

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Economic developments in eastern Europe

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1978) : Economic developments in eastern Europe, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 13, Iss. 5/6, pp. 147-152,
<https://doi.org/10.1007/BF02929183>

This Version is available at:

<https://hdl.handle.net/10419/139546>

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Economic Developments in Eastern Europe

Early every year the Department of Economic Order and Economic Systems of HWWA-Institut für Wirtschaftsforschung-Hamburg submits a summary of the past year's economic results and of the current year's development tendencies in the CMEA-countries¹. The following contribution presents the major results.

Soviet Union

Measured by the plan targets 1977 has been a relatively unsatisfactory year for the Soviet economy. Industry was alone in exceeding its production plan — by 0.1 %. Of the other larger-than-planned increases that of the social consumption fund is the only one to merit a positive assessment. The above-plan rise of the wages fund and of the incomes of workers, other employees and kolkhozniki is not a very favourable development because productivity did not advance as planned and cost pressures mitigated against an above-plan increase of the real per-capita incomes of the population. These rose by 3.5 % only compared with the plan target of 3.8 %.

The low of industrial growth in 1976 was left behind in the past year with an actual growth rate of 5.7 %. In the other sectors of the economy, on the other hand, the growth rates tended to slow further. In agriculture the increase amounted to about 3 %, in transport to 3.7 % and in building to about 3 %; none of these sectors fulfilled its plan. The unsatisfactory contribution of these sectors to the produced national income explains why the applied national income did not develop as planned. Its growth by 3.5 % compares with a plan target of 4.1 % for 1977.

These figures are not as impressive in comparison with the industrialized Western nations as they were some years ago, but they are still quite presentable. In relation to the great development tasks still facing the Soviet economy they are however — and this is also the Soviet view — too small. The reasons for the not fully satisfactory development are to be found in the evident incapability of the Soviet economy to eliminate the causes of the shortcomings in efficiency and of the wasteful use of materials. They originate in the investment process, in the inordinately slow

advance of the productivity of labour and capital. The economic discussion in the Soviet press during 1977 therefore focused on the question how the incentives system and the entire planning and control system could be sufficiently improved to achieve the required improvement in the efficiency of the Soviet economy.

Neither the investment plan nor the plan for basic fund utilization was fulfilled in 1977. Both increased by 3 % only while a rise by 3.6 % had been planned for the former and one of 7.1 % for the latter. It was therefore again impossible to run down the unfinished investments. A central area of Soviet investment policy under the Xth Five-Year Plan is thus now already in serious difficulties.

No convincing progress was made in 1977 in improving the productivity of the national economy, the second central element of growth strategy under the current Five-Year Plan. An increase of labour productivity is of crucial importance in this context, but it is already lagging significantly behind the plan. No data are given this year about the progress of overall labour productivity in the Soviet economy and its contribution to economic growth, but that the plan targets have not been attained is obvious.

The Soviet data on the advancement of technical progress show no significant speed-up compared with the 1976 fulfilment report. Computerization is apparently the only area in which the pace has quickened.

The increase of the national income available for use in 1977 was unsatisfactory. The production results in agriculture did not come up fully to expectations, the performance of the building in-

¹ Author of the contribution on the Soviet Union is Hermann Clement, member of Osteuropa Institut-München.

dustry was bad, and the transport plan has not been fulfilled while the production of industry showed, as stated, a minute overfulfilment. The increase of the available national income by 3.5 % (compared with a plan target of 4.1 %) was below even the low 1975 rate of increase and thus the worst result in the history of the Soviet economy.

With total investments increasing by no more than 3 %, a more than proportionate share of the additional national income was left for a rise of the standard of living. The income-oriented distribution policy which was already noticed in the preceding year was continued.

While the applied national income did not increase as much as planned, the wages fund increased more than planned, namely by 4.7 % (the planned growth rate was 4.2 %). There was however little scope for raising the average earnings of wage- and salary-earners as the number of persons in employment also increased more than planned (by 2.1 % instead of the planned 1.7 %). The average earnings per person went up by 2.7 % only (against 2.4 % as planned).

In addition to their working income the Soviet citizens received a total of roubles 99.5 bn in other forms of remuneration (pensions annuities, free services as for instance in sickness, etc.). These also increased more than planned (by 4.7 against 4 %). Various measures have been taken to improve the situation in this area. These nominal data given in the fulfilment report show that the real per-capita incomes have risen by 3.5 % (compared with a plan target of 3.8 %).

Romania

The earthquake disaster in March of last year proved a great handicap for the purposeful pursuit of Romania's economic plans. It was bound to cause severe disruptions in the economic development of the country. No fewer than 763 industrial, building and transport undertakings were damaged by the earthquake, according to Party reports; quite a number of them were completely or partly destroyed. The material damage was put at about lei 10 bn (c. \$ 833 mn at the official exchange rate for tourists), i.e. 2.5 % of the national income produced in 1976. Production grew nevertheless by 12.5 % compared with 1976, instead of the planned 10.5 % increase of gross industrial production. The growth rate of production was in fact still one percentage point higher than in the preceding year. Increased labour productivity in industry accounted for most (nearly 80 %) of the additional output; its rise by 9.8 % compared with 1976 exceeded the plan tar-

get as well as the great advance (by 8.8 %) in the preceding year.

The growth rates in the energy and fuel sectors (+2.4 and +3.0% respectively) were distinctly lower than in 1976, and growth in the chemical and light industries (+13.9 and +10.8 %) was also less rapid but still substantial. The mechanical engineering and metal industry (+13.2 %), the ferrous metal industry (+13.7 %) and the building materials industry (+14.7 %) on the other hand made faster progress than they had done in the preceding year. In spite of the larger-than-planned increase in industrial production it was not possible to raise the national income as planned by 11.3 %. At "only" 8.6 % the national income growth rate stayed for the first time below the 10 % mark which had previously been missed only rarely and slightly; in absolute figures the national income amounted in 1977 to lei 431.4 bn.

The investment plans were not fulfilled, as was to be expected because a large part of the funds earmarked for investment in 1977 had to be concentrated early in the year on the regions struck by the earthquake. Various investment projects came to a standstill because building resources — labour and machinery — were drawn into these regions particularly from areas which suffered no earthquake damage. The investment growth rate (11.5 %) was higher than in the preceding year but did not come anywhere near the plan target (16.7 %).

The record figures of 1976 were not quite equalled in agriculture as weather conditions were less favourable. All important crops except sunflowers yielded less than in previous years. The gross agricultural production was only a little less than 1.3 % lower than in 1976 and may thus be regarded as fairly satisfactory even though the plan target was not reached. Its total value last year was lei 123.9 bn (at the prices of Jan. 1, 1977).

The foreign trade developed only slightly faster than in 1976. The balance of trade was in overall equilibrium; the total turnover rose at current prices by 14.8 % to valuta-lei 69.8 bn. In contrast to the previous year and contrary to the intentions of the economic planners the imports (+15.1 %) rose faster than the exports (+14.6 %). The planned growth of the foreign trade turnover by 15.5 % was not achieved.

In spite of the partial non-fulfilment of the 1977 plan it was resolved at the national RCP conference on Dec. 7–9, 1977 to raise the economic overall targets of the Five-Year Plan. The supplementary programme is based on campaigns for improved use of the productive resources, cuts in the cost of production materials, execution of additional investment projects and further increases in labour productivity.

Hungary

At the end of the second and beginning of the third year of the current Five-Year Plan Hungary was confronted with the problem of correcting the disequilibrium in its national economy and achieving a better balance between the various economic elements coupled with — albeit moderate — growth.

The lack of balance in the country's development during 1977 was a result and reflection of the following factors: Salient economic elements such as the national income, industrial and agricultural production and investment, consumption and foreign trade have developed faster than planned. In particular there has been a big increase in new investments, which have got out of control; on the one hand they gave a stimulus to domestic production, on the other they have put a burden on the balance of trade. Another weighty factor was the worsening of the terms of trade.

The growth of the national income by about 8 % in 1977 shows once more that the problem facing the Hungarian economy stems not so much from the aim of a continuous relatively high growth rate over the longer term as from the need to make sure of balanced external economic relations alongside the development of the domestic economy. The reasons for this are partly inherent in the system. Commenting on the plan fulfilment report for 1976, Budapest *Rundschau* could still say in regard to several past years: "The direction is good . . . , the direction is to be maintained . . .". But the economic process in 1977 shows in fact that the range of control instruments has been patently insufficient for this purpose.

The 6.8–7 % growth of gross industrial production is, in purely quantitative terms, a good result in comparison with the long-term average (1971–1976: 5.9 %). The industrial production received essential stimuli through the big increase of exports (+ 12 % in real terms) and the upsurge of investments (+ 13 % in real terms). The Hungarian industry stepped up its deliveries to these two areas by 15 and 14 % respectively. Consumption provided a relatively small impetus for production although the private households could draw on much larger incomes. It is stated in the plan fulfilment report that the industrial production result was attainable only because of a 7.0–7.2 % rise of labour productivity; productivity has thus risen faster than the industrial production, for the labour force of the Hungarian industry averaged only 1,688,000 in 1977 — 3,800 persons or 0.2 % less than in 1976.

After the decline of agricultural production in 1976 last year's good result came as a surprise; the in-

crease amounted to 10–11 % compared with 1976 and 7–7.5 % compared with 1975. Even if growth in 1978–1980 averages no more than 3 % a year, the 16–18 % growth target of the current Five-Year Plan is thus well within reach.

Hungary's exports and imports increased last year faster — in nominal and real value — than in 1976, in toto and also separately for the socialist and non-socialist countries. At current prices the imports and exports went up about 16 % each to about forint 500 bn. In real value however the exports advanced by 12 % and the imports only by 8 %. These figures reflect the worsening of the terms of trade which was caused mainly by the raising of the Soviet crude oil price from January 1977 by 22.5 % to roubles 49.2 per ton and the firming of the prices for Western products by an average of about 11 % while the price rise of Hungarian exports to the West worked out at 7 % on average. The worsened terms of trade weighed the more heavily because part of the uncontrolled extra investment demand had to be covered by a not planned-for import surplus. Foreign Trade Minister Biró has attributed about one-fifth of the trade deficit to the change in the terms of trade.

The planned growth of the national income by no more than 5 % in 1978 is to be achieved by a further improvement of labour productivity (in industry by 5.5–6 %) for the labour force is still contracting. The national income is to rise at a distinctly faster rate than the domestic consumption (private and social consumption, investments, stocks) in order to bring the external economic objectives within reach and to make it clear from the outset that there is only limited scope for using the national income for purposes of domestic demand.

Czechoslovakia

The growth of the Czechoslovak economy proceeded in 1977 at a slower pace than in the preceding year. While the annual growth during the previous Five-Year Plan (1971–1975) still averaged 5.7 %, the VIth Five-Year Plan put the annual increase of the national income at about 5–5.5 % a year only. In 1977 this target was not attained however; the national income rose actually by 4.5 % against the planned 5.2 %.

An itemized comparison of plan targets and actual achievements shows nevertheless relatively good results in various areas for the most important economic data. Good results were achieved especially in industrial production, the development of agriculture — more particularly crop production — and the retail trade turnover. Among sectors encountering problems in plan fulfilment

was the building industry in particular, and the exports to non-socialist countries also advanced much less than planned.

The social consumption of the population (state-financed goods and services) amounted to koruna 106.7 bn — 0.9% more than planned and 4.9% up on 1976; the growth rate was however lower than in the preceding year. Private consumption also rose more slowly; its growth rate of about 2.4% was likewise below the plan target and the 1976 rate.

The total industrial production subject to central planning amounted in 1977 to koruna 560.8 bn — nearly koruna 30 bn up on 1976. At 5.7% the growth rate of industrial production was thus 0.2 percentage points higher than in the preceding year and also higher than planned. This growth was achieved largely through increased labour productivity as virtually no additional manpower resources were available. All industries recorded output gains but the individual growth rates differed greatly in comparison with the plan targets and 1976 results. The highest growth rates were achieved in the mechanical engineering and chemical industries; next came the wood and food processing industries.

Still, the growth rates of 7.7 and 6.8% respectively in the mechanical engineering and chemical industries were far below the 1976 rates. The mechanical engineering industry was again the strongest sector and principal supplier of exports to socialist as well as capitalist countries. Fast progress was made in the production of the goods forming part of the key programme, in particular machines and installations for the chemical industry, numerically controlled machine tools and data processing equipment. The lower output growth rates in the chemical industry during recent years are probably connected with the rise of its raw material prices in the world market. The growth rates of the building materials, building and electricity generating industries lagged behind the plan.

Positive results were achieved in 1977 in the agricultural sector. Good grain, sugar-beet and fodder-plant harvests helped towards this. The gross agricultural production totalled koruna 80.3 bn; the growth rate was 7.9% — one percentage point more than planned. Good results were also recorded in animal production.

For the foreign trade turnover a higher growth rate had been planned for 1977 than for the national income. This target was attained: the foreign trade turnover was over 12% up on 1976, and the exports grew faster than the imports. The overall plan target was therefore surpassed, but

only in the trade with the socialist states which accounts for about 70% of the Czechoslovak foreign trade were the tasks set in fact achieved. In the foreign trade with capitalist countries the targets were not fully attained. The exports were about 17% higher than in 1976 but not as high as planned.

Poland

The year 1977 was for practical purposes the first year of the Five-Year Plan for 1976–1980 because this plan was only passed at the end of 1976. It marked a turning point in economic policy.

In 1970–1975 economic policy had two aims — faster growth and a rising standard of living. Both were financed for the most part through foreign credits. The reverse side of this development was an increase in foreign indebtedness (by 1976 it equalled the total value of the annual exports) and an imbalance in the domestic economy:

□ A wide-spread investment programme put an excessive strain on the capacities of the supplying industries, with the result that the investments were in large part not completed;

□ Agriculture experienced in 1976 a third crop failure, causing fodder shortages and the collapse of the livestock industry;

□ Real wages rose more steeply than planned (by 46.5% instead of 18%) so that the consumer goods market was thrown off balance, for supplies did not increase correspondingly.

In this economic situation a new economic policy had to be aimed not only at expanding exports but at safeguarding domestic supplies as well. The new economic policy found expression in the so-called "economic manoeuvre" adopted by the Party congress in December 1976. The essential point of this programme is concentration on the further economic development of a few chosen sectors — the consumer goods industry, agriculture, exports, import-substituting industries, house-building and raw material industries.

The resources for investment were to be regrouped accordingly. Overfulfilment of plan targets has been forbidden except in the mentioned priority areas for which indeed additional funds are kept on hand.

The system of economic direction has been decentralized to round out the new guidelines of economic policy.

The plan fulfilment report for 1977 reveals that Poland has been able to come close to the overall plan targets but did not cope satisfactorily with

the priority tasks. Although the growth rate of the produced national income (5.6%) was relatively low and the share of investments (not counting current funds and stocks) fell from 33 to 26%, the investment programme was not tightened up sufficiently. This was a major reason why many investment projects were not completed according to schedule.

The priority target of safeguarding adequate market supplies was not fully achieved. Overall figures show the production of consumer goods to have increased in line with incomes but the plan targets of some important products in short supply (clothing, household goods, dwellings) have not been fulfilled. The situation was aggravated by the bad results in agriculture.

The agricultural production suffered from inundations which reduced the crops far below the level of the preceding year. The total agricultural production was therefore only 0.8% higher than in 1976 and even this only because the animal production increased substantially. It is estimated that the four bad harvests in succession have set agriculture back by two full years in terms of the long-term trend.

Faced with these low crop yields, it was again found necessary to import grains and feeding stuffs. Poland's trade deficit in agricultural products amounted to valuta-zloty 2.2 bn, which is almost one-third of the total foreign trade deficit. The overall trade deficit has been reduced compared with the preceding year, for the first time since 1970, mainly as a result of drastic import cuts.

German Democratic Republic

The production of the GDR economy increased in 1977 by as much as 5.2% overall, according to the official plan fulfilment report, to about Mark 155 bn but did not quite reach the growth target (+ 5.5%). Domestic expenditure on the other hand increased as a whole faster than planned. The slight deceleration of domestic growth is to be attributed primarily to unsatisfactory results in agricultural production and, indirectly, the launching of an extensive social programme which provided for new working-time reductions and leave arrangements. Against this background the 5.4% rise of daily industrial production – as expressed by the index of the output of industrial goods – is still a notable achievement. A comparison of the salient figures for 1977 with those envisaged under the current Five-Year Plan for 1976–1980 shows that while not all results have been satisfactory compared with the plan target for the past

year, the GDR economy has attained and in part exceeded the medium-term growth path envisaged in the plans.

The growth of domestic expenditure was in 1977 again dominated by the investment activity. Its growth rate of 6% – including participations in investments abroad – was more or less in line with the plan. In industry – which since the mid-seventies had been recording distinctly lower growth rates than the economy overall – the growth rate was 9% and thus for the first time superior to the rate of total investment growth. The trend towards more replacement and rationalization investments and the reduction as far as possible of expenditure on plant extensions which was observed in previous years has continued. More than half of all investments was for rationalization and replacement purposes.

The standard of living improved further in 1977 but the balance of purchases and goods funds was upset because the net money income of the population as a whole rose by 5.4% (against the planned 4.0%) while the retail trade turnover increased by 4.3% (against the plan target of also 4.0%). Features of the incomes development were the social insurance pension rises by a total of 12.5% and the 4.7% increase in net wages and salaries. The latter figure is above the plan target and may be due to overtime working to make up for the labour shortfalls caused by the social programme. The social programme was fulfilled "item by item" in 1977, according to the plan fulfilment report. It provided for a reduction of the working week from 42 to 40 hours for 1,500,000 workers, an extra two days' annual leave for 1,200,000 shift workers, a domestic duties day per month for 270,000 single women in full employment, extra pay awards for 420,000 persons in education and vocational training, and improvements of the supplementary insurance pensions.

The increase of the foreign trade turnover by a nominal 7% only disclosed in the plan fulfilment report indicates that the plan target (+ 8.7% in 1977) has been missed – for the first time in the seventies. The reason was the marked decline of the trade with the West. The latter fell off by 6.4% to a nominal valuta-mark 26.3 bn while trade with the socialist countries expanded by 14.3% to valuta-mark 65.5 bn.

The intra-German trade presents a fairly positive picture compared with the other Western trade. The turnover in 1977 amounted to about DM 8.3 bn – nominal increase of 1.8% over the preceding year. Purchases from the GDR rose somewhat faster than the deliveries to the GDR. Nevertheless the Federal Republic had in 1977 a surplus

of DM 0.4 bn in the intra-German trade so that the GDR's cumulative balance of trade deficit increased to about DM 2.9 bn.

The main lines of GDR economic policy laid down in the 1978 plan show that it is intended to counterbalance most of the 1977 changes in production and expenditure. On the production side the industrial production is, in contrast to the 1977 plan and results, to be raised more than the overall production. The produced national income is to rise by 5.2% which is in line with the production growth achieved in 1977. The planned growth rate for both the industrial goods production (+ 5.7%) including a 6.2% growth for the centrally directed production under the ministries for industries (+ 6.2%) is to be distinctly higher than the overall figure.

Bulgaria

The economic development of the People's Republic of Bulgaria in 1977 was marked by a distinct — albeit slightly slower — economic growth compared with 1976. The feature of the overall development is the continuing structural change away from agriculture which was noticed already under the previous VIth Five-Year Plan and is evidently continuing in the current VIIth five-year period ending in 1980.

After a phase of high growth rates in the early and middle seventies the national income rose in 1977 at an effective rate of 6.3%. For the first time in the present decade the growth rate thus stayed below the 7% mark. The less expansionary trend — a trend to more quality-oriented growth — which was in evidence in the preceding year already has thus been entrenched more firmly.

The 6.8% increase of gross industrial production was slightly below the 1977 target. The industrial sector was nevertheless the principal contributor to the rise of the national income, for agriculture was prevented by adverse climatic conditions from achieving the 1977 plan target or matching the 1976 results (— 6.3%).

The labour productivity which has always been officially described as of prime importance for the further development of the Bulgarian economy recorded a satisfactory overall increase in 1977. The rate of increase of exactly 7% was still quite high although somewhat lower than in the preceding year.

Among the growth rates of the major macro-economic parameters the foreign trade (+ 13%)

was outstanding. It expanded much faster than in 1976 (+ 8.4%). The foreign trade has thus apparently resumed the very expansive development of the years until 1975; the below-average performance in 1976 should probably be regarded as an exceptional deviation from the planned development.

A striking feature of the reports on economic progress and plan target fulfilment last year is the increasing emphasis on qualitative criteria and positive changes in this respect. They include the whole gamut from improvement of product quality and diversity of product lines to the effects of rationalization on production, introduction of new technologies (e.g. in transport), changes in the standard of living and much higher priority for protection of the environment.

In the future the Bulgarian economy will probably continue to grow at a notable rate, by international standards, but the expansion is unlikely to proceed at more than half the rate of the mid-seventies. To go by the economic plans, no more seems to be intended, for as the standard and quality of life improve, more quality-oriented growth targets are coming to the fore. In the long term these objectives will certainly involve an increase in the domestic demand (for all kinds of consumer goods in particular) and bigger investment requirements — for instance for the infrastructure, environment protection or the raw material and energy sectors. Many input factors may on the other hand be affected by growth-retarding influences such as limits on increases in the productivity of individual industries, price rises and/or cost increases for energy and raw materials, or even — over the longer term — manpower shortages. The ECE forecasts comparable developments for the whole of the East European region. However the prediction of 5% growth a year in Eastern Europe up to 1980 probably indicates the lower rather than the upper limit of the development to be expected in the next few years for Bulgaria on its industrialization course.

In its foreign economic relations Bulgaria will no doubt continue its policy of integration and division of labour with its CMEA partners in 1978 and later years. This policy is the basis of the expansive development of the foreign trade with the target of a 60% volume increase from 1975 to 1980. No exceptional changes in the foreign trade pattern or spectacular variations in the quantitative development of Bulgarian trade need be anticipated for the current year. Bulgaria is too strongly committed to the CMEA for this to happen, and there is much evidence to suggest that the country will continue its present course in regard to the East-West trade.