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Research

EAST EUROPE

● POLAND

27 September 1967

POLISH ECONOMIC PROBLEMS

Summary: After quite a long period of very limited growth, the dynamics of industrial production -- as well as several important indices of economic development -- showed a great leap forward during the first half of 1967. At the same time, however, some of the contradictions and disproportions in the Polish economy have become more sharply accentuated. These may result in slowing the rate of economic development in the years to come and may even have some effect in slowing down development in the second half of the current year. At issue are the shortcomings in the supply of necessary consumer goods to cover the increasing purchasing power of the community and certain disproportions encountered in foreign trade.

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The Polish press has been devoting considerable space to comments on the report, published by the Main Statistical Office, about economic development during the first half of 1967. It is characteristic that, this time, most of the comments were similar, more so than usual, and unanimously suggest to the reader that, during the first six months of the current year, a clear breakthrough in the economic growth rate has been effected and that a general improvement in the formerly poorly synchronized indices of economic growth has actually been achieved. There is no doubt that the above-mentioned report had some basis for its optimistic outlook. Here then are, in brief, some of the basic results of economic activities in the first six months of 1967.

Total industrial production grew by 8.9 per cent, thus exceeding the planned growth of 6.2 per cent specified in the annual plan, as well as the level reached in the corresponding period of last year. The report also registers a certain improvement in the regularity of production. The favorable results concerning increased labor productivity also should be stressed. Although the increase

in labor productivity has not equalled the increase achieved in 1964, this year's figures are nevertheless much higher than those of last year. This is chiefly due to the high rate of increase in total industrial production, which allowed, in spite of the above-plan increase in the number of workers (an increase of 3.3 per cent in proportion to last year), the achievement of a growth in production per individual worker amounting to 5.4 per cent. The part played by the improvements in labor productivity in the growth of industrial production amounted to nearly 63 per cent. The average nominal monthly earnings also grew at a more rapid rate than in past years.

Total achievements in foreign trade also deserve attention. During the first six months of 1967, over 47 per cent of the tasks outlined in the annual plan for 1967 have been achieved (which, last year, was true of only 45 per cent of them). In comparison to the corresponding period of last year, exports during the first half of 1967 registered an increase of 15 per cent.

All in all, it can be concluded that the first six months of 1967 produced the best mid-year results since the year 1961.

In spite of these basically favorable achievements, it is hard to give a positive appraisal of the Polish national economy as a whole. This view is based on the fact that, while making overall attempts at achieving a breakthrough in some of the fundamental areas such as the general increase in the production growth rate, (1) the quickening in the improvement in labor productivity, the improvement in the balance of payments, and several others, some of the disproportions have grown more acute, to such a degree that they put in question the qualitative characteristics of these increases.

In the first place, we can note the disproportion between the following factors:

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- (1) It must be remembered, however, that we are talking here only about the first six months of 1967. It seems unlikely that this accelerated rate can be maintained throughout the entire year. Even as early as June, according to Zycie Gospodarcze of 6 August 1967, total industrial production calculated per individual work day, had already dropped to only 5.7 per cent which, in fact, falls below the norms set in the annual plan for 1967.

The rate of production seems so high partly because it is compared to the comparatively low rate during the corresponding period of last year. The production rate increased, however, toward the end of 1966, which, in turn, may be reflected in a lower growth rate for the second half of 1967.

a) the increase in consumer purchasing power and the actual level of spending;

b) the general rate of increase of the foreign trade turnover and the increase in trade with the non-Communist countries.

The following figures illustrate the scale of the disproportion between the ratio of the growth of purchasing power and the ratio of the increase of spending (the increases are calculated as a percentage of the corresponding six-month period for 1966):

overall retail sales (including food services)	6.8 per cent
the value of services	8.5 per cent
total sum of personal salaries	8.7 per cent
total savings (in comparison to sums on 31.12.66)	10.4 per cent

From the table above, it can be concluded that the total expenditures by the people on consumer goods increased at a slower rate than total consumer purchasing power. Only expenditures on services increased in proportion to the increase of purchasing power. This disproportion between the expenditures on consumer goods and the potential purchasing power is reflected in the rapid increase in the recorded savings, but nevertheless, this fact does not fully account for that part of the purchasing power which, at the proportional growth of retail sales, could have been used for the purchase of consumer goods.(2)

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- (2) The difference between the increase of deposited savings and an increase which would be proportional to the total increase in earnings (of 8.7 per cent), amounts to one billion zloty. If we assume that the consumer retail purchases by the urban population should be equal to the growth of purchasing power (the earnings and salaries shown in the calculations apply mainly to the urban population), then the increase in retail sales could have reached the sum of 10.8 billion zloty. In actual fact, however, this increase amounted only to 6.4 billion zloty. Thus, if we deduct this amount, the residual sum of 4.4 billion zloty represents the amount of potential purchases which have been postponed and only one billion of this was placed in the savings banks. What happened to the remaining 3.4 billion remains unclear.

The value of this theoretical difference amounts to about 3.4 billion zloty(3) and most likely includes demand which was not satisfied. It is difficult precisely to assess the increased proportion in spending for such things as vacations and cultural entertainment during the six-month period, but it seems that such an increase represents only a small fraction of the theoretical difference mentioned above. More interesting would be an analysis of the causes for the existence of this large unaccounted difference which, approximately corresponds to the amount of the potential consumer expenditure which has been postponed.

The Polish economists are unanimous in their opinion that the demand for food articles could be omitted from this analysis. This can be explained very simply by the fact that the supply of food articles on the market was better on the whole in the last six months than in the corresponding period of last year. Aside from the chronic shortages of meat and meat products, which remain a more or less typical feature of the internal market, the supplies of the other foods were, on the whole, quite satisfactory. Moreover, in connection with the political situation in the Middle East, there took place in Poland in June 1967 an abnormal "run" on food as a result of the panicky and uncertain situation. Thus, the two above-mentioned factors tended to increase the overall purchases of food during the period in question.(4)

On the other hand, there was a slowdown in the internal sales of industrial goods and especially of durable consumer goods such as household equipment, etc. If we were to exclude from our calculations the whole group of the means of production, it would transpire that, in the sales of the remaining industrial goods, an

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- (3) In proportion to the value of the retail sales in urban areas in the first six months of this year, this amounts to about 2.6 per cent.

In order to clarify this point, it must be added that the increase in retail sales in urban areas during the first six months of 1967 amounted, in comparison with the corresponding period of 1966, to about 5.1 per cent (the general increase amounted to 6.8 per cent).

- (4) In spite of this factor, which boosted the general retail sales, only 47 per cent of the yearly plan of this factor was achieved during the first half of the current year. In the corresponding period of 1966, 48 per cent of the yearly plan had been fulfilled.

actual regression had taken place. Taking into consideration the fact that the supply of these goods on the market was quite satisfactory as far as total value is concerned, (5) we can only conclude that it was solely the poor adjustment between the assortment of these goods and potential demand or that it was the unsatisfactory quality of these goods that was the factor which explains the existing anomaly. The situation is also partly caused by the fact that some of these goods are not sufficiently modern. As a result of this situation, we see the growing tendency for consumer expenditures to be postponed, and consequently the growth of personal savings. While this is taking place, inventories accumulate, goods which vainly seek a potential purchaser. Thus we see here a complex phenomenon of unsatisfied potential demand on the one hand, while on the other hand there is an increase in the supply of unwanted goods.

Further proof that this phenomenon concerns potential consumer demand which has been postponed chiefly as a result of a lack of available goods for which there would be sufficient demand, is indicated by the way in which the unspent personal income has been handled. Of the sum total of about 4.4 billion zloty, which we can theoretically assume to be available, only one billion has been deposited in accounts at the National Savings Bank, even though deposited savings increased during the first six months of 1967. Most of the remaining 3.4 billion represent the growth of the population's monetary reserves. However, while the general increase in deposited savings may be explained by the accumulation of certain given monetary amounts by individuals who wish to make certain purchases which are readily available on the market but whose prices make it necessary to save up for their purchase (such items, for instance, as cars, apartments, TV sets or refrigerators), the increased sums of money which are kept at home tends to support the thesis that the population is unable to buy what it wants even though it has enough money.

Thus we see here a contradiction, a discrepancy which approaches the acute form of conflict. This discrepancy has been

(5) During the same period, there took place an unplanned growth of stocks of commercial goods which amounted to about four billion zloty. This fact is also demonstrated by the comparatively adequate pace of that sector of industrial production which produces goods to satisfy the market (for instance a 7.2 per cent increase in heavy industry solely in the sector of marketable goods; 4.6 per cent in light industry; 9.9 per cent in small product industry).

looming on the horizon for some years now, but, it was never so charged with potential conflict as it has become under present conditions. The present, slightly accelerated pace of economic growth brings to the fore the dangers connected with the maintenance of the disproportion between the rising purchasing power and the inadequate supply of desirable goods.

More and more often there now appear in the Polish press statements by economists, who warn that such a state of affairs should not be tolerated and that, excluding the use of manipulations designed to limit the increase of purchasing power (such as price increases, or slowing down the rate at which the earnings improve), such a situation could lead to a slowing down of the rate of the overall economic development. Thus, for instance, the editorial which appeared in Zycie Gospodarcze on 6 August 1967 said the following:

What we are concerned about is that the improvements achieved in the field of labor productivity, in increased production, and consequently, the increase of earnings should be better synchronized with a corresponding improvement of supply of desirable goods. This is an absolutely indispensable condition if we want our economic achievements persist.

The manner in which the plans for foreign trade were being met during the first six months of the year does not always comply with the general tendencies which characterize the annual trade turnover. This is especially evident in the case of Polish foreign trade, which up till now has not managed to work out a proper degree of regularity in the fulfillment of commercial agreements. Nevertheless, the figures published on the first six months of the current year allow us, to a certain degree, to follow the main trend of the individual parts of the foreign trade plan. Taking as our sources the report on foreign trade published by the Main Statistical Office and certain articles from the Polish press (among these, an article in Trybuna Ludu on 26 July 1967) the achievements in fulfilling the plans outlined for foreign trade during the first six months of the current year appear as follows:

Type of Trade	First six months of 1966 taken as 100	Per cent of the annual plan fulfilled	Per cent of the half-yearly plan fulfilled
<u>Total Turnover</u>	111.5	ca. 47.0	100.8
<u>Exports</u> of which:	115.0	47.7	105.8
exports to "capitalist countries"	-*)	-*)	94.0
of which: machinery	95.5	ca. 25.0	-*)
<u>Imports</u> of which:	108.2	46.1	96.6
imports from "capitalist countries"	-*)	-*)	89.9

*) no figures available

Thus we can clearly see that Polish foreign trade managed to achieve its main objective, during the first six months of the current year, i.e., the achievement of a positive balance not only of payments but also of trade. This was essential, since the negative balance of payments resulting from the failures of Polish foreign trade last year threatened the fulfillment of the five-year plan.

The results obtained so far this year were achieved, however, at the cost of upsetting the geographical structure of foreign trade. For the main emphasis was on increasing turnover with the Communist countries. In consequence, exports to other countries failed to reach the planned level, which in turn, in order not to upset the balance of payments in hard currencies, necessitated the limiting of imports from these countries to a level which is below the original plan. Especially troubling is the drastic decline of machinery exports to the so-called "capitalist countries." Naturally, if special attention is given this sector of foreign trade during the second half of this year, the situation could be improved by the end of the year. It is unlikely, however, that a radical change can be brought about. One must bear in mind that the ambitious plans for the export of machinery to the "capitalist countries," aside from purely economic considerations, also bear political objectives, and that it is this latter feature which represents the dominant

factor in the foreign trade plans.

Now, in order to counterbalance the losses resulting from the failures in machinery exports, sales of industrial consumer goods, of agricultural products have been intensified. Thus, for instance, during the first six months of the current year, Poland sold more meat and meat products to France than during the whole of 1966.

This endeavor has affected the variety of goods available on the internal market, has undoubtedly made more acute the difficulties which were discussed in the first part of this report. For what is involved here is high-quality goods, greatly in demand on the internal market.

One must add here that the Polish import of durable consumer goods, which might have improved the general situation, has, in practice, remained pegged to the same unchanged level.

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