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## Economic developments in Eastern Europe

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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-countries<sup>1</sup>. The following contribution presents the major results.

### Soviet Union

Measured by the annual plan the development of the Soviet economy in 1978 was by and large satisfactory. The industrial growth rate of 4.8% was 0.3 percentage points above the plan. Although the plan was overfulfilled, this year's growth rate was however the lowest on record in Soviet industry. The 5% increase in the investment goods industry was notably low. The chemical industry, as well as the steel industry, seems now to be facing major problems.

The traditional "problem children" of the Soviet economy were not very successful. The output of the public building sector rose by 2% only; its plan fulfilment rate was 98%. Agriculture was not as successful as the record grain harvest of 235 mn tonnes suggests. In spite of 4% growth the target was not nearly reached, almost entirely because of the unsatisfactory result in animal husbandry; the output per animal has been stagnating for some time, probably as a result of the fodder problem which has still not been solved.

The contributions of the individual sectors made it possible to increase the total domestic expenditure according to plan — by 4% which is a somewhat higher rate than the low of 1976.

It is thus seen that the Soviet economy in 1978 steadied at a level which is low compared with its previous development and, if allowance is made for the different national accounting systems, differs only insignificantly from the growth rates in Western states.

In the light of the development to date it seems unlikely that the quantitative objectives of the five-

year plan will be reached altogether. Still more important is that owing to growing scarcity of labour and lower investment growth rates the structural objectives are not being attained. Above-plan inputs of production factors were needed again to reach the growth targets. Total investments and investments by the state increased more than planned. The 2% expansion of the labour force also exceeded the plan. The transition to intensive growth was thus not yet achieved, a fact which will not make for the best growth prospects in the Soviet economy when, in line with the demographic trend, the expansion of the workforce slows drastically from the early eighties.

The 3.9% increase of the retail turnover was in accordance with the plan and slightly below the figure for total domestic expenditure. The plan fulfilment report notes again that in spite of the increased retail turnover the demand was not fully satisfied. The increase in the provision of services for the population which so far amount to no more than Roubles 6.7 per head and year lagged slightly behind the plan.

The above-plan increase of the number of employed persons had the result that the 3% rise in average wages was noticeably smaller than the increase of the wages fund. The average wage reached 160 Roubles a month.

Although 2.1 mn dwellings were built, it is still not possible to provide each family with a self-contained home.

<sup>1</sup> Klaus Bolz (ed.), *Die wirtschaftliche Entwicklung in Osteuropa zur Jahreswende 1978/79*, Verlag Weltarchiv GmbH, Hamburg; author of the contribution on the Soviet Union is Hermann Clement, member of Osteuropa Institut-München.

The substantial reduction of the deficit in trade with the West recorded in 1977 was not followed up last year. The trade with the West showed a larger deficit while the balance of trade as a whole showed a surplus. The trend towards increased trade with the socialist countries noted in the previous year continued.

The planning for 1979 suggests that the quantitative targets of the current five-year plan are now barely attainable. The targets fixed for the year in the most important output areas and for national income are substantially below the five-year plan figures some of which look by now utopian. As far as the industrial growth rate is concerned, it is assumed that the 1978 low will be overcome and growth be speeded up. The gross agricultural production is also to grow faster. The unpromising figure for the first quarter of 1979 (+3%) however raises doubts about the projected trend change. Further difficulties are indicated, especially in electricity supplies and in the chemical industry.

## GDR

The past plan year has undoubtedly given the central party and economic leadership much food for thought. The produced national income grew in 1978 by 4.0% — 1.2 percentage points less than planned and apart from 1976 the lowest growth rate since the beginning of the sixties. It is thus already beyond question that the most important indicator of economic performance will certainly not attain the five-year plan target. Even if this year's plan target of 4.0% growth over 1978 were to be reached, the produced national income would have to rise by 8.1% in 1980 in order still to achieve the five-year objective. The times of relatively high growth rates are definitely over. After the results of the past plan year it must be the aim of the central party and economic leadership to stabilize the GDR on a lower medium-term growth path. The plan targets for 1979 are pointing in this direction.

The rise of the standard of living which the political leadership has marked out as a principal task of the current five-year plan should, in the light of the five-year plan targets, give full satisfaction to the population of the GDR. All the relevant indicators (retail turnover, net incomes of the population, average monthly earnings of manual and non-manual workers as a whole, housebuilding) show clearly that in the absence of unforeseen events the five-year plan targets for 1980 will be slightly exceeded in the two remaining years of the five-year period.

The industrial goods production rose in 1978 by 5.4% and was thus 0.3 percentage points below

the plan target. Compared with previous years this indicates medium growth — less than planned but distinctly better than actually achieved in 1977.

As for the foreign trade, it is to be noted that exports rose slightly more in 1978 than did imports. The greater export efforts have thus paid in the past year. The import surplus has probably declined by about valuta marks 0.6 bn to valuta marks 7.5 bn. The deficit in the trade with the West on the other hand was over half a billion valuta marks higher than in 1977. One reason for this was a 2% decline in GDR deliveries to the Federal Republic of Germany. The goods exchanges with developing countries were probably approximately in balance. The big increase of exports to this group of countries follows a trend which has been noticeable since 1974. The GDR is making use of improving opportunities in this market and besides providing a substantial amount of military aid.

In previous years there was a tendency to fix the annual plan targets as prudently as possible, and this continued for 1979. As far as the central economic indicators are concerned, the proposed growth rates are in part clearly below those for 1978. They are in large measure in line with the 1978 results.

The produced national income is to rise only by 4.3% which is the lowest annual target in the current five-year plan. The planned increase of 5.5% for the industrial goods production is almost exactly the same as the previous targets. The 4.2% target of the building industry is only 0.6 percentage points below the actual achievement in 1978 but, as for the produced national income, the lowest growth rate under the current five-year plan. The GDR leadership has thus given an early indication of the abandonment of the five-year plan objectives and of its realistic assessment of the general economic situation.

## Poland

In the five-year plan period of 1971–1975 Poland had experienced unprecedented economic growth and development of the standard of living. The finance for this came largely from foreign credits. The underlying strategy was that the plants erected with Western technological and financial aid would provide a sufficiency of products for exports to the West to pay back the foreign credits. It is now openly admitted that things did not work out as expected. The supply bottlenecks in the internal economy — partly a result of increased wages — were not foreseen, and the damaging effect on the export trade of slack foreign markets was underrated. The by now traditional difficulty

of keeping investment outlays within the limits set by the economic plan and poor harvests prompted the leadership in 1977 already to embark on the so-called Economic Manœuvre — a restructuring of investments in favour of consumption, housebuilding and exports. At the same time the overall level of investments was to be brought down. In the first year of the Economic Manœuvre (1977) the tasks that had been set were not achieved in all details but the overall objectives at least were attained. In the second year (1978) neither was accomplished. With 2.8% growth the national income fell behind the plan target of 5.4%. The investments were not kept down to the plan limits, and the industrial and agricultural production did not meet the plan targets either. Nor did the foreign trade fulfil its export tasks or keep to the import limits.

The 1978 out-turn gives little satisfaction to the economic leadership which must expect to be judged by the measure of plan fulfilment. Essential objectives have been missed. On the other hand, it should not be overlooked that industrial production has after all risen by 5.8% and agricultural production by 4.2%, and this growth was achieved despite labour shortages which hit the less efficient enterprises most. The out-turn in transport and retail trade was less satisfactory. The retail turnover may indeed have actually declined at constant prices. Shortcomings of the transport system proved a serious bottleneck during the cold winter and greatly impaired the proper functioning of the economy. The supply of electricity was another damaging bottleneck; it had to be cut off at times to industry and private consumers.

Better results were achieved in regard to the external economy. The foreign trade deficit was reduced from valuta zloty 7.8 bn in 1977 to valuta zloty 6.2 bn. In the trade with the West the improvement was however achieved by administrative import cuts rather than by larger exports. The cuts hit investment goods most of all but also imports of raw materials which were reduced although the domestic market is suffering from an acute shortage of raw materials. These cuts show that the Polish economy is externally under strong pressure which makes it imperative to reduce the net amount of new debts.

## Czechoslovakia

For 1976–1980 the CSSR set the national income growth target at an annual average of 4.9% against 5.7% in the first half of the seventies but the results of the first three years of the present five-year period show even this more restrained assessment of the economic development to have been too optimistic. The growth rate was 4% in

1976, 4.5% in 1977 and 4% in 1978 and thus clearly below the plan average.

The organ of the CPCz Central Committee stated in its first comment on the plan fulfilment report at the end of January 1979 that the economy had continued to develop in accordance with the fundamental aims of economic and social policy and that the third year of the sixth five-year plan had shown results linking up well with the preceding periods. In the light of the above figures this seems to be a specious claim. It is true that industry, the most important sector which supplies about two-thirds of the national income, accomplished the planned increase of 5% precisely but for this it needed more working days and special stints (in coal mining) than in the preceding year when the industrial gross production had risen by 5.7%. A closer view reveals substantial differences in the plan fulfilment of individual industries; 11.4% of all industrial undertakings, especially in food processing and the (North Bohemian) electricity industry, failed to meet their plan targets, with a consequent production shortfall in excess of koruna 2 bn.

The inadequate completion rate for new productive plants in 1978 was again due to the failure of the building industry to reach its plan targets. The building activity was 5.7 volume % higher than in 1977 but the plan had stipulated a 5.9% rise. The shortfall occurred chiefly in complex housebuilding (98.5% plan fulfilment) and investment projects on which over koruna 2 mn were to have been spent. The shortfall was partly due to inadequate investment project preparation; another cause for complaints is the constant scattering of building capacities over a large number of projects and management faults in the execution of a number of projects. For the investment plan as a whole 100% plan fulfilment is reported. While 96% of the planned construction work only was carried out, the machinery and equipment deliveries exceeded the plan by 5%, so that arithmetically the overall plan was fulfilled.

Agriculture and transport also had to admit failure to fulfil their plans; the 1.5% increase in gross agricultural production compares with a plan figure of 3.4% as the production of crops rose by 0.2% only. The 2.6% rise of animal production was only achieved with the help of larger feeding stuff imports.

The overall targets for exports and imports were exceeded. The feature of the foreign trade was the stagnation of imports from the West; they rose by 0.6% only (as compared with the planned 2.1%). The exports to non-socialist countries rose by 8.5% only (planned was an increase by 10.7%) while the exports to socialist partner countries

(+9.7%) were substantially above the plan (+2.8%) and the imports from them (+10.8%) slightly exceeded the plan (+9.1%). The official explanation for this is the increasing "socialist integration" in the CMEA but there is no doubt that Czechoslovakia is encountering serious difficulties in her trade with the West where she wants to place industrial products (especially mechanical engineering products) in highly competitive markets with high technical standards. On the other hand, the CSSR is unwilling to embark on the Polish road of (temporary?) indebtedness in an effort to effect quickly by imports of the latest technology the modernization which is in wide areas overdue.

In these circumstances it is already clear that the principal targets of the 1976-1980 plan cannot be met. It is too late to alter this fact by the "complex management experiment" which was launched last year in order to save materials, lower production costs, improve qualities and product ranges, ensure more intensive technical progress and, last not least, increase exports and is to run until the end of 1980.

## Hungary

In the Hungarian economy the last year was marked by increasing instability in the domestic as well as the external sphere. The gross production developed approximately as planned but this was achieved only by larger material inputs. Owing to unfavourable weather conditions the agricultural production increased only by 2%, with adverse effects especially on the export-intensive food industry; its gross production increased by no more than 1.2%, far less than the average production increase of 5.2% in the Hungarian industry generally. The national income rose only by 4% to 510 bn forints and thus stayed 2% below the average growth rate needed to reach the target of the five-year plan.

Total domestic expenditure advanced for the first time faster, and not more slowly, than the national income - by over 6% instead of the 2% planned. The investment outlays were by the end of the year over 8% above the 1978 plan figure, and the aggregate of unfinished investment objects in-

### PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG

Dieter Lösch

## PRODUKTIONSMITTELEIGENTUM UND WIRTSCHAFTS- UND GESELLSCHAFTSSYSTEM

Ein Beitrag zur Diskussion um die sozio-ökonomisch-politische Relevanz  
der Produktiveigentumsverhältnisse

(Ownership of Producer Goods and Economic and Social System: A contribution to the  
discussion of the social-economical-political relevance of the ownership conditions of  
productive capital)

The discussion of the ownership problem still makes use of the questionable clichés of the liberalistic and the socialist ideas. The clarification and overcoming of the prevailing antinomy of ownership ideologies is the objective of the present study. First the contrary ownership hypotheses are systematically described and the manifold criticism analysed. Finally with the aid of system-theoretical categories it is shown which relative importance is really due to the ownership relations in economic and social systems. (In German.)

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

creased further. In 1978, unlike the two preceding years, the inventories of the enterprises also rose faster than gross production and national income — by a total of 35 bn forints. The above-plan rise of stock accumulation and investments left little scope for an increase of consumption.

The growth of accumulation by 25% compared with an increase of consumption by no more than 3%. The investment boom and consequent wage increases had the result that the demand factors which determine the standard of living of the population (nominal income, price level) advanced in 1978 more than planned. The purchasing power of the population increased slightly — in spite of in part drastic price increases for certain kinds of goods — but the supply of consumer goods remained at a quantitatively and qualitatively rather unsatisfactory level.

Especially grave consequences ensued in 1978 from the foreign trade imbalance: Exports lagged behind the plan while imports rose by leaps and bounds, chiefly owing to the investment boom in state-owned and cooperative undertakings. The balance of payments deficit rose by the end of last year to an unprecedentedly high level — US\$ 1.1 bn with Western countries and about Roubles 500 mn with CMEA states. In spite of this high balance of payments deficit and the expectation of only a modest increase of exports in 1979 Hungary continues to take a basically positive view of Western imports insofar as these can help to restructure the country's industry.

The economic plan targets for 1979 indicate slower growth of gross production with the purpose of greater orientation to a reduction of the balance of payments deficit and domestic consumption. The planned national income growth of 3–4% is to be devoted entirely to an improvement of the economic equilibrium. The domestic consumption is not to increase but to undergo a structural change — the accumulation is to be curtailed while the consumption of the population is to be allowed to advance slightly. New large public investments will not be initiated in 1979; the total investments in the socialist sector will not be significantly higher than last year. This result is hoped to be achieved by cuts in state subsidies, a restrictive credit policy and numerous measures to siphon off liquidity in the enterprises. It remains to be seen how the Hungarian enterprises which enjoy a relatively large scope for autonomous decisions compared with other CMEA states — also in regard to their relations with other countries — will react to such credit restrictions and liquidity constraints. Western equipment suppliers will certainly face more difficult conditions for sales in the Hungarian market in 1979.

## Romania

It can be inferred from the figures for the first three years of the sixth five-year plan that Romania is most unlikely to attain the five-year targets for important overall economic indicators. The 7.6% increase of the national income in 1978 was substantially below not only the plan figure but also the growth rate of the preceding year. In view of previous growth achievements one may be tempted to speak of a "plunge" of the growth rate but Romania still recorded by far the fastest growth of any CMEA country. To achieve the five-year target the national income would however have to rise by an average 14.4% annually until 1980.

The increase of industrial production by 9% to lei 817.1 bn (gross production) was below the plan (+10.6%) and the growth rate of 1977 which in spite of earthquake disruptions was over 3 percentage points higher than that achieved last year. In this sector however the five-year target may conceivably still be attained although the average annual growth rate of 12.2% needed for this purpose will require special efforts.

The plan fulfilment report shows for the first time the industrial net production as one of the principal economic indicators. Presented as part of the economic reform measures, this indicator is to help to curb the wasteful use of raw and other materials which has been constantly criticized by the economic leadership; the use of gross production as the criterion of plan fulfilment still gave rise to such wastage although other indicators were also published. In 1978 the industrial net production rose slightly faster than the gross production, namely by 9.3% to lei 266.2 bn.

The industrial labour productivity did not rise as much as in the first two years of the current five-year period; at 7.1% it was nearly 2% below the plan target. This puts an end to the previously justified hope for ultimate attainment of the five-year plan objective of a rise by 55.1% in 1976–1980, for this would require average annual growth by 10.1%, a figure never yet reached in any year.

The investment growth rate was again lower than expected but the increase by 16.2% approached — for the first time under the current plan — close to the target of 16.8%. Attainment of the five-year target in the investment field will also encounter difficulties as it would require average growth of 14.1% in 1979 and 1980, which is much more than the average so far achieved in the seventies.

The gross agricultural production rose in 1978 by 2.4% to lei 128 bn and was thus about 3 percent-

tage points below the plan target. This is the second shortfall in the current five-year period and makes attainment of the five-year plan target virtually impossible; production would have to rise in the annual average by 8.5% to reach the lower plan figure and by 14% to come up to the upper plan figure. The efforts for more intensive production in agriculture have not advanced sufficiently far to allow such growth.

The foreign trade turnover increased in 1978 by 10.1%, a distinctly slower rate than in 1977. The margin of over 9 percentage points between planned and actually achieved foreign trade growth was exceptionally large. The import-export ratio in particular did not develop as desired; imports increased by 14.7% to valuta lei 40 bn while exports rose only by 5.5% to valuta lei 36.8 bn, leaving a foreign trade deficit of valuta lei 3.2 bn for 1978.

## Bulgaria

The salient feature of the Bulgarian economy as a whole in 1978 — as in previous years — was continual economic growth. Although the plan was not fulfilled in all points, there remains a possibility that the five-year plan targets will be attained in 1980.

The industrial sector contributed decisively to the increase of the national income by about 6% in 1978. Most industries continued to increase their production appreciably even though the progress in the industrial sector as a whole was slightly below the plan target. The main cause of the improved results in almost all industries was a continuing substantial rise of labour productivity. The plan fulfilment report notes as another remarkable feature of industrial production that the producing costs have been lowered by an average

of 2%. The structural changes in the industrial sector last year worked mainly in favour of mechanical engineering, its most important part, and related areas, such as plant construction.

The standard of living was raised again as in previous years. A positive view may be taken of the incomes trend in particular although supply difficulties are still encountered at times; these are however no longer as great as they still were in the early seventies.

Agriculture is making a substantial contribution to the supplies for the population. The result last year compared well with 1977 when it was affected by adverse weather; the increase of 5% was exactly as planned.

In the transport sector the movement of goods increased much less than in 1977 but overall the transport services rose by 9.2%. The opening of the ferry route between Varna and Ilyichovsk is important because of the trade relations with the USSR; even in international terms it is an extremely efficient service.

No exceptional changes took place last year in the external field. The socialist countries, and the USSR in particular, remained the principal foreign trade partners. In the trade with the West the Federal Republic of Germany held its leading position. Bulgaria's foreign trade as a whole increased by 11.1%.

A novel feature of the economic planning for 1979 and 1980 is that plan data have been published for the first time for two annual periods together. The figures for 1979 and for 1980 show that obviously the Bulgarian authorities are pleased with the way things have gone. The plan figures do not differ materially from the 1978 dimensions. A more significant increase is envisaged only for the industrial production.

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1978			1979			
	April	July	October	January	April	May 4	May 18
<b>HWWA-Index * (1952–1956 = 100) .....</b>	<b>316.6</b>	<b>310.2</b>	<b>334.1</b>	<b>339.3</b>	<b>362.6</b>	<b>367.7</b>	<b>366.6</b>
Fuels .....	256.7	229.8	254.8	254.8	248.9	255.7	254.2
Raw materials for consumer goods ..	341.1	348.9	372.3	384.4	417.3	421.7	420.8
Fuels .....	558.3	557.5	564.8	585.6	641.5	653.9	653.5
Raw materials for consumer goods ..	181.9	191.2	210.3	213.4	225.4	228.4	226.9
Raw materials for capital goods .....	230.8	246.2	288.7	298.2	322.2	319.4	318.4
<b>Reuter's Index (18. 9. 1931 = 100) .....</b>	<b>1444.7</b>	<b>1436.1</b>	<b>1517.4</b>	<b>1499.1</b>	<b>1551.0</b>	<b>1565.8</b>	<b>1572.3</b>
<b>Moody's Index (31. 12. 1931 = 100) .....</b>	<b>903.2</b>	<b>914.2</b>	<b>974.9</b>	<b>992.7</b>	<b>1048.0</b>	<b>1063.0</b>	<b>1056.0</b>

\* Index compiled by HWWA-Institut für Wirtschaftsforschung-Hamburg. On Dollar-basis.