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Economic Development in Eastern Europe

Early every year the Department on Socialist Countries and Economic East-West Relations 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

Although the 3.8 % rise of the applied national income in 1980 was slightly below target, it indicated a recovery from the depressed growth in the preceding year. The growth rate was higher than in most industrialized western countries and as such satisfactory although it was overshadowed by a number of sectoral disproportions hampering the efforts for intensive growth.

The production of important raw and primary materials did not keep step with the increasing requirements of the manufacturing industry although the Soviet Union is among the world's largest producers of most raw materials. Industry did not achieve either the planned production or the envisaged increase in productivity. Nor did other sectors raise their productivity as planned so that the demand for labour increased more than planned and the manpower shortage was aggravated further. The slow rise of labour productivity had evidently presented a temptation to try to achieve the growth targets in the various industries by additional investments in fixed assets. The requirements in excess of the plan put however such an excessive strain on the capacities of plant manufacturers that it proved impossible to start up even the planned amount of investment projects although the investment plan was overfulfilled.

Agricultural production fell once more below the level of the preceding year. The grain crop — 189 mn tonnes — fully covered the needs of the population but imports will be required to make sure of the animal production. With its extreme vulnerability to weather conditions and its insufficiency for covering the internal requirements agricultural production represents another bottleneck hampering growth.

The mentioned disproportions are largely responsible for the failure to achieve the planned increase of labour productivity. This was also, indirectly, affected by the inadequate growth of the supply of consumer goods. At the last Party Congress but one it had already been pointed out that there is a connection between the low labour productivity and unsatisfactory supply of consumer goods.

The five-year plan for 1976-1980 was introduced as a plan for "effectivity and quality". The aim was to speed the transition from extensive to intensive economic growth. In reality it has turned largely into a five-year period of extensive growth marked by above-plan factor inputs and aggravation of existing bottlenecks. Economic growth in the next five-year plan period will be at serious risk if the bottlenecks cannot be removed or at least widened. Most important is a more effective deployment of the labour force as the manpower increment will decline by two-thirds in 1981-1985. According to the guidelines of the XIth five-year plan increased labour productivity is to generate 85-90 % of the economic growth. To ensure the planned rise of labour productivity there will have to be not only progress in creating the technical prerequisites but an appropriate increase in the supply of consumer goods. This task is at the centre of the new five-year plan which, incidentally, mentions a higher standard of living for the first time as the first of the economic tasks to be accomplished.

Although the Soviet economy will have to cope with so many bottlenecks in the current five-year period, the Soviet leadership seems to be confident of the future economic growth. The growth target of 3.2-3.7 % a year for 1981-1985 is only slightly below that for the past five years. It will be the more difficult to achieve this target as investments are according to plan to rise only about half as much as in 1976-1980. Significantly more effective utilization of the available production factors will therefore be indispensable if the desired economic growth is to be achieved.

¹ Klaus Bolz (ed.): Die wirtschaftliche Entwicklung in den sozialistischen Ländern Osteuropas zur Jahreswende 1980/81, Verlag Weltarchiv GmbH, Hamburg. The report on Czechoslovakia has been made by Franz-Lothar Altmann of Osteuropa-Institut München. The author of the contribution on Hungary is Andreas Wass von Czege of the University of Hamburg.

GDR

After several years in which the central indicators of economic performance recorded slightly declining growth rates, the party and economic leadership in the GDR managed in the past plan year to stabilize economic growth, albeit on a lower level than had been envisaged originally. Making allowance for the mounting external handicaps, the inadequacy of the energy and raw material basis, the shortage of labour, the unresolved problems in the construction industry and the relatively low labour productivity, the 4.2 % increase of the produced national income compared with 1979 (against a planned increase of 4.8 %) represents a respectable result for a highly industrialized economy; it was the best result but one in the 1976-1980 plan period. Similarly presentable is the increase of the industrial goods production even though 1977 was the only year in the five-year plan period with a – slightly – lower rate of increase; the 4.7 % increase of industrial growth corresponded to the plan target. With the labour market almost denuded of reserves the rising trend of the productivity growth since 1978 is a promising feature.

Since the start of 1978 the investment trend has been based on a more realistic investment policy. Contrary to the original ideas – the 1980 plan provided for zero investment growth – the flattening of the investment curve that had begun in 1978 and continued in 1979, was stopped in 1980. A 2 % increase was in fact achieved. Much of the evidence suggests that the unplanned investment overruns which gave rise to frequent complaints in past plan periods were in fact avoided in 1980.

The plan fulfilment report has again nothing whatever to say about large areas of foreign trade. This is all the more regrettable because constraints due to external factors have an increasing negative impact on the growth chances of the GDR economy. Because of its particular raw material situation and consequent great dependence upon foreign markets the GDR is hit especially hard by the price explosion in the world's raw material and fuel markets. Even without precise information about its real foreign trade development and planned export and import increases it is clear that the GDR will have to expend a still growing part of the national income on payments abroad, for instance on raw material imports and redemption of western and also eastern credits.

The economic leadership succeeded in the past year in checking the rise of net money receipts; the retail

turnover expanded, however, in nominal terms more strongly than planned. As in 1978 and 1979 there has been a structural change to the benefit of the population – a shift towards consumer goods and thus at the expense of investment-related areas. The party leadership went steadfastly ahead with its house-building programme; close on 170,000 dwellings were provided in 1980 by new construction or modernization – the best annual result yet.

The economic results of the past five-year period are on balance rather sobering for the party and economic leadership because the produced national income fell by nearly 6 percentage points, and the industrial goods production by over 6 percentage points, short of the plan targets. In no single year did the produced national income actually come up to the planned growth rate. The plan fulfilment report therefore contains no suggestion that the five-year plan has been – successfully – completed.

The five-year plan targets for the development of the standard of living have been achieved by and large; those for house-building have even been surpassed. The population may nevertheless find the picture somewhat disappointing because it has probably forgotten by now that the five-year plan targets for the standard of living were reached in the essential points in 1976 and 1977 already and because price rises in form of assortment shifts to exclusive and high-class shops lessen the real growth. In essential areas the monetary supply is also still exceeded by the monetary demand.

The GDR is evincing increasing self-confidence as it enters the eighties. Such optimism, however, does not seem fully justified because its economic development is more likely to be hampered than to be promoted over the medium term by the concept underlying the GDR's development policy at present: increased export efforts coincident with restrictions on imports and zero growth of investments. The repercussions from the export development have a positive effect on industrial production but with investments and imports being curtailed severely at the same time the strategy of export promotion is bound to have consequences for the availability of goods in the internal market. Negative effects on the internal growth over the medium term can therefore not be ruled out, and this would in due course cause difficulties also in expanding the supply of GDR goods for exports.

Under the existing conditions the GDR economy cannot be expected to approach now or in the near future the high growth rates of the early seventies. The – as a whole – ambitious growth rates of the 1981 plan

do not reflect this fact. They provide for a 5.0 % rise of the produced national income and the industrial goods production.

The extrapolation of these growth rates may have something to do with the fact that the discussion on the plan targets for 1981 already began last July in awareness of the very high growth rates of the first half of 1980. The chances of such growth being achieved while the price of oil is continuing to go up are greatly impaired by the considerable deceleration of economic growth in the CMEA countries and the cyclical slowdown in the industrialized western countries.

Poland

Many signs suggest that the economic crisis is going to reach its climax in 1981. The root cause of the continuing economic paralysis is the political crisis which erupted last summer against a backdrop of progressively acute economic problems.

The economic situation in early 1980 had been marked by severe imbalances. These had got worse ever since 1976 and shown their full force for the first time in 1979. Their main cause, apart from bad harvests and deteriorating terms of trade, were major planning errors and mistakes in the application of the ambitious economic and social strategy between 1972 and 1976. An additional factor was the failure of the "economic manoeuvre". This stabilization enterprise had been announced in 1977 with much beating of the drums but was never thoroughly implemented. In 1979 the PR Poland had been forced, for the first time in its history, to record a decline of the produced national income – by 2 %. It became obvious that the targets of the current five-year plan were unattainable. In February 1980 the VIIIth PUWP Congress therefore decided on an economic austerity course, but this ended in the summer of 1980 in a fiasco.

Although in the first six months the stabilization manoeuvre was attended by distinct successes in exports and industrial production, its consequences for the supplies of the population were devastating. A mood of irritation spread through the country and erupted in general strike-like actions by the workers when the government put up the meat prices as part of its restrictive policy. These caused the downfall of party chief Gierek and the new prime minister Babiuch, who had only been in office since the Party Congress, and gave rise to arrangements between government and strike committees and the establishment of

independent trade unions with by now over 10 million members.

Dragged-out conflicts between party and state, on the one hand, and trade unions, on the other, have reduced the internal economy to a state of general lethargy which has obliterated the positive results of the first half of 1980. This was reflected most strikingly by the net industrial production – 3 % down on the preceding year – and foreign trade. The effect of the political clashes on agriculture was less marked in 1980: the gross agricultural production actually fell by nearly 10 %, but this happened because of declining efficiency in the private and socialist sectors (noticeable already for a number of years) and adverse weather conditions. The produced national income was in consequence 4 % lower than in 1979, and the distributed national income declined by the same amount. The main objective of economic policy since 1977 – to scale down the distributed national income to a level below the produced national income – proved again unattainable. Poland had also to record once more a substantial trade deficit. The debt to the West rose by the end of 1980 to about \$ 25 bn.

Apart from a few declarations of intent, the political leadership in Warsaw has so far failed to present any concept of how to overcome the crisis. The 1981 plan and budget are unbalanced and inflationary. In this situation the government is putting all its hopes on an economic reform which is to restore the lacking motivation of the population. A few decentralization measures have already been put into effect.

The salient features of Poland's economic development in 1981 will probably be the following:

- As against the additions to national income promised under the agreements between the government and the strike committees there will be only a minimal increase in the supplies for the market. The inflationary gap which widened in 1980 already is almost certain to burst wide open.
- The industrial production will fall off in consequence of the planned reduction of the output of investment goods and of raw material imports. The changes in production techniques and labour organization in some sectors (e. g. coal mining) in implementation of the agreements will limit the increase of industrial production in 1981 and beyond.
- A remarkable feature is Poland's present attempt to restructure the country's indebtedness away from western and towards socialist creditor countries by changing the regional distribution of imports and

exports. Poland's trade deficit will increase vis-à-vis the socialist countries but may decline further in relation to western countries.

□ Owing to the heavy interest burden, the development of indebtedness to the West has, however, by now developed such a strong momentum of its own that it will go on increasing substantially even if trade itself is in balance.

□ The prospects for agriculture are relatively favourable. Substantive agricultural policy changes (ending of discrimination against private farming, investment priorities) are intended to boost production.

All in all, the planners expect a further decline of the produced national income by 3.7 % in 1981. This would carry the produced national income down to approximately the 1976 level.

Czechoslovakia

The achievements of the Czechoslovakian economy in the last year of the VIth five-year plan (1976-1980) lagged clearly behind the plan figures. The major plan figures as originally fixed by the State Planning Commission had already been corrected downwards in the course of the past year, but even these new – more realistic – figures were beyond reach. The 3 % increase of the national income may at first glance seem quite an appreciable achievement but this increase on 1979 (when the national income rose only by 2.7 %) was mainly due to the relatively favourable results in agriculture which however were not outstanding either, bearing in mind that crop failures in 1979 caused a 4.2 % fall of gross agricultural production.

This fact puts the overall outcome for 1980 in perspective. The planners have all the more cause for concern because the production targets in the industrial sector have now been missed in two successive years. In previous years this plan figure at least had been regularly overfulfilled. The gap between target and performance was even wider in the building sector; in view of the meagre production increase of 1.3 % in 1980 it is difficult to see why the targeted increase was raised during the year from 3.8 to 4.3 %.

The bad results for 1980 cannot be blamed on a cold spell (as happened in 1979) and consequent difficulties in the fields of energy and transport. The fact that in the first six months of 1980 the produced national income was only 4 % higher than in the frost-riven first half of 1979, shows clearly that the marked deceleration of growth was brought about by innate problems of the system rather than by cyclical or seasonal factors. This

statement is borne out by the fact that the foreign trade with non-socialist states, which were experiencing a cyclical downturn, increased by as much as 17.9 % and expanded more on the export than the import side.

The rather sceptical and negative tenor of the general assessment applies not only to last year but to the whole of the five-year plan period. Putting the foreign trade aside, it must be said that the plan figures for 1976-1980 have turned out to have been still far too optimistic although most of them had already been put at lower levels than the actual results in 1971-1975.

Rumania

The Rumanian economy did not develop at all as desired either in 1980 or in the VIth plan period (1976-1980) as a whole. It did not come anywhere near the planned high growth rate for the national income or industrial production. Even more worrying than the underfulfilment of the plan is the continual decline of the growth rates since the beginning of the five-year period. In 1980 the national income rose by a mere 2.5 % and the industrial production by 6.5 %.

Although these figures may not seem unsatisfactory in the light of the cyclical trend in the world – which caused much larger growth shortfalls in the industrialized western countries than in Rumania – and the developments in the raw material and fuel markets which affected Rumania more than the other CMEA countries, they reveal a significant deceleration of growth; for in 1976 the national income and industrial production had still risen by 10.5 % and 11.5 % respectively. The dangerous drop of productivity growth during the 1976-1980 plan period is a reflection of the persistent lack of efficiency characterising the Rumanian economy.

The investment programme was cut back greatly towards the end of the 1976-1980 planning period. In 1980 investment activity rose by no more than 3.1 %, compared with a 16 % increase still recorded in 1978. The investment activity was curtailed for two reasons. One was that the extremely fast pace in the past had put an excessive strain on the technical and organizational capacities of the economy; the other was the critical development in Poland with its social repercussions. Faced with an internal economic situation which, seen as a whole, resembled that in Poland the Rumanian economic leadership ordered speedy preventive measures to ease the strains in the food and consumer goods markets so as to prevent the strike movement flashing over into Rumania; for the food supply situation had definitely worsened, especially in the last year of

the five-year plan because of unsatisfactory results in agriculture (agricultural production was 5 % lower than in 1979).

In the industrial sector the persistent shortage of raw materials and fuels is the main cause of concern. The fact that the production targets in the energy sector have been largely missed (oil production, for instance, was in 1980 over 20 % less than in 1975) has adversely affected the plan fulfilment in several other sectors. Large imports from the West to make up for the lacking raw materials and fuels were insufficient to close the supply deficit. In 1980 substitutive imports to compensate for the non-fulfilment of the production plans for oil and coal alone caused a balance of trade deficit of \$ 1 bn.

For balance of trade reasons Rumania is currently faced with the need to strengthen her foreign trade contacts with the CMEA and the USSR in particular. The CMEA share of Rumania's total external trade is to be raised again to about 48 %. The wish for closer economic integration with the CMEA is however opposed by the fear of greater political integration which would inevitably follow from it. In the past five-year period Rumania's foreign trade was the only economic sector in which the plan was not only fulfilled but overfulfilled: in 1976-1980 the foreign trade turnover was 114.1 % higher than in 1971-1975 although the export-import ratio did not develop as planned.

The slowing of economic growth under the VIth five-year plan and the expectation of continuing moderate growth are reflected by the markedly reduced growth targets of the VIIth plan. The national income is "only" to rise by 6.7-7.4 %, the gross industrial production by 8.0-9.0 % and the investment activity by 5.4-6.2 %.

Bulgaria

The economic growth in 1980 was overall marked by a certain steadiness although in many areas the growth rates no longer equalled those achieved in the preceding years. Not all of the – compared with the previous two-year plan significantly reduced – plan projects for 1980 were in fact accomplished. Beside the problems caused by increased raw material prices difficulties arose apparently in the introduction and enforcement of the reforms of the control system.

Although the planned national income increase – by 5.7 % – was attained for the first time in years, the income increment in 1980 was actually the smallest in the five-year period (1976-1980). The real income of the population rose by 2.7 % but problems arose in

supplying the private households with food and some consumer goods. The increase of gross industrial production – by 5.0 % – was unsatisfactory in that it was smaller than in 1979 and below the 1980 target. The year was not very successful for the Bulgarian agriculture either; adverse weather conditions and organizational deficiencies made it impossible to equal the 1979 production.

Bulgaria's foreign trade continued to expand at the exceptionally high growth rates of the preceding years. The 14.1 % increase of the foreign trade turnover was significantly above that achieved in 1979 and that planned for 1980.

A lower economic growth rate has been indicated for the new five-year plan period. The labour productivity is to rise faster than the national income because the population of working age is expected to decline.

Hungary

After its moderate success in the preceding year the stabilization policy was continued more intensively in 1980 with the result of a growth shortfall in the entire economy: the industrial production did not reach the 1979 level, the national income increased by barely 1 % (instead of the planned 3-3.5 %) to forint 584 bn, and the domestic expenditure subsided more than expected after its heavy decline in 1979 already; the investment activity suffered an especially heavy fall – by as much as 8 % – while the inventories were reduced only slightly and the consumption by the population stayed at the previous year's level. The result was that almost none of the macro-economic targets of the five-year plan for 1976-1980 were reached. Compared with 1975 the past year showed only an increase in production of 15-20 % and in the population's real income and consumption of 5-10 % instead of 30-35 % and 18-23 %, respectively, as planned, and this although over forint 920 bn had been invested in the 1976-1980 period instead of the planned forint 870-890 bn.

The sizable reduction of domestic expenditure made it possible to cut the foreign trade deficit in 1980 by a substantial margin in spite of stagnating growth. Thanks to over 5 % higher exports and slightly smaller imports the trade settled in dollars (including dollar settlements with CMEA partners) was for the first time since 1973 (almost) in balance; the 1979 foreign trade volume was not however attained. The trade settled in roubles showed a larger deficit than in the previous year because exports were 7 % lower while imports declined only by 5.5 %.