

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

Article — Digitized Version

## Economic development in Eastern Europe

Intereconomics

*Suggested Citation:* Hamburg Institute of International Economics (HWWA) (Ed.) (1982) : Economic development in Eastern Europe, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 17, Iss. 3, pp. 148-152,  
<https://doi.org/10.1007/BF02927886>

This Version is available at:

<https://hdl.handle.net/10419/139807>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

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

### USSR

The year 1981 marked the beginning of a five-year plan period in which a lower rate of growth than in the past is foreseen, but in which it is intended to achieve a better utilisation of the factors of production, particularly labour, a prompter completion of investment projects and the elimination of bottlenecks in the domestic economy. The first year of the new plan did not bring these targets any closer; the start of the new plan was not a success. The planned increase in national income (applied) of 3.4 %, which was in any case low by Soviet standards, was not achieved. The plan targets were fulfilled neither in industry nor in agriculture, neither in transport nor in services for the population. With an increase in national income of 3.2 %, economic growth was lower than in the previous year.

The planned increase of labour productivity was not achieved in any of the branches for which figures have been published. Yet in view of the stagnating supply of labour the planned increase in labour productivity is the most important precondition for the economic growth planned for 1981-85. The so-called "use of the basic fund", which can be taken as an indicator for the completion of investment projects, increased by only 2 % in 1981. This is less than the planned average for the present five-year period and is probably less than was planned for 1981.

The other target for this five-year period, namely the elimination of a series of troublesome bottlenecks which were affecting economic growth, above all in labour, fuels, certain raw materials, other materials, consumer

goods and transport capacities, has also probably not been brought any closer in the past year. The number of new workers hired did not come up to plan expectation. The supply of fuels, especially coal, and several scarce raw materials again remained below plan targets. The production of consumer goods (group B) also remained below plan, despite the fact that the Soviet leadership had, with a huge display of propaganda, declared the improvement in the supply of consumer goods to be the main objective of this five-year plan.

Agriculture suffered its third poor harvest in a row. Gross agricultural production has thus fallen by almost 9 % altogether compared to 1978. Supplies from abroad have been necessary for quite some time now in order to cover grain requirements.

The Soviet Union was once more able to achieve a surplus in foreign trade; however, she now has a deficit with the western industrialised countries. The considerable gold sales undertaken by the Soviet Union at the end of 1981 in spite of falling prices indicate an acute shortage of foreign exchange, which has been caused by import requirements, but probably also by the aid granted to Poland. The current gas pipeline deal will provide a new source of foreign exchange for the future.

It is striking that the five-year plan passed in November of last year took almost exclusively the pessimistic variant of the spring plan guidelines into account. The poor results of 1981 only offer a partial explanation for this decision. The surprising thing about this five-year plan is that, on the one hand, planned investment expenditure is to increase even less than was foreseen by the lower limit in the plan guidelines, but on the other hand economic growth and the increase in labour productivity are to remain within the

<sup>1</sup> Klaus Bolz (ed.): Die wirtschaftliche Entwicklung in ausgewählten sozialistischen Ländern Osteuropas zur Jahreswende 1981/82, Verlag Weltarchiv GmbH, Hamburg.

boundaries of the plan guidelines. This reduction of the original expectations as to the required amount of investment funds is explained simply with a reference to an improvement in the "balancing" of the investment schedule. But it is also possible that a reduction of investments is in fact necessary for other reasons and that the consequences for medium-run growth are not to be pointed out in the plan but to be tacitly included in later "plan corrections". It can be presumed that the sharp reduction in the growth of investments compared to previous five-year plans is partly due to increased military expenditure. A further indication of this are the relatively large production plans for those branches of industry who produce not only for civil purposes but also for defence (engineering, precision tools, the electrical engineering industry, the radio industry).

## Poland

1981 was a year of catastrophe for the Polish economy. The downward trends and disintegration which began in 1979 could not be brought under control. Official statistics reflect this process only partially and, therefore, euphemistically. According to these statistics, produced national income decreased by only 13 % last year. Our own calculations show a fall of 20-25 % to be likely. Taken together with the results of 1979 and 1980, this means that the economy is now at about the same level as had been reached at the beginning of the seventies. The enormous economic and social efforts of the last ten years have thus been more or less undone.

The dramatic economic situation and the resulting growth of political tension with the – in the final phase very real – danger of civil war were the main reasons for the imposition of martial law on December 13. The Government's hope that the economy could be stabilised by war-time production methods has, however, not been realised. On the contrary, the economic crisis has become steadily worse and will probably reach a new climax this year. The reason for this is to be found in the Government's attempt to overcome the crisis using the same policy which as of 1977 was the cause of the crisis: the reduction of imports from the West of materials needed for production and the postponement of the Economic Reform. All other explanations for the crisis and justifications of martial law, including those put forward officially – especially reductions in working-hours, strikes, a decrease in coal production –, cannot be upheld in the face of a serious analysis. These play only a marginal role in the overall situation, although they are, of course, of significance for certain branches and sectors of the economy.

Polish imports from the West declined by a total of 35 % in 1981 compared to the previous year, the imports of production materials falling by almost 50 %. Although the USSR stepped into the breach with additional deliveries of certain raw materials and the waiving of imports due from Poland, the shortage of materials led to falls in production of up to 30 %, especially in manufacturing and export-oriented industries. The lack of adjustment mechanisms in the economy meant that the attempt to square the balance of trade with the West at all costs (if not via exports, then via imports) was bound to fail. In addition to this, the efforts of the Government to obtain new credits from the West for the financing of imports and to tackle the main problem, the problem of indebtedness, were inadequate.

The first available data on economic trends for 1982 show a continuation of this policy. A further halving of Western imports and a reduction in exports of 20 % is threatening. This would mean a fall in national income of 5 % (according to Polish estimates, 17-22 %). Export revenue would then scarcely be enough to cover interest payments.

Indebtedness has meanwhile reached a level of \$ 25.5 billion. Conditions for a solution to Poland's financial problems following the imposition of martial law are clearly worse than a year ago. Nevertheless, in the interest of both creditors and debtors a solution must be found: indebtedness is at present, even with the continuation of the policy of throttling down imports, continuing to grow simply because a growing proportion of interest obligations are financed through credits. For this reason, negotiations on the rescheduling of debt are scarcely suited to solve the problem in a manner satisfactory to both sides. A moratorium, in which the entire package of debts is sorted out anew, is the least that is necessary. But this would no longer be enough to rehabilitate the economy. Additional sources of finance are necessary to enable imports from the West to be resumed. Since there are limits to the aid capacity of the other CMEA countries, new extensive credits from the West are necessary. The experience of 1981 has shown that it will scarcely be possible for Poland to obtain more than a rescheduling of existing debt on the international financial markets. The most important sources of finance in this situation can, therefore, only be government credits, credits backed by governments and other forms of economic aid. Although the West's preparedness to continue its aid and even to grant additional aid decreased with the imposition of martial law, there is, given the present state of the Polish economy, no other viable economic alternative for either

side in the medium term. Economic sanctions are politically and economically meaningless in this case. The example of the American corn feed embargo will show clearly, in the course of 1982, that the addressees of sanctions and of humanitarian aid cannot be separated from one another. Sanctions are more likely to achieve the opposite of their intended goal: the prolongation and intensification of martial law.

## Czechoslovakia

In 1981, Czechoslovakia only just managed not to end up with a negative growth rate for national income. An overall rate of growth of 0.2 % and underfulfilment of the plan in every important branch of the economy represents the worst result since the deep economic crisis of 1962/63, which was to be regarded as the triggering-off point for the attempt at reform in 1965-68.

Whereas gross industrial production showed a growth of 2 %, agriculture (- 3.4 %) and building and construction (- 2 %) even suffered reductions in absolute volume compared to 1980. The poor results in agriculture, above all in crop production, can be only partly explained by unfavourable weather conditions.

The fact that mistakes in agricultural policy had a not unimportant influence on productivity in this sector is shown by recent measures intended to improve the supply of machines and spare parts to agricultural cooperatives and to ease the situation of private farms.

It is becoming more and more clear that the most sensitive problem area is that of fuel and energy supplies. Considerable savings were planned here for 1981, but the amount in fact achieved left much to be desired. Precedence must be given to considerations concerning the energy and raw materials sector in Czechoslovakia if only because the country is dependent on imports for the bulk of its supplies, which means that rapidly rising prices cause an increasing deterioration in its terms of trade and force it continually to increase its real exports. This already caused a negative growth rate of applied national income in 1981. In order to approximately maintain in 1981 the standard of living reached in the previous year, a decrease in investments of 1.9 % was then accepted, although originally an increase of 0.1 % had been planned.

The stagnation observed in 1981 will probably continue in 1982. With a further planned decrease in investment of 3.5 % compared to 1981, the planners

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

#### NEW PUBLICATION

Klaus Bolz (ed.)

## DIE WIRTSCHAFTLICHE ENTWICKLUNG IN AUSGEWÄHLTEN SOZIALISTISCHEN LÄNDERN OSTEUROPAS ZUR JAHRESWENDE 1981/82

(Economic Development in selected East European Socialist Countries at the Turn  
of the Year 1981/82)

For ten years now, at the beginning of each year, the Department of Socialist Countries and East-West Economic Relations of the HWWA-Institute has prepared a survey of the economic results of the preceding year and of trends in the current year for individual CMEA-countries. The present report also takes into account the fact that 1981 was the first year of the new Five Year Plan, a fact which allows the drawing of first conclusions as to the chances of the targets of the Five Year Plan being achieved.

Large octavo, 260 pages, price paperbound DM 29,-

ISBN 3-87895-220-1

VERLAG WELTARCHIV GMBH - HAMBURG

are hoping for an increase in national income and in gross industrial production of 0.6 % respectively. An increase in yield of 3.2 % is foreseen for agriculture. Trade with the socialist countries is to increase nominally by 10 %, that with other countries by 7.5 %.

In view of the actual development of the economy in the course of 1981 and that which is planned for 1982, it must be stated that the average growth rates laid down in the 7th Five Year Plan (1981-85) have already, in the Plan's second year, completely lost their character as a point of orientation. In the next few years, Czechoslovakia must, by means of *ad hoc* planning, try to see that the threatened reductions in the living standard remain as small as possible. It is doubtful whether the half-hearted reforms which have applied to industry and construction since January 1981, and which were extended to agriculture as of 1982, will bring about the desired increases in productivity. The results of 1981 do nothing to allay these doubts.

## German Democratic Republic

According to the official GDR reports, the last plan year was without doubt a year of economic success for the central party and economic leadership. The growth of produced national income, i.e. the growth of total production for private and state consumption, for investments and for export, for 1981 compared to 1980 was 5 % and thus reached exactly the plan figure. This was the first time since 1974 that the plan target had been achieved. The GDR has succeeded in realising its concept for the stabilisation of growth. Compared to the remaining CMEA countries, some of which are struggling with severe disequilibria, the GDR is an island of stability.

Since the number of employed probably only rose by 0.5 % in the last plan year and working-hours were not changed, general economic growth must primarily have been due to the productive effects of investment.

In 1981 it was apparently possible to achieve a very considerable increase in the proportion of investment with short-term productive effects in relation to total investment. A mobilisation of production was achieved above all by the following measures:

The share of total investment spent on equipment increased more rapidly in comparison to the share spent on buildings than in previous years; in spite of an only slight increase in investments (+ 1.8 %), structural changes in investment and additional measures to increase production have obviously had considerable positive effects; the investment ratio has fallen but this

has mainly affected investment in building and construction.

The mobilisation of production by means of the rationalisation and modernisation of existing plant and of the increased self-production of means of rationalisation was given priority.

Unplanned shutdown times were reduced.

The average hours-in-use of plant and machinery were further extended, even if only slightly.

Investments outside of the plan framework ("initiative" or "black" construction) were better restrained than previously by means of strict controls.

The number of unfinished investment projects was reduced by concentrating investment on a few projects.

The planned reduction of specific energy consumption was achieved.

An improvement in product quality was also achieved.

The GDR was relatively successful in agriculture in 1981. Yield, measured in units of grain, was higher than in 1974 and almost reached the level of 1977. However, only 9 million tonnes of grain were harvested. The GDR will therefore be forced to increase its imports of grain until the next harvest. The increased output of animal products was welcome news.

According to the plan fulfilment report, "the targets of the 1981 plan for the national economy were *all* achieved, and selectively overfulfilled" by the labour force. This statement does not, however, conform to the facts regarding foreign trade and private consumption. In spite of an increase in the industrial production of commodities the plan figure for imports plus exports was conspicuously underfulfilled again in 1981. Instead of the planned 16 %, imports plus exports expanded by only 10 % (previous year's figure: 10.3 %). This may have been partly due to the fact that fuel imports decreased, as the consumption of coal was reduced by one-third and of heating-oil by 15 %.

But there was apparently an export surplus in trade with the western industrialised countries and the developing countries – something which was achieved for the last time in 1968. This surplus is due to a, so far unique, balance of trade surplus in trade with West Germany.

The increase in the population's net cash receipts was, at 3.5 %, one percentage point lower than planned. Net wages and salaries increased by 4 %. This result is better than those of the previous two years,

so that the nominal increase of net wages and salaries or of the population's net cash receipts, can be judged a positive result. The supply of goods, as measured by retail turnover, was less positive. Whereas an increase in retail turnover of 4 % for 1981 over 1980 was planned, only 2.5 % was achieved. This is the smallest increase in more than ten years. Since price increases for higher-valued commodities probably also took place last year, real private consumption increased only slightly or not at all.

In 1981 the party leadership again went steadfastly ahead with its house-building programme. 185,350 dwellings were provided by new construction or modernisation – the GDR's best annual result to date.

A change in the structure of economic management did not take place last year. Such a change has also not been announced for 1982 nor for the following years and is, indeed, not to be expected.

The 1982 plan continues to be marked by the GDR's foreign trade problems. The plan figures for 1982 have, judging by the real growth rates of the previous year, been relatively conservatively calculated. In the present plan year the increase in production is, again, not to be achieved by an increased input of factors of production but by measures to increase productivity.

## Hungary

It again proved impossible to overcome the stagnation of Hungary's economic growth in 1981: national income rose by only 1.8 %, gross industrial production showed a growth of only 2.3 % with a slightly reduced labour force, agricultural production was scarcely any higher than that of the previous year, while building activity fell by 3.5 % due to the low level of investment.

The distribution of the produced national income of 620 billion forint in 1981 was also not in line with the plan: population and enterprises received a larger proportion than planned, whereas the share going to the State fell more than was expected. The reasons for this were, on the one hand, a reduction in state investment due to the postponement of measures relating to infrastructure because of a lack of budgetary funds and delay in large-scale state investments, and on the other hand, wage rises due to unplanned increases in enterprise profits, which led to an unexpected growth in public consumption of 2.4 %.

Hungary's target of a return to balance of payments equilibrium could be brought closer in 1981, although somewhat more slowly than the economic leadership had wanted: the balance of trade for 1981 showed, in total, a lower deficit than in the previous year, whereby

trade calculated on a dollar basis – ignoring transport costs – showed a surplus for the first time since 1973. Not only the export successes of the foodstuffs industry and of agriculture contributed to this, but, above all, price gains due to the changes in the exchange rate of the foreign currency which took place in 1981. A sizeable proportion of Hungary's hard-currency income in 1981 stemmed from the increased deliveries – reckoned in dollars – of Hungarian agricultural produce to the socialist countries. Hungary's dollar surplus achieved in trade with the CMEA countries of an equivalent of 24.3 billion forint – of which 10 billion forint alone came from trade with the Soviet Union – made an important contribution to the financing of the Hungarian trade deficit with the Western nations.

This year, too, economic equilibrium is to have priority over growth in Hungary, the maintenance of the standard of living over further economic development. Taking into account the unfavourable situation on the world market (worsening of the terms of trade with CMEA countries as a result of rising oil prices, continuance of the recession in the Western industrialised countries), the economic plan for 1982 expects, similarly to the situation in 1981, a growth of national income of only 1-2 %. The achievement of balance of payments equilibrium requires an export surplus of 4-5 % in 1982. This in turn – considering the expected low increase in industrial production (+ 2.0-2.5 %) – requires a reduction in the domestic usage of national income by 1-2 %. In view of the given economic data for 1982, an even larger proportion of national income than previously will have to be directed towards consumption in order to maintain the present standard of living, which will mean a reduction in the rate of accumulation from 20 % in 1981 to around 16 %.

The aspired increase in exports at the cost of domestic usage must be achieved under more unfavourable general conditions this year: the scope for investments is small, the possible imports of the raw materials and semi-finished products needed for exports are limited and the foodstuffs industry – showpiece of Hungary's export sector – will be unable to repeat its success of 1981 (20 % increase in exports compared to 1980) this year, due to the unfavourable results in agricultural production last year.

Hungarian economic policy-makers are therefore setting their hopes on the stimulating effects on exports of the economic reforms of 1981 and 1982, which give enterprises additional freedom of action and decision, especially in the field of foreign trade, through an increase in their organisational flexibility and in financing and credit facilities.