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CENTRAL PLANNING OF FOREIGN TRADE IN POLAND

BY: WIESLAWA M. PANIAK

THESIS

SUBMITTED IN PARTIAL
FULFILLMENT OF THE DEGREE
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ABSTRACT

Poland's post--war pattern of foreign trade has been mainly determined by the political factor, its incorporation into the Soviet--Bloc and strict adherence to the fundamental Marxist ideology. Following Soviet experiences the Polish government established a highly contralized economic system of control in order to manage the system. With respect to foreign trade it found its immediate reflection in the establishment of state monopoly of foreign trade and almost exclusive reliance on comprehensive economic planning in carrying out the foreign trade activity. In the first post-war decade the performance of the foreign trade apparatus was strongly affected by a very pronounced drive toward autarchy and considerable neglect of the sector of foreign trade.

From the point of view of the planning technique material balancing ruled supreme and caused almost complete negligence of profitability considerations in carrying out the foreign trade activity.

As a result of political changes which took place in the mid 1950's, the degree of centralization of decision making on the economy wide scale to some extent decreased.

The doctrinal thaw which followed brought the recognition of foreign trade as a vital sector of the economy. In effect, foreign trade policies have been modified in order to overcome the autarchial tendencies. Material balancing went under the heavy attack of critics and the problems of foreign trade profitability began to focus attention on both; economic theoreticans and foreign trade practioners. However, as Bloc experience indicate, the absence of the automatic market mechanism makes it extremely difficult to find the satisfactory profitability criteria and the investigations in this field are still in the initial stage. On the other hand the enthusiastic drive towards reforms had only a very short life and soon has been counteracted by the conservative course taken by the political authority.

INTRODUCTION

In a centrally planned economy resources are allocated chiefly not by a market mechanism but by a system of commands and directives radiating from the decision making centre. Economic planning and administrative organization are introduced in order to transmit directives downward, send up the information on which to base further commands upward, coordinate the process of decision making and evaluate the performance of the hierarchical structure. Foreign trade, as any other sector of the 'command economy' is subjected to the discipline of central planning and operates within its own organizational structure.

The purpose of this study is to examine the basic aspects of foreign trade in the Polish economy.

I shall attempt to provide a detailed analysis of the process of planning and of the institutional framework of the system as these two problems lie at the core of the centrally planned economy and mainly determine its operation and performance.

Poland's foreign trade, as it operates today, is the outcome of the complex process of shifts and adjustments made over the whole post-war period. Most of these changes were originated by political factor and reflected changes in the ruling ideology. Some of them were introduced for economic reasons. Because of the still changing nature of the system considerable attention will

be given to the economic discussions on the underlying principles of centrally planned economy and reforms which were introduced in order to improve its performance.

Chapter I examines briefly the characteristic features of the centrally planned economy. The key topics are: the role of Marxist ideology, models of the centrally planned economy and the concept of economic planning.

Chapter II focusses on the administrative organization and schemes of control managing the system of foreign trade.

Chapter III deals with the fundamental strategy of planning. It contains the analysis of the process of plan construction and coordination with the brief evaluation of the adopted planning procedures and techniques.

Chapters IV and V present a summary view on the roles of exchange and price-setting problems in foreign trade. To some extent they are designated to prepare grounds for the following discussion on reforms in the system of foreign trade. Special attention is devoted to the problem of effectiveness of foreign trade. Intensive research in this field undertaken by all countries of the Soviet-bloc seems to indicate that effectiveness is going to be their new criterion for trade. The analysis of the working principles and operation of the foreign trade system in the centrally planned economy is supplemented by the cross-section view on Poland's foreign trade activity. The last chapter presents an empirical study of Poland's pattern of trade.

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I BASIC CONCEPTS:

GENERAL MODEL OF THE SOCIALIST ECONOMY AND THE ROLE OF FOREIGN TRADE.

Defining a socialist economy K. Marx stressed nationalization of the means of production as its most distinguished feature. It was a logical consequence of this economic doctrine devised primarily for examining social relations of production which lay behind the market and not the market mechanism as such. Therefore, his theory is a rather unsatisfactory tool when dealing with problems of national allocation of resources and it seems it was never designated for such purposes, at least not by Marx himself. However, Soviet economic theory seems to misinterpret this point, taking every possible

As M. B. Bober explains; "to Marx economics is prominently a study at class exploitation in a given society and its evolution to the new, higher social order, and the object of the economics at capitalism specifically is the investigation at the principles governing the exploitation at the proletariat."

M. B. Pober, Marx and Economic Calculation. AER Volume 36. June 1946.

The designations; "Soviet-economic theory" "economic theory of the Bloc countries" will be used interchangeably to mean not only the economic doctrine in the Soviet Union but also in the countries of the socalled Soviet Bloc. In the light of recent political events especially the breakthrough which took place in Albania and Mainland China the term "Soviet Bloc countries" is somewhat inaccurate as the ideological, political and economical unity of the group of countries formally accepting Soviet leadership seems to be very questionable. It will be used here to mean the countries organized into the "Council of Mutual Economic Assistance (CEMA) and including: Bulgaria, Csechoslovakia, East Germany, Hungary, Poland, Soviet Union and Rumania.

effort to apply the Marxian labor theory of value as a normative principle of valuation. The essential part of this theory was the form of ownership. On this base Marx formulated the principles of class exploitation. The theory contains a certain measure of internal logical consistency in explaining social relations of production, but beyond that it contributes nothing to our understanding of the economic process. In the outcome, Marx proved himself incapable of fashioning any tools with which it would be possible to tackle the problem of rational allocation of scarce resources in the economy. socialism the form of ownership changes and according to the logic of this theory there should be no exploitation; yet resources remain as scarce as they are under any other economic system. XX How should allocation of resources be rationally devised? As expressed by several economists, the form of ownership so heavily stressed by the Soviet theory, based on Marxian teaching, is not really relevant to economic evaluation. XXX

For more detailed discussion see: M. B. Bober, op. cit. and N. Spulber. The Soviet Economy, New York, W. W. Norton and Company, 1962, p. 231.

xx N. Spulber, op. cit., p. 193.

C. Grossman writes; "We have had an ample opportunity to learn in the last couple of decades (that) the mode of ownership alone does not relentlessly prescribe the organizational structure of the economy or predeterminate its functional efficiency."

G. Grossman, Introduction in G. Grossman ed. Value and Plan: Economic Calculation and Organization in Eastern Europe. California University Press, 1960, p. 3.

The socialist economy, like any other, continues to strive to achieve rational allocation of resources in relation to its given ends. The basic difference lies only in the method of pursuing that objective. Market economy employs the price mechanism as the chief device to achieve rational allocation of scarce resources in conformity with human wants. The hierarchy of needs with the availabilities of supply are synchronized by lateral communication links between consumers and producers, and thus the decision making on an economy wide scale is decentralized.

In a socialist economy market mechanism is to a considerable extent replaced by a system of commands (directives, targets) issued by the top political authority. XX The central authority sets up the hierarchy of needs and strives to allocate resources in accordance with these needs. The consumer can either be permitted or prohibited the freedom of choice as the central authority does not necessarily take into account the actual or presumed preferences of consumers. Characterizing this type of

X Ibid, p. 7.

It should be noted that market mechanism, while extremely limited in scope, still plays some role in a socialist economy. Production and trade is concentrated in the hands of the state and operated by a system of commands but there is still a free market for consumer goods, freedom of choice of occupation and also inequality of rewards.

See, N. Spulber, op. cit., p. 193.

economy G. Grossman writes;

"A command economy requires a vertical communication system to transmit directives downward through a chain of command and to send up information on which to base further commands and to evaluate the performance of subordinates. The fidelity of transmission of commands from higher level, the reliability and timeliness of the upward flowing information determine the efficiency of the hierarchical organization."

Economic planning was brought up to serve as a device of channelling these commands through the administrative ladder, to secure the consistency between directives and, to some extent, to help in their formulation by furnishing the centre with information to issue commands. The extent to which economic planning is utilized and its role in the allocation of the resources depends mainly on the adopted "model" of command economy. Several models are practically or theoretically possible. We are concerned here with only one group

X Ibid, p. 4.

The word "model" has a different meaning here from that used in econometrics. It represents a politico-economic set-up as determined by the aims and ideology of the central political authority of the state.

See: P. J. Wiles, The Political Economy of Communism Basil Blackwell, Oxford, 1962, p. 2.

of models labeled by P.I.D Wiles as "allocation models" These models differ from each other with respect to the system of allocation of scarce resources. On the very extreme, in this classification there is the model of "perfect command economy" or the so called "war communism" - where all the resources are allocated centrally in physical terms. XX Very similar in character is the model labeled by N. Spulber as "pure administrative socialism" and defined as:

"a fully centralized system in which there are no markets for commodities or services and in which the CPA (Central Planning Authority) allocates, on the basis of comprehensive plan, labour and capital goods to the producing units and consumer goods to the population.**

Depending on the criterion applied it is possible to distinguish several types of "models of the command economy." In Wiles' classification there are 3 main groups of models; ownership models characterized by various types of ownership to which economy may be subjected; distribution models concerned with the manner of distribution of goods produced in the economy and allocation models.

For the extensive analysis see op. cit., Chapter, 1, 4, 9.

The model of "War Communism" originally regarded by Bolshevik ideology as the ideal pattern of the system of social justice and mostly associated with the names of two Russian Communists Lenin and Kritsmann was for a short period of time (1918-21) applied in Soviet Russia but completely failed in practice and had to be abandoned. See, P.I. D. Wiles "Rationality, Market Decentralization and the Territorial Principle in G. Grossman Value and Plan, p. 188, and also his "The Political Economy of Communism, p. 29.

XXXN. Spulber, The Soviet Economy, p. 194.

On the other extreme in Spulber's classification there is "pure market socialism" defined as a "fully decentralized system in which there are markets for all types of commodities and only investment activities are indirectly controlled by the C.P.A.

The system currently adopted in economic practice in Soviet-bloc countries approximates P. Wiles' model of "centralized economy" where "the decisions as to intermediate resource allocations are centralized in a planning office, but the choice of consumers and workers and of public bodies that allocate land and capital are taken on purely market-free principles."

Of course, even in this model the degree of centralization of decision making may vary considerably and depends on: XXX

- 1) the extent to which the commands channeled down from the centre contain the detailed production and plan targets,
- 2) the proportion of total production and trade which these plan goals cover,

This is "roughly speaking" the Yugoslav model and essentially very close to the system usually referred to in economic literature as "Lange-Lerner model". As P. Wiles remarks it is a loose thinking to speak of the "Lange-Lerner model". In Lange prices are centrally fixed only outputs are decentralized and there is in theory no competition. In Lerner prices are decentralized and there is a competition between the state-owned enterprises. See P. I. D. Wiles, "Rationality, Market, Decentralization and the Territorial Principle," p. 210.

xx Ibid, p. 188.

^{**}XXF. L. Pryor, The Communist Foreign Trade System, Cambridge Mass. The MIT Press, 1963, p. 21.

3) the degree of autonomy of enterprises in solving problems and conflicts arising from their economic activity.

The degree of concentration of decision making on the highest administrative level has always been very high. In the last decade the possibility of introduction of some elements of the market to the economy in order to make the system more flexible and operational has been widely discussed in the economic literature of the Bloc. The problem was considered very seriously in Poland after the so called "Polish October of 1956" and some steps have been taken to decentralize the decision making

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[&]quot;Polish October" is a name given to the peaceful revolution which brought W. Gomulka to power in October 1956. New Political leadership which arose under his auspices was determined to be more independent of Soviet political and economical guidance and supervision. The idealogical thaw which followed created a favourable environment for a nation-wide discussion on the merits and demerits of the existing political and economic system. In the course of these discussions the "Polish model of the economy" and the "Polish route to socialism" were determined.

For the review of the discussion see:

M. Montias, Central Planning in Poland,
New Haven and London, Yale University Press, 1962.

wide scale. The counter reforms which followed the decentralization drive practically abolished the effect of these reforms and revised the old highly centralized model of the economy.

It is not hard to explain why the new movement towards a more flexible economic system was so slow and proceeded with extreme caution. Decentralization requires the transfer of a considerable degree of decision making to lower levels of the administrative ladder, thus weakening

X

On November 28, 1956 the Sejm passed a statute reorganizing the State Commission of Economic Planning transferring it into a Planning Commission attached to the Council of Ministers. The number of centrally determined targets has been seriously cut down, and its staff has been reduced from 1800 to 900 employees.

The number of centrally determined targets:

	1956	1957
Specific production targets	1406	768
Centrally rationed commodities	1411	1150
Technical Coefficients	578	230

Source: U. N. Economic Commission for Europe
Economic Survey of Europe in 1956. p. 39. cited also by:

1. M. Montias, Central Planning in Poland, p. 298.
The decentralization process had not gone too far, as since mid-1958 several counter reforms have been introduced to erase the "mistakes" of "soft planning" and recentralize the economy, the essence of these changes and the reasoning underlying it are summarized in the statement of Polish economist B. Minc who concluded that "the attempt to reform our economic system, baptized as the "new model", had basically ended in failure. This had to be the case...since this attempt was built on neomarginal rather than on Marxist grounds."

B. Minc, W. sprawie zmian w zarzadzaniu gospodarka narodowa On changes in the management of the national economy, Zycie Gospodarcze, no. 8, 1959, cited by I. M. Montias, Central Planning on Poland, p. 320.

the economic power of the centre. This is unacceptable and too dangerous to the ruling regime. Besides this, serious hinderance comes from the side of the "fundamentalist Marxism" that Soviet economics rigidly adopted for its theoretical bearings about the "anarchy of market economy" and the advantages of order and harmonization which central planning secures for the economy. Even if a decade-long experience in planning does not confirm this statement, Soviet regime would not admit that Marx could be wrong at this point.

Soviet-type economy is administered by a series of economic plans where the National Economic Plan is of primary importance. It contains a definite set of tasks which must be accomplished and which are binding as law for the society as a whole. The nation-wide economic plan usually covers all important sectors of the economy. Besides this, each sector has its own plan which is an integral part of the national economic plan. Foreign trade apparatus, like all other sectors of the economy is administrated by foreign trade plan.

The degree of detail of the foreign trade plan can vary within a wide range depending mainly on the adopted model of the economy, its position in the economy and the situation in the balance of payments of the country. XXX Under the conditions of "pure market socialism" the central

Ibid.

X See G. Grossman. Introduction to "Value and Plan", p. 10.

The foreign trade is defined by law as an integral part of the over-all economic plan. Z. Kamecki, J. Soldaczuk, W. Sierpinski, Miedzynarodowe stosunki (Ekonomiczne.) (International Economic Relations), Warsaw, P.W.E. 1964, pp. 497-499.

foreign trade authority would set up the general line of foreign trade policy specifying only general tasks (volume of trade within very broad commodity groups or geographical direction) to be achieved by trading enterprises. Foreign trade enterprises would have a complete freedom of choice of the means for accomplishing these tasks. In the "purely administrative model" the role of foreign trade enterprises is limited to the "blind" performing of directives prescribed by the central foreign trade authority. This means that the central authority not only sets up the tasks to be achieved but also imperatively indicates the means for their achievement.

Particularly, in the case of foreign trade the "market model" has several advantages, as compared with First of all, it is much more the administrative one. flexible and enables the fast adjustments of foreign trade policy and performance to the continuously changing conditions in the world market. It stimulates the activity of enterprises involved and arouses interest in management for a good performance. On the other hand the "administrative" model has very severe shortcomings. It is very rigid, routinized and generally unresponsive to changes and trends prevailing in the world market. In this model, enterprises engaged in the conduct of foreign trade activity have no incentive for better performance and their activity is limited to achieving the targets preset by the plan. The foreign trade authority having no direct contact with the world market very often acts in a way, which under the given circumstances is by no means "rational" and profitable, and concentrates mainly on bureaucratic administrating of the subordinated enterprises instead of policy making. Therefore, the superiority of the market model seems to be unquestionable. In this respect, the Soviet policy makers are eager to point out several obstacles considerably limiting the practical applicability of the "market model".

- A. The first constraint to the application of market model, they argue, is imposed by the situation in the country's balance of payments. The greater the deficit in the balance of international payments, the more justified and reasonable it is that the concentration of the key-decision-making concerning the policy and performance is in the hands of one authority. As a consequence the system of commands is applied as a device for carrying out foreign trade deals.
- B. The model of foreign trade has to fit the general model of the economy. In other words, the adoption of the market model of foreign trade depends to a great extent on the role which the market forces play in the operation of all the branches of the economy.
- C. The main difficulty is caused by the lack of any adequate criteria for estimating the effectiveness of foreign trade operations from the point of view of the economy as a whole. The existing formal criteria for decision making in foreign trade such as profits or material intensity indicators have many such severe shortcomings which make them useless for the purposes of decision making. XX

X Ibid, pp. 499-502.

For more detailed elaboration on this point see Chapter 7.

In Poland, since the first post-war period of reconstruction of the economy until the late '50's the model of foreign trade was based mainly on commands and directives. Several reasons were responsible for that. First of all, there was the difficult economic situation of the country which had been seriously ruined by war. The efforts of the state were centered on capturing the full control of the very limited resources of the economy, its financial means and devoting them to the reconstruction of the country. Political factors, and especially the incorporation of Poland into the sphere of Soviet political and economic influences, was very important. Besides this, there were several other factors playing a considerable role, such as:

- a) underestimating the role of economic calculation a direct effect of the vigorous adopting of the Soviet economic doctrine,
- b) lack of experience in applying economic incentives instead of commands,
- c) underestimating the role of foreign trade and a quite pronounced drive towards autarchy. X

The ideological thaw which followed the Polish coup d'etat of October 1956, the nation-wide discussion on the presupposed merits and demerits of the adopted economic system and the very enthusiastic drive towards reforms had a very short life, and in the long-run brought surprisingly little change. Very soon the communist

For the discussion on autarchy in Soviet-bloc see, U. N. Economic Survey of Europe, 1955, pp. 198-247.

order had been reestablished and the conservative course taken by Gomulka began to stand in sharp contrast with recent trends in other East European countries which proved to be much more reform-inclined. A new very cautious Polish attitude towards reforms seems to be caused mainly by a political factor.

As expressed by A. Brzeski

"The fact that the nation which was in the avant-garde of the reform movement is now lagging is the result of a paradox of power: the present rulers of Poland feel too strong to yield to popular demand for a drastic reorganization of the economy but too weak to maintain the status quo.... A regime that feels secure...may take the risk of experimentation. Stalin, Tito, Novotny, Kadar and Ulbricht, may all have been in this position at the time of the reforms but Gomulka was not. In 1956-57 he was in control of the apparat but the masses were in a mood for revolution. More recently, the party itself has been torn by violent struggles and besides, there is always the Church. Not to rock the boat may seem the best policy in such circumstances. X

To sum up, the economic effect of the reforms which were introduced in the years following the October coup-d'etat was far from being significant. The degree of centralization of decision making has been to some extent reduced. However, the role of commands and directives in foreign trade policy formulation is still enormous with only a marginal range left for the play of economic stimulants and incentives.

 \mathbf{x}

A. Brzeski, Economic Reform in Poland, The Cautious Avant-Garde. The Quarterly Review of Economics and Business, Vol. 1 number 3, Autumn 1967.

What is worth mentioning here, is the considerable change of reasoning underlying the formulation of these commands. They are less vigorously based on a crude physical targeting by a system of "material balances" with a relatively wider range left for economic calculations and profitability considerations.

In Soviet planning practice each centrally allocated product, had a separate "balance sheet" called a "material balance".

On one side of the "material balance" all planned sources of supply of the product in question was listed and on the other side all planned uses of the product. The planning process was confined mainly to bring both sides of the account into balance.

II ECONOMIC PLANNING

"A plan represents a comprehensive set of accounts linking a series of output, investment and consumption targets with the projected factor, commodity and money flows to assure their attainment...the accounts are balanced sheets with one side of the account showing resources and the other side their distribution." x

The central plan defines the basic macro economic proportions, rates and directions, such as the rate of growth of a national product and its composition, the distribution of a national product to its various uses, the rate and components of capital formation and the size and composition of public and private consumption. It identifies also the specific means and measures for carrying the plan into effect.

Since the plan of foreign trade is an integral part of the over-all economic plan, this serves as the basic device to bring the two sides of accounts into balance. The procedure of achieving this is not complicated. After deducting the total domestic supply of raw materials, finished and intermediate goods, machinery and equipment which will be available in a given planning period from the total domestic demand presupposed by the plan, planners arrive at the amount of necessary imports. On the other hand, total available surplus of commodities of various kinds, confronted with the existing export

Quotation from N. Spulber, "The Economics of Communist Eastern Europe; op. cit., p. 282.

possibilities and import requirements form the foundation for the export plan. X

The import and export plans are established by commodities or commodity groups in form of balanced sheets expressed in terms of values to be realized in foreign exchange in order to secure the required balance of international payments. The other set of balanced accounts representing all exports on one side and all imports on the other side of an account is drawn up in terms of value at domestic prices and for a number of so-called "key commodities" subject to central allocation in quantitative terms. Besides, this import and export plan is broken down according to market areas or partner countries in order to balance foreign payments with each market or country separately. Taking into consideration the period of time which is covered by the given plan one can distinguish the following kinds of economic plans XX

- a) perspective plan
- b) long-run plans
- c) annual plans

In practice this is not always the case. Usually import requirements surpass considerably the available export supply, and adjustments must be made either by cutting import demand or increasing exports by cutting supply for domestic markets of commodities which can be exported.

S. Hatt, E. Szymanski, M. Wolski, System planowania in Polsce, (The System of Planning in Poland), Warsaw P.W.E. 1964, pp. 87-94. Z. Madej, Funkcjonowanie gospodarki narodowej, (Functioning of National Economy) in Polityka gospodarcza Polski Ludowej, Vol. 2, p. 53.

Quarterly and monthly plans. Perspective plan can be defined as the general outline of the development of the economy for a period of 15-20 years. It determines the rate of growth of the economy, of national income in successive years: and the rate of growth and composition of investment outlays. The plan establishes also the general lines of development of all sectors of the economy. By the very fact that it covers such a long period of time it defines production and trade targets in general terms only, leaving more detailed targets to be filled in by long-run and annual plans. As far as foreign trade is concerned it expresses the preferences of the state in shaping the future pattern of foreign trade in respect to the desired volume and composition of foreign trade turnovers. X

The first Polish perspective plan has been elaborated for the period of 1961-1980. Besides the basic objective of achieving the maximal possible rate of growth of the economy it formulated the following goals

the considerable increase in the standard of living which by 1975 should reach the present level of consumption standards of advanced countries of Western Europe

Solving of the very severe housing problem

considerably higher rates of growth of exports and of imports and the repaying of foreign debts. See J.M. Montias, Central Planning in Poland pp. 154-159. Also K. Secomski, Problemy planowania perspectywicznego (Problems of Perspective Planning) in "Polityka gospodarcza Polski Ludowej Vol 2. M. Rakowski, Zagadnienia planowania wieloletniego w Polsce Ludowg. (Problems of Long-run Planning in People's Poland), Warsaw, P.W.G. 1955, M. Kalecki, Plan perspektywiczny na lata 1961-1975 (The Perspective Plan for the Years 1961-75) Nowe Drogi, No.8 (1958).

A perspective plan determining in general terms the principal directions of the development of the economy serves as a basis for the elaboration of subsequent five-year plans. It is the task of the five-year plan to give in concrete as far as possible precise and quantitative form the goals envisaged by a perspective plan which have to be achieved during the period covered by that plan. The plan is drawn up on two interrelated planes; a "real, physical term" version and a monetary one. A five-year foreign trade plan elaborated in conformity with the over-all economic plan specifies the volume, rates of growth of exports and imports and their commodity composition and geographical structure. The plan is drawn on three interrelated versions;

- a) in physical terms for commodities entering so called "material balances"
- b) in foreign exchange
- c) in domestic currency.

The five-year plan is broken down into annual plans where the general five-year targets are divided into yearly allotments and presented in detailed and much more precise form.

S. Hatt, E. Szymanski, M. Wolski, System planowania w Polsce, p. 88.

CHAPTER TWO

ORGANIZATION OF FOREIGN TRADE

STATE MONOPOLY OF FOREIGN TRADE

The character of Polish economy has been basically shaped by the course of political events during and after World War II resulting in its incorporation into the sphere of Soviet political and ideological influences. The post-war government which arose under Soviet auspices, has from the very beginning followed very strictly the Soviet patterns of running the economy and adopted entirely Marxist-Leninist ideology. Unable to stand on its own, it continued to look to the Soviet Union for political and social guidance. The United Worker's Party which enjoys the exclusive power in the formation of social and economic policy set for itself as the main task to build the planned socialist economy. It was understood that the road towards a socialist society is "unique" and that following Soviet experiences in this respect is the most effective way of achieving that goal and an integral part of the construction of socialism. ingly. Soviet concepts and experiences were transplanted on Polish ground and imitated as closely as possible. Several reforms have been introduced to permit the extension of the socialized sector and to recast the economic. system in the Soviet mold. As Poland was liberated, the Polish Committee of National Liberation, which was created in July 1944 at Lublin to become the first government of the country, took-over large and medium scale industry in its hands.

On January 3, 1946 a formal decree was issued to legalize the nationalization of the basic branches of industry, mining, communications, banks, insurance and trade^X. Thus, the state became authorized by law to operate the nationalized enterprises on its own account or to transfer them to "People's Councils" (Rady Narodowe) or to cooperatives. During the period of 1947-1949 several restraints, controls and regulations were imposed on the private sector in order to reduce the share of total industrial production originating in this sector as much as possible. All these measures resulted in almost complete extinction of the private industrial sector of the economy by the end of the 1940's. XXX

Accordingly, the administrative apparatus has been established to meet the requirements of highly centralized, planned economy. The nationalization of the major sectors of the economy included the extension of the state control over private trade in the country with particular stress put on the concentration of the foreign trade activity in the hands of the state. A "De facto"

x Dziennik Ustaw, 1946, No. 3, Item 17.

In 1955, 99 percent of the Polish industrial output came from state-owned enterprises and state controlled co-operatives., Rocznik Statystyczny, 1957 (Statistical Yearbook) Warsaw, 1951, p. 61.

Land reform was decreed on September 6, 1944. Its principal aims were to eliminate the opposition of large land owners, create new farms for landless peasants and form the basis for future collectivization of agriculture. See: Dziennik Ustaw, 1945, No. 3, Item 13.

monopoly of foreign trade was established by Polish government at the outset of the post-war period and was considered as one of the major steps in the reshaping of Polish economy along new lines. Direct and vigorous state control over the movements of imports and exports was by no means the "Polish invention" and was established as the result of imitation of the Soviet organizational patterns. The nationalization of foreign trade took place in the Soviet Union immediately after the Revolution and foreign trade monopoly as such became a distinctive feature of the Soviet economic system. adopted lately by all the countries of the Soviet bloc. (It is regarded as a component part of the Soviet-type economy.) Thus, the concept of foreign trade monopoly has quite a long tradition in the socialist economic practice, but during these years its interpretation changed significantly. Originally, the state monopoly of foreign trade was understood to mean that the foreign trade activity of the economy was concentrated in the hands of the state and conducted by state-owned enterprises. Its purpose was to protect the economy against "any possible capitalist intervention". X More recently, however, "the

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See G. P. Kaliuzhnaia, Pravovye Formy Monopolii Vneshnei Torgovli USSR v ilch istorickeskom Raxvitii, (The Yuridical Forms of the Monopoly of Foreign trade in their historical Development). Yzdatel'stvo Alcademii Nayle USSR (Publishing House of the Academy of Science of the USSR) Moscow 1951, p. 28, cited by N. Spulber, The Economics of Communist Europe, New York, the Technology Press of Massachusetts Institute of Technology and John Wiley & Sons, Inc., New York 1957, p. 153.

term which has been increasingly used to designate a specific set of institutions and methods for carrying out foreign trade". X F. L. Pryor calls "the Stalinist model of the foreign trade monopoly". XX With the development of over-all planning, the foreign trade monopoly became the direct instrument of such a plan, having as 1 its main purpose the synchronization of the volume and composition of foreign trade turnovers with the requirements of a national economic plan. From this point of view, one should expect that the economic theory as well asscurrent policy making, would be directed towards the search for the most effective model of foreign trade monopoly which would be suitable for the purposes of planning. In fact, the majority of the discussions in the economy Press of the Bloc is limited mainly to the institutional framework of the system and organizational structure of the model of foreign trade monopoly. XXX The explanation of this phenomenon seems to be quite simple. For many reasons foreign trade was neglected in the Soviet Union. iv Simultaneously, the problem was

Citation from F. L. Pryor, "The Communist Foreign Trade System, Cambridge, Mass. The M.Y.T. Press, 1963, p. 53.

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XXX Ibid.

iv Discussed by F. L. Pryor, Foreign Trade theory in the Communist Bloc. Soviet Studies, Vol. 14, July 1962, p. 41. and by Baykov Soviet Foreign Trade, Princeton: Princeton University Press, 1946.

hardly touched by Soviet economic literature. It is enough to say that in the official Soviet textbook of Political Economy, issued in the middle of the 1950's, only two pages were devoted to the discussion of problems of foreign trade theory, while the book consisted of over 600 pages. Since Stalin's death problems of foreign trade have begun to receive increasing attention; but what we call "pure foreign trade theory" seems to be still neglected. The other weak point in this chain comes from the side of planning itself. In spite of numerous theoretical examinations and years of experience Soviet planning techniques are still very crude and simply unoperational.

The existence of a foreign trade monopoly is commonly accepted in the economic literature of the Bloc^{XX} as one of the most distinctive features of the socialist, planned economy. It is usually motivated as follows: XXX

1) the basic reason for establishing a foreign trade monopoly in a socialist economy arises directly from the

fact that all means of production in this type of economy

Politicheskaya Ekocomiya, (Political Economy) Academy of Science of the U.S.S.R. Institute of Economics, Moscow, 1955, cited by J. Wilczynski, The Theory of Comparative Costs and Centrally Planned Economics, Economic Journal, Vol. 75, March 1965, p. 67.

The terms "Soviet Economic Literature" and "Economic Literature of the Bloc" are used interchangeably to designate economic literature based on Marxian doctrine.

See Z. Kamecki, J. Soldaczuk, W. Sierpinski, Miedzynarodowe stosunki ekonomiczne, (International Economic Relations), Warsaw, Panstwowe Wydawnictwo Ekonomiczne, 1964, pp. 498-99.

are "socially owned" and the nationalization of foreign trade as well as of industries, banks and transportation is the necessary condition for the existence of a Socialist economy.

2) the other reason arises directly from the adopted model of centrally planned economy. As a state monopoly foreign trade constitutes an integral part of the overall economic plan of the country. The main advantage claimed for this model is the possibility of obtaining such a pattern of foreign trade which would be "optimal" from the point of view of the fulfillment of a national economic plan and the achievement of the highest possible rate of growth of the economy.

X

Both explanations seem to be vague if not tautological even from the logical point of view only. But there are some elements in this approach which the economist will find as not clearly stated and fully explained. Since the middle 1950's interest in the trade problems revived and theoretical examinations of the relationship between "foreign trade optimum", plan fulfillment and the maximization of the rate at growth began to receive more careful attention. However, this theorizing did not lead to any satisfactory solution of the problem and even the notion of foreign trade optimum itself has not been neatly defined. In general, "optimal pattern of trade" is a relative concept, its real content depends on the economic situation of the country and the goals which the economy strives to achieve. Basically, there are two kinds of "optimality"; retical and practical. Both can be analyzed by a static or dynamic approach (long-run optimality). Assuming that the objective which the economy strives to achieve in the long-run is the maximization of the rate of growth such a pattern of trade will be optimal which contributes most effectively in the pursuit of this goal. But if the objective is different, as for example maximal satisfaction of human wants, (which does not necessarily mean that the rate of growth will be set at maximum there would be a completely different pattern of trade,

which could be considered as "optimal" from the point of view of the objective which has to be achieved. This is the theoretical optimum as it is assumed that the policy makers have the perfect knowledge and full command over all economic variables in question which can be determined in conformity with their preferences. In practice there are several limitations and constraints imposed; the knowledge is not perfect, factors are not fully mobile. le and several economic variables are determined by factors which are beyond the control of policy makers. In effect, practical optimum - such as optimum which takes into account all the constraints and limitations will be different from theoretical optimum. Static optimum of foreign trade or so-called short-run optimum is based on the assumption of constant productive capacities of the economy. Again, depending on the objective, the economy strives to achieve, it can be, for example, a pattern of trade which will secure equilibrium in the balance of payments; full employment of labor force or full employment of productive capacities etc. Accordingly there is the theoretical optimum and practical optimum - such as optimum which can be achieved in a given economic situation of the country and outside the country; e.g. on foreign markets. For extensive analysis see: Z. Kameki, J. Soldaczuk, W. Sierpinski, op. cit., pp. 506-517.

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3) the existence of foreign trade monopoly is regarded as an economic necessity in the developing economy where the difficulties connected with obtaining the equilibrium in the balance of payments are formidable. In these circumstances a very careful examination of the existing export possibilities and evaluation of the "degree of necessity" of several imports and finding the "optimal pattern of trade" are of enormous importance. ment seems to be the strongest one. The majority of the countries entering the road of economic development do experience a more or less severe deficit on the current account of the balance of payments. This situation is not wrong in itself providing that this gap is being covered by the flow of capital in the form of foreign credits, loans, grants, direct investments etc. real trouble begins when all the above mentioned possibilities of filling that gap do not exist and increased imports have to be covered by earned export receipts. With some not too significant exceptions, this was basically the situation which Poland's post-war economy had to face, The demand for imported goods, expecially of these designated for investment purposes increased considerably in the course of intensive industrialization. At the same time the country found it extremely difficult to increase its exports to the extent that it would cover all its import payments. Under the above circumstances the state control over import and export movements can be helpful. However, there is still the problem as to how much of the state control would bring the best

results in a given economic situation. In the communist opinion the perfect solution to the problem is the full control by the state, expressed in the foreign trade monopoly. As Polish experience indicates, in spite of the introduction of the monopoly of foreign trade, the situation in the country's balance of payment was persistently strained during the whole past-war period.

On the other hand, it is not difficult to find numerous examples testifying that many export possibilities were lost because of the rigidity of the mechanism of state monopoly, and several imports were not economically justified from the point of view of a rational policy of saving scarce foreign currency. For example, in many instances, domestic substitutes of imported commodities were available or import deliveries were not synchronized to match the investment cycle. In effect foreign currency resources were "frozen" in these imports while their "productive capacity could not be fully utilized (especially with respect to imported capital goods) etc.

After the second world-war state monopoly of foreign trade, regarded by Bloc economic literature, as indispensable for a socialist economy, had been introduced in all the countries of the Soviet-Bloc. The characteristic

J. Niegowski W. Rydygier., Problemy handlu zagranicznego Problems of Foreign Trade) in Polityka gospodarcza Polski Ludowej, op. citl, pp. 594-599.

A. Zauberman, Industrial Progress in Poland, Czechoslovakia and East Germany, London Oxford University Press, 1964, pp. 315-316.

features of this monopoly are as follows:

- 1) in all Bloc countries, foreign trade is conducted almost exclusively by state-owned enterprises subordinated to the Ministry of Foreign Trade.
- trade transactions by itself, but guides and supervises the activity of foreign trade enterprises (FTE's) within the framework of the economic plan. The Ministry of Foreign Trade is responsible for formulating the general foreign trade policy, concluding international trade and payment, agreements, and cooperating with the Ministry of Finance in the management of foreign exchange resources.
- 3) all foreign trade activity is channeled through foreign trade enterprises. Normally, each such enterprise is exclusively entitled to trade with foreign countries in its particular field of activity and is assigned a certain group of commodities in order to eliminate competition between countries.
- 4) foreign and domestic aspects of trade are completely separated. FTE concentrate on foreign trade activity, 'buying domestic goods goods designated for exports from domestic producers and being responsible for the purchase of foreign goods on behalf of domestic buyers.
- 5) foreign trade monopoly is supplemented by the state monopoly of foreign currency resources.

X See chapter 4.

THE MINISTRY OF FOREIGN TRADE

When on July 21, 1944 the Polish Committee of National Liberation established itself at Lublin to function as the government of Poland, the administration of foreign trade was placed under the Department of National Economy and Finance.

On December 31, 1944 the Lublin Committee had been transformed into the Provisional Government of Poland and the omnibus Department of National Economy and Finance was split into 3 ministries: the Treasury, Industry and Food and Trade.

During the period 1945-1950 the activity of the new, Soviet-oriented government concentrated on capturing the full control over the economy and remaking with accordance to the Soviet mold. The organizational changes in the administrative apparatus were very frequent and aimed to construct a highly centralized economic system administrated by economic plans. In the course of this reorganization the administration of Foreign Trade rested in various Ministries until finally a separate Ministry of Foreign trade as a state organ of the Foreign Trade monopoly was established. In July 28, 1945 the administration of foreign trade was placed under the Ministry of Shipping and in 1947 was transfered to the Ministry of Industry and Trade. During the period of reconstruction

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T. P. Alton, Polish Postwar Economy, New York, Columbia University Press, 1955, p. 79.

of the economy the state control over all sectors of the economy had been continually extended and the Ministry of Industry and Trade expanded enormously. On February 10, 1949 the Ministry of Industry and Trade was liquidated and succeeded by six new ones, among them by the separate Ministry of Foreign Trade. Its task and activity had been defined by the decree of March 8, 1949 and included: AX

- 1) preparation of drafts of the foreign trade plans in conformity with the over-all economic plan and the responsibility for achieving goals prescribed by that plan.
- 2) for mulation of the general foreign trade policy, conduct of trade negotiations and conclusion of international trade and payment agreements, and supervision over their execution.
- 3) regulation of the volume, commodity, composition, and geographical structure of foreign trade turnovers
- 4) direct control and supervision of enterprises which actually conduct foreign trade activity.
- 5) establishment of foreign trade offices and nomination of trade representatives abroad
- 6) organization of fairs and displays; questions concerning the technique of trade, and standards.
 Under the regulation of January 1, 1961 issued by the Minister of Foreign Trade the organizational structure of the Ministry of Foreign Trade was as follows:

X Dziennik Ustaw, 1949, No. 7, Item 43.

Dziennik Ustaw, 1949, No. 15, Item 96, also see, Alton Polish Postwar Economy, p. 263.

Ι

- 1. The Minister's Office
- 2. Personnel Department
- 3. Legal and Administrative Department
- 4. Department of Planning
 - a) Office of Planning Technique and Plan's Coordination
 - b) Raw materials and Consumption Goods
 - c) Machinery and Equipment
 - d) "Perspective" Planning
- 5. Department of Control
- 6. Department of Finance
 - a) International Finance Office for Socialist Countries
 - b) International Finance Office for Capitalist Countries
 - c) Financing of Foreign Services
 - d) Accounting Office
- 7. Department of Foreign Trade and Commodity Turnovers
 - a) General Office
 - b) Coal and Construction Materials
 - c) Chemical Products and Fuels
 - d) Agricultural Commodities
 - e) Light industries, wood and paper (must intuition in lawrence-gradit sent must)
- 8. Department of Machinery and Equipment
 - a) General Office
 - b) Metallurgy
 - c) Complete industrial establishments (plants)

(un imitable begalle to rein table briggs and a recomposite).

- d) Light Machinery, Tools and Apparatus
- e) Heavy Machinery and Communication Equipment
- f) Technical Office
- 9. Department of Treaties I (for socialist countries)
- 10. Department of Treaties II (Common Market, Scandinavian Countries South Europe and Overseas Countries)
- 11. Department of Treaties III

 (Latin America, Near, Middle and Far East, Africa)
- 12. Administrative Department
- 13. Institute for Economic Research
- II Auxiliary Agencies
- 1. Central Board of Engineering
- 2. Central Customs Board
- 3. Central Board of Transportation and Shipping
- 4. Central Standardization Board

The Ministry of Foreign Trade is headed by a Minister of Foreign Trade who is the member of the Council of Ministers, the highest organ of the state's administration. Directly subordinated to the Minister of Foreign Trade are: the Vice -Ministers, Directors of the Departments of the Ministry, Directors of the Central Auxiliary Agencies attached to the ministry and the Directors (Presidents) of Foreign Trade Enterprises. In very brief terms, the tasks and responsibilities of various departments of the Ministry of Foreign Trade are as follows:

The Personnel Department is responsible for an employment policy within the ministry and supervises Personnel
Departments in all enterprises and agencies subordinated

to the ministry . It also supervises the personnel of Bureaus of Commercial Attaches and nominates permanent trade representatives abroad. Its responsibilities embrace problems of education, improvement of skills of personnel, training-on-the-job programs etc. The Department of Planning is one of the most important in the Ministry of Foreign Trade, and is responsible for the construction of Foreign Trade Plans in collaboration with the Planning Commission attached to the Council of Ministers. Its specialized branch offices are concerned with elaboration of foreign trade plans within two broad commodity groups; one for raw materials and consumers goods, the other for capital goods. The Branch Office of "Perspective Planning" is responsible for formulating long-run foreign trade plans in conformity with the requirements of the over-all "perspective economic plan of the country." Difficult problems of devising the technique of planning, achieving the satisfactory degree of consistency and comprehensiveness of the foreign trade as well as its coodination with the over-all economic plan are handled by the Branch Office of Planning Technique and Plan's Coordination.

Department of Control

In the centrally planned economy, the execution of Economic Plans is of enormous importance. When the correct elaboration of the plan can be regarded as a preliminary condition, the execution of the plan is the necessary condition for smooth operation of the whole economic system. Therefore the apparatus of control

which would enforce economic discipline with respect to the execution of plans plays a very important role.

In Poland, the control over execution of planned goals is exercised on three administrative levels:

- a) by the Supreme Chamber of Control (Najwyzsza izba kontroli) which is the highest organ of state control
- b) by the apparatus of control of all ministries. With respect to foreign trade the internal control within the ministry is effected by the Department of Control. The scope of this control includes the organization, administration and operation of all the subordinated units with respect to legality, veracity, correctness, and compliance with the foreign trade plan.
- c) by a banking system financial control over the apparatus of Foreign trade monopoly is exercised by two banks. Narodowy Bank Polski (The Polish National Bank) and Bank Handlowy S.A. w Warszawie (Commercial Bank of Warsaw).

The Department of Finance is responsible for formulating the financial policy of the ministry with respect to its domestic and foreign sphere of activity.

The Department of Foreign Trade Turnover and The Department of Machinery and Equipment.

It should be noted that financial discipline exercised by banks is very effective. The Polish banking system has been constructed with a view toward enforcing vigorous financial discipline in the execution of a national economic plan. Each economic unit is controlled by a bank to which it is obliged to turn for working capital and investment funds. Banks also grant credits according to a financial plan of the enterprise and currently watch over the use of the credits to make sure that they are not diverted to other uses than these specified in the plan.

Direct Supervision over the foreign trade activity of enterprises in the conduct of foreign trade, and over the flow of exports and imports is exercised by two departments of the Ministry of foreign trade.

The Department of Foreign Trade is responsible for trade in raw materials, agricultural commodities and consumer's goods.

The Department of Machinery and Equipment regulates the flow of trade of engineering products.

The Department of Treaties

In the Polish Ministry of Foreign Trade there are three separate Departments of Treaties responsible for the conduct of foreign trade negotiations, the conclusion of international trade and payment agreements, and supervision of their execution according to the assigned countries or trade areas.

The Institute for Economic Research

Is responsible for the conduct of economic research in the field of foreign trade. The scope of its activity includes an examination of theoretical and practical problems of foreign trade, questions of methods, technique and organization of trade, careful study of the trends and developments on international markets, movements of prices and recently the investigation of problems of the "effectiveness" of foreign trade.

The Ministry of Foreign Trade supervises the activity of several auxiliary agencies involved in the organization

of the country's external trade. The <u>Central Customs</u>
<u>Board</u> establishes tariff classification and the value
of the duty levied on imported goods. It is responsible
for the collection of duties and makes investigations
relating to the manufacture and production of goods produced in countries which export to Poland.

Two other auxiliary agencies are attached to the Ministry of Foreign Trade; the Central Board of Engineering and the Central Standarization Board which are responsible for setting of technical norms and quality requirements for the commodities entering foreign trade and supervise the apparatus exercising direct technical and quality control over the flow of exports and imports.

Polish Chamber of Foreign Trade

Among several auxiliary agencies subordinated to the Ministry of Foreign Trade the Polish Chamber of Foreign Trade deserves special attention.

It is a semi-official organization engaged in general foreign trade promotion activities. The Polish Chamber of Foreign Trade came into being by the Decree of the Council of Ministers on September 28, 1949 to foster economic relations with foreign countries, to keep FTE advised as to international marketing developments and to perform specific international marketing services. The members of the Chamber are: foreign trade enterprises, the Polish National Bank, the Bank of Commerce of Warsaw, the Maritime shipping companies, and the leading insurance companies.

The economic activities of the Chamber extend over a number of important fields and include:

- 1. A careful study of foreign markets as to the concrete trade opportunities for the benefit of Polish exporters and importers
- 2. The performance of several specific services to foreign trade companies such as issuing and legalizing commercial documents (certificates of origin of the merchandise, etc.)
- 3. The furnishing of information on national and local laws and administrative regulations.
- 4. Legal guidance, appraisal and publication of commercial customs
- 5. Arbitration of trade disputes
- 6. Organization of fairs and displays
- 7. Publications of trade journals containing international trade statistics, information on trade opportunities etc.

Foreign Trade Enterprises (FTE's)

Under the supervision and guidance of the Ministry of Foreign Trade the actual trading transactions are carried out by special, authorized enterprises.

In the first post war period companies interested in the conduct of foreign trade activity were required to obtain special licenses issued by the central organ of foreign trade monopoly, originally the Foreign Trade Committee at the Ministry of Food and Trade, lately by

x Ibid, pp. 306-307.

the Ministry of Industry and Trade. The first stateowned foreign trade enterprises were established, from
the legal point of view, as companies limited as to shareholders; and acted as state-owned domestic enterprises
and agencies. Until 1947 private importers and exporters,
in some cases were permitted to conduct foreign trade
activity, but under very strict state control.

On January 3, 1947, a special decree was issued which formulated principles of establishing socialized enterprises and, at the same time, provided new legal base for state-owned foreign trade enterprises. **XX** FTE's while being the exclusive property of the state, obtained full legal identity, a certain degree of financial independence and autonomy within the limits laid down in their statutes. In that period the enterprises empowered to conclude trade deals with foreign organizations were: **XXX**

- 1) the above mentioned state-owned enterprises organized as independent juridicial and financial entities
- 2) Foreign Trade Bureaus usually a branch of so called "Central Boards of Supply and Sale" (Centrala Zaopatrzenia i zbytu) functioning as an intermediate administrative body between a respective ministry and its

Ibid, p. 247.
S. Maksymowicz, S.Szczypiorski, Organizacja i technika hardlu zagranicznego (Organization and Technique of Foreign Trade) part I, Warsaw, P.W.N., 1955.

xx Ibid, p. 249.

xxx Ibid

subordinate production enterprises. In this organizational schedule the Foreign Trade Bureaus were supervised by the ministry in question as well as by the Ministry of Foreign Trade.

- 3) A small number of limited liability companies owned by nationalized economic units and cooperatives.

 During the period of 1949-1955 the Foreign Trade Bureaus and limited liability companies were gradually liquidated or converted into independent, state-owned foreign trade enterprises. Thus, the management of the foreign trade apparatus became centralized in the hands of the central organ of state monopoly with almost uniform organizational structure for all enterprises empowered to carry out foreign trade deals. The tasks and sphere of activity of FTE were designated by the regulation which came into effect in 1948 and included:
- 1) "analysis of foreign markets
- 2) collection of information on competitive sources of supply
- 3) arrangement of appropriate transportation of goods, including suitable packaging and insurance
- 4) setting prices on goods with the objective to maximize profits while taking account of the competition of other sellers

Central Boards were dissolved by the resolution of the Council of Ministers on December 23, 1950. Their functions were taken over by the respective departments within a ministry. See T.P. Alton, Polish Postwar Economy, p. 88.

Ibid, p. 265 quoted from mandel Zagraniczny (Foreign Trade) April 1948 pp. 9-10 (Supplement to "Zycie Gospodarcze, April 1-15, 1948.

- 5) assuming payments for goods sold as to avoid loss while at the same time not making payment conditions too onerous
- 6) liaison with production enterprises to assure that the goods dispatched would correspond to the conditions of sale with regard to quality, assortment, terms of delivery, packaging and transportation.

 The regulation also introduced a uniform organizational structure to all foreign trade enterprises. It was based on following principles:
- 1) imports and exports were separated by the establishment of enterprises dealing solely either with export or import activities.
- 2) Each enterprise was prescribed a particular field of activity, being exclusively entitled to trade certain commodities or groups of commodities in order to prevent an overlap of lists of goods handled and eliminate competition on domestic or foreign markets. The decree fully defining legal structure and principles of operation of socialized enterprises was passed on October 26, 1950.** The emphasis was put on planning as the most important and unique principle of carrying out the economic activity by all state-owned or controlled enterprises.

The organizational structure introduced by the regulation of 1948 had a rather short period of life. Very

X J. Zieleniewski, S. Szczypiorski, op. cit., p. 245.
XX Ibid, p. 255.

soon it became obvious that the conception is unattainable in practice. Its basic shortcoming lay in the separation of import and export activities in different enterprises which was artificial, costly and difficult to maintain in practice. It is not too difficult to see why this was so.

- 1) There was a considerable shortage of highly trained foreign trade personnel and the separation of export and import activities was making this shortage more acute.
- 2) It increased the number of enterprises engaged in foreign trade and required the establishment of several parallel organizational units for exports and imports and thus increased the costs of running the enterprises and made it impossible to ripen the fruits of the economies of scale.
- 3) The opportunities of thorough penetration of foreign markets could be much better in enterprises which would combine exports and import activities.
- 4) It is relatively easier to apply a more effective foreign trade policy, at least with respect to certain markets when imports and exports are conducted jointly. Besides this there is a possibility of considerable reduction of operational costs of the enterprise.
- 5) The same foreign agents and enterprise representatives can perform buying and selling functions when exports and imports are combined into the same enterprise.

For a more extensive analysis of these points see, J. Zieleniewski, S. Szczypiorski, op. cit., pp. 245-246.

The work of finding a more operational and effective organizational structure of foreign trade enterprises was proceeding rather slowly. The task was not an easy one as only such a structure could be accepted which would fit the highly centralized model of the economy and one which could be operated by economic plans. words, the wanted structure was one for which it would be easy to channel the commands and directives emanating from the top and make the control over the execution of these targets relatively simple and uncomplicated. From this point of view the conception which assigned to each enterprise the sphere of activity according to the commodity criterion was preferable as it was convenient from the point of view of central planning. In 1953 the process of reorganization started resulting in the recombination of exports and imports in enterprises distinguished along the lines of the commodity criterion. It seems that strict adherence to the commodity criterion in assigning the spheres of activity to each enterprise in question is by no means the best solution from the point of view of the operational efficiency of the organizational structure. The system is simply too rigid to be efficient but the very method of administrating the economy by the stream of commands and directives enlisted in central plan is not a bit less rigid than the hierarchical structure constructed to transmit the directives down the administrative ladder. One can wonder, for example if it would not be better to base the activity of foreign trade enterprises on purely commercial principles instead of command and directives. To allow the market forces to play and to estimate their performance and leave the choice of most effective and workable organizational structure to the discretion of the enterprise in question. But this possibility is simply incompatible with the "modus operandi" of Soviet-type economy. It would require to transfer a considerable degree of decision making from the top to the bottom of the hierarchical structure and thus weaken the power of the monopoly of foreign trade. Certainly this solution is too dangerous to be taken seriously into consideration by top political authorities.

The political events of October 1956 and ones related to it by a new drive towards decentralization and reforms in the system of state administration brought some organizational changes into the organ of foreign trade monopoly. Eliminated in the late 40's from the sphere of foreign trade activity, cooperative organizations and hybrid state-cooperative enterprises have been granted the permission to carry out foreign trade transactions. The decree No. 128158 issued by the Council of Ministers on April 18, 1958 put into effect the process of reorganization of the socialized sectors of the economy. It was followed by Recommendation No. 214159 of the Economic Committee at the Council of Ministers issued on May 22, 1959. This introduced certain modifications in the

Zasady zmiany struktury organizacyjnej panstwowego przemyslu kluczowego, (Changes in the Organizational Structure of the socialized key industries), Przeglad Ustawodawstwa Gospodarczego, No. 6, 1958.

J. Zieleniewski, S. Szczypiorski, op. cit., p. 256.

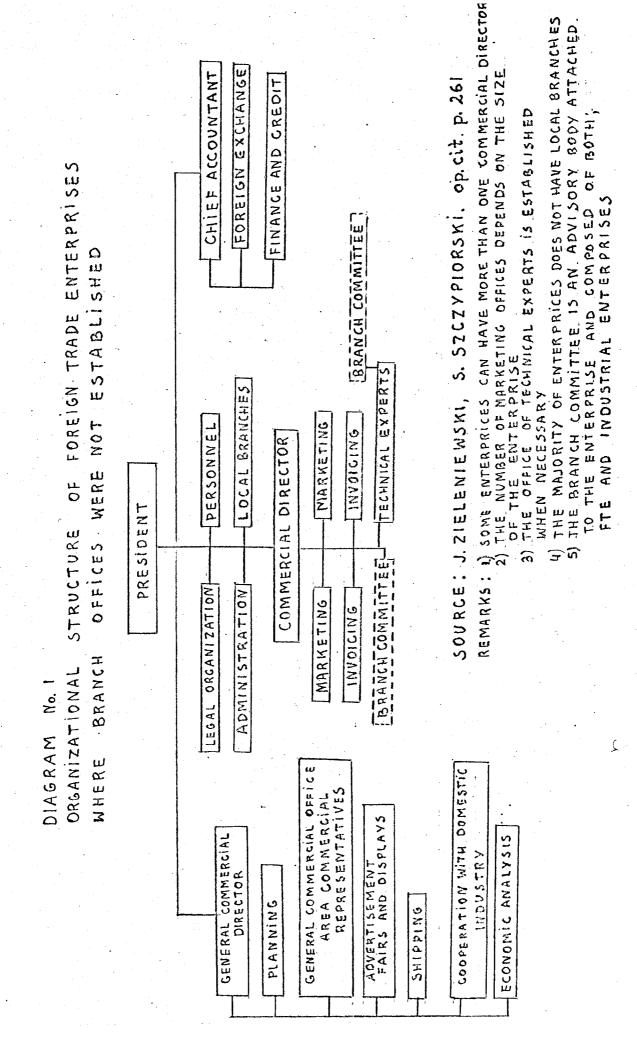
organizational structure of foreign trade enterprises.

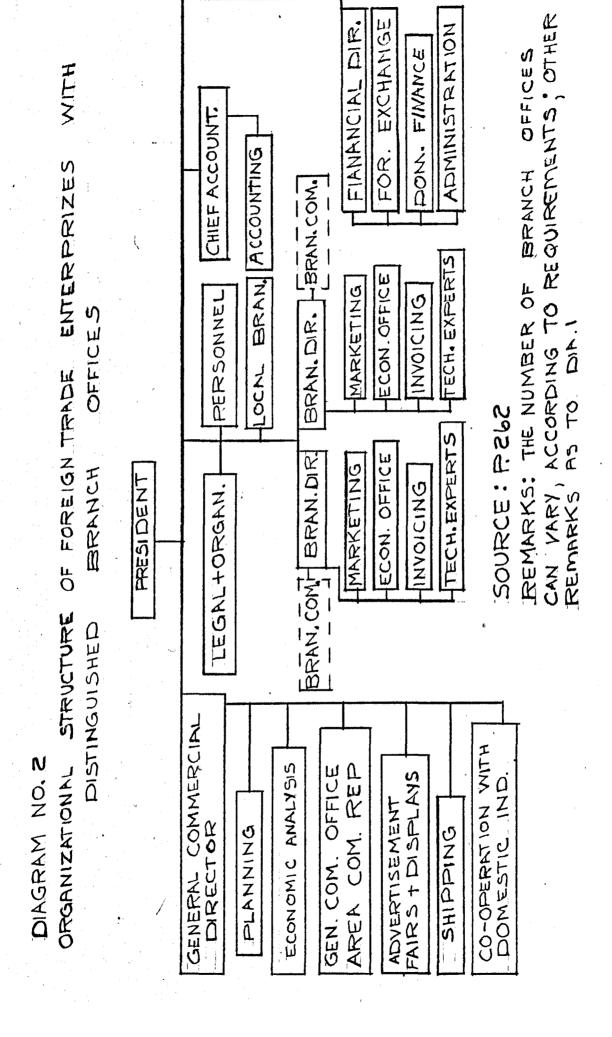
Most important among them seems to be the recommendation to establish separate "Branch Offices" (Biura Branzowe) within the enterprise which would specialize in trade activity according to a narrower commodity criterion than enterprise as a whole, the so-called Branch offices, while being the integral part of the enterprise were to enjoy a considerable degree of operational and financial independence. Establishment of "Branch Offices" in foreign trade enterprises was expected to achieve two goals;

- 1) improve operational ability of the enterprise
- improve its cooperation with domestic producers. With respect to the first point the reasoning was following the size and scope of activity of the majority of foreign trade enterprises which started as small firms grew enormously to keep pace with the fast increase of Poland's post war foreign trade. The vaster the enterprise becomes. the more difficult are the structural problems of organization, management coordination and control. Larger organizations are more bureaucratic, tend to move more slowly and to adopt themselves with increasing difficulty. It seems obvious that the organizational structure which fits small firms does not work in the larger ones. foreign trade enterprises which grow into large organizations were being managed like small ones. The state decision making and administration were concentrated in the hands of the President of the enterprise who was simply unable to handle them. Undoubtedly, many of the duties assigned to him could be delegated to lower levels of the

executive staff and the enterprise could benefit from it; as its performance would be improved. Many problems could probably be solved faster without waiting for the decision of the President. Two solutions to the problem were suggested. The first one proposed to divide large enterprises into smaller ones having a more narrow scope of activity determined according to the commodity criterion. The adherents of this point of view argued that these smaller enterprises would be easy to manage and thus would be able to operate more efficiently. But at the same time it was pointed out that an increased number of enterprises would require the establishment of several parallel organizational units in all of the enterprises. as opponents to this concept argued, the operational costs from the point of view of the whole apparatus of foreign trade would increase significantly. research in this field has not been done it is difficult to assess the real value of this proposal. It is quite possible for example that the advantages of a better. more effective performance would surpass the higher costs of operation. X Finally the proposal was rejected for other reasons. During the years of operation, the existing companies which established their position on foreign markets, were already known to foreign customers and had gained their confidence. New companies which would replace the old ones would have to start this

J. Zieleniewski, S. Szczypiorski, op. cit., p. 258.





difficult task from the very beginning.

The other proposal which was accepted envisaged establishment of the Branch Offices which would specialize in trade within strictly prescribed and homogenous or closely related commodities. They were to enjoy a considerable degree of autonomy and could be looked upon as smaller enterprises within the big one. This proposal had the advantages of the previous one but at the same time it did not require the dissolution of existing enterprises and the replacement of them by entirely new (Diagrams No. 1 and No. 2 depict the organizationones. al structure with and without "Branch Offices".X) What seems to be most important in the new organizational structure is the quite pronounced decentralization of the policy making and the placement of it on the intermediate executive level instead of concentrating it at the top. By establishing Branch Directors who were in charge of "Branch Offices" and granting them more authority, the communicational channels were shortened and the process of decision making became faster.

It seems that this reform decreased the degree of bureaucracy and inflexibility of the organizational structure at least to some extent, but the breakthrough did not go far enough to bring sweeping changes in the

It should be noted that both schemes show the organizational structure as formulated by Decree No. 10 issued by the Minister of Foreign Trade in 1961. Schedule No. 1 was designated for small enterprises and those with a too diversified assortment in order to establish Branch Offices. The old, uniform organizational schedule for all foreign trade enterprises was not exactly the same but its underlying principles were very similar, Ibid, pp. 261-262.

system.

The other advantage claimed for this model was the possibility of improving the cooperation between foreign trade enterprises and domestic productivity. The commodity pattern of Branch offices was determined to correspond as close as possible to the production profile of cooperating with the domestic production enterprises. It was expected that both partners would benefit on bringing production and trade closer together. enterprises were given the opportunity to become better acquainted with production possibilities. Also producers were able to be better informed as to the necessary requirements of foreign customers. At this point it should be noted that the new regulations envisaged also the possibility for domestic producers to engage directly in foreign trade activity by prescribing the conditions under which such a concession could be granted.X

Ibid, pp. 270-273.
Also see, S. Polaczek, Zjednoczenia przemyslowe a handel zagraniczny (Industrial Associations and Foreign Trade) Gospodarka Planowa, No. 10, 1958.

LINKS BETWEEN FOREIGN TRADE ENTERPRISES AND THEIR DOMESTIC PARTNERS

As it has been already mentioned Foreign Trade Enterprises are not empowered by law to engage in domestic production or distribution activities. They do buy the commodities designated for export from domestic producers and sell imported goods to domestic trading organizations. All manufacturing and commercial enterprises of the socialized sector are subordinated to respective ministries in charge of given sectors of the economy. On the intermediate administrative level there are Industrial Associations (Zjednoczenia Przemyslowe) which group enterprises by industrial types. The enterprises of the socialized sectors of the economy possess a full legal identity and are regarded as independent financial entities operating on commercial principles. The business contacts between FTE and their domestic partners have been established on a contract basis. For the first time, the system of Contracts of Sale and Purchase has been introduced by the decree issued on April 19, 1950 as the legal manner of conducting business operations between socialized economic units. This was supplemented by a resolution by the Chairman of the State Commission of Economic Planning No. 226 issued on June 1, 1950. This resolution formulated

X.

Ibid, p. 264. and S. Szczypiorski, Organizacja Handlu Zagranicznego (Organization of Foreign Trade) second ed. Warsaw, P.W.G. 1953, p. 99.

xx Ibid. p. 265.

"The General Conditions of Sale and Purchase" binding in all trade deals between FTE's and their domestic partners. The above mentioned general conditions have been considerably extended and modified in order to strengthen the discipline of foreign trade deliveries by the Decision of the Chairman of the Flanning Commission issued on October 16, 1959.

Besides these legal steps, and in order that business contacts between FTE's and domestic enterprises may be on a more operational basis some organizational changes have been introduced. In this respect the most important seems to be the creation of so-called "Branch Committees." These were established as advisory bodies attached to foreign trade enterprises. Branch Committees were composed of the representatives from both the foreign trade enterprises and the Industrial Associations or Enterprises in Their chief concern was to assure that the question. goods ordered by FTE's from production enterprises and designated for exports would correspond to the requirements of foreign buyers with regard to quality, assortment, packaging and above all that they would be dispatched in due time. As the situation on world markets changes continually while production is based on annual planning, it is not easy to reconcile production with the current requirements of foreign customers. In this respect Franch

Ibid.

xx Ibid, p. 266.

Committees were to play the role of an intervening body devoted to effectively coordinating production with the varying foreign market situation. From the practical point of view, it seems that the only valid contribution which Branch Committees were able to make was to better mutual understanding of problems and tasks of industry and the trade apparatus. They failed completely in their task of trade promotion simply because they were not furnished with sufficient authority to perform it. In order to promote trade successfully it was not enough to introduce organizational reforms, as the main hinderance was the crude and inadequate method of planning the production and trade. Steps which have been taken in order to improve the planning process will be examined in Chapter 6.

CHAPTER THREE

TECHNIQUE OF PLANNING

PLAN'S CONSTRUCTION AND COORDINATION

Plan construction is based on a two-way flow of information, instruction and coordination and can be divided into several stages.

Starting the process of plan elaboration, the Planning Commission of the Council of Ministers must have as precise as possible a picture of the economy containing all the statistical data on all economic variables in order to depict the availabilities of productive resources and their composition. The objectives and the priority of tasks which have to be accomplished during the planyear are formulated by the top political authority and sent to the Planning Commission. This statistical picture of the economy together with the scale of preferences established by political leaders serves as the basis for planners to formulate a preliminary and internally consistent set of aggregate targets. The consistency is achieved by drawing a preliminary set of material balances. * Material balances relate (link) output targets with the factor requirements indispensable to produce that The clue to material balance construction is the system of output coefficients (technical norms). are derived from technological practice and are possibly

H. S. Levine, Soviet Economic Planning (Input-Output Analysis and Soviet Planning) A.E.R. Papers and Proceedings, Vol. 52, 1962, p. 129.

E. Ames, International Trade without Markets - The Soviet Bloc, A.E.R. December, 1954.

connected for technical progress. The quantity of input materials required is calculated by simple multiplication of planned output targets by the appropriate input coefficients. The state of the material balances shows import requirement of the economy for a period covered by the plan; output targets - domestic supply - decreases in inventories = import requirement. For many years it was a common practice of the Bloc countries to first construct a preliminary import (a so-called "control figure") and there they adjust the export plan to this target. Roughly speaking the preliminary export plan (control figures) is drawn up on the basis of already concluded trade contracts, from commitments arising from annual and long-run international trade agreements, and from import needs determined by material balances. XX

In the second stage, the "control figures" are sent down through the planning hierarchy. The foreign trade targets are sent to the Ministry of Foreign Trade where some of the general targets are broken up, some more detailed targets added and then passed on to the foreign trade enterprises.

On the base of received directives and recommendations and after consulting the respective domestic trade organizations and manufacturing enterprises FTE's prepare

A. Zauberman, <u>Industrial Progress in Poland</u>, <u>Czech-oslovakia and East Germany</u>, <u>London</u>, <u>Oxford University Press, 1964, p. 4. F. L. Pryor, <u>The Communist Foreign</u> xx</u>

Z. Kamecki, J. Soldaczuk, W. Sierpinski, Miedzynarodowe Stosunki ekonomiczne, p. 526.

the propositions for the foreign trade plan. of the foreign trade plan prepared by FTE has to be elaborated in a detailed, operational form. plan has been approved it becomes binding to the FTE. The consultation with domestic partners, especially in the case of the export plan, is very important for FTE's. as it ensures them that the planned goals with regard to the volume, commodity composition and terms of delivery can be met by domestic suppliers. The drafts of the plan prepared by FTE's are passed on to the Ministry of Foreign Trade. In this stage the submitted drafts are analyzed and estimated, the necessary adjustments and alterations are made and the "synthetical" draft of foreign trade plan is elaborated and passed to the Planning Commission. The drawing of this draft is essentially a bargaining process where the Ministry, as a superior organ. tries to raise some of the targets and cut out the excess while the FTE's try to protect the "safety margins" they have set up.

After receiving drafts of all sectoral plans, the Planning Commission starts to work out an internally consistent, over-all economic plan. As the data pictured by sectoral plans differs considerably from the preliminary "control figures" the Planning Commission has to recalculate the material balances. In planning procedures borrowed from the Soviets a balance is not easily reached, and usually it does not happen that the supply side (listing all sources of supply for all centrally allocated products) equals the demand side comprising all

the uses of these products in the 1st calculation. In most cases it is the supply side which falls short of the planned demands. Through a series of successive adjustments the planners try to coordinate all the elements of the plan. It can be done in various ways. Consistency of the plan can be achieved using a so called "iterative approach". According to this method the deficit of the product in question is made up by the increases in the planned outputs of all the products which are the inputs to the deficit product, followed by the increases in the outputs of the products which are the inputs to the input product and so on until the consistency is achieved. *xx

So far, there is no premise on which to believe that this method is currently applied in the planning practice of the countries of Soviet bloc. Usually the adjustments are made in a completely different way. The producers of a deficit product are simply told to increase their output without getting any additional inputs and the users of a deficit product have to produce the output determined by the plan having at their disposal less of the deficit product that is normally required. **XXX** One can wonder how this system works in practice. In a command

This unequality is usually solved (at least partially) in accordance with the hierarchy of preferences established by top political authority by sacrificing when necessary low priority goals to fulfill targets of higher priority.

The definition of iterative approach as formulated by H. S. Levine, "Soviet Economic Planning, AER vol. 52 Papers and Proceedings 1962, p. 131.

XXXH. S. Levine "The Centralized Planning of Supply in Soviet Industry" in Joint Economic Committee, Comparison of the U.S. and Soviet Economics, Part 1, G.P.O. Washington, 1959, pp. 164, 167.

economy the output goals prescribed by the plan are binding to all economic units in question. It is the producer of a deficit product who has to worry about how to produce the required output using less inputs. it is done by lowering the quality of the product. utilizing the "safety margins" or securing higher input coe-1KOQE fficients from that which are feasibly workable.X Arriving at the internally consistent set of material balances is not the only problem which the planners find difficult to deal with. The system of material balances is set up for a number of centrally allocated products of "key industries". XX After substracting the requirements for material inputs of key industries (covered by the system of material balancing) from the output targets set out in the directives, the quantities of output left over are to be distributed among all other users. only by pure coincidence that these left over outputs are sufficient to satisfy total final demands, as determined by the plan. It cannot come out in the normal course of planning since the "control figures" serving as the guide for drawing the draft-plan are set out in advance of the

It is mainly due to the fact that input-coefficients are mostly inaccurate for several reasons. Usually they are poorly aggregated even on the level of the enterprise many of them are out of date because of rapid technical progress and above all they are very often unrealistically set.

The method of "material balancing" is in concept similar to the input-output technique. However, the balances are made up separately for each centrally allocated commodity and do not prescribe a complete matrix which is the case in respect to input-output method. Therefore, there are troubles with achieving consistency between different sets of material balances

entire planning process. On the other hand, any kind of industry depends directly or indirectly on inputs supplied by other industries. And again through a series of successive approximations planners strive to hit upon a new set of outputs which would cover the desired levels of demand.

Finally, it should be noted that no matter how difficult the planners find it to arrive on the internally consistent version of the plan, there is still a problem of making provisions for unforeseen changes in final demand or in output capacities. It is here where one of the basic shortcomings of the centrally planned system manifests itself most acutely. Even a perfectly consistent and carefully elaborated plan does not secure smooth and undisturbed operation of the economy in the period covered by the plan. A planner's expectations and predictions do not necessarily coincide with the future events of real life. If something unexpected happens the plan is likely to breakdown creating several bottlenecks and strains. On the other hand these events are not easy to prevent or overcome as it takes considerable time and pains to introduce necessary adjustments and modifications. The heavy, bureaucratic machine of central planning is almost entirely rigid, constructed to operate in the prescribed direction. Any deviation from this strictly determined "route" almost immediately calls for fargoing changes in the whole system and it is an extremely difficult and time-absorbing process.

Finally, an internally consistent "draft" of the plan is drawn up. By multiplying physical goals by respective

prices, the monetary version of the plan is reached and then consolidated into an over-all financial plan. should be pointed out the operational coordination of the requirements of a foreign trade plan with the over-all national economic plan including several plans for production and investments, has proved troublesome in Polish experience as well as in the experience of all other countries of the Bloc. It seems that the main reason lays in the inflexibility of the model of economy operating under the mechanism of centrally established plans. Providing that the plan targets for the domestic market are established in the reasonable and not exaggerated dimensions from the point of view of a real possibility of achieving them and providing further that the state exercises the full control over the economy and thus commands must be obeyed: then the carrying out of the national plan targets depends on the operational ability of all the units of the economy. In such a situation the risk of non-fulfillment of the plan could be eliminated to great extent. By no means, is this so in the case of foreign trade. The contact with the world market brings in the elements of risks and uncertainty.concerning the future trade turnovers. Foreign trade does not lend itself to the rigid planning methods applied in a domestic market which is under the full control of the state. It requires more elastic and precise operational tools. Leaving aside the problems of the long-run planning where the probability of the "correct guess" with respect to the future trends in the

world market are minimal, we must admit that even planning on the annual basis faces enormous difficulties. While the real export possibilities can be set up in conformity with the requirements of a national plan with a great degree of accuracy (this is a rather theoretical possibility as the actual planning methods are still very crude), the conditions in the world market may require great modifications of these plans. For these reasons, export and import plans have to be formulated approximately with a certain range left for modifications and adjustments. Their fulfillment requires considerable "operational elasticity" of the enterprises conducting foreign trade, and several modifications in the technique of plan construction as well as certain financial means at the disposal of the enterprise in question. **X*

In the last stage of the planning process the final version of the draft called "project" of the National Economic Plan elaborated by the Planning Commission is passed to the Council of Ministers for estimation and approval. As H. S. Levine remarks it is not only a

The Economic literature of the Bloc seems to realize this but the problem is still discussed on the academic level only.

See: J. Niegowski, W. Rydygier, Problemy handlu zagranicznego (Problems of Foreign Trade) in "Polityka gaspodarcza Polski Lundowej,, Vol. 1 p. 640.

There are two types of "reserves" kept for emergency purposes. The state reserves of foreign currency, gold and important goods serving to fill the gap caused by sudden changes in the world market or import irregularities and the foreign trade reserves designated usually for sudden buying on the world market or emergency export to meet the foreign payments. FTE's do not keep any reserved and can use the state or ministry reserves only under special permission. Usually it takes considerable time until the permission is granted and the chances of profitable surchase or sale can be lost in the meantime.

formality. In spite of the fact that while drafting the plan planners try to keep as close as possible to the general line determined by political authority, several restraints imposed by resource and capacity limitations and the requirement to meet the consistency condition made the draft deviate in several respects from the line laid down by top political authority. The draft does not please everyone with political power in the ruling "elite". Therefore, several changes have to be made before the draft is confirmed by the Council of Ministers.

The Council of Ministers presents the draft of the National Economic Plan to the "Sejm" (Parliament) during its winter session for final approval and promulgation. XX Once the plan has been confirmed it becomes binding by law to all economic units of the country.

APPRAISAL OF THE SYSTEM OF CENTRAL PLANNING

Socialist economic literature usually emphasizes two main advantages arising from the application of central planning as the operational device for carrying out foreign trade activity.

1) it protects "socialist economy" from the influence of fluctuations so characteristic to "capitalist markets" and thus secures the smooth and undisturbed operation of socialist economy run by central plans.

H. S. Levine, Soviet Economic Planning, p. 130.

S. Hatt, E. Szymanski, M. Wolski, System planowania w Polsce, p. 123.

2) the concentration of the decision making in the hands of central authority enables adoption of such foreign trade policy which will secure the balance of international payments and which is most effective for continuous and fast economic growth.

So far decade long planning experience has not provided any strong proof to justify these claims. Instead it has revealed many shortcomings of the system which seems to disregard them almost completely.

A. To start with, the planning methods currently applied are still very crude in spite of the fact that modern mathematical methods and techniques especially those which come from the "Capitalist West" are finding increasingly extensive application in planning. *X

We have previously discussed some of the difficulties the planners face in their efforts to meet the consistency requirements when constructing an over-all economic plan. This mainly refers to the wide-spread method of "material balancing."

The latter is usually referred is "socialist economic literature as "fundamental economic law of socialism". See J. V. Stalin, Economic Problems of Socialism in the U.S.S.R. "Bolshevik", No. 18, 1952, p. 22.

In Stalin's days they were regarded as an integral part of "Bourgeois theory" and for this reason alone unassimilable into Soviet economics. W. A. Zauberman writes "the enthusiastic response which the mathematical "novelties" have met in Soviet economics is indeed a measure of the urgency felt in the task of overhauling and modernizing the techniques of Soviet planning". See A. Zauberman, New Winds in Soviet-Planning, Soviet Studies, July 1960, p. 1.

Characterizing this method A. Zauberman writes:

"The underlying assumption of the "material balance" system is a high degree of comprehensiveness, homogeneity and precision. Neither of these premises has proved sufficiently realistic...the central planner is engaged in a losing battle against time. The whole conception of a system of balances depends on the "principle of simultaneity." To be consistent it must be homogeneous. that is, it must correspond to the same "plan variant". This requirement stands little chance of being met in actual life. The computational burden of an adequately expanded system of balances corresponding to each plan variant is so heavy that by the time calculations are completed it is already out of date... As technical difficulties came to be realized, the range of items covered by the system of "material balances" was cut down to include only commodities of key importance... Thus the premise of comprehensiveness has been dropped. "Material balances" have become no more than fragmentary estimates. They have failed to form an integral system." x

Since the system of "material balances" which is at the core of planning in the countries of Soviet bloc, has been so often examined and heavily criticized by Western economists as well as by some of the bloc economists there is no need to repeat this analysis.

A. Zauberman, <u>Industrial Progress in Poland</u>, <u>Czecho-slovakia and East Germany</u>, p. 5.

J. M. Montias, Planning with Material Balances in Soviet-type Economics. A.E.R. vol. 49, December 1959, E. Ames, International Trade without Markets, The Soviet Bloc, A.E.R. December 1954, F. L. Pryor, The Communist Foreign Trade System, pp. 55-57. and M. Rakowski, Zagadnienia planowania wieloletniego w Polsce Lu.dowej (Problems of Long-terms Planning in People's Poland) Warsaw P.W.G. 1955, p. 35. M. Rakowski pointed out that the exclusive reliance on "material balances" in planning foreign trade leads to the exchange of "surpluses" among socialist countries without real benefit to any of the trading countries.

B. The other very severe shortcoming of central planning is usually discussed in economic literature under the heading of "efficiency problem". The term "efficiency" is used here to mean three different problems. First, there is the operational (functional) efficiency of foreign trade concerned with the degree of utilization of "economic calculation" for policy making and establishing the criteria for estimating the profitability of foreign trade from the point of view of the economy as a whole. Efficiency in this meaning will be discussed in Chapter 7.

Secondly, there is the concept of the organizational efficiency of the foreign trade system, examination of which belongs rather to the "sphere of business administration" then to economics.

Thirdly, we can speak about the efficiency of planning of foreign trade. It is interesting to note that the Bloc economists, when discussing the efficiency of planning, are chiefly concerned with problems which G. Grossman calls "visible inefficiency" ie. "obvious waste, poor quality of products, inertia, hoarding and so forth - rather than with the "invisible" purely allocative kind."

It is quite obvious that a consistent plan does not necessarily meet the efficiency condition. This means that by reallocating the available factors more output cannot be achieved in one or more sectors or commodity groups

G. Grossman, Introduction to "Value and Plan", p. 10.

without sacrificing output elsewhere.X

An efficient export plan would mean such a commodity pattern of exports and an allocation to all markets available, that would bring maximal revenue in foreign exchange. The import plan will be termed efficient when;

- 1) given the financial means (in foreign exchange) at the disposal of foreign trade authority it is allocated to different markets and commodities so as to maximize total output of imports
- 2) the desired commodity composition of imports is allocated to different markets in such a way that the cost (in foreign exchange) of its purchase is minimal.

However, it seems to be obvious that in real life, a central plan can never be fully efficient if the degree of efficiency is to be estimated according to the above criteria. Construction of an "efficient" plan would require channeling to the head planners information on all possible alternative processes for producing thousands of commodities together with the possibilities of allocating them to all available markets. Planners do not get all this data. Even if they did they would not be able to handle it as the computational burden of these calculations is too heavy to be met even by the most modern

This is essentially Montias' definition of efficiency who writes "assuming that planners seek to maximize a bill of net output, a program will be termed efficient in terms of the information available to the central planners if no other alternative can be found which would yield more net output for at least one good without reducing the net output of any other good."

J. M. Montias, On the Consistency and Efficiency of Central Plans, Review of Economic Studies, Vol. 29, October 1962, p. 280.

Also see N. Jasny, A note on Rationally and Efficiency in Soviet Economy, Soviet Studies, Vol. 12, April, 1961.

mathematical techniques. Thus, the resources they have to allocate cannot be targeted in a way such that they would reach the surface of the production and trade possibilities curve in real life. Operationally more meaningful would be the assumption that information is not perfect - that, the data at the planners disposal is necessarily aggregated and incomplete and that the planners try to make efficient use of the information they get. Thus, the practical production-possibility frontier would be determined by scarcities of factors planners have to allocate efficiently. At this point another formidable difficulty arises. In market economies scarcity of factors finds immediate reflection in prices and thus it is relatively easy to trace them. Planned economies replaced the market mechanism by a system of commands and direc-Since economic calculation hardly finds any application in this system, prices cannot be used as a reliable indicator of factors scarcities. The only scarcity indicator planners can obtain are the surpluses and deficits in their material balances. Thus, the "vicious circle" closes. Planners, even if aware of the short comings of the method of physical balancing on which the system of "material balances" is based have no way to escape it.

C. The "import first" method of planning and complete reliance on physical allocation by means of material balancing leads to a complete negligence of profitability calculation in carrying out foreign trade operations. It determines total exports and imports but is useless in allocating trade among different markets and individual trading partners.

- D. The method is entirely static. Given the productive capacities and produced output-mix and having in mind all the above mentioned shortcomings, it determines a country's imports and exports but it will not provide an answer to planners where investments should be directed to develop industries for export and import replacing purposes.
- E. Besides this, there is a number of 'routine obstacles' standing in the way of rational planning and accurate performance of plans.
- 1. All the planning decisions for the year covered by a given plan must be made in a relatively short period of time as the "draft" of the plan has quite a long route through the administrative ladder before being finally confirmed. This general "rush" in drawing the planned goals finds its reflection in very often unrealistic targets setting and the lack of coordination between several production and trade goals which later expresses itself to a in several bottlenecks and shortages.
- 2. In many instances the plan is not approved till the end of the first quarter of the planning-year or later. During this time the enterprises operate without a plan, rushing to fulfil the planned goals at the end of the year which causes uneven distribution of export and import deals across the year with concentration of the majority of foreign trade deliveries in the last quarter of the

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See F. L. Pryor, The Communist Foreign Trade System, pp. 60-63.

plan-year.

- 3. Separation of production and trade causes many conflicts of interest between manufacture and foreign trade enterprises. In many instances manufacturing firms find export production very inconvenient and unprofitable. For them it is always easier to produce for domestic markets where the quality requirements are generally lower and the chances for fulfillment of high production targets much better. On the other hand, in spite of the fact that export production is regarded as being of highest priority, the manufacturing enterprises seldom find assurance of obtaining necessary raw materials and other intermediate goods.
- 4. The rigidity of the foreign trade operated by a central plan; its inability to adjust to the current market conditions thereby having several bottlenecks and shortcomings reveal themselves during the performance of the plan are all responsible for the volume of foreign trade being considerably below the "potential volume" of profitable trade. As Pryor estimates in 1955, none of the Bloc countries realized even 50 percent of their "potential trade" per capita.

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Ibid, p. 27, table 1-2.

CHAPTER IV

SOME FINANCIAL ASPECTS OF FOREIGN TRADE

1. FOREIGN CURRENCY STATE MONOPOLY

Poland's monetary system was defined by the decree issued on October 28, 1950.

According to its provisions, Polish "zlotys" became the official unit of currency; the gold content of the zloty was set at 0.222168 grams and the rate of exchange at 4 zlotys per 1 U.S. dollar. Although defined in terms of gold, the Polish zloty remains an internal currency only and cannot be converted into gold or foreign exchange at rates equivalent to its declared gold Because the function of the zloty as the official currency has been limited to the domestic market; state exercises full control over foreign currency holdings of the country XX through its exclusive right to buy and sell such currency, and all international trade is expressed in foreign currency and effected through authorized banks. This regulation concerns the transactions carried out by state-owned or controlled units of the economy. The basic rationale of this policy was to secure planned utilization of foreign currency holdings and effective fulfillment of the foreign trade plan. Within that plan, the very specific role in a Soviet-type economy is played by the rate of exchange. In a market economy

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J. Malicki, Reforma systemu pienieznego (Reform of the Monetary System) Gospodarka Planowa, November, 1950.

Z. Kamecki, J. Soldaczuk, W. Sierpinski, op. cit. pp. 149-151.

the rate of exchange has a decisive impact on the price structure and the level of foreign trade activity. As a direct result of the existence of the state monopoly of foreign exchange and the entirely internal character of Polish currency, the rate of exchange cannot be used as a device regulating country's trade with abroad. In practice, Poland has a number of different rates of exchange. All of these have three characteristic features:

- a) they are established in an arbitrary way by the state
- b) they are rigid
- c) they are used for the purposes of internal calculations and accounting between state owned or controlled units of the economy.

The rates of exchange are the main device used to finance, control, and estimate the performance of foreign trade enterprises, among which we can distinguish an official "gold rate" established at the level of U.S. \$1 = 4 zlotys (at its par value), an official "trade rate" used for financing foreign trade and established at the level U.S. \$1 = 23.94 zlotys and a whole group of foreign exchange coefficients.

Because the official "gold rate" was established in a completely arbitrary way, it is unmeaningful from the economic point of view and is used only for preparing foreign trade statistics. These are usually expressed in so-called "exchange zlotys" where four exchange zlotys are valued at one U.S. dollar.

The trade rate is used to finance foreign trade enterprises and its functions will be examined in the next part of this chapter.

The group of foreign exchange coefficients or socalled "coefficients of effectiveness of foreign trade" are without doubt the most interesting and economically It is also however, most recent development meaningful. and not always formally accepted. Before proceeding we should probably examine the monetary system and rates of exchange in order to determine both the reason why these rates are rigid and established in the arbitrary way, and also the role they are supposed to play in the economy. Unfortunately, economic literature of the Soviet Bloc countries is virtually silent on these points. Furthermore, there is no indication that the problems of the rates of exchange and their role in a "socialist economy" have even been touched by economic theoreticians. policy makers while fixing the gold content of Polish zloty did not make the slightest effort to explain why it has been established at this particular level. certainly not the purchasing power of Polish zloty which served as a base for determining its gold parity because the latter was established at unrealistically high levels. It seems more probable that Polish policy makers simply "borrowed" the gold content for domestic currency from

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For more detailed elaboration see Chapter 6.

their Soviet neighbours as the gold parity of Soviet roubel in 1950 was also set at 0.222168 grams of pure gold. Even if this rate was economically justified for the Soviet Economy (which is also very dubious) it does not mean that this rate would fit to the entirely different structure of Polish economy.

Several writers argue that the rate of exchange is of no importance in a Soviet-type economy and therefore the whole problem does not deserve any attention. Roughly speaking, they explain that there is no direct connection between the international and domestic economic activities in a Soviet-type economy.

Economic life in the country is regulated by an overall plan and hence monetary flows are not permitted to influence the allocation of resources or employment to any significant degree. Simultaneously, the internal character of the currency and stability of prices in the domestic markets serve as a built-in stabilizer to protect the domestic economy from any external disturbances. Soviet experts also claim that the government has full control over foreign currency holdings which ensures that all payments are effected in conformity with the requirements of the foreign trade plan. It is the plan and not the mechanism of the market which determines the volume and structure of foreign trade. Because of this, the non-market nature of the trade rate of exchange is of no

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Y. Aizenberg, Exchange Rates and the Price Level in the Socialist Economy. Problems of Economics, November 1962.

importance.

In early 1950's E. Ames argued that in fact, there is a link between foreign and domestic activities in a Soviet type economy and that the rate of exchange can have quite an important influence on the stability of the monetary system. In his opinion, the relation runs from the amount of trade inbalance (which depends on the level of the rate of exchange) to the size of the necessary money supply. He explains that the rate of exchange determines the amount of trade inbalance which must be financed either by the Treasury or the Central bank, and therefore it affects the money supply (of the economy).

A number of writers found this explanation unsatisfactory. XX They pointed out that the effect which E. Ames describes is of very limited practical importance because it can easily be offset by appropriate monetary policy. The logic of this argument seems to be confirmed by the experience of Soviet-type economies. Trade in-balance and budgetary financing not only occur, but chronically persist, however they do not influence monetary stability or domestic prices to any substantial degree. However, this is not a sufficient proof to state that the rate of exchange does not play any role in Soviet-type economy and can be disregarded by economists.

E. Ames, The Exchange Rate in Soviet-type Economies. Review of Economics and Statistics, May, 1953.

R. Bird, The Possibility of Fiscal Harmonization in the Communist Bloc. Public Finance Vol. 19, 1964.
F. Pryor, The Communist Foreign Trade System, op. cit. pp. 267-270.

The exchange still remains as the basic element in calculating the profitability of trade. Recent research work in the field of effectiveness of foreign trade clearly indicates that an economically meaningful rate of exchange is absolutely indispensable for this purpose.

DOMESTIC FINANCING OF FOREIGN TRADE

Financing foreign trade in a "socialist economy" has specific features which are entirely different from those characterizing foreign trade in Western countries. In particular, the foreign and domestic aspects of financing overseas trade are completely separated. This is a consequence of:

- 1) the existence of a state monopoly over foreign trade and the fact that production and trade are separated;
- 2) the existence of the state monopoly over foreign currency
- 3) on account of the centrally planned nature of the economy.

The provisions of the export plan determine amounts of foreign currency which each FTE has to obtain from its exports. Payments received for goods sold abroad are accumulated in special accounts in the "Bank Handlowy w Warszawie S. A." (Commercial Bank). However, the, do not belong to the enterprise which earned them. The state is the rightful owner of these accounts, and uses them to pay for imports. Imports are established in accordance with the provisions of an import plan and each FTE receives the required amounts of foreign currency to pay for required imports. Nevertheless, FTE's enjoy some economic independence in that they may buy goods designated for exports from domestic producing enterprises. Under

these circumstances there must be some mechanism enabling them to clear their accounts and secure financial equilibrium. Foreign Trade Enterprises use data on the rate of exchange (official trade rate), the level of domestic prices and the level of foreign trade prices which makes financing in their domestic sphere of activity very simple and to some extent primitive.

Financial calculations in export

1.	Domestic price of the exported commodity (in current zlotys)	zl. 112
2.	Planned profit of FTE	zl. 8
3.	Total Cost	zl. 120
4.	Export price of the commodity FOB = \$3 x 24 (trade rate) =	zl. 72
5.	Budget difference (negative)	zl. 48
	Total revenue	zl. 120

Total costs to the enterprise in this case are zl. 120 (including planned profit) while the dollar price of the commodity translated into zlotys at the official trade rate is only 72. The loss to the enterprise on this transaction amounts to zl 48 and is covered by the Budget of the State. This is the so-called negative budget difference.

FINANCIAL CALCULATION IN IMPORTS

1.	<pre>Import price paid by FTE (cif \$7 x 24 (trade rate) =</pre>	zl. 168
2.	Planned profit of FTE	z1. 12
3.	Total Cost	zl. 180
4.	Domestic price of the commodity	zl. 350
5.	Budget difference (positive)	zl. 170

The profit made on this transaction or so-called positive budget difference amounts to zl. 170. It is a result of the difference between the selling price of the commodity in the domestic market and the total costs of this commodity (import price of the commodity translated into zlotys at the official trade rate plus planned profit of FTE). The positive budget difference cannot be retained by the enterprise and it is transferred to the state. There are several other points that should be observed about these trade calculations:

Profits made by the FTE are secured automatically. rate of these profits is established by the Ministry of Foreign Trade and profits are directly calculated into the costs of operation of the enterprise. Thus, these profits cannot be regarded as a significant measure of economic effects generated by the activity of the enterprise in The balance between negative budget differences question. paid to FTE's and positive budget differences received from FTE is passed to the state budget. As has already been mentioned, the rate of exchange is not used as a device for regulating the country's foreign trade. However, the level at which this rate is established is important. The exchange rate directly determines the value of balances on the account of budget differences. When the trade rate is established at a relatively high level, positive budget differences occur for almost all imports (import price expressed in domestic currency is lower than the domestic price of the commodity) while on the other hand, almost all export transactions bring

negative budget differences (domestic price higher than export price).

To sum up, if we hold domestic prices as given, the higher the rate of exchange, the higher are the budget differences (positive and negative). The fact that there are positive budget differences in imports and negative differences in exports at the existing trade rate does not, of course, mean that all imports are profitable and all exports unprofitable. Any change of the trade rate would change the whole picture entirely. At the same time the method offers no chance to evaluate the activity of foreign trade enterprises in any meaningful way. For example, if an enterprise pays an unreasonably high price for imported commodities, and the rate of exchange is high, it will not be reflected on the account of budget differences to any significant degree.

CHAPTER FIVE

DOMESTIC PRICE SETTING PROBLEM

In the economic literature of the Bloc there has been a great deal of discussion on the role which prices play in a centrally planned economy.

Without making an attempt to review this animated debate, a few remarks should be made on the role which socialist prices do not play in the economy.

Under the system of physical targeting of planned goals and material balancing, prices ceased to be an autonomous force determining production, resource allocation and consumption. Prices were not abandoned completely, as, even in the condition of physical allocation, some weights are necessary to combine the yearly production of different commodities. Thus, prices began to serve as a common measure allowing addition of potatoes to tractors and so on. For this purpose, it is convenient to have prices which are stable over a long period of time. It seems obvious that these accounting prices that planners attach to targeted outputs are by no means accurate

For a review of the Polish discussion see, J. Lisikiewioz, Konferencja poswiecona teorii cen w gospodarce socjalistycznej Ekonomista, No. 3, 1958. The summary of these discussions is also prescribed by J. M. Montias "Central Planning in Poland, The problem is also discused by M. Bornstein, The Soviet Price System, AER vol. 52, March, 1962.

A. Zauberman, The Soviet Debate on the Law of Value and Price Formation in Value and Plan.

measures of opportunity costs, and cannot secure efficiency in the allocation of resources. From 1949 to 1955 the State Price Commission in Poland made use of two different pricing methods. X A system of fixed prices was applied to all producer's goods and raw materials used in the socialized sectors of the economy. were mainly derived from current 1937-1938 prices with some consideration given to the industry's average cost of production at the time the prices were put into effect. With the passage of time, supply and demand conditions in several industries changed significantly. prices could not make any allowance for these changes, and soon it became necessary to introduce a system of subsidies in order to compensate for losses arising from a generally higher level of production costs as compared to the selling price of the products. years, subsidizing was a common practice in many branches of the economy, especially in industries such as mining, which faced decreasing returns. The effect of these policies was widespread waste and uneconomic use of resources (especially raw materials and semi-fabricates) which were very cheap, even though their supply was persistently falling short of the increased demand resulting

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[.] M. Montias, Price-setting Problems in the Polish Economy. Journal of Political Economy, Vol. 65, December, 1957.

from high rates of economic growth. X

Underpricing in the socialized sectors was compensated by the high level of prices for consumer goods. Because of the low priority which this sector received in the hierarchy of preferences of planners who were concerned mainly with the rapid expansion of the capital goods sector, the consumer's demand surpassed by wide margins the available supply. A high level of retail prices for these goods was established to bring supply and demand into equilibrium, while the gap between prices and much lower production costs was absorbed by turnover These taxes provided a major part of the financial means designated for investments. In 1955 a wide debate on the role of prices in the socialist economy, and on the methods of setting prices started in the Polish economic press. As compared with the discussion on prices which took place in almost all of the Bloc countries at this time, Polish price debate seems to deserve special It was less futile than other Bloc discussions and did not limit itself to the issues on the scope and forms in which "law of value" still operates in a socialist economy. On several points the break away from the tradi-

Z. Kamecki, J. Soldaczuk, W. Sierpinski, op. cit., p. 202.

tional orthodoxy was really amazing. XX Several schools of thought have arisen, each expressing different points of view. The "revisionists" recommended marginal cost pricing and market mechanism as a device to bring about the allocation of resources in conformity with consumers demand. They believed in consumers sovereignty unhampered by administrative controls and wished the top planning authority to control the economy through an indirect

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For example according to Marxian doctrine no other factor except labor is entitled to a functional remuneration. If non labor income exists under socialism it is only due to the specific social relations making it possible. On those grounds, traditional orthodoxy maintained that interest on capital is to have no important place in the cost structure of a socialist economy. At this point A. Zauberman refers to Prof. Oscar Lange's statement which "pointed out that the price formula implied therein may correspond to a useful modern solution if it were assumed that capital accumulation has been carried on as far as to reduce marginal net

productivity of capital to zero as a socialist society would tend to do."

Thus, A. Zauberman remarks "the distance which separates the mirage of a zero marginal productivity of capital from the real economic environment of the Soviet Bloc countries - measures the inadequacy of Marxist classics" concept of price, as a particular principle for the planner, who despite that distance, has to refrain from any explicit profit and interest charge. A. Zauberman, "The Soviet Debate on the Law of Value and Price Formation "In Value and Plan, p. 21. Polish economists working on problems of the effectiveness of investment include the remuneration for capital in their formulas of the coefficient of effectiveness of investment. See: M. Rakowski, ed. Efektywnosc inwestycji, Warsaw, 1962. K. Laski, Efektywnosc inwestycji w gospodarce socjalistycznej, (Effectiveness of Investments in a Socialist Economy) in "Polityka Gospodarcza, Polski Ludowej, part I.

monetary and fiscal policy. The "conservative" group lead by Stalinist economist B. Minc, vociferously supported Soviet-type administrative planning. XX

A months-long fierce battle between revisionists and conservatives and all the intermediary groups cooled down in June 1957 when the Economic Council, an advisory body of the Polish Council of Ministers; finally formulated and published the principal proposals for the price reform.

The theses were less radical in character than were many of the voices in discussion. They expressed the compromise between the opposing groups and postulated the prices in the manufacturing sector to oscillate around the so-called "prices of departure". The latter were defined as AVC of the relevant group of the "highest cost" enterprises in each industry, and a proportional profit was designated to cover the desired accumulation. These "prices of departure" were in turn to be adjusted by adding a positive or negative mark-up in order to secure

The "revisionist" point of view in the discussion was most explicitly expressed by S. Kurowski "Model a cele gospodarki narodowej" Model and ends of the National Economy. Zycie Gospodarcze, No. 7, 1957.

Also W. Brus. O roli prawa wartosci w gospodarce socjalistycznej. (On the role of the Law of Value in a Socialist Economy) Ekonomista, No. 5, 1956.

W. Brus, Uwagi o problemie rachunku marginalnego w gospodarce socjalistycznej (Remarks on the role of marginal calculus in a Socialist Economy), Ekonomista, No. 3, 1958.

For a defence along Marxian lines see article by B. Minc in Gospodarka Planowa, No. 8, 1958 also his "Zarys teorii kosztow produkcji i cen, Warsaw, 1958.

Tezy rady ekonomicznej w sprawie ksztaltowania sie cen (The thesis of the Economic Council on principle of price formation) in "Spor oceny" (The price controversy) Warsaw, Kiw. 1958, pp. 9-26.

equilibrium between supply and demand in the market. Prices derived in this way were intended to serve as basic indicators for current economic decisions but not for investment decisions. The reforms which followed discussion were even less radical and of rather limited In 1956, fixed prices were abolished and replaced by the so-called "transfer prices", established on the base of current average costs of production. They were to serve for the purpose of planning and were to remain unchanged till 1960. As, at the same time, most of the previous subsidies were erased, the discrepancy between current and transfer prices in effect widened instead of closing. Certain improvements were made in the pricing of raw materials and semi fabricates. sequent increases of prices of key raw materials, fuels and semi fabricates significantly narrowed the differential between prices and cost of production in these sectors. The other important feature of these reforms was the announcement of the policy of linking the price structure of these products with the prices prevailing in the world market as advocated by Kalecki and others. In general, all these reforms beside removing some of the most striking irrationalities in price and costs relations left the distorted price structure unchanged.

II PRICING IN FOREIGN TRADE

Setting prices in foreign trade seems to be an even

M. Kalecki, O cenach surowcow podstawowycm (On prices of basic raw materials). Ekonomosta No. 3, 1958, J. Zachariasz. O własciwa polityka cen surowcow. (For a correct Policy of Raw-Materials Prices) Finance, No. 6, 1956.

more troublesome problem for both Bloc theoreticians and foreign trade practitioners than setting prices for domestic markets. Bloc economic literature on this problem usually emphasizes the existence of two separate systems of prices: one applicable in trade with non-Bloc countries or the "capitalistic world" and the other for intra-bloc trade. The distinction is being made in conformity with Stalin's famous proclamation of the existence of two world markets. Ideological or theoretical justification of this situation is usually vague and full of holes. XX

It is peculiar that even the very question why Bloc countries use the "capitalist prices" in their trade, something which stands in open disagreement with the two separate world markets proposal, is completely avoided. The answer seems to be simple: world market prices are used because, in spite of all efforts, Bloc countries have failed to establish their own price base - but Bloc literature does not want to admit this "obvious truth".

In 1952 Stalin wrote "the disintegration of the single all embracing world market must be regarded as the most important sequel of the Second World War and its economic consequences......the economic consequences of the existence of two opposite camps was thatnow we have two parallel world markets also confronting one another."

J. Stalin. Problems of Socialism in the U.S.S.R. New York, International Publishers, 1952. p. 26. After 1956 several Bloc economist questioned the validity of this proposal.

In the trade with non-Bloc countries "capitalistic world market prices" are used, simply because market economics would not accept any other but world market prices. X Thus, equality of price levels is the first and underlying condition of trade relations with the Western world. There are several other additional reasons. trade with the Western world, Bloc countries have little; if any influence on world prices. Their share in world trade is rather small: it amounts roughly to about 10 per cent of international trade. In any commodity group the quantities traded are not large enough to affect prices on the world market. By the very nature of the commodities exchanged (mainly raw materials and foodstuffs), the position of Bloc importers and exporters much closer approximates the competitive "price taker" than the monopolistic or digopolistic "price dictator". Besides this, there are other factors working to deteriorate the bargaining position. The goods offered by Bloc countries are usually below world quality standards and thus are not easy to sell. At the same time, the ambitious industrialization programs undertaken by all bloc countries require sizeable dimensions of imports to implement these In many cases, this demand has to be directed to the world market, regardless of the strained situation in a country's balance of payments. All these factors

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Only lower than world market prices would be acceptable by "capitalistic world" but obviously Bloc countries would not be willing to take "less" if they can get "more".

have significantly limited their ability to influence import and export prices which have to be adjusted to the level prevailing in the world market.

As far as intra-bloc trade is concerned, efforts are being made to avoid the employment of world prices and to elaborate their own system of prices. There is much literature on the problem of finding adequate principles for intra-bloc price-setting since different schools of thought present various and, in many instances, contrasting arguments and proposals.

Economists of the "old orthodox school of thought" are deeply dissatisfied with the use of "world market prices" for intra-bloc trade, regarding them as highly unsuitable for a socialist economy. "Capitalist market prices" are rejected by them on ideological grounds as not "equivalent" and distorted by "irrational capitalistic disturbances" (of monopolistic, cyclical or speculative character). Secondly, there are some practical considerations which make "capitalist market prices" very inconvenient for planners. The frequent changes of world prices increase the degree of uncertainty in foreign trade planning and

Most distinctive representative of this group is Russian economist K. Ostrovitianov.

There was a great deal of discussion in Bloc literature on "equivalent prices" but the very term of "equivalence" has never been neatly defined and comes to have several meanings as used by different authors. Most often it is understood that two commodities in two different countries are exchanged at equivalent prices when they contain equal amounts of domestic labor-hours For extensive discussion on theoretical problems of "equivalent trade" see F. Pryor. Communist Foreign Trade Theory, Soviet Studies, July, 1962.

a plan's performance, and complicates the planning process itself. Taking into consideration all the efforts of Bloc policy makers taken in order to protect their domestic economics from any external disturbances, this argument seems to be very important to them.

The "new orthodox school" which emerged more recently focuses its arguments on a different set of considerations. XX They seem to avoid questions on equivalent trade and place less stress on undesirable (harmful) distortion of world market prices. In their opinion, demand and supply relations in the Bloc are quite different from those in the Western world. Many Bloc goods are relatively highcost products as compared with the production cost structure outside the bloc. In the raw materials sector, there is a long-run trend for demand to fall short of available supply, which is reflected by a steady decline of prices for raw materials on the world market. In contrast to this situation there is a persistent shortage in the whole Bloc of many vitally needed raw materials. As the result of autarchic policies and a rather limited or undiversified natural resource supply in all Bloc countries (with the only exception of the U.S.S.R.), domestic demand for raw materials was increasing much faster than domestic production, causing severe deficits for a number of key This situation encouraged many otherwise raw materials.

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Z. Kamecki, J. Soldaczuk, W. Sierpinski, op. cit., p. 205.

As expressed by Prof. O. Lange "domestic prices are effectively insulated from external influences to protect the economy from "capitalist fluctuations and crisis.

O. Lange, Essays on Economic Planning (Calcutta, 1960) p. 11.

uneconomical investment projects in the raw material sectors, and raised the average production costs in these industries significantly above the world market prices. X The principle of comparative advantage would suggest that in such a situation it would be more profitable for the Bloc countries to import cheaper "western raw materials" than to develop their own more costly ones. There are, however several reasons why this proposal is unacceptable to the Bloc countries. First of all, there are political considerations and the desire of the bloc governments to be economically independent of the advanced West. strategic embargo is usually quoted in support of this argument. XX Secondly, deficits in the balances of payments would not permit them to increase imports of raw materials and other commodities from outside the Bloc to the level corresponding to their demand.

It is also interesting to note that the U.S.S.R.'s exports include a very large proportion of raw materials. While the U.S.S.R. imports - a large proportion of manufactured goods. The present bloc's problem of prices results, therefore, in favourable terms of trade for the Soviet Union.

Political tensions and hostility still do exist in more or less pronounced form, therefore another embargo can be viewed as a possible danger to Bloc countries. However, the Soviet blocade of Yugoslavia, and later of Albania would suggest that the blocade by a bloc nation is also a visible possibility.

Thirdly, there is an "infant industries" argument favoring the development of new industries, despite the high initial production costs which are to be offset by future benefits when these industries "grow up" and reach their maturity. In addition, some authors stress the relative scarcity of capital in the bloc as compared with the abundancy of capital in advanced Western countries. The use of "capitalistic prices" reflecting their factor endownment would discourage capital intensive, long maturing investments, which, because of the capital scarcity, should have very high returns.

The other commodity group for which demand and supply relations are entirely different in the Bloc are food-stuffs. As a rule, income elasticity of demand for food-stuffs is relatively low at high levels of income but it it may be very high at low levels of income. As a consequence the demand for foodstuffs in the advanced West usually falls below the availabilities of supply and, in effect, there is a long-run tendency for the prices of these goods to decline. In contrast, the Bloc countries are still in the low income group and their elasticity of of demand for foodstuffs is relatively high. The Bloc

It has never been explained how this proposal can be brought into agreement with the Marxian labour theory of value where scarcity of capital and high returns for these production factors are negligible. Besides this it is not clear to what extent the high or low capital output ratio enter planners' calculations and influence their investment decisions.

countries experience a continuous demand pressure on Low "capitalist market prices" would not induce production and intra-bloc trade in this commodi-These schools of thought advocate establishment of completely separate price systems for intra-bloc It is worth mentioning, that in spite of the fact that many bloc economists are unhappy about the use of "capitalist world market prices" in Bloc trade and express a strong belief that sooner or later their own system of prices will be elaborated, no tenable proposal in this respect has been suggested. In general, it has been agreed that intra-bloc foreign trade price setting should be based on production costs in the Bloc. X However, the next question, as to how these costs of production should be measured, brings a variety of proposals, but, in fact, no answer. Shaynin's idea of basing prices on a labor-hour of production and his complicated system of averaging the different amounts of labor embodied in the commodities produced in various countries, in order to derive one common price for the whole Bloc, is interesting, but certainly unworkable in practice. Dismissing labor-hour of production as a device to measure the value of the commodity, there are only the domestic price structures in each Bloc country left

Bela Csikos - Nagy Stworzenie wlasnej bazy cen na swiatowym nynku socjalistycznym (Elaboration of the separate price-base for a socialist world market), Gospodarka planowa, No. 11, 1962.

XXL. B. Shaynin, Proportions of exchange, Economic Journal LXX December, 1960, pp. 769-783.

to be compared. Taking into consideration the distortion of domestic price systems and arbitrary rates of exchange, it is hard to believe that any solution to this problem can ever be found along these lines.

On the other extreme in this debate, is a group of economists who believe that intra-bloc prices should approximate as closely as possible the prices in the world market. They argue that the disparities between intra-bloc and world market prices would create unequal exchange conditions and favor price discrimination. example, if the intra-bloc price for a certain commodity is continuously kept above the world market price. certainly Bloc importers would prefer to make their purchases on the world market. On the other hand. in the case where the intra-bloc price is set below world market level, Bloc exporters would not be willing to sell their goods to "socialist buyers" when the sale on world market is obviously more advantageous. the "Socialist world market" is a somewhat misleading expression. In the situation where bilateral trade agreements are being concluded in relatively short periods of time by organizations of foreign trade monopoly in each country, and supply-demand considerations have only limited influence on policy-makers' decisions, there is really no market in the traditional meaning

See F. Pryor, The Communist Foreign Trade System, p. 150.

This argument speaks in favor of the use of this word. of world market prices. Thirdly, they point out that the discussion on a separate "socialist price system" is still in the initial phase, and that there is no indication that it can be elaborated in the near future. Where the market mechanism is absent, the reliability of costs and prices, and economically meaningful rates of exchange are indispensable for any economic calculation. The domestic price-setting problem has not been solved yet and the rates of exchange are In this situation not even subject to discussion. world prices are, perhaps, not ideal but still the only possible solution. It should be noted that most of the adherents to this point of view do not advocate direct transplantation of "capitalist world prices" to "socialist ground". What they usually have in mind, are adjusted world prices which are "purified of elements of irrational capitalistic disturbances" (inflationary, cyclical, speculative ... etc) and kept unchanged for a certain period of time. This is basically the idea of "stop-prices" which have been used in intra-bloc pricing practices. This approach to the problem of pricing has many weaknesses and its adversaries were quick to detect them.

A. The major objection has been raised against the notion of the "world market prices". In the post-war

Stop-prices are the prices derived from average world market prices of a given year and kept frozen for a conventionally agreed period of time.

world they argued - free flow of goods and money has been seriously limited by governments of several countries by all kind of restrictions; ie. import quotas, foreign exchange regulations, custom unions, economic and monetary blocs, foreign exchange agreements...etc. Under the above circumstances there are many markets and no such a thing as one world market price.

It was then suggested that "world market price" refers to the price of the chief market. However, it is still open to discussion what criteria should be used for the choice of "chief world market". Besides this, the notion of the price of "chief world market" is meaningful only with respect to a group of staple commodities which are almost homogeneous and standardized (raw materials, agricultural products). Machinery and other differentiated products certainly do not fall into this category. the other hand the share of this group in the international market is significant and constantly increasing. It has been stressed that prices of the world market should be purified by climimation of irrational capitalistic disturbances which cause the distortion of world market prices. What are the principles of this purification and how should it be done?

C. It has never been agreed as to what is the proper time span for the "stop-prices" to be kept unchanged. In addition there is still a problem over how long the world prices should be averaged to serve as a base for deriving a stop-price? Undoubtedly, there are many other objections which can be raised against this proposal.

The problem can be attacked on ideological, theoretical or practical grounds. Without going too far into the details of this debate there is still one question which has been raised by the critics of the stop-price system. The question deserves special attention simply because it really invalidates the whole idea of stop prices. is no need to repeat that many bloc theoreticians are not satisfied with the use of "stop prices", as this confession appears in a whole series of writings on the Secondly, as a rule they stress that "stop prices are used as a temporary solution only until the Bloc's own basis for prices is elaborated. But what is their merit over the use of current world market prices? The old argument that they are purified of the "undesirable capitalistic disturbances" looses its grounds because the criteria for this purification is at least questionable. if not non-existent. Thus, the "stop-prices" retain all the shortcomings of world market prices. Besides this, they have additional major weakness. Being frozen over a longer period of time, they deviate from the current level of world prices and thus cease to reflect actual exchange conditions on the world market. They also do not reflect cost structure within the Bloc. * Between these two extremes there is a broad group of contributors. or rather several groups as their viewpoints differ

See St. Polaczek, Odrebny układ cen w handlu zagranicznym dla krajow socjalistycznych. (A Separate Price System in Foreign Trade for a Socialist Country). Ekonomista, No. 1, 1960, p. 26.

considerably on several questions. Their common feature is that they try to compromise both opposed groups and build their proposals on valid contributions of both schools of thought. What they postulate is some kind of mechanism which would more or less directly link domestic price system with the world market prices.

Distinctive in this group seems to be M. Kalecki's contribution. He advocated that domestic prices of raw materials should be based on prices prevailing in the world market. This proposal was strongly supported by several other Polish economists and was discussed at the ninth Plenum of CEMA (June, 1958). XX A. Zauberman's comment on M. Kalecki's proposal was that "this is seen as the first short-cut to rationality". XXX It seems that this proposal plus Prof. Kalecki's authority paved the way to several price regulations which were introduced in Poland in the late 1950's. It is interesting to note that on the other hand, in the famous debate on price formation Prof. Kalecki was quite explicit in his rejection of the "automatism of prices" in the domestic market. iv

M. Kalecki, O cenach surowcow podstawowych. (On prices of basic raw materials), Ekonomista, No. 3, 1958.

The ninth Plenum of CEMA made recommendations to use the average world market prices as basis for the 1958 intra-bloc prices. Taking into consideration that during the period 1951-1957 stop-prices based on 1949-1950 average world prices were binding it was a real progress.

A. Zauberman, The Soviet Debate on the Law of Value and Price Formation, p. 33.

iv M. Kalecki, Rady Robotnicze a centralne planowanie. (Worker's Councils and Central Planning) Nowe Drogi, No. 12, 1956, pp. 41-42.

Another original proposal was formulated by St. Polaczek. Rejecting the complete isolation of domestic and foreign trade prices, he postulated indirect interdependence between domestic and world market prices. In his model, the domestic price for goods entering foreign trade is composed of two elements:

- a) a domestic equivalent of world market price (it is derived by multiplying foreign price by the actual rate of exchange)
- b) a positive or negative mark-up (custom duty paid or premium received)

Duty paid or premium received would serve as the instrument of distribution of national income in conformity with the preferences of the state. Domestic equivalent of world market price was supposed to guide traders and producers and encourage their activities into the most profitable directions. The rate of exchange, or rather the whole set of differentiated (according to commodity and geographical criterion) rates of exchange as well as the amount of mark-up were to be established by the state.

The advantages claimed for this model are: the link between foreign and domestic prices is retained (element A) and at the same time the protection against any undesirable external disturbances which would affect domestic economy is secured (element B). It seems that the model has at

x S₊. Polaczek, op. cit.

least one basic shortcoming. The rate of exchange or a set of rates of exchange is designated here to play a very important role as it is the main factor determining the amount of the "domestic" price equivalent. It calls therefore, for economically meaningful rates of exchange. With the rates of exchange which are used now the model has no more validity than the very heavily criticized system of positive and negative budget differences.

In the light of the theoretical discussion on principles of intra-bloc price-setting it seems obvious that they have failed to furnish the Bloc policy makers with any satisfactory prescription for solving their price-setting problem. However, the post-war intra-bloc trade was growing at rapid rates and the flow of commodities had to be priced. Actual pricing practices in the Bloc seem to indicate the utilization of several more or less formal or informal criteria; the demarcation line between them being extremely blurred and difficult to make. As F. Pryor remarked "the price setting in foreign trade between the European communist nations is a boiling

To interpret this as a symptom of their inability to deal with economic problems of "real life" would be an unfair judgment. It should be realized that their freedom of creative thinking is rigidly restricted by ruling ideology and fundamental Marxism. These are the safety lines they are not supposed to pass. The ideological thaw which followed the Polish "October" 1956 certainly loosened these ties and this seems to explain why Polish contribution to the Bloc price discussion can be regarded as most prominent.

stew of propaganda, ideology, economic forces and self-delusion. X

Formal pricing criteria are usually included into bilateral trade agreements and thus are rather easy to disentangle. During the period of 1945-1950, the intrabloc prices were based on current world market prices (at the time trade agreement had been negotiated). These prices were kept unchanged during the whole period covered by the trade agreement in question, irrespective of the movements of prices on the world market which occured in the meantime.

In the early 1950's as a result of the Korean War, world prices for several commodities and especially the so called "strategic raw materials" went up very rapidly. Regarding that world market prices had become distorted and were deviating from the "real value of the commodities", (because of elements of cyclical and speculative character) the Bloc countries decided to eliminate these "irrational disturbances" from their prices. **X

X F. Pryor, The Communist Foreign Trade System, p. 131.

As declared by Zoltarev in 1951 "...in mutual trade among all socialist states prices are fixed on the basis of world prices...(they) are stable and adjustment (of world market prices) excludes the factor of temporary price changes which are connected with speculative machinations of capitalist monopolies, the military-inflationist business cycle and so on...

V. Zoltarev, Trade Relations of the USSR with socialist countries. Vneshniaia Jorgovlia, Nov. 1957, quoted by J. Wszelaki, Communist Economic Strategy: The Role of East Central Europe, Washington, D. C., National Planning Association, 1959, p. 631.

From 1951 the average world market prices of 1949-1950 were being used in intra-bloc trade. These so-called "stop-prices" were retained for the period 1951-1957.

As the discrepancy between current world market prices and "stop-prices" widened, especially in the instances where the "stop-prices" were considerably below world market prices, several countries began to complain that they were discriminated against. Many writers began to question openly the wisdom of these practices while demanding a price revision.

In effect, the 1958 trade agreements specified that average world market prices of 1957 were to be employed in 1958 for intra-bloc trade. The 1957 prices were also retained for the 1959 agreements. However, the supporters of "stop-prices" began to stress again the dangers of transmission of "capitalistic disturbances" on "socialist economies" through prices. Their position was evidently strong enough, as they persuaded the return to "stop-prices" which this time were based on 1957 world prices. As the "stop-prices" had many opponents, something had to be done to quiet the opposition. Thus, arrangements were made to adjust these new "stop prices" every few years in order to avoid great discrepancies between "stop" and current world prices. **X** For the economist investigat-

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S. Polaczek, Article in "Notatnik Agitatora", No. 17 (1956).

XX Z. Kamecki, J. Sotdaczuk, W. Sierpinski, op. cit. pp. 203-204.

ting intra-bloc pricing methods, these formal criteria seemed too crude to deserve more detailed examination. Besides this, it is obvious that they form only the cover of the price boiling pan, and the clue to the problem must be looked for inside. Several official statements and declarations play on the international working class solidarity, but this is only another veil to cover the real economic and political practices which stand behind the official "harmony of proletarian internationalism."

F. Pryor's and H. Menderhausen's XX studies in this field have very interesting material on real pricing methods and practices. They try to prove that prices are not "objectively set" but rather bargained in heated

In 1956 W. Gomulka, First Secretary of the Polish United Workers party declared; "The mutual relations between the parties and states of the socialist camp.. should be shaped on the principle of international working class solidarity...on mutual confidence and equality of rights...on rational solution, arising from...the spirit of socialism on all controversial matters...this is how it should be and - I would saythis is how it is beginning to be." Cited by Zinner ed. National Communism and Popular Revolt in Eastern Europe. New York: Columbia University Press, 1957, pp. 227-8.

F. Pryor, op. cit., Chapter V, M. Memdershausen, Terms of Trade between the Soviet Union and Smaller Communist Countries, 1955-7. Santa Monica, Rand Corporation Paper January 18, 1959 and "The Terms of Soviet-Satellite Trade; A Broadened Analysis, Santa Monica, Rand Corporation Paper, P-1, 873, Jan. 7, 1960.

disputes where national interests, threats, questionable trade practices, political pressures, discrimination are intermingled and the participants employ every possible measure to achieve a stronger bargaining position.

CHAPTER SIX

REFORMS IN THE SYSTEM OF FOREIGN TRADE

The political thaw which followed W. Gomulka's rise to power in October 1956 cleared the way for the determination of the so-called "Polish route to Socialism" and for the Polish model" of a centrally planned economy. For the first time the wisdom of blindly imitating the Soviet development pattern began to be openly questioned and efforts were being directed towards development of a system which would be more suitable to the factor endowment and economic situation of the country, the latter was so strained that reforms were essential. As the result of a heavy investment policy during the Six-Year Plan, several disproportions plagued the economy. The industries created during the Six-Year Plan had been too material, intensive and ill-adopted to the resourcebase of the country. In many instances they could not be operated at capacity because they depended heavily on imported raw materials which, in turn, were extremely difficult to provide because of the difficulty in the situation of foreign payments. The policy of "preferential growth of capital goods industries" began to show .its effects. The situation in the balance of payments was strained and the rate of growth of the economy slowed down. X In effect, foreign trade began to be the

During the period 1951-1957 the average annual rate of growth of the economy was about 8.8 percent. It fell down to 5 percent in 1958 and remained around this level during the subsequent years in spite of many efforts to accelerate the role of growth of the economy. A. Bodnar, op. cit., p. 13.

lagging sector of the economy, and the main bottleneck in the economic development of the country.

While theoreticians were working on finding some criteria of profitability which would guide those who planned foreign trade policy and secure a more profitable flow of trade, a new foreign trade policy began to be introduced. The reforms which began in the early 1960's focused on the organizational side of the system of foreign trade. They aimed at improving the country's situation in the balance of trade which was to be achieved by the policy of export promotion accompanied by the policy of "saving foreign currency" on the import side.

POLICY OF EXPORT PROMOTION

The Organizational reforms which took place in the early 1960's were designed to make the system of foreign trade more flexible and more responsible to the changing conditions of the world market. This in turn was expected to enable the possibility of obtaining a significant increase in the country's exports.

QUICK YIELDING INVESTMENTS

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On August 19, 1960 the Economic Committee at the Council of Ministers issued the decree which formulated a new investment policy with respect to foreign trade. The decree gave priority to investments in those indus-

J. Niegowski, W. Rydygier in Polityka Gospodarcza Polski Ludowej, Vol. I, Op. cit., p. 636.

tries which were (or could) producing goods for exports, and made the Ministry of Foreign Trade responsible for the evaluation of the investment program from the point of view of export possibilities. As the Investment Program for the Five-Year Plan for 1961-1965 had already been formulated in June 1960 the investment principles could not be fully utilized. Their role had to be limited to the revisal of the investment plan, to the introduction of changes and modifications where it was possible, and to the making of a new schedule for the beginning of new investments. Priority was given to those investments which were designated to produce for exporta-In February 1962 the Political Bureau of the Polish United Worker's Party issued a decree recommending the preparation of a special investment program to aid in the development of export industries and in the construction of special warehouses for storing commodities designated for exporting. The investment decisions were to be based on long-run export possibilities with the emphasis on those export productions which could be directed to markets with convertible currencies, and which would be based on domestic raw materials and semi-fabricates. Improvements in storing facilities, aimed to shorten the time needed for export deliveries. These improvements would also make it possible to conclude trade deals when the conditions on the world market were most favour-

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Ibid, p. 637.

able (buying when prices were low and selling when it would be most profitable).

Secondly, in order to promote exports two special funds were established to finance the so-called "quickyielding investments". The fund was established with foreign currency and was at the disposal of the Minister of Foreign Trade. It was designated to finance the purchases of foreign machinery and equipment. More specifically, the fund was to be utilized for investments in those export industries where the return of the invested outlays could take place within two years by export receipts or savings on imports. Additionally, it was required that undertaken investments should be highly profitable (eg. that they had good coefficients of efficiency). Priority was given to those investments which could produce for "difficult export markets" (markets where the deficit in foreign payments was most severe). The other fund was established in domestic currency and designated to finance the purchase of domestic capital goods for investments in export industries. The appropriate credits were to be granted by two banks (Narodowy Bank Polski" and "Bank Inwestycyiny") on very favourable conditions but only on the recommendation of the foreign trade enterprises in question. ditions on which credit was granted were as follows:

- a) investment had to be completed, within 18 months
- b) the period of return for the invested outlays could not be longer than three years.

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IMPROVEMENTS IN THE PLANNING OF EXPORT PRODUCTION

As years of experience of centrally planned economies indicate, planning of foreign trade is much more difficult than planning in domestic sectors of the economy which are under the full control of the state.

Foreign trade involves contact with foreign markets which are independent of the planning authority but which at the same time condition fulfilment of the plan. Foreign trade, certainly, does not lend itself to the rigid planning methods applied in domestic economy and requires more elastic operational tools which permit quick and effective adjustment of the foreign trade plan to the changing conditions on the world market. reasons export and import plans had to be formulated with some range left for modifications and changes. However, the latter was only true with respect to foreign trade enterprises which were directly engaged in the conduct of foreign trade activity, while domestic enterprises producing for exports were subordinated to the discipline of internal planning. In the early 1960's, the policy makers became aware that in order to promote exports successfully the planning methods in industries and enterprises producing for exports must also be modified accordingly. Several measures have been taken in order to improve the planning process in export producing enterprises and industries. First of all. a number of enterprises or branches producing for exports only. have been excluded from the general system of domestic planning of production and covered by specially constructed export production plans. The planned goals in these plans were established less rigidly with the provisions made for necessary adjustments and modifications which could arise in the course of plan execution. Besides, special provisions have been made to secure the adequate supply of raw materials and semi-fabricates used in production. At the same time it has been envisaged that the planned wage fund and employment would be adjusted according to the requirements of production processes.

The above mentioned measures however, could not be fully applicable to enterprises producing for both domestic and foreign markets. As the bulk of production of these enterprises was directed to the domestic market, they remained subject to the discipline of domestic planning. With respect to that part of the production which was designated for exports, arrangements have been made to ease financial restrictions concerning surpassing the planned wage fund and employment, and to secure the adequate supply of materials used in export production which were excluded from the normal system of planned distribution. With respect to the latter it has been suggested that funds for payments of urgently needed imported raw materials could be drawn from the special reserve fund established in foreign currency and given to the disposal of the Ministry of Foreign Trade. X

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The Decrees No. 106 and 108 of the Council of Ministers issued on March 27, 1962, Monitor Polski, No. 29, 1962.

OTHER CHANGES IN THE SYSTEM OF FOREIGN TRADE

It has been recognized that a significant increase in exports could be obtained on the basis of existing production capacities, providing that several obstacles inherent in the institutional framework of the system of foreign trade were removed. The most important of these obstacles were:

- 1) The foreign trade monopoly, operated by a central plan, very rigid, and therefore unable to adjust quickly to changes in the world market. During the previous years attention had been focused on mobilizing a maximal supply of potentially exportable commodities. However, this meant that only half of the trade task had been performed. To promote trade successfully it is not enough to secure the supply of exportable commodities, it is also necessary to have the ability to sell them. This part of trade business was almost completely neglected by enterprises engaged in the conduct of foreign trade. There was no market research, no advertisement, and none of the measures which form the basis of the contemporary sales promotion policy were utilized. In effect, trading enterprises had no information on what was going on in the world and their products were mostly unknown to their potential foreign buyers. Improvements which have been made in this respect include:
- a) The Institute for Market Research attached to the Ministry of Foreign Trade was established. It's main tasks were to conduct intensive market research, prepare market surveys and submit reports on concrete trade

opportunities for the benefit of Polish exporters.

- b) Similar tasks were assigned to the Bureau of Commercial Attache's attached to Polish Embassies abroad.
- c) In cases where it was justifiable, foreign trade enterprises were granted the permission to have their own permanent representatives abroad. These representatives would keep them informed on recent developments in the market in question
- d) Several steps have been taken in order to develop and improve the advertising media.
- 2) Separation of production and trade caused many conflicts of interests between FTE's and domestic manufacturing enterprises. The links between FTE's and their domestic partners were extremely weak. In many instances, domestic producers found it very inconvenient to produce for Their production targets included in economic plans, were very often exaggerated. The fulfillment of targets was often difficult as the requirements of foreign buyers with respect to quality, assortment or packing were higher than those of domestic buyers. In addition to this. the contact of domestic producers with foreign markets which would familiarize them with the most recent techniques, and production methods, and quality requirements was minimal. Changes in the system of planning of export production was the first step on the way of making export production better adjusted to current conditions prevailing on the world market. The links between FTE's domestic producers and the foreign market were strengthe-

ned to some extent by the establishment of "Branch Committees". Their tasks and role were already discussed in Chapter 2.. To repeat shortly, they were responsible for devising effective cooperation between producing and trading enterprises and informing the former on recent production methods and techniques used by leading foreign producers.

- 3) It has been recognized that some very important obstacles in successful trade were: poor quality of exported commodities; inadequate packing and long delivery periods in addition to overdue delivery. Measures which have been made in order to improve the discipline of export deliveries are as follows:
- 1) Decree issued by the Chairman of the Planning Commission at the Council of Ministers formulated new General Conditions of Sale and Purchase. It envisaged that trade deals were to be negotiated between FTE's and their domestic partners within the framework of General Conditions of Sale and Purchase. (Once such a contract was negotiated it was binding by law).
- 2) The quality control of commodities designated for exports was considerably strenghtened and the apparatus of control extended. First of all, two top agencies responsible for setting technical norms and quality standards, the Central Board of Engineering and the

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The decree was issued on October 16, 1959 and replaced one issued on June 1, 1950. See, Monitor Polski, ur. 92/1959.

Central Standarization Board (for staple commodities), were required to revise and raise, where necessary, the existing quality standards and norms. Within this formal framework, the quality and technical control which was being exercised on two levels; namely

- a) by experts of the producing enterprise
- b) by the apparatus of control subordinated to the Ministry of Foreign Trade ("Polcargo" and Central Standardization Board) was significantly improved and extended.

INCENTIVES FOR FOREIGN TRADE

Besides the reforms which were introduced in order to improve the organization and the operational ability of the system of Foreign Trade some efforts have been made to evoke incentive and material interest of the personnel engaged in foreign trade activity. The achievements in this field are by no means impressive; however, at least something has been done to stimulate the incentive of the management and personnel by letting them share the financial benefits of better performance. In 1960, in addition to the already existing "enterprise-fund" X (fundusz zaktadowy), a system of bonuses was established to reward employees distinguished by achievements at work. The amount of bonuses granted depended on the financial results of the operation of the enterprise in question; the latter were evaluated on the base of fulfillment of

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The "enterprise-fund" has been established in enterprises of the socialized sector from profits which they were permitted to retain and was left at the disposal of the enterprise.

the planned goals and especially on the fulfillment of export plan targets.

In order to interest enterprises in undertaking the production for export, a price reform for exportable commodities was introduced in 1962. The reforms enabled manufacturing enterprises to set higher prices on exportable commodities than on those commodities for the domestic market, in cases where production for export was more expensive and more time absorbing because of higher standards and quality requirements.

Higher prices received on export production made it possible for the enterprise to increase its total amount of profits. This, in turn, meant an increased "enterprise-fund" and more financial means to be distributed in bonuses and premia.

It is extremely difficult to assess to what extent the above measures were effective in stimulating incentive and better performance and thus eased the task of export promotion. In general, it seems that their impact was of minimal significance and failed to bring any lasting improvement in exports. Polish literature on the subject usually blames the measures which were taken in order to stimulate incentives. It is pointed out that the criteria for granting premia and bonuses were wrong, full of gaps and shortcomings that the

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The decree of the Council of Ministers No. 55 issued on February 13, 1962 Monitor Polski, No. 22. 1962.

administrative procedure and legal regulations were inadequate and ineffective. It seems, however, that the clue to the problem lies somewhere else. The underlying principle of the system was to devise some tools which would connect financial results of the operation of the enterprise with the incentives stimulated by financial reward for good results. But, in the situation where cost and price structure are distorted, the evaluation of economic results of the activity of the enterprise can be very misleading and incorrect. This means, in turn that the evaluation of incentives leaves also much to be desired.

II SAVING FOREIGN CURRENCY

The policy of export promotion was accompanied by the policy of elimination or decreasing of the volume of imports which were of lower priority or which could be replaced by domestic substitutes. In this way scarce amounts of foreign currency were being saved for high priority, indispensable imports and the deficit in the balance of trade, if not decreased, at least did not grow.

In the early 1960's the attention was focused on the revision of planned import demand. For this task special committees were established to analyze and estimate the degree of necessity of imports listed in the annual and long-term plans. During 1960 these committees analyzed over 20,000 import proposals for a total value of approximately 1,900 million of exchange zlotys (about 475 million \$). The value of orders directed to domestic

instead of foreign producers amounted to about 200 million of exchange zlotys (approximately 50 million \$).X In the course of revision of import requirements special emphasis has been placed on the elimination or diminishing of imports from those markets to which it was extremely difficult or impossible to increase exports ie. where the deficit in the balance of trade was most At the same time imports from markets where Poland's payment position was satisfactory have been considerably increased. It should be noted that the revisal of import plans was concerned only with reexamination of import requirements for machinery and equipment and did not cover other commodity groups listed in the import plan. Besides this, the revisal was concerned only with estimating the degree of usefulness or necessity of several imports. Many other questions important from the point of view of saving foreign currency were not taken into account. For example the re-examination of import plans did not include proper timing of import deliveries to match the investment cycle in order to avoid delays and to prevent too early deliveries which while not utilized still had to be paid for. It caused unnecessary "freezing" of scarce currency and incomplete utilization of imported productive capacity.

It has also been pointed out that several industries

J. Niegowski, W. Rydygier, op. cit. p. 651.

produced poor quality goods as compared with their foreign competitors in spite of the fact that they were working with better quality and more expensive imported raw materials. However, domestic producers made every possible effort to avoid the utilization of lower quality raw materials in their productions. They had a very good reason for it, as less efficient raw materials used in the production process could not be reconciled with existing technical norms, productivity requirements, planned employment and wage fund. While the latter were not permitted to be overpassed the planned production goals had to be fulfilled. It seems clear that under the above circumstances the fulfillment of the planned production goals could be secured only if all other elements of the plan were modified accordingly, but this was not have always the case. Several attempts to solve the above problem have been made on the legislative level. To some extent they cleared the way for a more rational utilization of imported raw materials and set the production targets and technical norms on a level more realistic and tenable in practice. However they were too limited in scope to exhaust all the possibilities which are or could be opened in this field.

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The decrees which regulated these questions were: Decree No. 106 and Decree No. 108 issued by the Council of Ministers on March 27, 1962.

See: Monitor Polski, No. 29, 1962.

CHAPTER SEVEN

EFFECTIVENESS AS A NEW CRITERION FOR TRADE

THE CONCEPT OF THE EFFECTIVENESS OF FOREIGN TRADE IN THE CENTRALLY PLANNED ECONOMY

"In the world socialist market, goods are exchanged at prices based on international value, there is no place for non-equivalent exchange in socialist foreign trade. That is why international socialist trade is mutually profitable and guarantees a saving of social labor to each trading country."

The relaxation in the political climate which took place after Stalin's death, created a much more favourable environment for the economists to bring under discussion the supposed merits and demerits of the existing economic system. The animated re-examination of previously unquestionable "socialist economic laws" proceeded in a rather particular way. The political changes did not go so far as to permit the economists to question the "self righteousness" of Marxist-Leninist orthodoxy which still ruled supreme. However, the economists were given some range for more diversified interpretation of these rules which began to be twisted in innumerable ways in order to make them more applicable to the problems of real economic life.

This doctrinal thaw brought the recognition of foreign trade as a vital sector of the economy and raised the problem of the efficiency of a centrally planned

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G. Shagalov, The Economic Efficiency of the Socialist Countries Foreign Trade,

Problems of Economics, December 1965, Vol. 8, No. 8, p. 50.

economy and efficiency of foreign trade.

The investigation of foreign trade profitability within the overall economic framework was initiated by Hungarian economists; J. Liska and A. Marias in the journal Kozgazdasagi Szemle in 1954^x. Shortly thereafter the problem began to be examined in CSRR and in Poland and in 1956-57 was discussed at three all-Bloc conferences. Polish contribution to the all-Bloc debates on efficiency, seems to deserve special attention because of the relatively higher degree of sophistication of the theoretical examinations and as being much freer of Marxian dogmatism.

Since mid-1950's, increasingly the strained situation in Poland's balance of payments was calling for "essential" reforms in the system of foreign trade. The new political leadership which emerged in 1956 finally recognized that the Soviet born method of physical balancing of "material balances" was completely inadequate as a criterion for trade and realized that no improvement can be expected without basing the system on a "sound economic calculation". This raised the problem of the profitability of trade.

The theoreticians started by drawing a distinction between the profitability of each foreign trade transac-

J. Liska, A. Marias, Effectiveness and the International Division of Labour. East European Economics, Summer 1963, Vol. 1 No. 4. translation from Kozqazdasagi Szemle, 1954, No. 1.

tion and the over-all profitability or "effectiveness" of foreign trade. The former was disregarded as irrelevant for the "socialist economy", where the over-all economic considerations must always go before the interests of individual enterprise.

This micro-economic approach to the problem of effectiveness caused a great deal of difficulties not only in finding some satisfactory yard-stick for measuring effectiveness, but first of all made it extremely difficult to define the exact meaning of effectiveness.

The usual practice for Bloc economists in such a case is to look for guidance in Marxian writings, but the Marxian definition expressed in highly abstract terms certainly did not help in this particular problem, and brought a lot of confusion. According to Marx "effectiveness is a method whereby certain results are achieved by minimum allocation of resources". As Liska and Marias explain, allocation means the sum of total social labour assigned to the commodity, and results mean the maximal fulfilment of the needs of society, the most important index of which is the constant rise of national income. XXX

A. Rolow, Rachunek efektywnosci w handlu zagranicznym. (Profitability Calculation in Foreign Trade) Warsaw P. W. G., 1960, p. 9.

J. Liska and M. Marias, op. cit., quotation from Das. Kapital, Hungarian edition vol. 111, p. 114, 1951.

xxx Op. cit., p. 3.

Effectiveness in foreign trade is thus a relative concept: it is a ratio of total expenditure of social labour assigned to the exported commodities to the total use-value of imports which secures maximal rate of growth of national income. Even disregarding Marxian distinction between the use-value and value-in-exchange (labour-value), the problem involves more than quantitative comparison between the costs and the revenue from exports and expenditures on imports. Besides the quantitative effect which this ratio would express, there are some qualitative aspects of the problem, such as the usefulness of the several exports and imports for the national economy, its impact on the rate of technical progress, employment preferred structure and the distribution of national income. All of them would finally find reflection in the obtained rate of growth of national income. X For many of these elements quantitative assessment is practically impossible. Thus, the discussion on effectiveness had to confine itself to those elements which could be expressed in quantitative terms. Even here, the problem of finding the adequate criteria for estimating the degree of effectiveness of different import and export structures proved to be very troublesome. To start with, the economists

Z. Kamecki, J. Soldaczuk, W. Sierpinski, op. cit., p. 518.

[&]quot;It is clear that thereafter we need a whole system of indices that could reflect different aspects of economic effectiveness and serve as a basis for multi-faceted analysis." V. lerekhov, V. Shastitko, International Socialist Division of Tabour (Criteria of Effectiveness) Problems of Economics, Nov. 1964, Vol. VII, No. 7.

trying to grapple rigorously with the theoretical problems of efficiency of foreign trade had no single guide line to rely on as the "pure theory of foreign trade for a socialist economy" does not exist.

Several efforts to develop the theory of international trade along Marxian lines stopped on the avid discussions of "equivalent trade" measured by the amount of "simple labour embodied in the exchanged commodities. Marxian distinction between "international and national value" brought additional confusion to this theorizing and led some economists to the absurd conclusions that international trade, while equivalent when expressed in terms of international value is not equivalent from the point of view of national values. The old economic principle of "comparative advantage" expressed by Ricardo in the 19th century proving that "non-equivalent" trade can also be beneficial for both trading countries, was completely forgotten in these discussions. On the other hand it seems that "Western economic theory" has nothing to offer to the "Bloc economists" working hard to find some firm ground for their "effectiveness" research.

We can easily disregard several statements of the economists of the "Stalinist era" of the Frumkin kind, describing "western" foreign trade theory as.. "vulgar,

M. Horovits, Probleme Economice, No. 4, 1958 pp. 10-20. quoted by F. Pryor, Foreign Trade theory in the Communist Bloc. Soviet Studies, Vol. 14, July 1962, p. 55.

pseudo-scientific, reactionary foreign trade theory disseminated by bourgeois economists...(to) serve as theoretical basic for the Western discriminatory foreign trade policy towards the socialist countries" - for the same reason of being unscientific. This statement does not, of course represent the point of view of all Bloceconomists. What is more important, since the middle 1950's, the Ricardian principle of comparative advantage, began to be discussed in Bloc economic literature and was formally approved. Elaborated by CEMA in 1962 the "principles of international socialist division of labour! mention the comparative advantage as a criterion for the specialization of production and trade within CEMA. XX At the same time, it has been pointed out, that the principle has a limited usefulness for foreign-trade policy making because of its short-run and static character. XXX The criticism seems to be justified but certainly this is not the most important point.

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Zasady Miedzynarodowego socjalistycznego podzialu pracy RWPG. (Principles of International Socialist Division of Labour), Handel Zagraniczny, No. 7, 1962 pp. 318-324.

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A. Frumkin, The Insolvency of Bourgeois Foreign Trade Theory. Problems of Economics, No. 12, 1959, p. 58.

Z. Kamecki, J. Soldaczuk, W. Sierpinski, op. cit. p. 125,

B. Mine, Gosnodarka Planowa, No. 11, 1958.

As expressed by Y. Wilczynski: "The theory is simply incompatible with the modus operandi of a centrally planned economy." The reason for this is that the theory in all of its versions refers to differentials in "real" or opportunity costs and these are untraceable in economies where the market mechanism is absent. Socialist prices certainly do not reflect economic values on the microlevel and on the macro-level reflect the planner's preferences rather than the "value to the society". Distorted domestic price system, unreliability of the rates of exchange and the lack of vigorous foreign trade theory are the main obstacles to the meaningful "effectiveness calculation".

In Poland, both economic theoreticians and foreign trade practitioners became deeply involved in the examination of the effectiveness of foreign trade. The problem has been extensively discussed in the economic literature while at the same time three economic institutions have been preoccupied in research in this field. These institutions are:

- 1) The Commission for the Distribution of Productive Forces attached to the Polish Academy of Science.
- 2) The Institute for Scientific Research at the Planning Commission
- 3) The Institute for Economic Research attached to the

J. Wilczynski, The Theory of Comparative Costs and Centrally Planned Economies, Economic Journal, Vol. 75, March 1965, p. 64.

xx J. Wilczynski, op. cit., p. 69.

Ministry of Foreign Trade.

Their task was to elaborate a system of indices of economic effectiveness of foreign trade which would permit determination of which commodities can be most profitably produced for exchange on foreign markets and which should be purchased abroad.

The research proceeded along two main lines:

- A) Static "analysis of the effectiveness of foreign trade which included analysis of
- 1) the effectiveness of exports
- 2) the effectiveness of imports
 - 3) the over-all effectiveness of foreign trade
- B) Efficiency of investments from the point of view of foreign trade. Both approaches to the effectiveness problem will be briefly examined.
- I! EFFECTIVENESS OF FOREIGN TRADE STATIC APPROACH
- A) Effectiveness of Exports.

The analysis in this respect is conducted on the assumption of the given productive capacities of the economy, and therefore can be relevant only for a short-period of time. It is concerned with finding the guide lines for the current operational and planning problems of foreign trade. This has been done by constructing a number of foreign trade efficiency coefficients, all of them designed to measure the relative advantage of different exports and imports from the standpoint of the economy as a whole rather than from the point of view of

an individual exporter or importer. So far the greatest progress has been made in devising various indices of effectiveness of exports. Profitability of exports was approached from the cost side and the coefficients were devised to measure "the saving of social labour."

However, in the conditions of the distorted domestic price system, the estimation of the "social labour costs of production" is a difficult problem. Generally speaking all the proposed coefficients of export efficiency compare domestic costs or prices with foreign prices, and differ in the formula for "purification" of domestic costs or prices in order to obtain a closer approximation to the amount of "social labour" embodied in the commodity in question. The first and most crude coefficient of export efficiency the so-called "financial coefficient of efficiency" (kurs wynikowy finansowoy-Kwf) was introduced by foreign trade practitioners in 1952; "that is before the problem of effectiveness began to be widely discussed by economists.

The coefficient compares the export receipts obtained with the domestic price of the goods:

$$KWF = \frac{C + M}{Cz}$$

where

Rolow, A., op. cit., p. 21.

It indicates how many units of domestic currency must be spent to obtain one unit of foreign currency. The lower the value of the coefficient, the higher is the profitability of a given export. The computation of this coefficient is very simple, but on the other hand its reliability is highly questionable because of the distortion of the domestic price system.

2) Gross Foreign Exchange Coefficient of Export Efficiency (kurs wynikowy brutto)

The coefficient relates domestic costs of production of the exportable commodity to foreign exchange receipts:

$$KWB = \frac{K + M}{Cz}$$

where:

K = the average cost of production plus
 domestic transportation costs

M = domestic protion of marketing costs

Replacing the domestic price by the production costs improved to some extent the reliability of the coefficient, especially in cases where the mark-up element (high turnover taxes in consumer's goods sector etc) was significant and caused wide discrepancy between the price and production costs. However, the latter is only true with respect to the last stage of the production process. The cost of production is being calculated on the basis of prices of raw materials or semi-fabricates used in production. If the prices of these factors of production are distorted they are transmitted automatically to the calculation of production costs in the intermediate stages

of production.

3) The Net Foreign Exchange Coefficient of export Efficiency. (kurs wynikowy netto) KWN

In this index account is taken of the import content of component materials on which foreign currency has been spent.

 $KWN_{ex} = \frac{(K-M^{i}) + M}{Cz - Mz^{i}}$

where: _ K = cost of production plus domestic transportation costs

Mⁱ= Value of imported materials used for production in domestic currency at domestic prices

prices of imported materials used in production.

The coefficient focuses in determination of "net gain" from trade in terms of foreign exchange. By elimination of the costs of imported raw materials or semi-fabricates from both the numerator and denominator of the ratio, the KWN index tries to determine whether from purely foreign currency point of view it pays to export commodities of produced materials from imported materials.

More elaborated versions of the coefficient make allowance for the possible loss of foreign currency where some domestic but potentially exportable materials are used in the production process. Some try to determine to what extent further processing of exportable commodities is

worthwhile from the point of view of earning additional foreign currency. X

This group of coefficients has one positive feature. They can reveal some of the most striking irrationalities in foreign trade. For example, they would indicate the situations where export is absolutely unprofitable because the cost of imported raw materials is not covered by foreign currency receipts obtained from exports of commodities which include these raw materials, or situations where it pays better to export raw materials than final products. However they are not free of any other shortcomings of previously presented coefficients.

In order to widen the profitability check on exports two auxiliary coefficients were introduced:

1) The Coefficient of Material Intensity of Exports
This coefficient is the ratio of costs of materials
used in production and expressed in foreign currency, to

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For extensive discussion on the usefulness and short-

Ibid, pp. 43-51.

comings of these coefficients see:

M. Rakowski, Z problemow badan efektywnosci produkcji exportowej (On problems of Examination of the Effectiveness of Export Production) Gospodarka Planowa No. 2, 1957.

J. Najnigier, W sprawie urealnienia oraz poglebienia rachunku i metody badania efektywnosci wymiany
towarowej z zagranica (On improvement of Calculations
and Methods of Examination of Effectiveness of Commodity Exchange with Abroad) Gospodarka Planowa, No. 1
1960.

the foreign market price of the commodity.

 $WMz = \frac{Mz}{Cz}$

where:

Mz - foreign exchange value of all component materials used in export production

Cz - average export price in foreign currency

The coefficient shows the "material cost" of obtaining one unit of foreign currency. The value of the coefficient cannot exceed 1.

$$0 = WMz = 1$$

WMz = 1 is a limit which indicates that a given export transaction is already unprofitable as it compensates only for the expenditure of the materials used in its production, but does not cover other production costs.

2) The Foreign Exchange Coefficient of Labour Intensity. X

This index has been devised to show more clearly the "value added" by labour over and above the value of materials used in production. It determines the amount of "net gain" (in terms of foreign exchange) obtained from spending one unit of foreign currency on materials used in the production of an exportable commodity.

For a detailed analysis of this coefficient see
A. Rolow, Efektywnosc eksportu - metody badania (effectiveness of Exports - Methods of Examination), zycie
Gospodarcze, uv. 24, 1958.

$$WPz = \frac{Cz - M^{i}z}{Mz}$$

where: Mz = foreign exchange value of materials used in production

Cz - average export price in foreign currency

Mⁱz - value of imported materials used for

production (in foreign currency at world

market prices)

Poland's natural resources are rather limited (with the exception of coal and sulphur) while the rate of growth of the population is high. Thus, it would be desirable to direct export production to those branches and processes which are less material intensive and more labor intensive. The employment of the index of labour intensity is the first step in this direction.

II IMPORT EFFICIENCY STUDIES

As compared with the investigation of problems of export efficiency, the study of the efficiency of imports has been relatively neglected. Besides, these two interrelated problems were handled in different ways. The latter stems directly from the Marxian theory of value and his distinction between value-in-use and value-in-exchange. The aim of exports is to maximize the value-in-exchange while the ultimate goal of imports is the maximization of the value-in-use. Accordingly, the effectiveness of exports was approached primarily from the supply side (production costs side) while the demand side was decisive in the determination of import requirements.

The second reason for this situation, is found in the very system of central planning. In several instances import requirements are determined rigidly by the overall economic plan and condition its implementation, or are designated to remove some serious bottleneck in the economy. When import demand is inelastic, profitability considerations are certainly less important.

Thirdly, the calculation of import profitability coefficients is much more difficult as several imported commodities are not produced at home and therefore no comparable costs data are available.

efficiency have the same (or very similar) formula as export coefficients. Their number is smaller and not all versions of export coefficients have corresponding import coefficients.

1) Financial coefficient of import efficiency.

The coefficient compares expenditure on purchase of foreign commodities (in foreign currency) with its domestic price.

$$KWF_{imp} = \frac{C - M}{Cz}$$

where:

C - domestic wholesale price of the commodity

M - domestic marketing costs

Cz- average import price paid expressed in foreign currency

From the formal point of view, the higher value of

the coefficient indicates the higher profitability of imports. This is not always true, because of the different methods applied in pricing producer and consumer goods. As a result, the coefficients of import profitability of these two groups are entirely incomparable.

What is more, even within more narrow commodity groups, the coefficients are highly misleading. Luxurious or low priority commodities usually have a high coefficient which would suggest high profitability in these imports; while raw materials and machinery have low coefficient of profitability, which indicates that they should be eliminated from imports.

2) Gross Foreign Exchange Efficiency of Import Substitution

In this index, the domestic costs of production of imports substituting commodities are compared with its foreign market price

$$KWB_{imp} = \frac{K}{Cz}i$$

where:

K - average costs of production of import substituting commodity

Czi- average import price (in foreign currency)
of the commodity (c.i.f)

The coefficient has a similar character to the Gross Foreign Exchange Coefficient of Export Efficiency (KWB exp) presented previously, and the same short-comings.

Substituting domestic prices by domestic costs of

production, causes the price differential between producers and consumers goods to be partially eliminated but only in the final stage of the production process.

3) Net Foreign Exchange Efficiency of Import Substitution
The coefficient is designed to determine foreign
exchange efficiency of imports at different stages of
processing.

$$KWN_{imp} = \frac{K - M}{Cz^{1} - Mz} = \frac{Kp}{Dn}o$$

where: Kp = K - M - cost of processing

while K = average cost of production of import substituting commodity

M = value of materials used to produce a unit
 of commodity at domestic prices

Dn^o - "net saving" of foreign currency resulting from a given production process of import substituting commodity defined as the difference between:

Czi - average import price of the commodity in foreign currency

Mz - value of materials used in production at foreign trade prices in foreign currency.

A low value of the coefficient indicates a high "saving of foreign currency" obtained on production of an import substituting commodity and at the same time a low efficiency of import of the commodity in question.

For detailed analysis see A. Rolow, Rachunek Ekonomiczmy w handlu zagranieznym, op. cit, pp. 77-84.

SOME THEORETICAL AND PRACTICAL PROBLEMS IN PROFITA-BILITY CALCULATION.

The calculation of coefficients of foreign trade efficiency presents several difficult problems which from the first observation seem to be of technical character but cannot be removed without rigorous analytical investigation of their theoretical basis. Domestic costs of production play a very important role in several formulae or versions of the efficiency coefficients. Most often the average production cost is used for these purposes. But the average production costs differ in various production enterprises.

Therefore, the question arises as to what average cost of production should be taken for the effectiveness calculation. The weighted average cost of production of the industry would be relevant if all enterprises within the industry produced for exports. But this is rather a exceptional case. The following example will help to illustrate the problem.

For example, according to the M. Fiszel estimates, the average variable cost of production of sulphuric acid in three different plants were; 312,58 zl per ton, 413,36 and 562,80 el per tona respectively.

M. Fiszel, Zagadnienia cen i rachunku ekonomicznego (Problems of Prices and Economic Calculation) PWN, Warsaw, 1958, pp. 157-158.

It was presented by A. Rolow, op. cit., pp. 89-90.

Assume that a given commodity is produced by four plants only. The Gross Foreign Exchange Coefficient of Export Efficiency for the industry would have the following formula;

$$KWB = \frac{k_1 q_1 + K_2 q_2 + K_3 q_3 + K_4 q_4}{Cz (q^1 + q^2 + q^3 + q^4)} = \frac{K}{Cz}$$

where: K₁, K₂, K₃, K₄ are average costs of production in these plants.

q₁, q₂, q₃, q₄ - quantities produced

Cz - average import price paid, expressed in foreign currency

The data are:

The Foreign trade price of the commodity is 10\$. The average cost of production of the industry is about 87 zl,

and

$$KWB_{ind} = \frac{87 zl}{10\$} = 817 zl/\$$$

Thus the average coefficient of effectiveness of exports of the commodity is 8.7 zl/\$.

Assume now that only plant 4 is producing for export, while the other plants produce for the domestic market. In this case the coefficient KWB⁴ - 8 zl/\$ NS relevant.

It seems that analysis in marginal cost terms rather than in average cost terms would be proper for these x purposes.

As F. Pryor remarks - "if only average costs are used in the cost calculations for the coefficients, then some sort of "scarcity rent" should be added to the basic production cost of goods to take demand factors into account."

The other gap which F. Pryor points out in this analysis is the absence of any type of interest change xxx on capital which should be added to the production costs.

This approach to the problem would indirectly stem from "the theses of Economic Council" in the Polish price debate. So called "prices of departure" were based on AVC of the relevant group of "highest cost enterprises in the industry. From this position there is only one step to marginality.

F. Pryor, Foreign Trade theory in the Communist Bloc.
Soviet Studies, Vol. 14, 1962, p. 48. According to
Pryor "one notable exception" in this case was the
article by Polish economist F. Drabowski in Gospodarka
Planowa, No. 1, p. 79, I did not see the article.

Ibid, p. 49.
It should be noted that this element is taken into account in the "dynamic approach" to the problem of effectiveness of foreign trade.

The scarcity of capital element is missing in this calculation. A similar problem presents the rate of depreciation of capital. This element is included in the calculation of production costs. However the practice of establishing the rate of depreciation on an unreasonably low level, put into doubt the reliability of cost calculation. It should be recalled here that the entire cost calculation leaves much to be desired. The elimination of some irrational elements which is being done in the final stage of production before entering the foreign trade profitability "check-up", cleans only the surface of cost structure, leaving the whole inside untouched. Obviously, the depreciation element does contribute to the distortion of the cost structure, but is not the most important contributor. As A. Rolow points out, during the period 1951-1954 the average share of depreciation in industrial production costs was somewhat about 3 percent, and the differentials in Gross and Net Foreign Exchange Coefficients in many instances ran in the hundreds percent. This seems to suggest that the fillingof the small gaps in the costs calculation does not help too much when the whole analysis of effectiveness is very questionable.

B. The second building bloc in the coefficient formulas is the average foreign trade price. The problem is to

x Ibid, p. 115.

determine what world market price should be used to compare with the domestic "social labour cost of production and how this price should be averaged".

Prices for the same commodity differ with respect to the specific foreign market or currency in which payment is effected. For example: the unit price for 1 ton of acetylene exported (f.o.b. in exchange zlotys) to Iran was - 261 to Egypt - 286 to Hungary-355, to Turkey - 524. Prices obtained from export of colophony were: (in exchange zlotys per ton) to Syria - 700, to England - 763, to Austria - 826. XX These differences are too significant to be neglected. But on the other hand, the question arises whether these prices are comparable. Judging from the method of their computation they are not compared. . An exchange zloty (or accounting money unit) price is derived by multiplying the foreign currencies in question by a rigid and arbitrary rate of exchange. It seems to be obvious that the purchasing power of one exchange zloty obtained from export in British market is not equal to the purchasing power of one exchange zloty obtained in the Egyptian Further, as has been pointed out in the Bloc market.XXX discussion on foreign trade price formation for several

The problem was controversial in the Bloc debate on the principles of foreign trade price formation.

XX Quoted by A. Rolow, op. cit., p. 117.

xxxProblem was discussed by B. Najniger, op. cit, pp. 28-29.

individual differentiated commodities (many types of machinery and equipment fall into this category), the world market price does not exist. What price should be then applied?

- 2) Trade with several countries is based on bilateral clearing agreements. An absolute differential in prices may be somewhat misleading in these circumstances. For example, it is possible that export prices obtained in trade with a given country are higher than those on another market. But at the same time, the prices paid for import are also higher. This would suggest that the "terms of trade" element should be somehow built into the formula of the effectiveness coefficient."
- 3. The same difficulties exist in the estimation of the value of imported raw materials or import substituting commodities in foreign currency prices. Proper calculation of these costs is of enormous importance for the calculation of net foreign exchange coefficients of effectiveness.
- 4. There is a statistical problem as to how the movements of world market prices should be handled in the computation of foreign trade profitability coefficients. The main difficulty is caused here by the separation of domestic and foreign trade prices. For example; the increase of export prices for cotton fabrics was caused by the

A. Rolow, Niektore zagadnienia rachunku efektywnosci eksportu, (Some problems of calculation of effectiveness of exports) Handel Zagraniczny, No. 2 / 1957.

increase of prices for cotton on the world market. Thus, the import of cotton is now more expensive, however this is not reflected in the domestic price of cotton which remains unchanged (principle of stability of domestic prices). The domestic cost of production of cotton fabrics is not affected however, the higher export price of cotton fabrics would indicate that the profitability of these exports increased. If the increase in price of cotton was greater than the increase in the price of cotton fabrics the profitability of this export could in fact decrease instead of being increased.

Several other theoretical or methodological objections against the coefficients of efficiency of foreign trade may be raised. Without going too far into the details of this analysis, some attention should be devoted to another interesting contribution to research on effectiveness of foreign trade.

D. Concept of the Limiting the Rate of Foreign Trade Profitability

As has been mentioned already, the coefficients of efficiency have a relative character. They can provide answers to some specific questions of choice with regard to the commodity structure of foreign trade; more specifically they can, for example, indicate that the export of commodity "a" is more profitable as compared with the export of commodity "b" but, in general, they fail to provide any absolute measure of profitabili

This means that they would not indicate that both exports are entirely unprofitable for the economy. other words, some additional device is necessary to indicate what is the critical value of the coefficient beyond which all transactions are unprofitable and should not take place. This is the idea of the so-called "limiting rate of foreign exchange" introduced by M. Kalecki and St. Polaczek. ** The limiting rate of foreign exchange was primarily designated as an auxiliary device for pricing raw materials. The reasoning was as follows: given the price and wage levels, it is possible to determine the ceiling for the prices of raw materials in relation to their foreign market prices. This ceiling value of domestic raw material prices defined as the ratio of these prices to the world market prices was called the "limiting rate".

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According to A. Rolow some of the coefficients provide also an absolute measure of profitability. He mentions; KWN, WMz, WPz. As he does not explain this I do not exactly understand what is the proof for this statement. A. Rolow, op. cit., p. 164.

M. Kalecki, St. Polaczek, Uwagi w sprawie metody ustalania cen surowcow podstawowych. (On methods of formation of prices of basic raw materials).

Gospodarka Planowa, No. 4. 1957. For an interesting analysis see: P. Glikman, St. Polaczek, Efektywnosc handlu zagranicznego i kurs maxymalmy. (Effectiveness of Foreign Trade and the Limiting Rate of Foreign Exchange) Gospodarka Planowa, No. 5, 1959.

The formula for the limiting rate of foreign exchange is the following:

$$Kmax = \frac{(1-a) \cdot 100}{s}$$

where: $a = \frac{\Delta F}{\Delta M}$

- △F increase of that portion of the wage fund which is spent on consumption goods (independent variable)
- - S- value of imported or exportable raw materials contained in each 100 zlotys of increase of the value of the production of consumption goods.

For practical purposes, the computation of the formulas for coefficients "a" and "s" has been simplified.
"A" was defined as the ratio of the wage fund in the consumers goods sector (F) to the total value of consumers goods at domestic prices (M) or

$$a = \frac{F}{M}$$

and coefficient "s" according to the formula

$$s - \frac{S}{M}$$
 .100

where S - value of imported or exportable materials used in the production of the consumers goods

sector at foreign exchange prices.

M - total value of consumer's goods at domestic prices in domestic currency

Computed according to this method, the limiting rates of foreign exchange were:

for 1955 - 56 zl/\$

1957 - 59 z1/\$

1958 - 69 zl/\$

The differences in the value of the limiting rate in different years were explained by:

- a) changes in domestic and foreign trade prices
- b) changes in the structure of domestic production and wages.

In the light of this analysis, export of a consumer's commodity which in 1955 had the coefficient of efficiency higher than 56 zl/\$ was absolutely unprofitable and could only increase the deficit in the balance of trade instead of decreasing it. Further research along these lines seems to be promising and can provide the policy makers with a useful yardstick for their foreign trade decisions. Major difficulties in this research lie on the technical side as the computational burden of these calculations is very heavy. It is expected, however, that new techniques combined with high-speed mechanized computers would be able to handle the problem.

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P. Glikman, St. Polaczek op. cit., p. 33.

E. OVER-ALL EFFICIENCY OF FOREIGN TRADE

The above outlined methods of measuring the effectiveness of foreign trade have another fundamental short-There is no link between the efficiency of exports and efficiency of imports which are treated sepa-Further, the elaborated coefficients apply only to particular commodities or groups of related commodities. In effect, they are detached from the general context of the economic life of the country. On the other hand, the economic efficiency of foreign trade is an integral part of the over-all efficiency of the economic system, and the structure of foreign trade must fit the structure of the economy. In a centrally planned economy, even in the short-run planning, the number of decisions which planners have to make number in thousands. If planners have a choice of a whole variety of commodities which can be exported or imported a number of markets where this trade can be directed, and in addition many different production processes for many different commodities, the problem of determining the pattern of trade which would meet the efficiency condition becomes extremely difficult. The existing coefficients are hardly useful for these purposes, and with the lack of more sophisticated methods, the planners have to rely on their intuition. But efficiency resulting from intuition is pure chance. It has been recognizedd that for the purposes of plan construction, a combined and synthetic analysis of exports and imports efficiency is indispensable.

Starting with a given complex of conditions (limiting factors; labour force, lower and upper limits of production and marketing) and taking into account basic technological and economic interdependencies, together with the consequences of alternative uses of the limited factors of production, there is an enormous variety of possible export, import and production variants relating to foreign trade. Among these ample possibilities an "optimal pattern of foreign trade is looked for: example, one that ensures maximization of national income coupled of with a balanced state budget. It seems obvious that the large number of variables subject to the decision making, produce an immensely involved system where the "optimal solution" is practically unattainable with present facilities.

Such a "synthetic" model of foreign trade efficiency was proposed by a Polish economist W. Trzeciakowski. The model is constructed with the aid of input-output analysis and a linear programming technique.

W. Trzeciakowski, Model optymalizacji biezqcej polityki kierunkowej w handlu zagranicznym (A Model of the Current Optimization of the Directions of Foreign Trade) Gospodarka Planowa, No. 8-9, 1960.
For English translation see: W. Trzeciakowski. A model of optimization of foreigh trade in a Planned Economy and its Application). Regional Science Association: Papers vol. 8, 1962. and W. Piaszczynski, W. Trzeciakowski, Efficiency Prices and Economic Calculation in Foreign Trade, Structure and Directions of Foreign Trade. Regional Science Association: Papers X, Lurich Congress, 1962, Vol. 10, 1963.

Given the limitations of:

- production factors and constraints arising from policy postulates
- 2) technological interdependencies (Leont ief's matrix), a system of equations and inequalities is constructed. Solving the system, a number of equilibrium prices are derived which secure an optimal trade pattern. Characterizing this model A. Zauberman remarks;

"in perfect and generalized form it brings to its ultimate conclusions the logic of the Kalecki - Polaczek limiting rate. The price of a final good (and the derived prices of the intermediate goods) would lie somewhere between the ceiling and a floor. These would be set by foreign market prices translated into domestic currency at the limiting efficiency rate; beyond these critical values competing imports and exports would become uneconomical and within them the inter-enterprise bidding, real or on the planner's desk could pinpoint the equilibrium price. xx

The model throws an interesting light on the question as to how in the centrally planned economy where automatic market mechanism is absent, the problem of effectiveness of foreign trade can be approached on theoretical grounds. However, at present, an economic research in this field has not passed the phase of creating theoreti-

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This is basically A. Zauberman interpretation.

See: A; Zauberman, The Criterion of Efficiency of Foreign Trade in Soviet-type Economies. Economica, February 1964, p. 11.

XX Ibid.

cal models and practical applicability of these investigations still belongs to the future.

III LONG-RUN EFFICIENCY OF FOREIGN TRADE

In late 1950's the problems of the intensification of the international socialist division of labour within the framework of coordinated long-run economic plans. began to be widely discussed in the Bloc. X For the purpose of long-run planning of foreign trade, it was necessary to drop the assumption of constant capacities and to introduce the time dimension into the profitability calculation. The effectiveness of foreign trade began to be investigated in the context of the general analysis of investment efficiency. The correlation between investment policy and long-run foreign trade policy is undoubtedly very close. The investment decision of today determines the productive capacity of tomo-It can be a production for export or a production of import substitutes. It has been recognized that an investment program cannot be fully efficient without taking into account the possibilities opened up by foreign trade and dynamic coefficients of foreign trade efficiency began to be built-in into the formulas for the

In 1962 CEMA formulated the principles of international socialist division of labour and made recommendation for coordination of long-term economic plans of its member countries. See: Zasady Miedzynarodowego Socjalistycznego Podzialu Pracy R.W.P.G. (Principles of International Socialist Division of Labour in CEMA) Handel Zagnaniczny, no. 7, 1962, pp. 318-324.

effectiveness of investment. It should be noted that synthetic analysis of foreign trade efficiency in the framework of an over-all investment efficiency is extremely difficult to deal with on theoretical or methodological grounds. So far, intensive investigations in this field did not pass the initial stage and did not bring any satisfactory results.

Static analysis of foreign trade efficiency proved to be a very awkward problem to the Bloc theoreticians and policy makers. Dynamic analysis inevitably multiplied the formidable theoretical and computational problems it encountered in the static approach.

As in the static approach, dynamic analysis of foreign trade efficiency concentrated on constructing the formulas for coefficients of efficiency. They were devised with the purpose of determining to what extent it is profitable (in terms of foreign exchange) to expand the capacity of export or import substituting industries.

1) the simplest formula is coefficient of foreign exchange efficiency of capital investment. It relates "net" foreign exchange receipts over an annual period to the capital outlay necessary to achieve that planned

$$WYz = \frac{ECz^{n} - EM^{n}z}{y} = \frac{ED^{n}h}{y}$$

increase in the productive capacity.

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A. Rolow, op. cit., p. 148.

$$ED_{h}^{n} = EC_{z}^{n} - EM_{z}^{n}$$

where $\mathrm{ED}_{\mathrm{h}}^{\ n}$ - annual "net" foreign exchange receipts

and EC_z - amount of foreign exchange obtained during the year as a result of the investment.

EMⁿ_z - value of imported (or potentially exportable) materials used for the production during the given year (in foreign exchange at world market prices).

Y - investment outlay indispensable to secure the planned increase in productive capacity (at domestic prices and currency).

More often, in practice, planners make use of the index of capital intensity of investment which is reciprocal to the presented above coefficient.

WKz
$$-\frac{Y}{EDnh}$$

It measures the minimal investment outlay (in domestic currency) necessary to get one unit of foreign currency. Both coefficients are applicable to those investments which have the same period of useful life. In a variant of this type of coefficient, the factor of time is introduced.

The coefficient of foreign exchange efficiency of investments which takes into account the period of exploitation of the investment has the formula:

$$WY_{z}^{m} = \frac{ED_{h}^{n} \cdot m}{Y}$$

where m - expected number of years of exploitation of the capital investment

EDⁿ_h - average annual "net foreign exchange receipts More elaborated versions of the foreign exchange index of investment efficiency include allowance for the capital invested. One of them is called a "synthetic Index of Foreign Exchange".

Efficiency of Investment:

 $E = KWN + (Wkz^{q})$

where KWN - "net foreign exchange coefficient of efficiency of exports (or imports)

q - coefficient of investment discount

It should be noted that as with most of the static coefficients of efficiency, coefficient "E" can be utilized for an analysis of the effectiveness of capital investment only in the final stage of production of the exportable (or import substituting) commodity. It does not take into account capital outlays in the connected branches of industry. This fact seems to be in disagreement with the so strongly stressed complexity of the effectiveness research, which should cover the whole economy. However, it does not seem to be necessary that in order to build rolling-stock factories, the analysis of effectiveness should be extended to, for example iron ore and coal mining.

II APPRAISAL AND PROSPECTS

The intensive research in the field of efficiency of foreign trade which started in Bloc countries in the mid-1950's seems to indicate that the "era of material balancing" is passing and that Bloc countries try to elaborate more precise and operational tools to guide their decision making. It has been recognized that the economic calculation is by no means less important in a centrally planned "socialist" economy than in any other economic system. However, as Bloc experience indicates, the absence of automatic market mechanism makes it extremely difficult to assess economic values to all variables which should enter economic calculation and guide the process of decision making. The basic obstacles which made economic calculation impossible or unmeaningful lie at the core of the adopted system of centrally planned economy and only their removal can clear the way for rationality as the underlying principle of the "socialist economy". At the present stage of economic knowledge, resources cannot be allocated in a rational way without a reliable price system which would reflect opportunity costs and factor's scarcities. But prices in a Soviet-type economy are set in a more or less arbitrary way (mainly in accordance with the preferences of top political authority), and do not necessarily reflect these costs and scarcities. marginal pricing theory teaches that in equilibrium, prices of factors of production should equal their marginal products and product prices their marginal costs. But the concept of marginality is rejected by the traditional doctrine in the Bloc.

The distorted price system is accompanied by rigid and economically unmeaningful rates of exchange. Adding to these the separation of domestic and foreign trade prices the picture is complete and it seems clear that in this situation planners are deprived of any reliable and simple yardstick to measure the extent to which the trade is gainful. The Bloc-wide discussion on pricesetting problem and the preoccupation with devising foreign trade profitability coefficients indicate that Bloc policy makers and theoreticians are fully aware of the numerous inherent weaknesses of the centrally planned economy, which cannot provide any simple mechanism to ensure rationality in their decision making. Accepting the distorted price system and largely arbitrary rates of exchange as the "malum necessarium", they are searching for other criteria of efficiency which could be effective in a centrally planned economy. There is no need to repeat that various coefficients which have been devised to measure efficiency of foreign trade are crude, full of shortcomings and mostly unreliable. What seems to be important here, is the fact that they are not completely useless. The breakthrough in the entirely irrational material balancing has been done with their help and even this crude profitability "check-up" made it possible to introduce several improvements in the composition and prices of exports and imports. the computation of the "effectiveness coefficients" was

conducted quite extensively. For example, in 1959 the profitability calculation covered about 70 percent of the volume of exports.

Further research in the field, especially research utilizing modern econometric methods, combined with high-speed, high-memory-store computers seems to be very promising and can furnish planners with very useful tools to effect the most gainful flow of trade. However, these perspectives should not be over-estimated. It is true that efficiency considerations are gaining grounds in Soviet type economies, but it does not seem probable that new methods can revolutionize economic planning in the nearest future. It is still strongly emphasized that several non-economic considerations are much more important for the Bloc policy makers than economic efficiency. As expressed by Soviet economists;

"Economists in socialist countries believe that economic efficiency...is not the only criterion for determining the structure and directions of foreign trade. The final decision in structuring foreign trade takes into consideration non-economic factors which in some cases assume fundamental importance.xx

R. Bauer V. Czerniansky, The Significance of Indicators of Foreign Trade Profitability for the International Socialist Division of Labour. East European Economics, Winter 1964-1965, Vol. 14, No. 2, p. 74.

A. Borisenko and V. Shastitko, Vneshhaya Torgovlya No. 5, 1962, p. 25. Quoted by A. Mauberman, The Soviet and Polish Quest for Criterion of Investment Efficiency, Economica, Vol. 29, August, 1962, p. 246.

Speaking to a group of American senators visiting Moscow, N. Krushchev quite clearly explained what these so highly-valued non-economic factors, which go before efficiency, are; "we value trade least for economic reasons and most for political reasons."

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New York Times, September 18, 1955, quoted by J. wylcynski, op. cit., p. 65.

CHAPTER EIGHT

POLAND'S PATTERN OF TRADE - EMPIRICAL STUDY

The preceding chapters have considered the underlying assumptions and working principles of the foreign trade system in Poland's economy. The attempt has been made to present how the system operates, how it is organized and what are its most distinctive problems and characteristics. However, in order to have the full picture of the country's post-war foreign trade, it seems indispensable to include some empirical material which would illustrate the tendencies and problems previously described. In this chapter, I shall attempt to present an integrated analysis of Poland's post-war pattern of trade, discuss its successes, problems and achievements on the basis of the available statistical information.

In a country with a relatively small domestic market and without huge and diversified natural resources, foreign trade seems to be an important sector of the economy. In addition, if this country makes every effort to promote industrialization and speed up the rate of economic growth, the role of foreign trade becomes even more important.

What the real impact of foreign trade is on the process of the country's economic growth: whether it plays the role of one of the leading sectors or becomes one of the difficult bottlenecks, depends mainly on the initial conditions of the country in question and its fundamental strategy of developments. On the basis of Polish experience it seems safe to conclude that it did not facilitate her process of economic development and

remained as one of the most severe bottlenecks. Considerable neglect of foreign trade and autarchical policies which prevailed during the first and post-war decade seem to be the most important factors responsible for that situation. Since the mid-1950's, some measures have been taken to overcome the autarchical drive, and problems of foreign trade began to focus attention of the policy-makers. However, the imprint which previous policies left on the economy proved to be very difficult to remove.

During the post-war period Poland's industrial expansion was proceeding at relatively high rates while her share in world trade remained basically on the same level as in the pre-war period.

Poland's share of world trade 1929-1964(percent)

1929 1938 1950 1962 1964

1.0 1.0 1.05 1.2 1.2

Source:

A. Zauberman, Industrial Progress in Poland, Czechoslovakia and East Germany, p. 276, U. N. Statistical Yearbook, 1965, pp. 390-392.

It is extremely difficult to calculate the proportion of dollar estimates in national product absorbed by exports. The existing pricing and cost methods together with the incomparability of foreign and domestic prices for goods subject to imports and exports, makes the computed

Poland's yearly industrial growth rates claimed were: 19.1 percent during the period of 1951-1955, 9.3 percent for 1956-1959 and 8.3 percent in 1963 respectively, A. Zauberman, op. cit., p. 108.

proportion of GNP, expressed in dollars, which is passing through foreign trade transactions, highly questionable. According to Polish sources about ten percent of GNP is being continuously absorbed by exports.

Exports as Percentage of Adjusted GNP, 1957:

Poland	France	West	Germany	Italy	Norway	U.K.
10.1	17.5	24.1	$x = \frac{1}{2} \left(\frac{1}{2} \right)^{\frac{1}{2}}$	13	33.0	24.5

Source: B. Wojciechewski in "Gospodarka Planowa", No. 8 1959 p. 23, quoted by A. Zauberman, p. 279.

These data reveal a strikingly low share of exports in Polish GNP as compared with other countries of Europe. Comparisons between foreign trade per capita in Poland and other European countries bring similar results.

Foreign Trade per Capita, 1962:

Poland	West Germany	France	Italy	U.K.
118	482	331	216	456

Source: Ibid. p. 278.

However, it should be noted that the per capita level of foreign trade in post-war Poland increased considerably when compared with the corresponding data for the inter-war period.

XZauberman refers also to other assessments yielding different results. e.g. J. Krynicki, Problemy handlu zagranicznego (Warsaw 1958) p. 214. It suggests that exports represented about 8.5 percent of GNP in 1955. J. Witt and Dorozynska in "Handel Zagraniczny" No. 8, 1961 arrived at 7.5, 8 and 7 percent for 1955, 1956 and 1957 respectively.

Polish Foreign Trade per capita 1928-1961:

(Comparable (1956) dollar prices)

1928 1938

30

1950 1961

63

62

106

Source: Ibid.

According to the statistical data shown in Table 1 Poland's foreign trade has been increasing at relatively high rates during the whole post-war period.

TABLE I

POLAND'S FOREIGN TRADE

der entities and problem accounts the rese	TURNOVER	IMPORTS (CIF	EXPORTS	FOB	BALANCE	DYNAMI IMPORT	
: :	MILLION	OF DOLLARS	AΤ	CURRENT	PRICES	TRADE	EXPORT INDEX	!S
* / / / / / / / / / / / / / / / / / / /							TNDBA	100
1938 1948 1949 1955 1955 1955 1955 1955 1955 1966 1966		248 401 516 632 668 924 836 774 932 1025 1251 1227 1495 1687 1885 1972 2138 2361		225 248 539 634 861 773 8619 985 1045 1326 1546 17796 2296 2413 2626		-23 -153 +17 -343 -61 +33 -276 -183 -276 -183 -2165 -239 -246 +175 +265 +265 +265	37 60 77 94 100 138 123 116 135 140 153 185 177 211 224 252 282 295 319 335 353	35 39 97 105 121 137 145 155 160 203 203 360 374 414

x Pre-war boundries

XX

According to Plan

Sources: Concice Statistical Yearbook of Poland, 1966

Central Statistical Office, Warsaw, 1966, p. 167

Economic Surveyof Europe in 1965 U.N. New York
1966, p. 56.

U. N. Statistical Yearbook 1965, pp. 390-393.

T. P. Alton, Polish Postwar Economy, p. 272.

By the end of 1946 foreign trade began to function under national economic plans. The first Polish over-all economic plan was elaborated for the period 1947-1949 and essentially remained as a plan of reconstruction through-The goals for foreign trade as set in out its course. the Three-Year Plan (1947-1949) were very ambitious. Imports were to increase by 190 percent in 1947 and by over 250 per cent in 1949 as compared with 1938. expected increase in exports amounted to 50 per cent in 1947 and to 150 per cent in 1949 as compared with 1938.* The anticipated deficit in the balance of payments amounting to 767 million dollars for the period of 1947-1949 was expected to be covered by foreign aid and credits. However, these expectations failed. In early 1947 Poland was unable to receive a loan of 600 million dollars from the World Bank of Reconstruction and Development. At the same time, under Soviet pressure Poland refused to participate in the Marshall Plan. As the result of these. the Three-Year Plan was underfulfilled by a wide percentage. The realized imports fell short of those envisaged by the plan by 45 per cent in 1947 and by 28 per cent in 1949.

This also had a decisive impact on the implementation of planned investment goals. Since about 25 per cent of total investments were to be covered by imports,

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T. P. Alton, op. cit., p. 272.

the investment targets as set out in the 1946 "draft" of the Three-Year Plan were only 69 per cent fulfilled. The Six-Year Plan envisaged to "construct the bases of socialism" in Poland was elaborated for the period of 1950-1955. In this plan the law of socialist development, or the so called "absolute principle of preferential growth of capital goods industries" found its full implementation.

During this period the autarchic tendencies were prevailing in the economic policy of all countries of the Bloc including Poland. Efforts were directed to achieve the highest possible degree of economic independence of any other nation. As expressed by a German economist:

Ibid, p. 271.

 $[\]mathbf{x}\mathbf{x}$

The main stress in this plan has been placed on the development of "heavy industry". In 1949 a percentage share of investment outlays in the national income amounted to 15.6 percent, and to 27.9 per cent in 1953, declining later to 22.2 per cent by 1955. Under the Six-Year Plan approximately 77 per cent of total investment were designated for the "productive purposes" and about 50 per cent for the development of capital goods industries.

Dochod Narodowy Polski 1954 i 1955 (National Income of Poland 1954 and 1955) Warsaw, Glowny Urzad Statystyczny, 1957, p. 47.

" a constant task of planning is the reducing of necessary imports."X Accordingly, the "import first" method of planning of foreign trade and physical balancing of "material balances" dominated trade. To some extent, the emphasis on autarchy and neglect of the foreign trade was caused by the post-war political tensions and the Western embargo on strategic exports to the communist countries. As stated by Hilary Minc. who was at this time the Chairman of the State Commission for Economic Planning: "this forced us to develop domestic production in a number of branches hastily and at high cost. XX The Six-Year Plan goals for foreign trade have been basically fulfilled. By the end of 1955 total imports amounted to 932 million dollars and were more than 3 times higher than in 1938. During the period of 1950-1955 total imports increased by 40 per cent and total exports by 45 per cent. In 1955 total exports amounted to \$919,000,000 and were more than four times higher than those in 1938.

These figures look less impressive when compared with the annual rate of growth of industrial production in this period, which reached the level of 19.6 per cent

Quoted by Zauberman, op. cit., p. 24 from R. Bauer,
Die Planning der wintschaftlichen Jaetigkeit der
volkseigenen Handelsunternechmen Deutscher Ynnen-und
Aussenhandel in der DDR (Doctoral Dissertation,
Hochschule für Okononie), p. 44.

H. Minc, Speech at the Eight Plenum, October 21, 1956.
Nowe Drogi, No. 10 (1956), p. 123, cited by J. M.
Montias in "Central Planning in Poland, pp. 64-65.

for 1950-1953 and 15.5 per cent for 1953-1955.X During the period 1950-1955 the annual rate of growth of trade per capita was 5.3 per cent and the annual increases in industrial production per capita were 14 per cent. This seems to indicate that increases in foreign trade turnovers could be faster, and the "trade potential" could be more fully utilized. XX As the result of political changes which took place in the Soviet Union after Stalin's death in 1953, several economic reforms were introduced in the Soviet Union. Following the lead of U.S.S.R.. Poland modified her economic policies in order to slow down the rate of expansion of the capital goods The autarchic ideas have come under heavy sector. attack and foreign trade has been finally recognized as the vital sector of the economy, while problems of

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A. Bodnar, Gospodarka europejskich krajow socjalistycznych, (Economies of European Socialist Countries), Warsaw, K. W., 1962, p. 102.

According to F. Pryor's definition "trade potential" means "the volume of trade at the point where it is impossible to obtain a higher national income by a change in volume and/or composition of foreign trade." F. Pryor, The Communist Foreign Trade System, p. 26. It should be noted at this point that the correlation between the rate of growth of industrial production and the rate of growth of trade can be a weak one which does not mean that the trade potential is not utilized fully providing that there is a large domestic market. Secondly, methods of computation of "trade potential" seem still to be controversial. However, in the case of Poland which does not have a huge domestic market and in the light of her autarchical policies this comparison seems to be justified.

specialization of production and advantages of international division of labor began to be widely discussed. The dramatic events of October 1956 which shook-up the leadership of the Polish United Worker's Party, revealed the wide-spread discontent with the policy of "blind" imitation of Soviet-economic patterns. Very serious disproportions in the development of industries created by the implementation of the Six-Year Plan, shortages and bottlenecks came to light for the first time and were discussed not only in the specialized journals, but also by the daily press. The situation was really strained and called for "essential reforms".

Finally a new policy, based less on "material balancing" and giving a wider scope for economic calculation of the two Five-Year Plans, (1956-1960 and 1960-1965) was announced. It raised postulates translated into to decrees and ordinances with the purpose of removing excessive centralization of decision making and defective planning. The two Five-Year Plans seemed to be much more consistent internally, with the planned goals set on more "reasonable" levels. The pattern of trade in this period had undergone deep changes. First ofwall, the political events of 1956 encouraged the reestablishment of closer commercial and financial contacts with the Western world. Various credits granted atathis time to Poland by Western countries, and the most important of which was credit granted by the U.S.A. on very favourable terms, could considerably help to relax the rather strained situation in the Polish balance of

payments. At the same time, however, the situation on the world market turned out to be very unfavorable to Polish exports swallowing almost entirely the positive effect of credits. In the early 1950's the overwhelming bulk of Polish exports consisted of raw materials and foodstuffs, with coal being the principal export item. After the end of the "Korean boom" and especially the effect of drastic reduction of prices for coal, the position of coal as the major foreign exchange earner was weakened. At the same time quantities of coal exported were drastically reduced. Simultaneously, foreign earnings from exports of foodstuffs shrunk significantly as the result of hazardous agrarian policy of forced collectivization leading to the serious collapse of the agricultural sector. If we add to this the fact that Poland was heavily dependent on imports of raw materials. it becomes clear that foreign trade appeared to be one of the most severe bottlenecks in Polish economy. pronounced deterioration of Poland's foreign trade position can be easily evident from the statistical data. During the period of 1958-1961, the value of exports increased by 41.9 per cent and value of imports by 37.5 per cent. Simultaneously the volume of exports increased by 151.5 per cent and the volume of imports by 139.5 per cent. Thus, the terms of trade considerably deteriorated, the ratio of the percentage increase of value to the percentage increase of volume of exports for

this period was 93.7 while the same ratio for imports $98.6.^{X}$

It seems safe to remark, that some of the difficulties of this period were also due to the significant shifts that occurred in the structure of Polish foreign trade. The proportion of raw materials and unprocessed products previously dominating in Polish exports was continuously diminishing being replaced by a steadily increasing share of machinery and other engineering products. As a consequence, the 1961-1965 plan heavily emphasized the increase in exports, which was indispensable owing not only to the difficult situation in the field of foreign trade, and the considerable burden of foreign debts which had to be repaid but also the continuously increasing import demand due to the development of the economy. In 1965 total imports amounted to 2130 million dollars and total exports to 2296 million dollars. Thus, the average annual rate of growth of imports in this period was 8.4 per cent while that of exports 14.2 In the light of these data Polish balance of per cent.

J. Niegowski, W. Rydygier, <u>Problemy handlu zagraniez-nego</u>, pp. 604-605.

trade should be closed with the surplus of 166 million dollars. $^{\rm X}$

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This data is from "Economic Survey of Europe in 1965 U. N. New York, 1966, p. 56. They differ considerably from those quoted by A. Karpinski in "The Polish Economy" 1961-1965. Warsaw, Pelonia Publishing House 1962, p. 99. According to Karpinski total exports were expected to reach a value of 2055 million dollars in 1965, which gives an increase of 55 per cent as compared with 1960. Total value of imports were to reach the amount of 1902 million dollars which means that imports were to go up by 27.2 per cent in the same period. Accordingly the commodity turnover of Polish foreign trade was to close with a favorable balance of \$153,000,000. According to data provided by Niegowski and Rydygier, the favorable balance of trade was to amount to 167.5 mill dollars in 1965 and total imports to increase by 30 per cent as compared with 1960 while total increase in exports by 43 per cent. See Ibid, pp. 598-599. It should be noted that all this data can give no more than a rather poor reflection of reality, and cannot be interpreted liberally. Besides the usual distortion affected by necessary aggregation, changes in the structure and price relations, several other factors affect the picture. First of all the existing pricing and cost methods in respect to domestic markets make the domestic and Further, foreign prices completely incomparable. Polish statistics present all the foreign trade data in terms of "exchange zlotys" achieving the common denominator for all foreign currencies in question by multiplying them by a rigid and unrealistically set rate of exchange, then lumping it together into aggregate values.

II COMMODITY COMPOSITION OF FOREIGN TRADE

While Polish post-war foreign trade turnovers were increasing at relatively high rates trying to keep pace with the growth of her industry, far going changes took place in the commodity pattern of trade. Analysis of the commodity composition of Polish foreign trade is rather difficult due to the unavailability of statistical information, especially for the period 1948-1955 when Polish official sources included total weights of imports and exports, the latter being broken down into very broad commodity groups. Besides this, trade totals in terms of "exchange zlotys" translated into dollars at the official rate of exchange, leave much to be desired.

The pre-war and early post-war pattern of Polish foreign trade approximated closely so called "coal monoculture". Before the war three main items; food (37 per cent in 1937), fuel (18 per cent) and timber made up almost four-fifths of the export total. Coal was the principal export item in the first post-war decade, however its share in exports total was steadily declining. In 1945 coal made up 77 per cent of exports and in 1949, 46 per cent. Besides coal and coke, the other important commodities in 1949 exports were: agricultural and food products - 20 per cent of exports, raw materials and semi-manufactures - 17.8 per cent, industrial goods - 16.2 per cent.

T. P. Alton, Polish Postwar Economy, p. 275.

STRUCTURE OF IMPORTS AND EXPORTS BY COMMODITY GROUPS (in million of U. S. dollars at current prices and percentage distribution)

GROUPS OF	MILLION \$		PERCENTAGE CHANGE 1965 = 100		PERCENTA GE SHARE			•	
COMMODITIES	1956	1965	1966 1966 plan	1967	1956	1960	1964	1965	
Total imports cif	1022	2296	+5.1	5.5	100	100	100	100	
1. Machinery and Equip- ment		770	11.5	3.7	33.2	27.1	30.6	32.8	
2. Fuels and materials		1085	2.5	8.4	48.6	51.5	48.7	47.3	
3. Unprocesse and proces food	sed	286	-2.2	11.0	12.1	16.0	15.3	13.2	
4. Consumer's manufactur	es 63	155	4.7	-11.9	6.1	5.4	5.4	6.7	
TOTAL EXPORTS	985	2130	5.4	9.6	100	100	100	100	
1. Machinery a Equipment	nd 1 52	762	15.8	16.2	15.6	28.0	33.4	34.4	
2. Fuels and rand materials	aw 629	732	0.2	4.3	63.8	43.8	35.5	35.1	
3. Unprocessed processed f		5 357	-18.2	1.1	11.7	18.1	18.7	18.2	
4. Consumer's manufacture	s 88	279	20.8	11.0	8.9	10.1	12.4	12.3	

Sources:

U. N. Statistical Yearbook 1965, pp. 390-393. Concice Statistical Yearbook of Poland, 1966 pp. 168-170.

Economic Survey of Europe in 1965 U.N. New York, 1966, p. 56.

DYNAMICS OF FOREIGN TRADE BY COMMODITY GROUPS

Anapolitica in a contratorial del contratorial del contratoria del contratorio	and equipment and experiences	NAMES OF STREET	Sidenting views more en adent	Statement Park Company and Company Company	rds.comerci.com	-	
Canadatata	at 196	60 price	es in	ndex 190	50=100		•
SPECIFICATION	1956	1960	1961	1962	1963	1964	1965
Turnover	65	100	114	127	134	147	165
Imports	66	100	114	128	135	139	163
1. Machinery and Equipment	84	100	121	154	164	1 56	189
2. Fuels and raw materials	v 62	100	112	118	121	132	155
3. Unprocessed a processed for		100	105	102	120	130	132
4. Consumer's manufactures	71	100	125	165	161	146	202
EXPORTS	63	100	114	127	133-	157	16 8
1. Machinery and Equipment	41	100	112	132	155	196	207
2. Fuels and rav	v 85	100	102	115	119	128	137
3. Unprocessed a processed for		100	140	139	103	140	156
4. Consumer's Manufactures	60	100	129	146	183	202	214
THE PROPERTY OF THE PROPERTY O	The state of the s	- market a supplication of the supplication of		and the State of t	mar emerges of the property as a first of the property of the	al first compared to the second the spirit Addition	It. Igneparit/Tachtrip Print

Source: Concice Statistical Yearbook of Poland, 1966, p. 168.

The composition of imports was as follows: machinery and apparatus - 19 per cent; rubber and its substitutes17 per cent; chemicals - 12 per cent.

Starting with the Three-Year Plan, Polish foreign trade policy was aimed at the reduction of imports of raw materials and semi-manufactured goods. aimed at obtaining the highest possible share of highly processed agricultural product and manufactured consumer goods and lately of machinery and equipment in Polish At the same time machinery and raw materials were still the principal import items due to the increased demand resulting from high rates of industrial growth. Since the middle 1950's, it became obvious that the era of "coal monoculture" was definitely over. Fuels and raw materials still dominated Polish exports, contributing about 63.8 per cent of export earnings (629 million dollars) in 1956, and the main items in this group; and coke accounted for about 46 per cent of the exports total.XX But by 1960 the share of fuels and raw materials fell to 43.8 per cent while export of coal and coke contributed only 18.7 per cent to exports. In 1965, this commodity group accounted for only 35.1 per cent of exports. At the same time there was a truly spectacular rise of capital goods into the role of the leading export industry. In 1937 machinery and equipment accounted for only

x Ibid, p. 276, Table 52.

XX Y. Niegowski, W. Rydygiel, op. cit., p. 608.

2 per cent of exports. By 1956 the share of this group rose to 15.6 per cent and in 1960 it contributed 28 per cent of exports total.

During the five year period of 1960-1965 exports of machinery and equipment rose by 107 per cent reaching a value of 762 million dollars in 1965. Within this commodity group the export of rolling stocks, ships, machine tools, mining machinery and complete factories rose most rapidly. The other fast growing group of exports are chemical products. Besides the traditional exports of soda ash and caustic soda, coke derivatives, there was a considerable increase in exports of processed chemical products like polyvinyl chloride (its exports rose between 1960 and 1965, 13-fold) polystyrene, pharmaceutical products (122 per cent increase) dyestuffs (126 per cent increase) and others.

During the period 1961-1965 Poland appeared for the first time as an exporter of sulphur. Agricultural products always played a very important role in Polish exports. In pre-war Poland, this group contributed almost one-third of the exports total. Exports of animal products, especially bacon and tinned meat had an established market in Western Europe. After the war, substantial surpluses in Polish food trade turned into a severe deficit. During almost the whole post-war period Poland had to rely heavily on the imports of grain.

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A. Karpinski, The Polish Economy, p. 102.

The net grain import depended on the year's harvest and played a quite important role in determining her import capacity with respect to other commodity groups. Agricultural produce still plays a very important role in Polish exports. Since about 85 per cent of agricultural produce goes to the countries of Western Europe with which Poland has a persistent and remarkable deficit in the balance of payments, every possible effort has been done to maintain and expand these exports. 1956 the export of agricultural products reached the value of 116 million dollars and amounted to 11.7 per cent of total exports. By 1965 it increased by 56 per cent. its share in exports total went up to 18.2 per cent. The most important export items were: ham (about 70,000 tons in 1965), butter (56,000 tons in 1965), eggs (third place in the world exports of eggs), liquor (220.000 imperial gallons in terms of pure spirits) sugar and others. In the group of consumer's manufactured, traditional export items are: woolen and cotton fabrics, cut glassware, porcelain and crystal.

During the period of 1958-1961 export of manufactured consumer goods increased by 114 per cent amounting to 279 million dollars (12.3 per cent of exports).

As far as imports are concerned fuels and raw materials continue to be leading import items. Their share in imports total increased rapidly during the Six-Year

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Ibid, pp. 102-103.

Plan. This was mainly due to the heavy investment policy adopted in this plan as well as to the autarchical drive to develop several industries simultaneously. Some industries created during the Six-Year Plan have been too materially intensive and, what is more important, they were ill-adjusted to the resource-basis of the country. Thus, the bulk of input requirements for these industries had to be covered by imports.

In 1956 imports of fuels and raw materials reached the value of 497 million dollars. Its share in import totals amounted to 48.6 per cent. Subsequent economic plans took much pain to correct the disproportions which arose during the Six-Year Plan and eased partially the pressure of import requirements of raw-materials. Because of the size of the country and its factor endowment, it is highly improbable that any drastic reduction in the volume of these imports can take place in the future.

Second in order of importance is the group consisting of machinery and equipment. In 1956 its share amounted to 33.2 per cent of total imports and changed only slightly during the last decade. However, the value of imports of machinery and equipment was 127 per cent higher in 1965 as compared with 1956 amounting to 770 million dollars in 1965. These imports played an enormous role in the process of the industrialization of the economy.

In the meantime, machinery and equipment established

itself as the principal export industry. However, this should not indicate that imports of this group would be diminished if Poland would proceed along the lines of specialization of production in these branches, where she has comparative advantage, and disregard former emphasis on autarchy. Pre-war Poland had a substantial surplus in her food trade and depended only on imports of some tropical foods and oils. Post-war agricultural policy resulting in stagnation in agriculture is a trans turned this surplus into quite a severe deficit. The government inflamed "class war" in the villages aiming to eliminate richer peasants and to organize the poorer peasants into cooperatives, discriminatory tax policies and schedules of compulsory deliveries of farm products to the state, movement of the considerable amount of agricultural labour force to the cities to meet the demand of the expanding industries together with the low priority of agricultural investments - all have made their own contribution to the collapse of agricultural production in the early 1950's. New agricultural policies adopted by the end of 1953 and aimed at increasing agricultural production, did not seem to be really effective. In 1956 imports of unprocessed and processed food reached the value of 123 million dollars. share in import total amounted to 12.1 per cent. By 1965 this share increased to 13.2 per cent. while the value of imported foodstuffs rose more than two-fold. of grain played the most important part in this group. Since the early 1960's it has regularly exceeded 6 million tons per year.

III GEOGRAPHICAL DIRECTIONS OF TRADE

A. TRADE PATTERN WITH BLOC COUNTRIES

The intensity of the political impact on Poland's foreign economic relations is perhaps most striking in the case of her new geographical network of trade. 1937 only 7 per cent of Polish total trade was directed to the Soviet Union and other East European countries which after the war formed the so called Soviet Bloc. In 1948 the share of this group in trade totals increased to 40 per cent and was continuously growing, reaching 66 per cent in 1965. There is a whole chain of events and forces which lie behind this shift of trade channels from West to East and only a surface of this change can be mirrored in statistical data. The traditional Polish trade network was violently disrupted by the war. The very incorporation of Poland into the Soviet - Bloc favored the development of her trade contracts with Soviet Union and other satellite countries. Immediately after the war, due to the disorganization of transport facilities in Europe as well as in result of commodity credits granted to Poland by the Soviet Union with the purpose of re-establishing normal economic life in the country seriously destroyed by war, the Soviet Union became Poland's leading trade partner.

In the late 1940's other factors joined to foster Eastern orientation of Polish foreign trade patterns.

THE GEOGRAPHICAL STRUCTURE OF POLISH FOREIGN TRADE IMPORTS BY COUNTRIES

© LOSSIQUE POR LA PROPERTIE DE	1950		1955	1960	1964	THE RESERVE OF THE PROPERTY OF	196	55
	In MIL. U.S.\$	IN %		IL. U RRENT ES			MIL. S. \$	IN %
Total Imports cif	668	100			2072	100	2130	100
socialist countries	408	61.1	605	939	1305	63	1408	66.1
advanced countries x	239	35.8	251	350	536	25.6	542	25.4
underdeveloped countries	21	3.1	76	206	231	11.4	180	8,5
$U_\bullet S_\bullet S_\bullet R_\bullet$	192	28.8	413	465	642	31.0	728	31:1
Great Britain	63	9.5	68	89	82	4	96	4.5
France	20	3	34	26	45	2	35	1.6
Italy	21	3.1	8	21	32	1.5	49	2.3
Sweden	3 2	4.7	15	17	22	1.1	28	1.3
West Germany	17	2.5	23	71	74	3.5	84	3.9
U.S.A.	5	0.6	2.5	84	113	5.5	30	1.4
Canada	0.07		3.0	15	46	2.1	24	1.1

Austria, Belgium, Denmark, Finland, France, Netherlands, West Germany, Norway, Switzerland, Sweden, Great Britain, Italy, Canada, U.S.A, Australia, New Zeland.

Source: Concice Statistical Yearbook of Poland, 1966, pp. 171-172.

Economic Bulletin for Europe, Nov. 1964, p. 77.

U. N. Statistical Yearbook 1965, pp. 39-393.

THE GEOGRAPHICAL STRUCTURE OF POLISH FOREIGN TRADE EXPORTS BY COUNTRIES

1950 IN MIL U.S. \$		IN MI	1960 L. OF \$ CURR S	1964 ENT	1965 IN MIL U.S. \$. IN
Total Exp. 634	100	91 9	1326	2096	2296	100
Socialist Countries 361	56.9	578	826	1350	1451	63.2
Advanced Western 242 Countries	38.1	187	320	456	582	25.3
Underdeve- loped coun- 31 tries	5.0	154	180	190	263	11.5
U.S.S.R. 154	24.3	280	390	721	781	35
Great Britain 53		7 8	99	128	128	
France 24		13	15	36	30	
Italy 16		6.4	30	52	56	
Sweden 36		20	18	29	32	1 1277
West Germany 15		29	7 5	92	115	
U.S.A. 11		23	32	5 5	69	,
Canada 0.3		0.6	2	9	11	

Austria, Belgium, Denmark, Finland, France, Netherlands, West Germany, Norway, Switzerland, Sweden, Great Britain, Italy, Canada, U.S.A., Australia, New Zeland.

Source: 6 oncice Statistical Yearbook of Poland, 1966, p. 171 - 172 U. N. Statistical Yearbook, 1965, p. 39-393. First, under Soviet pressure Poland refused to participate in the Marshall Plan tightening her trade links with the Bloc countries. The appearance of the Council of Economic Mutual Assistance (CEMA) in January 1949 symbolized the beginning of forcing Soviet satellites into economically harmonized groups.

Secondly, the political tensions of the "cold war" policy which reached its peak before and during the outbreak of the Korean War, divided the world into two hostile camps and somewhat strenghtened the tendency for the coehesion of the Soviet-bloc for security reasons.

Thirdly, the so called "strategic embargo" imposed upon the Soviet Union in 1948 and subsequently extended to the entire Soviet Bloc gave a new, strong impulse to a further tightening of economic relations within the Bloc and cutting off existing trade links with the West. Besides this, several economic factors have acted to encourage Polish trade with her Bloc partners.

1) Trade with the West was becoming increasingly difficult due to the rapid change in the commodity composition of Poland's import demand and export supply.

Her pre-war traditional pattern of trade with Western countries consisted of the export of agricultural and light industrial products, and the import of machinery and consumer goods. Poland began to produce at home, some of the previously imported machinery and import of

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As years long experience indicate CEMA proved to be rather ineffective instrument of intra-bloc coordination of economic systems of its member countries.

others was restricted by the scarcity of "hard" foreign exchange at her disposal. The agricultural exports shrunk due to production problems. On the other hand the manufactured goods which could fill the gap left by the decrease in exports of foodstuffs were not attractive to her Western partners because of their poor quality and the fact that they were produced in the West in sufficient quantities.

- 2) A great deal of bureaucratism and inflexible trade policy adopted by the organ of foreign trade monopoly did not encourage (and rather hampered) the successful trade contacts between FTE's and their Western partners.
- 3) The terms of trade which Poland received from her trade with Bloc countries were more favourable than those received from the West almost during the whole post-war period.
- 4) By 1950 the centralization of Polish foreign trade under the state monopoly was completed and the system was subjected to the discipline of central economic planning.

As Pryor estimates, in 1958 the Polish terms of trade with the West were for the whole trade sample 152 per cent, for the sample without coal 140 per cent, while any percentage over 100 indicate that it is more advantageous to trade with the Bloc countries. It seems that the most important factors responsible for this situation were: differences in the commodity structure of Poland's trade with bloc and non-bloc countries and differences in the quality of products traded which were not always reflected in prices.

F. Pryor, The Communist Foreign Trade System, p. 172.

From this point of view, Polish foreign trade authorities found it relatively easier to deal with their Bloc partners who had a similar organizational structure and also operated under national economic plans.

Their trade contracts have become based on longterm trade agreements. These almost purely barter arrangements determined the quantities of commodities exchanged, and provided a firmer basis for economic planning than uncertain trade contracts with Western countries.

Considerable relaxation in the international political climate which took place after Stalin's death, and the new policies announced by N. Khruschev and the following political events of the autumn of 1956 in Poland, opened up possibilities for the reestablishment of former commercial contacts with the Western world. On the other hand, these new tendencies have been counteracted upon by more intensive consolidation of economic ties within CEMA. It should be noted that a long period of isolation from Western markets, as well as the considerable degree of adjustment of production patterns of the Bloc countries, together with the established practice of arranging bilaterally balanced trade deals. gave their trade contacts power of self-perpetuation and made the reorientation of trade patterns much more difficult than could be expected. It is easily seen from the very fact that the partial removal of formal barriers which previously restricted Poland's trade with

the West did not reflect itself in any marked increase in the share of this group in Polish foreign trade.

MECHANISM OF INTRA-BLOC TRADE

The mechanism of trade between Bloc countries which continued to channel the bulk of Polish post-war foreign trade to these markets is very interesting and specific. Some of the reasons for which Polish post-war trade was increasingly oriented toward the Soviet Union and other Bloc countries have been already discussed.

The effective consolidation of Bloc countries into an economically harmonized group, was the main reason for the establishment of the Council of Mutual Economic Assistance on January 21, 1949 in Moscow, of which Poland became one of the original members. One of the purposes of this organization as expressed in several vague articles and communiques, was to organize and foster trade relations between the member-countries. Since the purposes and activities of CEMA received a thorough going over by numerous economists, giving birth to hundreds of articles and books there is no need to repeat it here.*

To mention just a few:
R. M. Bird, COMECON and Economic Integration in the Soviet Bloc, The Quarterly Review of Economics and Business, Vol. 4, Winter 1964, No. 4.

E. Ames Economic Integration in the European Soviet Bloc, A.E.R. Vol. 49, 1959 Papers and Proceedings.
E. Neuberger, International Division of Labor in CEMA Limited Regret Strategy, AER, Vol. 54, 1964, Papers and Proceedings Eastern source:
A. Bodnar, Gospodarka Europejskich Krajow socjalistycznych (Economics of European Socialist Countries) Warsaw Kiw 1962 K. Secomski, Problem miedzynarodowego podziału pracy na tle tcorii rozmieszczenia sil wytworczych. Economista No. 4, 1964.

It seems safe to say that the role of CEMA in shaping foreign trade patterns has been negligible until recently. Since the late 1940's, Polish trade relations with other Bloc countries were carried out under bilateral clearing agreements concluded between the Polish Ministry of Foreign Trade with the Ministry of Foreign Trade of the country in question. These clearing agreements were in . reality formalized barter arrangements, determining the detailed lists of commodities exchanged while the provisions were made to balance the mutual trade in order to minimize the currency transfer. Payments resulting from these transactions were also subject to formal arrangements under which both countries kept accounts in their state banks, recording each commercial delivery. These accounts were intended to balance each period covered by the agreement in question. From the formal point of view three methods were envisaged in the case of the "failure" of one of the partners to match in value the deliveries of the other;

- 1) supplementary deliveries of goods
- 2) payment in convertible currency of Western countries
- 3) shipment of gold

Because of severe shortage of "hard" foreign currency which all the Bloc countries experienced, and rather scarce resources of gold in their possession (with the only exception of the U.S.S.R.), these accounts were usually brought into balance by the first method. It should be also pointed out, that the character of

these clearing agreements is quite different from that used in trade with or between non-Soviet countries. Concluding a clearing agreement the only obligation which the "capitalist" government takes, is to issue a certain amount of import or export licences according to the mutually agreed list of commodities or import quotas.

Obligations of the state resulting from trade agreements concluded by Bloc countries are much heavier.

Socialist trade agreements express the obligation of the state to buy and sell quantities of commodities as specified in the agreement.

Very soon it became obvious that this physical balancing leaves much to be desired, and in effect hampers the extension of trade between Bloc countries instead of encouraging it. To mention just a few of the most severe shortcomings of this method of conducting foreign trade:

- 1) it requires the exact adjustment of the mutual turnovers and in effect limits the exchange to the level of the weaker partner
- 2) it gives no premises as to the evaluation of which transaction is profitable for one or both partners or along what lines they should specialize their production, and thus it limits the advantages flowing from the international division of labor.
- 3) as with almost all to there methods to foreign trade activity adopted by organs of foreign trade monopoly, it is highly inflexible and unoperational.

Bloc economists were completely aware of these short-comings and a great deal of criticism for this method came from their side. See, Z. Kamecki, J. Soldaczuk, W. Sierpinski, Mizdrynarodowe stosunki ekonomiczne, p. 535.

Since 1954 the problems of the specialization of production between CEMA countries and of finding a more adequate basis for their trade relations have begun to receive increasing attention by Bloc policy makers. As the result of many discussions, several steps have been taken to reshape the economic cooperation of the CEMA member-countries and to improve their foreign trade systems. In 1964 members of CEMA agreed to introduce the system of multilateral clearing. The agreement included balancing of trade turnovers, exchange of services and credit facilities on multilateral basis. To perform this task, the International Bank of Economic Cooperation has been established.

So far it is too early to judge if these measures contributed in practice to the development and improvement of Polish trade relations with other Bloc countries and what is more important if they really made them more "rational" and advantageous.

Statistical data available on Polish trade with Bloc countries is not only incomplete but also inadequate to make any qualified judgement as to what extent this new geographical mold of Polish foreign trade was advantageous or disadvantageous to Poland. Several shortcomings of the mechanism of her trade are widely known and from this point of view it seems that Poland's economy would benefit considerably on their removal.

Joint Economic Committee, Dimensions of Soviet Economic Power, 87 Congress, Second Session, Washington, 1962, Dec. 10 and 11, p. 34.

Official statistics are limited to picture trade turnovers with Bloc countries in terms of value of the very broad commodity groups, in physical terms of quantities or in terms of total weights of imports and exports. Price information is scarcely available and rather useless as a device to measure the profitability of Poland's trade.

In the "socialist group", the Soviet Union continued to be Poland's leading trade partner. In 1950 exports to the Soviet Union reached the value of 154 million dollars (24.3 per cent of total exports.) Imports from the U.S.S.R. amounted to 192 million dollars and constituted 28.8 per cent of total imports. By 1965 this situation changed; the share of imports rose to 31.1 per cent respectively. As this data suggests, the deficit in balance of trade with the Soviet Union which in 1950 amounted to 38 million dollars turned into a surplus of 53 million dollars in 1965.

It is interesting to note that an appreciable part of Polish exports to the Soviet Union (over one-quarter) consists of engineering products, mainly rolling stock, ships, transport equipment. On the other hand the majority of imports are essential raw materials. This is rather a peculiar situation for the political leader and

Poland sells twice as much machinery and equipment in terms of value to Soviet Union than she imports from Soviet Union.

its satellite.

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At the same time it seems very dubious that these trade relations have been always based on a so loudly pronounced "principle of equality of rights" and mutual advantage of both trading partners. The political events of October 1956 revealed some data indicating that this was not always the case and that the Soviet Union took advantage of her political and economic preponderance. The most striking example of these policies was the export of Polish coal to the U.S.S.R. In accordance with the provisions of the agreement of August 1945, Poland delivered approximately 65 million tons of coal to the Soviet Union until 1954. This coal was priced at the mere cost of transportation to the Soviet border while the average world price for coal in this period was about \$14-15 per ton. Thus, Soviet gain on this transaction amounted to 900-950 million dollars. In 1956 the Soviet Union cancelled the Polish debt with the Soviet Union amounting to \$542 million dollars to compensate for these deliveries. X

This was one of very few examples were the Soviet Union admitted its discriminatory policies and it is hard to believe that this was one "exceptional case" and not a common practice.

As far as Polish trade with other Bloc countries is concerned, the relative equality of bargaining power

A. Zauberman, Endustrial Progress in Poland, Czechoslovakia and East Germany, footnote on p. 292.

seems to be less questionable. In 1950 Polish export to the Bloc countries (excluding the U.S.S.R.) reached the value of 207 million dollars, its share in export total amounting to almost 33 per cent. By 1965 these exports increased to 670 million dollars, and constituted 28.2 per cent of export totals. Polish imports from other satellite countries amounted to 216 million dollars in 1950 and increased to 620 million dollars in 1965. Correspondingly, its share in import totals was 32.3 per cent in 1950 and rose to 35 per cent by 1965. Normally, Poland had a deficit in her commodity trade with the Bloc countries which was covered by surplus on her service account. However in 1964 and 1965 Poland achieved also am surplus on her commodity trade with this In the conditions of barter exchange it caused a considerable disturbance in the commodity flows and In order to remove this obstacle subsequent economic plans provided for a substantial rise in Polish imports from CEMA countries. The second most important Polish trade partner was Czechoslovakia, which played a significant part in Polish machinery imports (in 1953 her share in Polish foreign trade was over 10 per cent). By 1957 Polish-Czechoslovakia trade fell sharply, but was reestablished to the previous level in early 1960's. Discoveries of rich deposits of sulphur and copper in Poland, the development of which is financed to the considerable extent by Czechoslovakia, seem to provide suitable environment for further extension of trade contracts between these two countries. Generally, the

Polish post-war pattern of trade with Bloc countries changed significantly. In the first post-war decade Polish imports from this area consisted mainly of machinery and equipment supplemented by some raw materials and semi-manufactured products. At the turn of 1950's, almost 90 per cent of Polish exports to this area consisted of raw materials (mainly coal, coke and unprocessed chemical products). In the 1960's the commodity pattern of trade with the area changed. The share of engineering products in Poland's exports increased to one-third of total exports, while the share of raw materials and foodstuffs relatively declined. Thus Poland's commodity pattern of trade with the Bloc area markedly approximated those usually regarded as typical for industrial areas of the world.

B. TRADE PATTERNS WITH THE ADVANCED COUNTRIES OF THE WORLD.

It seems safe to say that political and economic factors responsible for the moulding of Polish post-war geographical pattern of trade worked unquestionably towards discouraging Poland's trade relations with the economically advanced West. Polish pre-war trade has been mainly directed to Western Europe, accounting for 56 per cent of exports total in 1937 and 72 per cent of imports. In 1950 Polish imports from advanced countries reached the value of 239 million dollars and constituted 35.8 per cent of her imports. At the same time exports amounted to 242 million dollars (38.1 per cent of exports

total). The most important export item in this period was coal, making up over one half of total export earnings from this area. In 1949, Poland's export of coal to Western Europe reached the peak amount of 11.8 million tons. An increased supply of British and American coal in early 1950's, together with Polish pricing policy brought these exports to 6.8 million tons by 1953. Besides coal, Poland supplied considerable amounts of foodstuffs (meats, eggs), chemicals and textiles. On the import side, most important were: machinery and equipment, metals, wool, rubber and some raw materials. By 1955 exports to this area declined to 187 million dollars and their share to 20 per cent of export totals. Imports showed a slight increase in absolute terms amounting to 251 million dollars but their share fell to 26 per cent.

In her trade with Western countries, Poland still maintains the traditional pre-war pattern, where exports of agricultural products (mainly meat, eggs, poultry, butter and sugar) account for about half of exports total.

Poland seems to be very much concerned with the reestablishment of her trade relations with the Western world, however, present perspectives for the expansion of this trade do not seem to be too promising. This is mainly due to the strengthening of integration processes in Western Europe which threatens to impare her position of food supplier to Western markets. The share of Polish trade with the Common Market constituted about 9.1 per

cent of her trade in 1961 and the trade with EFTA countries about 12.4 per cent respectively. Great Britain is Poland's principal partner in this area. Her possible access to the Common Market is expected to have a negative effect of the future of Polish-British trade.

POLISH TRADE WITH THE UNDERDEVELOPED COUNTRIES.

Since mid-1950's Polish foreign trade relations with the developing non-European countries has been increasingly growing in importance. It seems that the perspectives of further expansion of this trade are rather promising and mutually advantageous for both sides.

The new post-war pattern of Polish trade certainly deteriorated her old trade links with industrialized areas of the world but at the same time it provided a firmer base for the development of trade with underdeveloped countries. Several factors are important in this respect. First of all, there are some similarities in the economic position of Poland and her developing coun-The Achilles heel of Polish post-war try partners. economy was her foreign payments with the group of advanced countries. The majority of the underdeveloped countries experienced the same difficulties. Secondly, the dissimilarities in the structure of economics, make the commodity exchange very promising. All the Bloc countries including Poland are still heavily dependent on imports of raw materials. The shortage of raw materials was critical in many instances. According to the estimates of CEMA in 1960 planned demand for rolled steel in the Bloc was expected to exceed planned production by about 4,500,000 tons; for steel in bars by about 3.500.000 tons. Trade with underdeveloped countries would certainly help to solve the acute shortage of some types of raw materials. On the other hand underdeveloped countries would find markets for their products when the outlets for selling them to the industrialized West markedly shrunk. At the same time Poland has chances in finding an absorbtive market for her dynamically growing exports of machinery and equipment. Directing these exports to markets in advanced countries is rather difficult if not impossible, because of the strong competition and still low quality of her products as compared with Western products. On the other hand, these products fit much better the technical requirements and factor endowment of underdeveloped countries entering the road of industrialization. Besides this, the exchange can be arranged on a barter base with a minimal flow of foreign currency scarce in both partner countries. Of course, these possibilities should not be over estimated, as any barter arrangement requires a match of corresponding demands and supplies on both sides and this can be difficult to meet in practice. For this reason, Poland's ability to sell her products on credit terms would be of prime importance. Actually, Poland can hardly afford

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F. Pryor, The Communist Foreign Trade System, p. 32.

this, and this situation can have a negative impact on further expansion of her trade with developing areas. There is an additional advantage which Poland can draw from this trade, and a very important one from the point of view of making her economic policy less dependent on the Soviet Union. During the whole post-war period Poland heavily depended on Soviet deliveries of raw materials. It seems clear that under such circumstances any Soviet refusal to continue these deliveries would bring economic crisis to the country. Thus, the threat is by no means negligible and must be constantly kept in mind by Poland's policy makers.

In 1950, Polish trade with underdeveloped countries was of rather marginal importance. Imports reached the value of 21 million dollars and constituted about 3 per cent of total imports. Export to these countries amounted to 31 million dollars and its share in export totals was roughly 5 per cent. By 1965 exports to underdeveloped countries reached the value of 263 million dollars, or more than 8 times higher than in 1950. On the import side, the share of underdeveloped countries in Polish imports was about 8.5 per cent. In terms of value, imports from this area amounted to 180 million dollars. The biggest trade partners in this area were: Latin America; Brazil and Argentina, in Asia, India, Indonesia, Pakistan, Ceylon and Iran, in Africa - Egypt and Morocco.

POLAND'S FOREIGN PAYMENTS POSITION

In the conditions of rapidly increasing foreign trade relations which took place in the post-war period, Poland was almost continuously experiencing a deficit in her balance of payments. This was by no means, a new Poland's inter-war economy suffered from an phenomenoh. insufficient capital supply and her foreign payments were almost entirely dependent on the commodity trade. systematic analysis of the Polish balance of foreign payments is extremely difficult, its conclusions uncertain and questionable as the information on foreign exchange and bullion holdings and flow are not published. From the occasional statements of political leaders. announcements of foreign credits, very scarce information on the state of foreign debts it seems to be certain that the deficit in foreign payments is continuously a severe burden for the economy. It is much easier to observe the behavior of her trade balances. The balance of commodity trade is shown in Table No. 1.

As these data indicate Poland had a considerable deficit in her commodity trade during the period 1947-1963. The recent few years brought a marked increase in her trade turnovers. Since the mid-1950's the subsequent foreign trade plans determined the rate of growth of exports on a relatively higher level than that of imports, in order to decrease the trade deficit. The faster rate of growth of exports than that of imports did not, however, bring any radical improvement in her foreign payments position. In 1964, as data indicates, trade

balance was closed with a moderate surplus. It is, however, impossible to estimate to what extent it improved her overall payments position, as the burden of foreign debts seemed to reach considerable dimensions. As Prof. Kalecki remarked "In the course of work on the perspective plan, it appeared time and again that the bottleneck in economic development was foreign trade balance, that is the difficulty in balancing the necessary increase in imports by a corresponding one in exports."X Trade deficit which persisted practically over the whole post-war period was partly covered by foreign credits, and there is no doubt that foreign credits played quite an important role in solving many of the "key" economic problems of the country. Some of them (mainly commodity credits) have been granted by the countries of the Bloc. In terms of values, the greatest financial assistance has been provided by the Soviet Union. XX The real economic value of this aid is difficult to assess, especially when taking into account the Soviet discriminatory policies applied in trade with Poland. It is quite probable that on balance, this aid could be completely offset by losses brought about by "unfair trade". The credit granted to Poland by Czechoslovakia and designated for the development of Polish coal, copper and sulphur extractions seem to be much more important.

Nowe Drogi, No. 8, 1958 cited by A. Zauberman, Industrial Progress in Poland, Czechoslovakia and East Germany, p. 316.

A very interesting discussion on this problem can be found in

M. J. Goldman, Soviet Foreign Aid, New York, 1967, Chapter 1 and 2.

Since the mid-1950's substantial credits were granted to Poland by Western countries. Among them, the biggest and most advantageous were American credits. In the light of Poland's actual political orientation, it does not seem very probable that Western assistance will be continued.

A part of Poland's trade deficit is covered by earnings from shipping and railway services. earnings played an important role in covering Poland's large deficit. Bloc trade was a regular feature in this deficit till 1964. By 1964 the Polish payment situation with the Bloc improved significantly and the deficit in her commodity trade turned into surplus. The persisting deficit in Poland's trade with Western Countries which in 1961 exceeded the amount of 72 million dollars (about one half of her total exports to these countries) is much more serious and troublesome. It was accompanied by the deficit on the service account. Poland's payments difficulties with Western countries seem to be of structural character and it is mainly for this reason that all her efforts to promote trade expansion with the advanced Western countries have little chance to be successful.

CONCLUDING REMARKS

The post-war pattern of Poland's foreign economic relations has been enormously conditioned by her new political orientation. The political regime which emerged after the second world war as a result of her incorporation into the Soviet-bloc set for itself as the main task to build the socialist economy. Centralized economic planning was introduced in order to speed-up the reconstruction. Having largely eliminated capitalistic forms of economic organization through nationalization of the major sectors of the economy the Polish government found it necessary to develop an administrative organization and schemes of control to manage the new highly centralized planned economy.

In the field of foreign trade it found its immediate reflection in the establishment of the state monopoly of foreign trade and subjecting the foreign trade to the discipline of centralized economic planning.

level of the apparatus of foreign trade monopoly and almost exclusive reliance on comprehensive economic planning in carrying out foreign trade activity had or could have some advantages:

1) It gave the possibility of selecting such a pattern of foreign trade which would be preferable from the point of view of the fulfillment of a national economic plan and the achievement of the highest possible rate of growth

of the economy.

- 2) It permitted radical changes to be made in the commodity structure and directions of foreign trade in relatively short time.
- 3) In the country suffering from a persistently strained. situation in the balance of payments, the state control over import and export movements seems to be helpful and justified.
- 4) In a ruined by war country there was a considerable shortage of highly trained foreign trade personnel. From this point of view the centralization permitted a few cadres to conduct large amounts of trade. On the other hand the establishment of foreign trade monopoly and following it separation of production and trade had many disadvantages. First of all, the administrative mechanism constructed to transmit commands and directives through the several ladders of the hierarchical structure proved to be inefficient and unoperational in practice. Large organizations are almost always bureaucratic, tend to move slowly, to adopt themselves with increasing difficulty. In general, the vaster the organization becomes, the more difficult are the structural problems of management, coordination and control. effect, the consequences are following:
- 1) the system lacks flexibility to meet day-to-day opportunities
- 2) the costs of transmitting information through administrative channels are quite high and the whole process becomes time-absorbing.

Secondly, the separation of production and trade caused many conflicts of interest between manufacturing and trading enterprises, and made the problem of coordination of trade and production extremely difficult.

Thirdly, the lack of continuous contact between domestic producers and foreign markets made it very difficult to adjust their production pattern to the changing conditions on the world market, and to familiarize them with the most recent techniques, production methods and quality requirements.

Very enthusiastic drive towards decentralization and reforms in the system of state administration, which took place after "October Revolution" of 1956 had a very short life and in the long-run brought surprisingly little change. The organizational reforms which were introduced were too limited in scope and did not go far enough to bring any lasting improvements in the system.

Decades long experience of Soviet-type economies seems to indicate that centralized planning failed as a device to bring rational allocation of the economy's scarce resources.

Planning techniques are still very crude in spite of the fact that modern mathematical methods and techniques are finding increasingly extensive application in planning. Material balancing which is still at the core of planning proved to be a completely inadequate tool to meet the requirements of consistency and comprehensiveness of the central plan. Foreign trade planning and the coordination of the foreign trade plan with the requirements of the

over-all national economic plan is undoubtedly even more troublesome than planning in the domestic sectors of the economy which are under the full control of the state. Foreign trade involves contacts with foreign markets which are independent of the planning authority but, which at the same time condition the plan fulfillment. The heavy bureaucratic machinery of nation-wide economic planning is too rigid to secure quick and effective adjustment of foreign trade plans to the changing conditions on the world market.

Besides this, it should be noted that whatever the ease or difficulty of framing an internally consistent version of the national economic plan there is still a problem of meeting the efficiency condition. It is here, that the inadequacy of existing planning techniques manifests itself most acutely. It seems quite obvious that a plan balanced to a nicety does not necessarily meet the efficiency condition.

During the first post-war decade economic calculation and profitability considerations were almost completely neglected by Polish policy makers.

The doctrinal thaw which followed the doctrinal than which followed the doctrinal than which followed the doctrinal doctrinal than the favourable environment for the economists, allowing them to raise the problem of the efficiency of a centrally planned economy and of the efficiency of foreign trade. Intensive research in the field of foreign trade profitability which followed, seems to indicate that any simple mechanism which could ensure rationality lines decision making is extremely difficult

or impossible to be found.

The basic obstacles which make the economic calculation impossible or unmeaningful are to be found at the core of the adopted system of centrally planned economy. The distorted price system, rigid rates of exchange and the separation of domestic and foreign trade prices deprive the planners of any reliable and satisfactory yard-stick to measure the extent to which the trade is gainful.

It is interesting to note that in spite of all the shortcomings of the planning system adopted in Poland, that her post-war foreign trade was growing at relatively high rates. At the same time radical changes took place in the commodity composition and directions of foreign trade. In the pre-war Poland agricultural products and foodstuffs dominated on the export side while the engineering products and machinery were the main import items. Poland's post-war commodity composition of foreign trade approximated more closely the trade pattern of industrialized countries and the machinery and equipment established itself as the principal export industry. The geographical network of Poland's post-war trade has undergone deep changes. The war violently disrupted her traditional trade pattern. The new, post-war trade network became more Eastern oriented. The economic contacts with the Bloc countries strenghtened while trade with the rest of the world relatively decreased. There is a whole chain of events and forces which lie behind this shift of trade channels from West to East. However,

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it seems that the political factor and the incorporation of Poland into the Soviet-bloc had the decisive impact.

As far as the balance of payments is concerned the shifts, which occurred in the pattern of trade brought surprisingly little change. Pre-war Poland was almost continuously experiencing a deficit in her balance of payments. Foreign payments are still the Achilles heel of Polish post-war economy.

To sum-up, Poland's post-war foreign trade policy and performance of the apparatus of foreign trade had many shortcomings, the removal of which would unquestionably have a favourable effect on the economy. There were also many achievements. The development of Poland's post-war foreign economic relations was, perhaps, not amazing but still very significant. However, there is one question which the economist investigating these problems would like to answer and for which the answer is very difficult to find. The question is, what was the cost to the economy and society of these achievements and short-comings.

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