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CMEA: A New Phase of Economic Growth?

The West is showing a particularly keen political and economic interest in the reports to be published this year on the fulfilment of targets fixed in the various East European Five Year Plans. These reports are expected to reveal whether the slight improvement in the economic performance of these countries recorded in 1983 continued in 1984. However, in view of the complexity of the various determinant factors a meaningful evaluation of the data provided must involve an analysis of economic developments in these countries – including the Soviet Union – since the beginning of the 1970s.

Whereas the first half of the seventies still witnessed respectable growth rates, economic performance indicators during the subsequent Five-Year-Plan period (1976-1980) took a definite turn for the worse. The annual averages of the main indicators of economic efficiency were well below the corresponding figures recorded during the first half of the seventies, although there were clear differences from one country to the next. There was not only a surprising drop in the growth rate of produced national income (this term encompasses all the major elements of macroeconomic performance in socialist countries), but also a general inability to achieve plan targets.

The deterioration was most pronounced in Poland, due among other things to unsuccessful investment and foreign trade policies. Produced national income in Poland only increased by an annual average of 1.7 % (1970-1975 still 9.8 %); applied national income even fell slightly on an annual average (previous period still +11.6 %), reflecting both the decline in absolute terms of investment expenditure and the collapse of the Polish economy at the end of this period.

The other six CMEA countries can be split up into two groups with regard to the intensity of the slowdown in economic growth: Rumania, Hungary and Czechoslovakia show a drop of several percentage points in the growth rate of their national income; the pace of economic development in the USSR, the GDR and Bulgaria, on the other hand, has only slowed down by about 1.5 %, demonstrating a relatively stable development. Despite the more or less substantial growth-rate decreases in all CMEA countries, not one of these countries reached an economic low resembling in any way that experienced by Poland. During the 1976-1980 period these countries still managed to increase their national incomes by an annual average of between 3 and 7 %.

Western observers were not the only ones who expected the contractive trend in the socialist economies to continue at the beginning of the 1980s. Bearing in mind performances in previous years, and with a view to steering their economies onto a consolidation course, economic planners in the East also formulated their targets more modestly right from the start. However, in many cases even these proved unattainable in 1981 and 1982; in fact, like Poland before it in 1980, Czechoslovakia also slipped slightly into the minus zone.

The tendency towards falling growth rates shown by important economic aggregates during the early eighties was accompanied by a growing belief among many western observers that the socialist states would not be able to stop this development by their own efforts. These observers were convinced that only the provision of western technology and western capital together with far-reaching reforms including the adoption of elements of the

western economic system by the eastern planned economies could consolidate the situation and bring about a renewed upward economic trend.

Against this background, it is hardly surprising that at the end of 1983 western observers began hesitantly to ask whether a changing economic trend was emerging in the socialist countries, for certain results documented in the 1983 Five-Year-Plan target achievement reports were distinctly better than expected. This applies, for instance, to the growth rates for production and labour productivity in the Soviet Union. Nevertheless, the existence of a trend reversal was still disputed. However, in view of the already available provisional figures for 1984 it cannot be denied any more that there is – at least in general terms – a tendency towards economic recovery in Eastern Europe. Poland, whose national income showed growth rates of about 4 %, has at least managed to stop the process of contraction. Czechoslovakia has been able to rectify its move into the minus growth zone. The performance of the two leading CMEA economies, the Soviet Union and the GDR, deserves special attention. The growth rates recorded in 1983 and 1984 are a pretty exact reflection of the long-term annual average growth rates achieved by these two countries.

The performance of the socialist economies in 1983 and 1984 raises the question as to whether the determinant factors responsible for the long-lasting downward trend marking the development of these economies have undergone a fundamental change for the better. Any attempt to explain the slowdown in economic growth in all CMEA countries up until the beginning of the 1980s and the economic recovery in 1983/84 requires a differentiated analysis of a whole series of determinant factors. On no account can the limited efficiency of socialist systems in itself explain all developmental and structural deficiencies. Both the considerable differences in the levels of development in individual socialist states and the specific nature of the socialist system in each country, but above all the multitude of varying problems facing individual states, serve to contradict such a sweeping assumption.

The falling labour and capital input growth rates have had a retardant effect on growth. However, the significance of these factors should not be overestimated. The fact that even in years in which factor input exceeded target levels national income fell underlines the influence of other inhibiting factors.

For many years the development of labour productivity in industry and agriculture has shown itself to be the decisive drawback to overall economic growth in the Soviet Union and other CMEA countries. Although in many years the productivity of labour has increased in all these countries, the improvement has often not matched plan targets with the result that expectations regarding overall economic growth could frequently not be fulfilled. In addition, the declining productivity of capital is also an important explanatory factor for the course of economic growth. There are varying reasons for decreasing capital productivity: increased costs of new production facilities, high extraction costs in the raw materials and energy fields, expenditure on environmental protection, inadequate utilisation of production capacities as a result of a lack of primary and intermediate products or of qualified labour. Apart from the factors already mentioned, the productivity problems facing socialist countries reflect numerous other factors with which they have had to contend for many years: lack of foreign exchange, waste of materials, the increasing complexity of the economic structure, setbacks in the agricultural sector, various system-induced difficulties, such as the lack of coordination between various economic processes, the lack of worker motivation, to mention but a few.

If an attempt is made to review the factors responsible for the slowdown of economic growth in Eastern Europe and to at least generally evaluate their relative significance, it can be confirmed that during recent years there have been no, or only gradual, improvements. It is too early, therefore, to already classify the slightly accelerated growth in Eastern European socialist economies as a changing trend towards economic recovery. Only detailed country-by-country analyses focussing on the specific constellation of factors influencing growth in each country could possibly arrive at such a conclusion in individual cases. On the other hand, more detailed analyses of individual countries may also reveal that many of the good results recorded in 1983 and 1984 are partly due to hitherto undiscovered price distortions.

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