the inflationary strains of 1959 in preparation for the renewal of rapid expansion during 1961-65. The continued rapid growth of industrial production was projected, as was a moderate increase in agricultural output, the latter without conviction because unfavorable weather had persisted during fall planting in 1959. The growth of capital investment was set at the moderate pace (6 percent) needed to attain the level for 1960 indicated in the Congress program, but no increase was promised for personal consumption, partly because of the uncertainty of agricultural prospects. 42/

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During the first half of 1960, as the Politburo was drafting its revision of the Congress program, the new controls over domestic expenditures were applied more "effectively" than had been anticipated. Because of restrictions on employment in construction and because of cautious bank review of applications for new projects, capital investment declined slightly compared with the first half of 1959. Personal consumption also fell below the level of early 1959, reflecting reductions in employment and the imposition of higher work norms as well as the higher level of retail prices. Industrial output, nevertheless, continued to expand more rapidly than planned, including output of such basic materials as electric power, coal, and crude steel. 43/

The reaction of urban workers to the deflationary program was a relatively mild one. The program, especially the boosting of work norms that took place early in 1960, did lead to a series of disturbances in factories, but these probably were fewer in number and more minor in nature than the regime had anticipated when the unpopular measures were adopted. In spite of the decline in real wages, moreover, labor productivity in industry increased by more than 9 percent during the first half of 1960, more rapidly than during the comparable period of 1959, when average wages had risen appreciably.

3. Political Factors

In spite of the various economic influences for revising the 1961-65 plan, the Politburo's decision to increase the priority for long-term economic growth and reduce that for consumer welfare appears to have been based primarily on political considerations. The Party leadership inevitably was interested in obtaining the most rapid economic growth possible, and by mid-1960 the political and economic restraints on productive investment that had seemed so imposing at the time of the Third Congress were no longer operative.

A change in the outlook of the regime on the problem of popular discontent is believed to have been the key factor permitting the reduction in the Congress program for consumer welfare and thereby lifting the political restraint on the level of productive investment. The Politburo, in its deliberations on policy during the spring of 1960, presumably recognized that economic discontent still was nearly universal in Poland, particularly among the urban workers, who had just suffered a cutback in real wages. But the leaders of the Party apparently were much more confident than they had been a year earlier that the population had largely accommodated itself to Communist rule and that disappointments and temporary setbacks in the area of living conditions would not set off active resistance to policies of the regime. The relatively mild reaction of urban workers to

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the deflationary program of October 1959 probably was of central importance to this new confidence. In March 1960, in a speech before a Warsaw Party conference, Gomulka asserted that the vast majority of the working class had accepted the necessity of the deflationary program with "deep understanding." 44/ Although this assertion may have been an overstatement of the new confidence of Party leaders, the Politburo clearly did conclude by June 1960 that significant increases in consumption could be postponed for several years and that the timetable for improving housing conditions could be delayed somewhat without incurring any substantial political or economic risk.

The key factor in the lifting of the former economic restraint on the level of productive investment was a growth in confidence on the part of the Politburo concerning the ability of the Party and the state apparatus to administer effectively a more demanding investment program. In part the new confidence reflected the better-than-expected performance of heavy industry during 1959-60 and the apparent effectiveness with which new controls over investment had been instituted after October 1959. It also represented a more optimistic outlook on the extent to which improvements in economic efficiency could be expected to contribute to economic growth during 1961-65. The Kalecki-Jedrychowski thesis that shortages of basic materials would restrict the rate at which productive investment could be expanded in real terms was downgraded. The regime apparently had become convinced that improved central controls could speed up substantially the pace originally planned for completion of new capacity in basic materials and could promote a more rapid increase than planned in production of machinery and equipment for export, with which imports of needed materials could be enlarged. 45/

The new political confidence of the Politburo was reflected in, and in turn influenced by, shifts in the influence of individuals and factions within the Party. Little is known about the issues and seriousness of any debate over the decision to modify the Congress program that may have taken place on the Politburo or within the Central Committee. It is likely, however, that Jedrychowski, at least at first, opposed the increase in investment and production targets as unrealistic in light of the economic difficulties experienced during 1959. However, to the extent that these difficulties had been aggravated by planning errors, Jedrychowski and his close associates on the Planning Commission probably had suffered a decline in political influence, and any such call for restraint was vetoed by the Politburo. Major support for the revision of the Congress program, on the other hand, probably came from members of the Party who had opposed the Congress program in 1958. Several of these men were returned to positions of increased influence in October 1959 in order to administer the program of tighter economic controls -- most notably Eugeniusz Szyr, who

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was appointed to a vice premiership. ^{46/} With the increased prestige that they enjoyed as a result of their success in tightening controls, Szyr and his associates doubtless advocated bolder economic planning. And, in effect, the Politburo by June 1960 had come to agree with Szyr's old charge that Jedrychowski and other sponsors of the Congress program had been unduly influenced by the reversals of the Six Year Plan period.

4. External Influences

The 1960 revision of the Polish Five Year Plan for 1961-65 was subject to external as well as internal political influences but not nearly to the extent of the 1950 revision of the Six Year Plan that had been dictated directly by the USSR. The Politburo's interest in accelerating the planned rate of Polish long-term growth certainly was heightened by its sensitivity to criticism of the Congress program on the part of the more orthodox Satellites. One of the purposes of the program of June 1959 for transforming agricultural circles into instruments for advancing the socialization of Polish agriculture was to counter the criticism of Polish agricultural policies by the Satellites then engaged in intensifying their own efforts toward collectivization. A desire to accommodate other Bloc countries also may have been a factor in deciding to reduce the discrepancy between the planned rate of long-term growth for the Polish economy and that of the other Satellites. During 1958-59, at the urging of the USSR, most of the Satellites had adopted programs for accelerating the development of basic industries as a means of maintaining rapid expansion over the long run. In the Congress program the Poles had largely resisted Soviet pressure in this direction, thereby incurring the criticism of complying Satellites such as Czechoslovakia. In the 1960 revision of the 1961-65 plan, however, most of the additional investment not assigned to the support of agriculture was earmarked for metallurgy and other basic industries.

E. Final Plan for 1961-65

A final version of the Five Year Plan for 1961-65 was completed by the Planning Commission early in 1961 and presented in February to the Sejm for ratification. The final plan reveals no essential change from the guidelines set down in the resolution by the Central Committee of June 1960, although numerous adjustments were made to account for economic results for the full year 1960, which generally proved to be more favorable than had been anticipated at midyear. National income expanded more rapidly than domestic expenditure in 1960, permitting, as planned, a considerable reduction in the foreign trade deficit from the high level of 1959. Industrial output increased by more than 8 percent, with almost no expansion of employment. Agricultural output,

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thanks both to a dramatic improvement in weather and to the cumulative effect of Gomulka's liberal policies, increased by 4 to 5 percent, matching the optimistic estimate hopefully set forth in the annual plan. Investment activity picked up sharply in the final quarter because of unusually mild weather and some loosening of controls, and expenditures for the year were essentially at the planned level. Employment and wages as well as farm income also increased considerably in the final months, but for the year as a whole per capita consumption trailed behind the level of 1959. Once again, inventories increased more rapidly than desired, in part because of the lag in consumption. 47/

The text of the final plan for 1961-65 48/ was preceded by an evaluation of the results of the just-completed 1950-60 plan, which indicated general satisfaction on the part of the Gomulka regime, in spite of considerable deviations from some of the targets set forth in 1957.* Industrial production increased by about 50 percent during 1956-60, essentially as planned, and although goals for many key commodities were not reached, the shortfall generally was small. Gains in labor productivity, moreover, accounted for most of the increase in output, as industrial employment increased by only 11 percent from 1955 to 1960. Agricultural output increased by about 20 percent, falling far short of the planned growth of 25 percent. Nevertheless, results in agriculture compare very favorably with both the near stagnation of Polish production during 1951-55 and the experience of the other Satellites during 1956-60. National product increased by nearly 39 percent compared with a planned rise of 46 percent. This large shortfall reflected, in addition to the underfulfillment of the agricultural plan, a failure to reduce the costs of production as much as planned in most sectors of the economy.

Domestic expenditures, partly supported by foreign credits, increased by slightly more than 39 percent from 1955 to 1960. Capital investment increased by 46 percent (1956-60 above 1951-55). The level of expenditures was slightly in excess of plans, but because of unanticipated rises in costs, many projects scheduled under the Plan were not completed. The record for completing scheduled projects was nevertheless much better than under the Six Year Plan. Personal consumption rose by 36 percent from 1955 to 1960, well behind the planned rate. Once again, however, the achievement in this sector was very impressive by the standards of Polish performance during 1951-55 or by that of the other Satellites during 1956-60. Per capita gains for the urban population, moreover, exceeded those of the farm population, reversing, as planned, the trend of the pre-Gomulka period.

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A comparison of indicators of economic growth under the final Plan for 1961-65 with those of the Congress program of March 1959 is shown in the following tabulation:

	<u>Percentage Increase During Period</u>			
	<u>Congress Program</u>		<u>Final Plan</u>	
	1956-60 (Plan)	1961-65 (Plan)	1956-60 (Actual)	1961-65 (Plan)
National income	46	40	39	41
Industrial output*	52	50	48	52
Agricultural output	25	21	20	22

There is little essential difference between the two plans in their projections of the capabilities of the Polish economy during 1961-65. The Congress program, however, when related to the overly optimistic assumptions of what the economy could do during 1956-60, indicated the need for a slowdown in economic growth after 1960, whereas the final Plan, when related to the actual achievements during 1956-60, called for a speedup in economic growth.

The final Plan for domestic expenditure, on the other hand, called for a lower rate of growth for 1961-65 than that achieved during 1956-60, as shown in the following tabulation:

	<u>Percentage Increase During Period</u>	
	<u>1956-60 (Actual)</u>	<u>1961-65 (Plan)</u>
Domestic expenditures	39.3	33.5
Personal consumption	35.5	32.1
Government purchases	50.1	15.2
Net capital investment	54.6	48.2
Increase in inventories and reserves	35.3	7.0

* Plan figures are from Polish data on gross industrial production; the figure for actual production is from Polish data on net production (see Appendix A).

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The discrepancy between the rates of expansion planned for national income and for domestic expenditures during 1961-65 is accounted for in part by the plan to effect a large export surplus by 1965 in order to meet payments due on foreign credits drawn earlier. There appears to be, in addition, a sizable unallocated reserve equal to at least 3 percent of the level of national income in 1960.* This reserve probably is intended as a contingency both against nonfulfillment of production plans, particularly in agriculture, and against overfulfillment of planned domestic expenditures in some areas. Uncertainty about the level of defense expenditures, which normally are reflected in government purchases and under changes in inventories and reserves, might account in part for the caution in allocation. Also, the rate of growth of stocks, considering previous Polish experience in this area, appears to have been set deliberately too low, possibly for exhortative purposes.

The planned growth for personal consumption in the final Plan was set close to the top of the range indicated at the plenum of June 1960, probably reflecting improved prospects for agriculture for the early years of the 1961-65 period and higher levels of retail stocks of industrial consumer goods at the end of 1960 than previously had been anticipated. The final Plan for capital investment encompassed a small upward revision of the over-all target for 1961-65, with a further redistribution in favor of productive sectors. The final level of productive investment was nearly 14 percent higher than that set forth in the Congress program, whereas the final level of outlays for housing was 18 percent lower.

The final plan for 1961-65, although somewhat bolder in design and much less replete with reserves than the Congress program, still appears to represent fairly accurate assessment of the potential of the Polish economy, even if of the upper reaches of that potential. It may be conjectured that had Kalecki been responsible for the drafting of the final Plan for 1961-65, he might have reduced, rather than raised, targets for economic growth because of the shortfall in production in the 1956-60 Plan. The final plans for production, especially for agriculture, probably have been set several percentage points beyond reach, but there is some reserve in the Plan for domestic expenditures. In addition, the near-certainty of obtaining new foreign credits during 1961-65 was not accounted for in the Plan and serves as a reserve.

There is additional evidence that the Gomulka regime continues to place a high premium on realistic planning. If the Five Year Plan shows some evidence of "growthsmanship" or political planning, the

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operative annual and quarterly plans still are largely the province of the professional economists, and so far, in final plans for 1961 and 1962 and preliminary plans for 1963, the targets for growth have been more conservative than the pace demanded by the Five Year Plan. Finally, a high priority has been attached to the careful study of current indicators of economic activity as a means of uncovering unexpected problems and developments. Oskar Lange, world-renowned economist and generally associated in Poland with conservative planning, was given the task by the regime of defending the final Plan, both before the deputies of the Sejm and, in a journal article, before the community of economists at large. 51/ The Plan, he asserted, aimed for both harmonious and rapid economic growth. Nevertheless, disturbances might occur in the course of the 1961-65 period. The task of policymakers and economic planners was to bring such disturbances to light in time and counteract them or take them into account within the framework of the annual plans. Lange concluded with the judgment that although the basic proportions of the Plan should not be subjected to change, a flexible economic policy as to detail should be maintained.

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III. Prospects for Polish Economic Policy

A. General

The Fourth Congress of the Polish Communist Party is scheduled tentatively for the spring of 1963. Following the precedent of the Third Congress, the Politburo currently is preparing for the Congress a program on the development of the Polish economy through 1970 (or possibly 1980) for presentation first to a plenary session of the Central Committee and then to the Party Congress. The program for the Fourth Congress, which will encompass revised goals for the Five Year Plan of 1961-65 as well as preliminary targets for the post-1965 period, will constitute a restatement of the economic policy of the Gomulka regime.

Very little has been revealed thus far about the probable content of the new program, and there are indications that the Politburo has not yet resolved disputes between contending factions in the Party on certain issues. It is believed, nevertheless, that no change in the basic character of Polish economic policy will be forthcoming. The forces that have promoted moderate and realistic economic programs in Poland since October 1956 are still operative: the deep-rooted pragmatism of Party leaders and their recognition of the complexity of the problems facing the economy, of the intense contempt of the population for orthodox Communist tactics, and of the limited strength of the Party apparatus. Moreover, the relatively favorable performance of the Polish economy during 1961-62 compared with the considerable difficulties encountered during the period by Czechoslovakia and East Germany, two of the more orthodox Satellites, has raised the prestige within the Bloc of Polish policies of moderate and realistic planning.

The new Congress program, on the other hand, may reveal a modification of the economic priorities set forth for the 1960's in the final version of the Five Year Plan. Although the performance of the Polish economy during 1963-65 should continue to be generally satisfactory, some reduction of production goals appears to be certain. The compensatory adjustments of targets for investment and consumption probably are key issues under debate among factions of the Party. Prospects are for still another, although probably minor, redefinition of relative priorities in favor of supporting long-term economic growth and at the expense of providing for short-term improvements in living conditions.

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B. Economic Developments During 1961-62 and the Outlook Through
1965

At the start of the Five Year Plan of 1961-65, the outlook of Party leaders as to the prospects for the Polish economy was one of restrained confidence, reflecting the unexpected strains that had accompanied the rapid expansion of capital investment during 1959 as well as the better-than-anticipated performance of the economy in 1960. The confidence of Party leaders probably expanded during 1961, a year of unusual economic success. The exceptionally good performance of agriculture in 1961, however, covered up a number of basic economic problems that are likely to retard the growth of production and consumption. These problems -- especially the sluggishness of technological change and the continued difficulty experienced in producing the types of goods most in demand by domestic and foreign customers -- became more pressing and also more evident to the regime in 1962, when agricultural production declined sharply. At the end of 1962, as the midpoint of the Five Year Plan approaches and as the Politburo is engaged in preparing a program of economic development for the forthcoming Party Congress, Party leaders probably are still confident that the performance of the economy will continue to be generally satisfactory during 1963-65, but they recognize that many of the demanding targets for economic growth under the Second Five Year Plan are now beyond reach.

In 1961 the growth of industrial output exceeded 10 percent, the most rapid expansion in recent years.* For 1962 a growth of about 8 percent is likely, making a combined growth over the 1961-62 period of about 20 percent, somewhat faster than the pace set for the period under the Five Year Plan. Labor productivity has increased by 5 to 6 percent per year, essentially as planned, and the above-plan gains in production have been the result of increases in employment in excess of plans. In 1961, imports of raw materials also exceeded the planned level and contributed to the smooth performance of industry during that year and during the first half of 1962.

The Poles have claimed an increase in agricultural production during 1961 of more than 11 percent and, in their preliminary estimates, are predicting a decline in output during 1962 of nearly 8 percent. Although official figures are believed to exaggerate the extent of the fluctuation, there is no doubt that 1961 was a banner year for agriculture and that 1962 is only an average year. Exceptionally favorable weather conditions in 1961 and poorer-than-average weather in 1962 account for the fluctuation. The growth of 3 to 4 percent in agricultural output from 1960 to 1962 indicated by official figures is only about one-half of the growth scheduled for the period under the Five Year Plan.

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The growth of national income as a whole during 1961-62 is likely to average about 5 percent per year, somewhat slower than the original expectations for the period under the Second Five Year Plan and the rate achieved during 1958-60. Moreover, qualitative improvements during 1961-62 have not kept pace with the fairly impressive quantitative achievements of the Polish economy. Although progress has been made, the program for organizational and technological reform, on which improvements in efficiency heavily depend, has lagged. The Poles continue to experience considerable difficulty in producing goods of the type and quality most in demand by customers, whether for investment, export, or consumption, and the effective use of output is hindered further by irregular deliveries and by inefficient management on construction sites. As a result, during 1961-62 the planned growth of capital investment and personal consumption has not been achieved, and the growth of inventories once again has been considerably in excess of plans. Part of the unscheduled growth of inventories was the result of an above-plan increase in defense expenditures,* which followed from the worsening of the Berlin situation in 1961.

Expenditures for capital investment increased by 8 percent during 1961, and a growth of similar magnitude is likely during 1962. Although rapid, this growth lags behind the rate of 9-1/2 percent per year as set in the annual plans. Much of the shortfall has been in the nonproductive sectors. The growth of agricultural investment, however, has lagged behind the very rapid pace called for in the plans, and performance in key industrial projects, although improved, still is characterized by delays in completion and by excess costs.

Personal consumption increased by 6 percent during 1961, more rapidly than scheduled. The large increase in agricultural output boosted peasant incomes considerably and also enabled the regime to expand rapidly industrial employment and wages without fear of causing strain in the retail market. The annual plan for 1962 called for a growth of 4 percent in consumption, but, as a result of difficulties in agriculture, such an increase now appears to be unlikely. Peasant incomes should decline from the level of 1961. The money wages of industrial workers have increased about as scheduled, but, with the decline in the harvest, increases in food prices have eroded much of the gain.

The Second Five Year Plan calls for an acceleration of economic growth during 1963-65, but a number of factors appear to make the conditions for economic growth during the final years of the plan period less favorable than during the opening years. In particular, the rate of growth of industrial output should decline over the next few years.

* The category "changes in inventories and reserves" in the Polish national income accounts is believed to include the bulk of expenditures on the procurement of military hardware.

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One major factor in the less favorable prospects for industrial production is the decline in agricultural output during 1962 and the likelihood that the banner increase of 1961 will not soon be repeated. Agricultural developments will be reflected directly in a slowdown in the growth of food processing, a major sector of Polish industry that rose very rapidly during 1961-62. In addition, by restricting the rate of growth of food supplies available for urban distribution, a decline in agricultural output followed by a moderate rate of growth may force the regime to pursue a more cautious employment policy than in 1961-62. In turn, if urban employment is not increased more than planned, continued lags in completion of new plant and in the introduction of new technology are likely to prevent the achievement of goals for industrial output under the Five Year Plan.

Developments in foreign trade, directly related to agricultural prospects, are likely to be another factor limiting the rate of expansion of industry over the next few years. Polish imports from Western countries of materials and machinery increased much faster than scheduled during 1961. These imports were supported for the most part by above-plan exports of agricultural products to the West and by foreign credits, including a new US credit not accounted for in the Five Year Plan. Prospects are for a much slower growth of imports from the West over the next few years, however, because of an aggravation of the perennial Polish shortage of foreign currency, a trend already apparent late in 1962. Polish exports to the West of agricultural products probably will be hampered considerably by the leveling off of domestic production and possibly also by the policies of the Common Market. Moreover, there is likely to be a reduction in the level of US credits to Poland over the next few years compared with 1961. Polish efforts to increase exports to the West of machinery and other manufactured goods so far have been hindered by the delays in the program for improving the quality of production. Finally, because of agricultural difficulties in Poland, at least for 1963, a larger share of imports from the West will consist of grains and a smaller share of raw materials for industry.

Probably the most important factor tending to reduce the rate of growth in Poland over the next few years will be the continued diminution of easily exploitable opportunities for improving economic efficiency, an area in which performance has already fallen behind plans during 1961-62. For the most part, the organizational changes that could have been put into effect most easily and cheaply were undertaken first, and future improvements in efficiency are likely to prove increasingly difficult and to be accompanied by larger investment outlays.

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C. Conclusions

The performance of the Polish economy over the new few years should continue to be generally satisfactory, with rates of expansion that compare quite favorably with those achieved in the other European Satellites. Average annual rates of growth in Poland during 1963-65 probably will fall between 5 and 6 percent for national product and between 7 and 8 percent for industrial output.

Nevertheless, production targets for the final years of the Five Year Plan will not be met. At the same time, a growth of inventories in excess of plans, because of continued inefficiencies in production and above-plan expenditures for defense, probably will more than absorb the entire reserve of unallocated national income written into the Plan. Additionally, because the foreign trade deficit exceeded plans during 1961-62, in the absence of sizable new credits a larger-than-planned expansion of exports at the expense of domestic expenditures may be necessary during 1963-65. As a result of these developments, some adjustment of targets for capital investment and personal consumption during 1963-65 appears to be inevitable. These adjustments are likely to be written into the Politburo's program for the Fourth Party Congress, for meaningful goals for 1965 will become of increasing importance as the end of the Plan period approaches and as increased attention is devoted to detailed planning for the post-1965 period.

A revision of the investment program for the remainder of the Five Year Plan has already been completed. A systematic review of investment requirements for industry has been underway since mid-1960, as a result of which numerous projects will be eliminated or reduced in size as unessential, impractical, or outdated, and other projects, now considered to be of greater importance, will be added or enlarged. The investment revision, for example, will take into account projects added recently as part of the campaign to expand the capacity and update the technology of plants engaged in export of machinery and other manufactured products. There also will be changes in structure reflecting the reexamination of production objectives for the post-1965 period, including changes in response to the movement within the Bloc for greater specialization of production, under which, for example, Poland probably will increase its planned investment for shipbuilding.

The revised investment program for 1963-65 calls for a small increase in outlays above the original plan for the period. However, because of the lag in investment during 1961-62 and the higher-than-anticipated costs of investment projects, the volume of investment originally planned for 1961-65 probably has been reduced. The new program also contains some shifts in relative priorities compared with the original draft of the Five Year Plan. In general, investment in the

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productive sectors will be increased at the expense of investment in the nonproductive sectors, with the exception of housing and school construction. Within the productive sector, heavy industry and those branches of industry producing for agriculture are to receive larger investments than originally planned, with a concomitant reduction in the number of investment projects in consumer-oriented branches -- light industry and food processing. 53/

Goals for personal consumption also will be trimmed in line with the revised prospects for national income. According to the Five Year Plan, personal consumption was to increase fairly rapidly during 1963-65 -- by 5-1/2 to 6-1/2 percent per year. The chances are that revised plans will call for average rates of growth of 4, possibly 5, percent per year.

As a result of revisions in the plan for domestic expenditures, the share for productive investment probably will be raised and that for personal consumption reduced, although the new distribution is not likely to vary greatly from that of the final version of the Five Year Plan. This further reduction in the priority for consumer well-being relative to that for long-term economic growth would be an indication that the regime has gained additional confidence since 1960 that political quiescence and economic cooperation on the part of the population would not be jeopardized by a stretching out of the schedule of promised improvements in living conditions.

The new Congress program also will publicize plans and intentions for the post-1965 period, which, it is believed, will reveal no change in the basic character of the economic policy of the Gomulka regime. Goals for production probably will be reduced relative to those publicized in mid-1960, and no essential change is likely in the Gomulka policy of gradual and voluntary socialization of agriculture.

There is a possibility that a faction within the Polish Communist Party, recently labeled the "Partisans," has been advocating more aggressive economic policies as to both the rate of economic growth and the speed of socialization of agriculture. Such an advocacy, similar to the Natolin attack on the Congress program of 1958-59, may be intended to increase the political prestige of the dissident group at the expense of Gomulka's more moderate advisors. Such a dissent, if it exists, is not likely to gain much support within the Central Committee primarily because of the broad consensus in support of moderate and realistic policies. In contrast to 1958-59, moreover, little support for more vigorous policies can be gained at this time from the example of the plans of other members of the Bloc. Communist China, Czechoslovakia, and East Germany, previous advocates of bold planning, all have suffered serious economic difficulties in recent years and have revised their multiyear plans in line with more conservative estimates of their capabilities.

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Partly because of the recent favorable performance of the Polish economy relative to that of other Bloc countries and partly because of the increased personal prestige of Gomulka among leaders of the Communist Party of the USSR, the prestige within the Soviet Bloc of Poland's distinctive economic policies has risen considerably since 1960. Late in 1961, at the time of the 22d Congress of the Communist Party of the USSR, the USSR gave a specific endorsement to the gradualistic tactics of the Poles in the field of socialization of agriculture. 54/ More recently, at the meeting in June 1962 of Party leaders of the Soviet Bloc, an implicit endorsement was given to realistic, even conservative, planning as a step toward increasing the future effectiveness of economic coordination in the Bloc and as a means for improving the efficiency of the internal economies of Bloc countries. 55/

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APPENDIX A

POLISH DEFINITIONS AND DATA RELATING TO ECONOMIC AGGREGATES
AS USED IN THIS REPORT

1. National Income

National income by Marxist definition is the sum of income originating in sectors defined as "productive" (industry and handicrafts, agriculture, forestry, construction, trade, goods transportation, and communications), calculated as the sum of the differences between the gross value of production in each sector and the costs of materials, including depreciation. Income originating in "nonproductive" sectors (government services such as education, personal services such as hair cutting, passenger transportation, and housing) is not included. National income equals approximately net national product (by US definition) exclusive of income originating in "nonproductive" sectors.

Official Polish data on national income (labeled "national income created domestically" in Polish sources) are used in this report and are believed to provide an only slightly inflated indicator of the rate of economic growth. The inflation results from the fact that the excluded "nonproductive" sectors, for the most part, have not been expanding as rapidly as "productive" sectors and that industry, the fastest growing sector in most years, is given a larger weight than is justified by relative factor costs.

2. Industrial Production

Official Polish data on plans for gross industrial production are used in this report. These plans are constituted on the basis of projections of output for a broad sample of commodities weighted by factory prices (that is, established prices exclusive of turnover taxes). For reporting plan fulfillment, however, official data on net industrial production are used. The Poles derive the official index of net production by converting to constant prices both the value of production at sales prices (factory prices plus taxes) and the cost of materials purchased and then subtracting the cost of materials from the value of production.

Official Polish reports on fulfillment of industrial plans generally are in terms of gross output and are based on the growth of the value of production at base-year factory prices. This index is believed to exaggerate the actual growth of output by 1 to 2 percent per year, the exaggeration being due mainly to inflated pricing of new products and

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improper valuation of changing product assortments by enterprises in seeking to fulfill the gross production plan. Polish planners are aware of this exaggeration and frequently rely on the index for net production in their own analyses of economic developments. The growth of output since 1956 as reported in the official net index has been very close on a year-to-year basis to the growth indicated by an index prepared by this Office from a large sample of commodities.

3. Agricultural Production

Official Polish data on gross agricultural production are used in reporting both planned and actual output. Both indexes represent series of physical outputs weighted by base-year prices.

The official index on the growth of agricultural production is believed to indicate fairly accurately the actual growth of production, although in certain years some of the physical outputs from which the index is calculated probably are inflated. An index calculated by this Office on the basis of gross output minus feed, seed, and waste shows a growth of 17 percent from 1955 to 1960, whereas the official index for the period shows a growth of 20 percent.

4. Domestic Expenditures

Domestic expenditures ("national income for distribution" in Polish terms) refers to the sum of expenditures on personal consumption (excluding "nonproductive" services), government purchases of goods, net capital investment, and the increase in inventories and reserves. Domestic expenditures plus net foreign investment (or minus net foreign disinvestment) -- that is, the internal value of the foreign balance on goods and services -- is the counterpart of national income. Throughout the 1956-62 period, imports have exceeded exports, and, therefore, the value of domestic expenditures has exceeded that of national income. In 1958 and again in 1960, however, the size of the foreign trade deficit declined, and the rate of growth of domestic expenditures was smaller than that of national income.

5. Personal Consumption

The official Polish measure of personal consumption covers the consumption of goods but only part of the consumption of services. The main components of this measure are personal expenditures on consumer goods and handicraft services (for example, shoe repairing, laundering, and appliance repairs), the value at retail prices of goods obtained as payment in kind by the urban population, farm income in kind valued at contract (noncompulsory) delivery prices, and the value of state and private expenditures for capital repairs of housing.

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The official index of personal consumption is believed to measure fairly reliably the growth of consumption of goods, but it overstates the growth of total personal consumption (according to the US definition) by an estimated one-half to 1 percent per year. The main reason for this overstatement is that net rent for housing, the slowest growing component of consumption in Poland, is not counted in the official index.

6. Government Purchases

Government purchases (referred to as "other consumption" in Polish sources) measures the value of goods and contracted services used by state organizations (administrative, social-cultural, and military) and by other "nonproductive" sectors (passenger transport and various other types of services), as well as purchases by state organizations for distribution to individuals (for example, foods and medicines consumed in hospitals and military subsistence). The wages of government employees and of persons employed in other "nonproductive" sectors are not included in government purchases.

7. Capital Investment

Official data on plans and fulfillment for gross capital investment (expenditures on producers' plant and equipment, housing, and other types of fixed capital) are used in this report. Official series in constant prices probably overstate somewhat the actual growth in the volume of capital investment because of inadequate adjustments for increases in investment costs, but no alternative series are available. To arrive at net capital investment, a component of domestic expenditures, the Poles add capital repairs to gross capital investment and deduct depreciation. Because of incomplete data on annual plans, indexes of net capital investment are not used in this report.

In this report the term productive investment refers to outlays for industry, agriculture, forestry, construction, trade, transportation, and communications. The term nonproductive investment refers to outlays for housing, social-cultural facilities, municipal improvements, and administration (justice, local government, and militia).

8. Increases in Inventories and Reserves

Official data on increases in inventories and reserves cover all levels of inventories and state reserves and are believed to include also the bulk of expenditures on military equipment.

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