

CONFIDENTIAL

NOTES ON POLAND BY DR. BARANSKI

August 12, 1949

1. I should like to put down here some observations about economic conditions and facts in Poland based on the experiences of my recent trip to that country.

General Remarks

2. The economic reconstruction and development of Poland is progressing well along the line of the three year plan, first published in the summer of 1946, and covering the period of 1947, 1948 and 1949. It is already clear that most of the targets established by that plan will be reached before the closing date (end of 1949). The statistical data on the industrial and agricultural production in Poland are compiled in absolute figures, and not only in percentages of the plan, so that the right assessment of the results can be easily obtained.

3. Doubts as to the reality of the plan, which seemed to prevail in the I.B.R.D. when the plan was presented as a collateral of the loan request in the autumn of 1946, were certainly not warranted. There was, of course, a certain amount of inconsistencies in the original plan, the elimination of which was subsequently necessary in order to keep the plan going. But these adjustments did not affect substantially the broad lines of the plan and the magnitude of the proposed results.

4. There is, however, the consensus amongst the Polish economists that the new 6-year development plan (1950-1955) aiming at the doubling of the real national income at the end of this period is more ambitious than the first plan, and, that unless there is a concurrence of favorable events and circumstances, it may be more difficult to be carried out. But it is also generally agreed - (a) that even so, there is only the question of relatively minor adjustments of the time of execution of the new plan, the feasibility of which is unquestionable, (b) that new foreign credits are not indispensable for the new development plan, (c) that these credits, however, could be useful insofar as they could contribute to a

faster improvement of the standard of living of the people and lessen the need of imposing grips and regulations on the economic life, necessary for the diverting of a substantial part of the national income for non-consumption (investment) purposes.

5. As to the feasibility of the plan, I should like to stress here one important point. The development of the native engineering industry serving as a base for providing equipment for the overall industrial development, is, according to absolutely reliable sources, a realistic proposal. It is possible especially in the terms of availability of skilled labor and management. Therefore, if it is said sometimes that a country like Poland is in a "desperate" need of imports of machinery from abroad, it rather seems to be an overstatement. The basis for home production of industrial equipment already exists in Poland. The idea, e.g., that the so-called East-West trade should consist of exchanging foodstuffs for industrial consumers goods is no longer applicable to countries like Poland, Czechoslovakia or Hungary. Even if we anticipated that Poland should import textile products instead of raw cotton and wool, the implication of such a program would be that Poland will be forced to make in its own production and employment a further shift from spinning mills to engineering factories.

6. I heard the following comment about the six-year plan from a highly responsible person: "It will be (i.e. the plan) carried out because it must be done. We have now, in the next six years, a unique chance and opportunity to raise the level of our economy to the Western standards. If we miss this opportunity, we may forfeit not only this hope, but perhaps we may lose what we had already gained as an outcome of the war. The Polish economy, after the six-year period, has to boom and buzz with activity and energy."

7. My feelings are that the economic policy of the Government going along these lines, will be fully endorsed by all the people -- even by those who are opposed to the Government's political policy. On the other hand, it is possible that those political circles which would like to pursue a more intransigent and

rigid line in the domestic policy, will be induced to adopt a softer line of action should the rigid one have a direct negative effect on the above mentioned attitude of the people.

National Income

8. Reliable sources estimated the national income for 1948 as representing ca 2000 billion zlotys, equal to 5 billion dollars, according to the actually prevailing rate of exchange (so-called "premium rate") which is now Zl.400 = \$1.00. The national income per head is therefore slightly over \$200.00; taking into consideration the changes in purchasing power, this may be somewhat more than before the war (about \$100.-). Many attempts have been made to express the national income in the terms of zlotys of the purchasing power of 1938. The results are, however, unreliable because the converting factors have been chosen rather arbitrarily and have generally led to overestimates.

9. The evaluation of the real wages of industrial workers, and especially of the income of the salaried class seems to be in contradiction with the above estimate of the national income per head, as they are considered as being lower (sometimes substantially lower) than before the war. But there is a number of reasons why the trends of the development of what is called the national income per head must be different from the development of wage or salary rates;

(a) The ratio of people actually working ("gainfully employed") to those classified as "dependents" is now much higher than before the war. Thus the real national income per worker may be smaller than it was before the war.

(b) The number of people engaged in jobs of very small productivity and income (primitive crafts or home industries, agriculture in the poor eastern provinces) has now decreased considerably in comparison with the pre-war period. Thus the major factor levelling down the pre-war average income has virtually disappeared. Consequently, the average income related to occupations having higher productivity (factory workers, white collar workers) must have diminished substantially, if the final figure representing the national income per worker is now still the same or even smaller than in 1939.

(c) The role played in the earnings of a worker by various extras, premiums for efficiency, etc. is much greater now than before the war. Thus the evaluation of wage rates alone does not necessarily reflect the changes occurring in the workers total income and certainly cannot be directly related to or compared with the development of the national income figures, even if both are considered in real, not nominal terms.

Polish currency as a Standard of Value

10. Until the beginning of 1948 it was somewhat difficult to assess properly the real value of the national income because of a specific price structure prevailing at that time. It was the so-called "double price system" with a great spread between the "controlled" prices and the "free" or "commercial" prices, both of which have played an important part in the nation's economy. As a consequence of this system the whole price structure was distorted, and statistics expressed in national currency were often misleading. In 1948, however, a single pricing system was adopted - prices having been established on the former "free" level with slight adjustments. The last remnants of low "controlled" prices for food articles have disappeared with the general discontinuance of the rationing system.* In the course of this reform wages were also adjusted to the new price level. So the purchasing power of the Polish currency can be easily defined now, and figures expressed in Polish zloty give a fairly accurate picture of economic matters comparable with the pre-war statistics, or statistical data of other countries. The most substantial distortion which still remains is the artificial structure of housing rents, being generally very low or only nominal.

11. The formation of prices under this system is not yet altogether "natural" because there are still subsidies (or measures equivalent to subsidies) for certain

* There still is a quasi-rationing system for meat, the prices of which are now held on the level of those previously prevailing on the free market, but in my opinion they are too low for the present time.

goods and services, both in internal and foreign trade. But these subsidies (covering the internal trade such items as certain building materials, iron and steel products, meat and lard, and to some extent costs of transportation) represent, in comparison with the whole national product, a ratio certainly not higher than that which exists today in Great Britain. Subsidies of this kind are covered by higher prices asked for certain consumers goods (e.g. pure woolen materials), a system which works like a purchase tax.

12. There are also certain subsidies applied in export trade (mainly for food articles). The ratio of these subsidies to the entire value of exports is higher than the respective ratio in internal trade, but it is considerably smaller than it was in Poland before the war. Export subsidies are offset and covered by extra profits resulting from certain highly priced and remunerative exports (e.g. coal).

13. With these qualifications it can be said that the "premium" exchange rate of 400 Zl. for \$1.00, now applied to all but few of the current export and import transactions, gives a proper evaluation of the external value of the zloty, and may be considered as more realistic than several par values agreed upon with the Monetary Fund. There is, however, a strong feeling in Poland against fixing any par value or legal rate of exchange before the contemplated monetary reform. Such a monetary reform would aim at the establishment of a monetary unit of higher value, as the present zloty is now worth practically one pre-war grosz (1/100 Zl.). But no such reform is intended before it can be made sure that the danger of inflationary pressures is entirely eliminated from the Polish economy. In this respect the government seems to be very cautious. Experiences from the monetary reform of 1924 are still remembered and these experiences may be one of the elements justifying this cautiousness.

Agriculture

14. Prospects for the harvest were very good in June - but cold and rainy weather prevailing in July could have affected adversely the ultimate results, especially in the Southern region. Reserves of rye left over from the crops of 1948 are still high.

15. A special program for promoting cattle and pig breeding is under way (the so-called "Action H"). Meat production is still insufficient, and demand is rising steadily. There is an increase of meat consumption by the farmers themselves as their income is going up in line with increasing farm yields. The demand for meat in the urban areas is growing at a faster rate than demands for other food articles as a result of an increase in real wages, although this increase is justified by and kept in line with the growing overall production of consumers goods. And lastly, there are new requirements for export trade (bacon for Great Britain under the new trade agreement, etc.).

16. The cattle and pig population, however, is still far below the pre-war figures, and will not be fully replenished before 1955, i.e. at the end of the six-year plan. The meat scarcity will probably still last a long time unless substantial price increases are allowed in order to check the rise in demand. So far, meat (and lard) is the only food item the prices of which are now subsidized.

17. The program for the establishment of cooperatives for agricultural production (what is sometimes called "collectivisation" and was frequently regarded as a full scale political attack on the peasantry), did not materialize in a substantial way. The only major effect seems to be that the acreage still held by the State, as a result of the agrarian reform, (over 10% of the entire acreage), will not be distributed individually, but, either managed as State-owned farms, or given to the peasants in the form of collective property; the latter may also be applied to the acreage formerly owned by Ukrainians who were repatriated to USSR from the Eastern borderland of Poland.

18. The new six-year plan provides for a reduction of about 3% of the number of people working in agriculture. On the other hand, the mechanical traction applied on farms will be raised from the present 5% to 15% of the total traction power (including horses) calculated in the same units. This means only that the proposed changes in agriculture are rather conservative, and if realized on this scale certainly cannot involve any revolutionary change in production methods and organization.

Mining and Industry

19. Coal mines have slightly exceeded the target of production foreseen for 1948 in the plan established in 1946. The further increase of coal output has been, however, deliberately slowed down (target for 1949 - 75 million tons instead of 80 million) in order to keep in line with home needs and export possibilities. During the six-year plan the coal output shall go up, but at a slowing rate. Exports are supposed to be continued at the present level; no increase is contemplated.

20. Steel production shall be raised considerably so as to double it in 1955. There already is a shortage of rolled products in Poland. A new steel mill, ordered in U.S.S.R. on credit terms, is to be constructed in Cracow (not in Gliwice, Silesia as originally intended; it will have the capacity of producing 1,500,000 tons a year. The combined Polish-Czechoslovak crude steel output will represent in 1955 the figure of about 8 million tons (at present it is about 5 million). Cracow has been chosen as the location of the new steel mill due to the fact that the huge railroad marshalling yard built there during the war by the Germans, and not being at present fully utilized, may provide excellent transport services for this purpose. From the economic point of view, this represents a major economy, as the transport facilities in Silesia are already overburdened and ought to be substantially enlarged if new steel mills were to be constructed there. Thus Cracow will become an industrial city and will in some respect change its present character of an intellectual and tourist center.

21. There are extensive plans as to the development of engineering industries (including motor car production), as well as many chemical branches, based on home produced basic materials (coal and coal derivatives, salt, sulphuric acid as a by-product of zinc smelting, etc.).

22. In spite of the fact that the development of the heavy industry has become a shibboleth in economic discussions and propaganda, the most substantial gains in production during the year occurred in quite a different field, i.e. in the consumers goods industries which formerly lagged behind in comparison to the

pre-war level and to the actual needs. With the possible exception of furniture and leather goods, the production now covers the demand for most of the industrial articles.

Capital Formation, Investments, Reconstruction

23. Figures available for 1947 indicate that the gross investments amounted to 16% of the gross national product; the actual ratio may be higher because not all repairs and renewals are treated as gross investments. The respective data included in the E.C.E. Report for 1948 (Table 32) are obviously erroneous. It is impossible that in 1947 the gross investments should have been only 10% and in 1948 - 9% of the G.N.P. The error may consist in the wrong assumption that the "national investment plan" covers all investments, although - (a) neither does it include the bulk of agricultural investments (in private farms), nor a substantial part of housing construction, and (b) it does not include any increase of stocks, neither publicly owned or private. The allowance for depreciation referred to in the above E.C.E. report is certainly too low. It must be calculated at least at 6% of the G.N.P. or more. According to the six-year plan the gross capital formation planned for 1950 will represent 18% of G.N.P., and for 1955 - 23%.

24. Of all the investment expenditures which have to be done in 1950, 39% will go to mining and industry, 11% to agriculture, 21% to transportation and communications, 22% to housing and public building construction. In this connection may I be allowed to mention that in an article presenting a tentative post-war investment and development plan for Poland (published in the quarterly "The Polish Economist", London, January-March, 1943, No. 5), I proposed the following scheme: 30% for industry, 10% for agriculture, 20% for transportation and communications, and 40% for construction work, including dwelling houses as well as public and commercial buildings. The actual plan differs substantially from that scheme insofar as building of houses is concerned. In fact, the shifting of the Polish frontiers and actual losses in population have considerably attenuated the urgency of a big housing program, considered at that time as a necessary collateral to an

industrialization and urbanization program for Poland in her pre-war shape. The building of new houses has now lower priority in favor of the reconstruction of the damaged ones, which can be done at a smaller cost. In the meantime, the official allocation system of existing dwelling space is a temporary measure, alleviating actual shortages.

25. The destroyed or substantially damaged urban buildings (dwelling houses and other buildings) represented at the end of the war 18.6 billion cubic feet. In this amount the part of the incorporated western (formerly German) provinces represented 57.5%, that of Warsaw - 17.5% ($3\frac{1}{4}$ billion cubic feet), and the rest, i.e. the bulk of the Polish territory - 25%. The value of destroyed or damaged farm houses or other rural buildings is estimated as one-fourth of the damages in cities. The reconstruction of Warsaw has now a high priority in comparison with repairing the destruction suffered in other parts of the country. But even at this privileged rate, the reconstruction of Warsaw cannot be completed before the period of 15-20 years, according to reliable information and estimates.

Foreign Trade

26. Poland's foreign trade is an item, the development of which has gone along a somewhat different line than it was believed in 1946 according to the first version of the three-year reconstruction plan.

27. The total foreign trade (import-export) for the year 1949 was planned originally (in 1946) at 1260 million dollars. Since Poland's foreign trade amounted to 278 million in the first quarter of 1949; it was lesser than the planned tri-mestrial rate by a margin of 12%. From experience in previous years, we can assume that the trade in the first quarter was smaller than the corresponding annual rate, so that the foreign trade of 1949, as planned three years ago, and the actually expected trade may show even lesser divergencies, if any.

28. The plan of 1946, however, has foreseen the imports substantially higher than expected now (775 million dollars, as against ca 600), and exports considerably

lower (485 million dollars as against ca 600), thus having allowed for a deficit of 290 million dollars, as against the balanced position expected now. This reflects, of course, the changed pattern of the foreign trade, being the result of the lack of foreign credits. On the other hand, it is also likely that the needs for imports have been somewhat exaggerated in the plan of 1946; it seems to appear especially clear in the case of raw materials.

29. The structure of exports has undergone substantial changes in comparison with the plan of 1946. The share of coal in total exports now amounts to less than 50%, instead of 72%, foreseen by the above mentioned plan. It is true that in this respect the assumptions of the plan were criticized already, three years ago.

30. Terms of trade are still extremely favorable for Poland due to high prices of coal. It is believed in Poland that this good situation will still prevail during 1949 and even through 1950. It is agreed, however, that obtaining "hard" currencies (i.e. dollars) for coal is now much more difficult in European trade. Rumors which persisted last spring that Poland is unable to sell several million tons of available coal to Western Europe were denied with the qualification that it may be true with regard to a quantity (less than 1 million tons) of coal dust - a low standard which is no more wanted.

31. There was a general consensus that Poland has no difficulties in obtaining in trade with the Western European countries goods and commodities (including equipment) which she actually needs and wants. In fact, I was told many times that, generally speaking, difficulties in the so-called East-West trade, as far as Poland is concerned, do not exist. The real limitations are mostly technical; sometimes it takes much time to organize new exports or imports. Or, they lay in the sphere of general economic conditions. It is unlikely to develop trade reaching fantastic amounts if this is not commensurate with the magnitude or the potentialities of the economy of one partner. Of course, the Eastern European countries (without Russia) cannot entirely replace the "dollar area" as a trade partner of Western Europe.

32. No economic expert seemed to pay attention to the problem of the "export ban" connected with the E.R.P. agreements; but the argument of discrimination was used rather widely (and in an able way) in the political field in relation to the foreign trade policy of the U.S.A. themselves.

33. I have the impression that the "East-West trade" can develop in a natural way, if the principle "essentials for essentials" is observed. Talking too much about it in international organizations may lead to the making of this economic matter a political problem with all the dangers resulting from such an approach.

34. The Western European and overseas countries account now for 55% of the Polish foreign trade; the remaining 45% is being done with countries of the Eastern sphere, including the Soviet zone of Germany. The pattern of trade agreements is often the same with the Eastern as well as with the Western countries; it is based on bilateralism. If there are critical comments that the Polish trade with the Eastern countries has risen considerably in comparison with the pre-war figures, at the expense of trade with the West, the answer is that the situation prevailing in this respect after the first World War was considered by everybody in Poland as an anomaly, and by some industrial branches (e.g. cotton industry) almost as a disaster.

35. When the Eastern countries finally refused to participate in the "Marshall Plan", rumors arose immediately in the Western press that a "Molotov Plan" was being prepared for them as a substitution. What this term might mean nobody knew exactly. It was coined first, if I remember well, by a newspaper correspondent residing in Vienna. Thus the system of bilateral trade agreements linking the Eastern countries with each other was called sometimes the "Molotov Plan" or at least considered as its main feature. When the so-called "Comecon" was established in January, 1949, it was considered by some people as a materialization of the "Molotov Plan". There were persisting rumors at that time to the effect that this might be a starting point for "multilateral trade" within the Eastern sphere and the creation of a "rouble area". Recently, when two triangular trade

compensation agreements were concluded between U.S.S.R., Finland and Poland, and between U.S.S.R., Finland and Czechoslovakia, (from the text of the news it follows that there are two triangular transactions, and not one quadripartite agreement) - Western commentators tried to find here the beginning of the new multilateralism based on the rouble. Here it seems necessary to clear up a major misunderstanding. The concept of multilateral trade is that proceeds from exports held by residents of the exporting country in a country to which they have exported, can be used or paying for any imports from any other country participating in the multilateral system. That is being assured normally by the convertibility of currencies, free or even limited to a certain extent. But the principle of choice, being an essential of the multilateral trade, is lacking entirely in the above mentioned cases. Both operations provide for deliveries of specific goods in specific quantities, thus involving a specifically arranged barter, leaving no place for any choice or change. The rigidity may even be stronger here than in some bilateral clearing agreements, in which an element of free choice regarding imports from the partner-country still may exist, even if on a limited scale. The rouble is playing in these agreements only the role of a currency in which accounting should be done. Exactly the same as e.g. the dollar has played so far in some trade agreements with the U.S.S.R. It has no other significance than the "unitas" would have had for the purpose of bookkeeping in the International Monetary Fund, if the first version of its charter had been accepted.