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RECENT ECONOMIC TRENDS IN THE USSR AND
IN THE EAST EUROPEAN COUNTRIES

Report by the Economic Committee

Following the fairly rapid progress made in 1970, the slow-down in economic expansion anticipated in the plans for 1971 have been borne out both in the Eastern countries as a whole and in the USSR by the results available so far for this year. This general tendency is mainly due to a more moderate rate of growth of production and industrial investment and to a slower increase in labour productivity. In contrast, the results for agriculture seem fairly satisfactory in the East European countries in general although, in the case of the USSR, a repetition of the exceptionally good harvests of last year cannot reasonably be expected.

Foreign trade continued to expand at buoyant levels in both the East European countries and the USSR during the first half of 1971 although there was relatively little increase in imports from Western Europe and Soviet imports from the West actually fell.

I. DOMESTIC TRENDS

A. SOVIET UNION

2. Judging from the partial information available, there seems to be little likelihood that the Soviet gross national product(1) can grow by more than 3.5% to 4% in 1971. The planning targets for Soviet industrial output in 1971 were set at very modest levels and while the USSR was consequently able to report that during the first ten months of the year the rate of increase provided for in the plan (6.9%) had been exceeded, in fact, the percentage announced (almost 8%) is slightly below the figure achieved for the previous year (8.3%). This weaker rate of increase has been noted in most of the key sectors such as oil, natural gas, automated equipment, chemical fertilizer and plastics.

(1) Western definition (yearly average 1960-1970: Western estimates: +5%).

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3. According to the most recent statements of the Soviet authorities(1), the results of the 1971 harvest could be satisfactory despite the poor weather in a number of regions. A repetition of the results for 1970 is unlikely, however. Livestock production, on the other hand, may be higher than last year. The size of the recent Soviet purchases of wheat and fodder, at a total cost of some \$370 million, from Canada and the United States, could consequently be explained by a number of factors: apart from purely political considerations, there might be a question of Soviet export commitments to other COMECON countries and the larger livestock requirements at home. Since agriculture still counts for a substantial amount in the formation of the gross national product, stagnation of agricultural output, even at a high level, cannot fail to have an adverse effect on the economic growth rate.

4. In the consumer goods sector, a point to be noted is the rapid rise in automobile output (54% during the period January-September 1971) due primarily to the activity of the TOGLIATTI-FIAT plants. In contrast, new housing has not kept pace with forecasts and during the first half of 1971, retail sales, services and the production of household appliances rose more slowly than in 1970. The upward trend in individual savings tailed off to no more than 8.7% during the period January-June. This development shows, inter alia, that State social benefits and the wages of collective farmworkers have not increased at the planned rate.

B. EASTERN EUROPE

5. The rate of increase in industrial output is still highest in the most recently industrialized countries: Rumania and Bulgaria have reported a rise of 10% and more for the first nine months of 1971. However, by comparison with last year, Bulgaria alone seems to have improved on its performance. Poland, Hungary, East Germany and Czechoslovakia have all indicated slacker growth of production and industrial productivity which is more or less as anticipated in the targets laid down in their respective plans. The growth rates for the first six to nine months of 1971 are in every case below the rate for industrial output announced by the USSR. As for agriculture, all the information points to good harvests in the European countries as a whole and to an exceptionally good harvest in Czechoslovakia and Rumania. In contrast, however, Hungary and Poland have reported that the harvest of fodder grains may be less satisfactory.

(1) See statement by V.V. Grishin, member of the Politburo, dated 8th November, 1971.

6. Three countries call for special mention:

In Poland, the policies adopted by the new men at the top lay emphasis on the revised attitude to be adopted towards the consumer and on the raising of the workers' standard of living over the next five years. Soviet aid totalling \$100 million should help towards the achievement of this aim.

In Czechoslovakia, the resumption of centralized planning and of authoritarian methods of management have apparently been effective in reducing the decline in economic growth and in keeping down inflation.

In Hungary, the programme of economic reforms is going ahead quietly but fairly steadily.

II. PROSPECTS FOR EXTERNAL ECONOMIC RELATIONS

A. INTRA-COMECON ECONOMIC RELATIONS

7. After rising rapidly in 1970 (13% in terms of value) the overall trade of the East European countries and the USSR continued to expand at almost the same rate during the first half of 1971. The new five-year plans provide for an increase of 8% per annum in total foreign trade (imports plus exports) (as compared with 9% during the period 1966-1970). However, since the planned increase between the COMECON countries alone is over 10% (as compared with 8% in 1966-1970) the ensuing rise will be more than proportionate in this category which already accounts for almost 60% of the total foreign transactions of Eastern Europe and the USSR.

8. The new COMECON "overall programme" adopted last July provides for greater structural integration. The prospects for a development of this kind seem remote however. The different projects for multilateral economic co-operation incorporated into this programme seem to constitute no more than a tentative list with no indication of precise dates or firm commitments. In addition, every member of COMECON is free to opt out of any of these projects. Comments from the East European countries would seem to indicate that it could take from 15 to 20 years to implement the programme targets.

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