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## Economic development in Eastern Europe

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## Economic Development 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

The overall growth of Soviet production by about 2 % in 1979 may be described as satisfactory compared with the rates of industrialized states in the West, but it falls unexpectedly far short of previous Soviet growth rates. The labour force was in 1979 a good 1½ % larger than in the preceding year; the rise of productivity has thus virtually come to a stop. The growth was only half of that planned for 1979 and achieved in recent years. This fact explains Brezhnev's very blunt language in the CPSU Central Committee when he referred by name to ministers and managers held responsible for the unsatisfactory development. Growth shortfalls were noted in all sectors of the Soviet economy. It is especially surprising that the heavy industries were, despite their traditional preferential treatment, hit most.

The total industrial production was still rising faster than overall output but its 3.4 % annual rise was the smallest since the war. In crucial areas like coal, ferrous and non-ferrous metals, cement and paper the output declined in absolute figures. In the chemical industry, a key sector, the production rose contrary to expectations by no more than 1 %. The light and food industries which are of more direct relevance to the consumer still advanced at a relatively faster pace but did not come up to the plan targets either. The production of natural gas rose by 11 %, a good result. The energy supply position was nevertheless tight for the coal output has gone down and the oil target was not attained. The development to date does certainly not confute Western forecasts made long ago that the Soviet oil production would stagnate in 1980/81.

Agriculture fared even worse than industry. With a grain crop of 179 mn tonnes the gross agricultural product was 4 % lower than in 1978. In conjunction with the US grain embargo this may well cause difficulties in feedstuff supplies if the shortfall cannot be made good from alternative sources.

The transport services still managed a 1 % rise last year but only thanks to the possibility of making increased use of pipelines. Movements by rail, the most important carrier, lagged behind 1978, reduced rail transport services were blamed for considerable output shortfalls in industry and agriculture.

The Soviet foreign trade – unlike the internal economy – developed positively. Booming energy and raw material prices in particular made for greatly improved terms of trade, and this improvement will most probably continue this year. As a result the Soviet Union last year earned a surplus in its trade in convertible currencies. The balance of trade with the Federal Republic of Germany showed a surplus of DM 775 mn while 1978 had still ended with a deficit of DM 863 mn. This development and sales of gold at higher prices enabled the Soviet Union at least to stabilize its debt.

After this – in toto – worst year for the Soviet economy since the war considerable problems are bound to arise in the medium term. Recourse to Siberian raw materials to provide supplies for the growing Soviet economy will necessarily involve increasing costs and high investments. The implementation of the proposed cooperation with Western firms and the use of Western capital has – since the US embargo – turned into a largely political issue.

It can already be foreseen that manpower will become scarce. The industrialized western parts of the country will face a stagnation of the available manpower. Thus in many areas it will be impossible to

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<sup>1</sup> Klaus B o l z (ed.), Die wirtschaftliche Entwicklung in Osteuropa zur Jahreswende 1979/80, Verlag Weltarchiv GmbH, Hamburg. The reports on the Soviet Union and Czechoslovakia have been made by Hermann C l e m e n t and Franz-Lothar A l t m a n n of Osteuropa-Institut München. The author of the contribution on Hungary is Andreas W a s s v o n C z e g e of the University of Hamburg.

raise outputs except by more efficient use of the production factors. It is doubtful to what extent such increased efficiency can be secured by the reform measures to be put in force from 1981. A similar approach under the present Five-Year Plan has proved a failure.

## GDR

The GDR's plan targets for 1979 were calculated with great caution. Some were much lower than the growth rates actually achieved in previous years. It is therefore really surprising that the final results have once more, as earlier in the present Five-Year Plan period, fallen short of essential overall targets. In its thirtieth year the GDR had to cope with early set-backs owing to extreme weather conditions; it lost production in the early part of the year equal to almost two full working days' output. That the produced national income was nevertheless 4 % higher than in 1978 may be considered a relatively favourable outcome as it was only 0.3 percentage points short of the plan target.

The great acceleration of growth in the second half of 1979 may be the reason why the party and economic leadership fixed higher plan targets for the current year. The produced national income is to be 4.8 % higher – an ambitious undertaking against a background of mounting external encumbrances. Were this target to be achieved – it is regarded as a menumum, like all plan data – it would be the second best annual result in the 1976/80 plan period. Even so however the Five-Year Plan target would be missed by a significant margin.

The 4.8 % increase of the industrial goods production in 1979 left the actual output 0.7 percentage points below the target. This means that

thanks to the greatly improved growth in the second half of last year the GDR industry has done definitely better than was to be hoped at the middle of this second half-year, but the responsible authorities have to note with regret that for the fourth year running not only the produced national income but the industrial goods production have failed to match the original plan. The central party and economic leadership hold nevertheless the optimistic view that the growth trend can be stabilized in the final year of the current Five-Year Plan, albeit on a much lower level than anticipated. The 1980 industrial goods production is to rise by 4.7 % compared with 1979, almost as high a rate as in that year compared with 1978. Even this figure however implies a considerable underfulfilment of the Fifth Five-Year Plan.

If the 1980 targets are met, the standard of living increases projected under the Five-Year Plan will be fully attained. In 1979 however both the retail sales and the net money incomes of the population ran short of the plan targets. This is somewhat disappointing since a rise of the standard of living was described as the principal task of the current Five-Year Plan. The people at least will think it disappointing, for the above-target increases of retail sales and net money incomes in 1976 and 1977 will probably have been forgotten.

The building of new dwellings is maintaining its positive trend. The planned growth rate has been surpassed by a clear margin in four successive years.

The foreign trade turnover amounted in 1979 to Valuta Mark (VM) 109 bn – a 12 % increase on 1978 which raises the total for the first time above the VM 100 bn mark. The import and export figures can only be estimated from a few data in the plan fulfilment report and other countries' statistics for part of 1979. These suggest that the exports have gone up by 11 % and the imports by 13 %.

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

Jochen Schober

#### DER GELDANGEBOTSPROZESS IN DER BUNDESREPUBLIK DEUTSCHLAND

(The Process of Money Supply in the Federal Republic of Germany)

Large octavo, 311 pages, 1979, price paperbound DM 36,-

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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

Efforts continued to be made to achieve greater export increases than in the preceding years. Machinery and industrial consumer goods – for years past traditional surplus products – were again the chief export items. The increased export efforts failed however in the past year to reduce the trade deficit as the imports – especially those from Western industrialized countries and from developing countries – have been rising faster than the exports. The terms of trade worsened again in 1979 as the GDR was apparently still unable to raise the prices of its export manufactures in line with the increased prices of its imports. In 1978 the GDR had recorded an import surplus of VM 4.5 bn; in 1979 this rose to VM 6.0 bn. The export-import ratio has however improved – from 84 % in 1977 to 90 % in 1979 after 89 % in 1978.

The sweeping price rises for raw materials make it especially important for the GDR to surmount its economic problems on the external front. An intensive export offensive and measures to curb the growth of imports may therefore be expected in the current and subsequent years.

## Poland

The Polish economy is facing a difficult situation in this final year of the 1976/80 plan period as could really be foreseen several years ago already. The produced national income has for the first time since the war fallen below the previous year's level: in 1979 it was 2 % lower than in 1978, while the plan envisaged 2.8 % growth. This was chiefly due to growth shortfalls in industry and agriculture. The total gross industrial production increased last year by only 2.6 % instead of the planned 4.9 %, and the gross production of agriculture was, owing to unfavourable weather conditions, even 1.4 % lower than in 1978.

Although the real incomes have risen slightly – by 1 % – it was again impossible to close the supply gaps, especially in high-grade consumer goods. The housebuilding target again proved to be beyond reach, with painful results for the average citizen; the waiting time for a home has lengthened to eight to ten years.

Only in foreign trade did the slightly positive trend of 1978 continue. It ended again with a deficit but this was little more than half of the preceding year's shortfall. Poland's total exports to the West rose by 12.9 %, i. e. by 4.2 percentage points more than planned, while the imports increased by 5.6 %, which is only 0.9 percentage points – less than in the preceding years – above the plan. The trading results were however

still insufficient to allow a material reduction of the high indebtedness to the West. This now stands at \$ 19 bn; Poland's debt service ratio amounts currently to 75 %.

It is certain that the 1976-1980 Five-Year Plan targets will not be attained. This means that the Gierek Administration's ambitious economic and social strategy for the seventies has at least in part misfired. In the 1971/75 plan period the Polish economy achieved a high growth rate partly financed by foreign credits; in the current five-year period it has proved impossible to attain similarly high growth rates or to reduce the foreign debt as had been planned. That the various measures of regulative and procedural policy of recent years have failed to solve the principal problems of the economy is not the only reason for this. The labour productivity has not risen as required (in industry only by 3.3 % in 1979 instead of the planned 5.3 %), and the capital productivity actually declined as the investments have not been restructured to promote more cost-efficient production methods. The foreign debt problems are in large measure due to the higher prices of imported raw materials which impose a heavy strain on the balance of trade and cancel out what are really quite positive export results. These could not have been foreseen when the Polish leadership decided its strategy and are hardly its fault.

The plans for 1980 and for the 1981/85 period are very modest. If they cannot be fulfilled, the reformist group around Gierek will see its political position inside the PUWP endangered.

## Czechoslovakia

The past year started badly for the Czechoslovak economy because of the extreme cold early in the year which wreaked great damage on energy supplies and transport in January and February. Heating problems and power cuts for the private households had their counterpart in production shortfalls in industry which were equal to the loss of two full working days. After such a difficult start the Czechoslovak economy, suffering in any case from increasing efficiency problems, could not be expected to meet its original growth targets.

The produced national income increased by only 2.6–2.8 % instead of the planned 4.3 %, and the estimated increase of the applied national income was barely 1 %. While in 1978 industry at least performed its tasks according to plan, it fell in 1979 0.8 percentage points short of the planned 4.5 % growth; in 1978 it had managed a 5.0 % rise. The failure to fulfil

the plan had particularly serious consequences in the building trades: over one-quarter of all building enterprises were lagging behind their individual targets, and the building industry as a whole recorded an increase of 3.7 % only compared with a target of 5.5 %. Of the planned housing units 93 % only were completed, and housebuilding was not the only sector affected. Underfulfilment of construction targets hampered the investment activity: although the deliveries of machinery and equipment exceeded the target, the investments increased overall by 1.6 % only and not by 2.9 % as planned. A part of the larger projects in particular was greatly delayed.

Agriculture was hit hard by the extreme weather conditions at the beginning of the year. The harvest was so poor that over 4 mn tonnes of grains had to be imported from hard-currency countries in order to safeguard the food and feedstuff supplies. These imports and the rising prices for imported raw materials and fuels subjected the country's foreign exchange position to such a severe strain that in the absence of

adequate supplies of mechanical engineering products Czechoslovakia had to export industrial consumer goods and raw materials (timber) in excess of the plan.

It is not surprising that the imports rose in these circumstances in nominal terms by a larger margin (11.3 %) than the exports (10.3 %). In real terms however exports increased more than imports, for the terms of trade worsened by 5 % compared with 1978. As a result the internal market experienced supply difficulties in a few products.

In regard to the standard of living bottlenecks and deficiencies made themselves felt in industrial consumer goods in particular. Complaints were often heard about their quality, the lack of variety and the absence of new products. With the general price level 3 % higher, real money incomes grew only by 0.6 %.

As the energy supply, the fast rising prices of imported raw materials, the latent labour shortages and institutional and other inadequacies inherent in the system are clearly setting a limit to growth, it is now planned that the produced national income shall

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

**Wolfgang Klenner**

### **ORDNUNGSPRINZIPIEN IM INDUSTRIALISIERUNGSPROZESS DER VR CHINA**

**Planung - Organisation - Unternehmenskonzept**

**(Regulative Principles in the Industrialisation Process of the People's Republic of China  
Planning - Organisation - Concept of Enterprise)**

This study describes the structural foundations of the People's Republic of China and the system of planning of economic processes at both the central government and enterprise levels, as interpreted from original sources. In a part containing analyses relative to time the organisational forms in the micro- and macro-economic sphere are worked out explaining the change in the regulative policy concept within the area of tension formed by the following three objectives: raising production, increasing the planning and administrative efficiency as well as the dynamisation of social structures, i. e. the removal of hierarchies obstructing development. (In German.)

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increase in 1980, the final year of the current plan period, only by 3.7 %. Even this presupposes markedly better results in agriculture. With the external deficit continuing, the applied national income is expected to increase by no more than 2.2 %. The overall growth of investments will slow down distinctly; the available resources are to be concentrated on important key projects (extension of the coal mines, development of nuclear energy, export-orientated industries). A relative reduction of the consumption of fuels and major imported metallic raw materials is to be achieved by wide-ranging economy programmes, with the aim of lessening the dependence upon imports in some areas at least. There is no question that the original Five-Year Plan targets cannot be attained under such conditions.

## Hungary

To restore the internal and external equilibrium of the economy was the cardinal objective of Hungarian economic policy in 1979. The investment boom of the last few years, fed chiefly by the liquidity surpluses of the enterprises, was curbed successfully by a restrictive credit policy and numerous measures for curtailing the enterprises' profits: Forints 203 bn only was spent on investments instead of the planned forints 204–206 bn, and with investments at enterprise level – for the first time since 1972 – lower in absolute figures than in the preceding year, the ratio of planned investments at enterprise level to total investments went down from 57 % in 1978 to 54.4 %.

Domestic final consumption was 6 % lower which helped greatly to reduce the foreign trade deficit – for the foreign trade settled in US dollars from \$ 1.1 bn to \$ 280 mn and for that part which is cleared in roubles from R. 507 mn to R. 451 mn. Energy materials and electricity (+ 45.5 %) and raw and intermediate materials (+ 23.2 %) showed the largest value increases. The higher world market prices of rolled steel, aluminium and some basic petrochemicals were the main factor raising the value of Hungarian exports of these categories of goods by 70.4 %. Exports as a whole rose in 1979 by 13 volume % while imports fell by 3 %.

This – on balance – positive trend towards the restoration of internal and external equilibrium was overshadowed by the unexpectedly slow growth of the national income: it was only 1-1.5 % higher (against a planned increase of 3-4 %), mainly owing to three factors:

- Adverse weather conditions impairing agricultural production: the total agricultural output was no larger than in 1978 (the wheat crop alone was 1.5 mn tonnes below target!).
- A further – unforeseen – worsening of the terms of trade by about 3 %.
- Delivery shortfalls in important raw and primary materials from the neighbouring CMEA states; these caused industrial production to rise by 2.8 % only instead of the planned 4 %.

The below-plan production gains in industry and agriculture did not only cause the distributable national income to stagnate but showed up directly in the nominal incomes of the population through the output-linked wage and bonus system. The price level of the consumer goods on the other hand was about 9 % higher, not 4-4.5 % as planned. This put a definite strain on household spending. Part of the price rise – equal to 6 percentage points – was compensated by various income policy measures so that the real wages worked out at 3 % below the level of the preceding year. In 1980 prices are expected to rise by 8-9 %, and this will again be only in part offset by income increments: in the interest of stability the population is expected to make sacrifices.

Restraint is also the order of the day for the producers: in 1980 the investment volume is to be kept about 10 % lower than last year; the building industry is to cut its volume of production by 3 %, and the national income and gross industrial output are overall to go up by no more than 3-4 %, which makes the 1980 plan the most modest of all annual plans to date.

January 1, 1980 was the date set for an important modification of the system of economic direction in Hungary: in order to integrate the Hungarian economy more closely with the world market and to differentiate more distinctly in favour of productive enterprises earning above-average profits, a new pricing system has been introduced under which the output prices of Hungarian enterprises are determined by the world market export prices and the input prices of primary and energy materials by the world market import prices. This and the flanking reforms of the directive mechanisms – ranging from action on corporate incomes, taxes and fund accumulation and application to regulation of wages, salaries and investments – are indicative of an intention to let market elements play a more prominent part in the Hungarian economic system during the eighties.