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RECENT ECONOMIC TRENDS IN THE SOVIET UNION AND EASTERN EUROPE

Report by the Chairman of the Economic Committee(1)

The following report has been prepared by the Chairman of the Economic Committee on his own responsibility, in the light of discussions held in the Committee. It endeavours, in a first part, to assess the recent general trends and basic problems in the USSR and Eastern Europe. The second part of the paper gives a more detailed review of economic results in the 1971-1975 Plan period, with particular reference to 1975, and examines the prospects for Plan fulfilment in the 1976-1980 period.

I. GENERAL ASSESSMENT

A. SLOWDOWN IN ECONOMIC GROWTH

2. In all the Warsaw Pact countries, 1975 marked the conclusion of the Five-Year Plan period (1971-1975). It ended on a rather disappointing note, even though most key plan targets for the entire plan period were either met or exceeded in the six East European countries. Overall plan results in the USSR were more uneven, reflecting the long-term trend towards deceleration in economic growth.

3. By the end of 1975, the Warsaw Pact nations were faced with serious problems different from those confronting the West. While generally spared the crises of high inflation rates, recession and unemployment, these nations could not fully isolate themselves from the impact of economic developments in the West, especially in the foreign trade sector. In addition, they continued to suffer from a number of structural weaknesses such as low productivity and the inability to meet more sophisticated consumer needs, as well as deficiencies in the investment and in the agricultural sectors.

(1) For previous report see document C-M(76)29 of 13th May, 1976

4. While the industrial West slowly recovers after the most severe of post-1945 recessions, the Soviet Union, despite a very good harvest in 1976, continues to suffer the consequences of its 1975 crop failure - over one third below target. This reveals how exposed the Soviet economy is to cyclic vicissitudes of its agricultural performance.

5. In 1975, the USSR suffered a sharp deterioration in its balance of trade with the industrial West: this was due, inter alia, to the decline in gold prices, the rising cost of growing imports of Western machinery and sophisticated technology, and the slack in Soviet export markets in the West resulting from the world-wide recession. Large grain purchases abroad also boosted the Soviet hard-currency deficit in 1975, pushing total Soviet convertible currency indebtedness at the end of that year to an estimated $11-13 billion. In 1976 efforts have been made to reduce - apparently with some success - the trade deficit which, however, will remain substantial, as a large percentage of the grain already ordered is actually shipped and paid for.

6. Similar factors adversely affected economic developments in Eastern Europe, but more especially the impact of the West's recession on the area's exports, above all in agriculture and semi-manufactures, which slowed down imports of much needed Western technology. The very large reliance of the region on the Soviet Union for energy and raw materials was another handicap. The higher world prices, coinciding with the growing cost of tapping new oil and natural gas resources in Western Siberia, led the Soviet Union to more than double the previously low price of its energy exports to Eastern Europe during 1975. There was an 8% increase in Soviet oil prices in 1976. The price boost in 1977 could be 30%. By 1978, the difference between world and intra-COMECON prices for oil could be reduced further. The Soviets are also insisting that Eastern Europe participates in the cost of Soviet energy development in Siberia. To offset this burden, East European nations, despite some rise in the price of their export items, will have to deliver more to the USSR, thus leaving fewer resources for domestic development and consumption.

7. Eastern Europe has been striving to achieve self-sufficiency in the farm sector. Hitherto, this goal has been frustrated by structural weaknesses, lack of labour motivation and climatic factors. A graphic example of how agricultural deficiencies in Eastern Europe can have potentially far-reaching political consequences was given by the Polish riots of June 1976. These compelled the government to withdraw its proposals for an immediate and drastic price increase of many basic food products, the aim of which was, inter alia, to reduce demand and mop up excess purchasing power. At the heart of this crisis lies the question of the ability of the Polish and other East European

governments fully to reflect in consumer goods prices the considerable rises in the cost of inputs which have taken place over the last few years. The Polish outburst may seem to the Soviets as a specific expression of growing difficulties for Eastern European leaders in solving their countries' economic problems. Hence the substantial, even generous, Soviet economic aid package offered to Party leader Gierek during his November visit to Moscow.

8. The Soviet offer is of importance to Poland in view of its convertible currency indebtedness to the West - standing at over $7 billion at the end of 1975: the highest after that of the USSR itself. It will be doubtless examined very keenly by the other Eastern European countries, whose collective indebtedness to the West by the beginning of this year was already estimated at some $11 billion. The overall trade deficit of the European members of COMECON vis-à-vis the OECD area in the first six months of 1976 is of some $4 billion, and the total indebtedness to the West has been assessed by some Western experts at possibly as much as $40 billion by the end of the year. A major concern to COMECON planners is the fact that the rising debt service burden could easily impair the region's ability to procure the growing volume of needed imports from the West, while a higher proportion of sluggish export earnings (e.g. Poland: 30%) goes to service debts rather than pay for imports. Western lenders are beginning to ask for more information from the COMECON countries as a means of evaluating their ability to incur debts of such a magnitude at such a rapid pace. The need for freer access by Western businessmen to such economic and financial information, in accordance with CSCE Final Act provisions, becomes increasingly evident.

B. MORE REALISTIC FUTURE PLANS

9. Although the Soviet leadership has set its sights on more modest growth levels for the 1976-1980 Plan period, attainment of these objectives will depend considerably on better labour/capital productivity. The problems facing the economy are likely to grow more critical by the end of the current Plan period. Ongoing problem areas include imbalanced distribution of manpower in the economy, continuing low productivity, increasing cost of Siberian resource development, inadequate rail and road infrastructure, under-utilisation and poor diffusion of advanced technology, the existence of a large stock of obsolescent equipment, and mismanagement of agriculture which mobilises over 30% of manpower. The need for the planners to overcome these difficulties is further aggravated by the heavy commitment to defence (11% to 13% of a Soviet GNP, itself assessed at some 60% of that of the United States).

10. Despite the above negative factors, the Soviet Union's economy in 1976-1980 should be able to implement several key tasks: (a) continued support for a strong military posture and an opportunist foreign policy - although the continuing desire to obtain Western technology in ready-made form may point to greater Soviet dependence on the West and, consequently, incite the leadership to limit its foreign policy ambitions; (b) improvements of technological levels on which future growth mainly depends, and (c) somewhat improved living standards for the population, although certain serious regional differentials will remain. It will probably be 1978 or 1979 before the impact of any "agricultural revival" fully works its way through the economy. By then the Soviet Authorities claim that their economy will be closer to what they term "dynamic and proportional" development. It is doubtful whether the USSR will achieve a balanced growth during the present five-year Plan period, and the country could be faced with an aggravation of its economic problems in the first half of the 1980s.

11. In assessing growth potential in Eastern Europe, planners have to take account of such negative factors as the need to buy grain on world markets, higher crude oil and other raw material prices imported both from the USSR and, increasingly, from the non-Communist countries, as well as the cost of the growing volume of licences and technology procured with convertible currency from the industrial West. These restrictions have played a rôle in the selection of more realistic targets for the current Plan period, which postulate a more modest rate of economic development. In the current period, even more than in the last, the chances of extensive deployment of production factors in the East European countries will become more limited, so that growth, as in the USSR, will depend increasingly on gains in labour and capital productivity.

12. The case of Poland and Romania deserve more specific attention. In these two countries the threshold of popular unrest will substantially condition official decisions. Poland's case is one of need for modernisation of the export sector and difficulties in resisting public pressure for increased domestic consumption. Indications are that Poland, even with economic assistance from the USSR, will face a period of relative austerity with priority changes in the investment programme, shortages of meat and other foodstuffs and a lack of suitable consumer goods. In Romania, where perhaps national patience is greater than in Poland, the authorities have indicated that there will be no let-up in the country's industrial expansion, the 1980 goal being a wide industrial base with self-sufficiency in most fields: again, the consumer will have to be content with second place.

13. During the present plan cycle, Western countries will continue to enjoy many distinct advantages in their economic relations with the Warsaw Pact countries: important technological advances in many sectors of the civilian economy, greater productivity in industry and agriculture, large grain surpluses (for the West as a whole) and substantial resources available for investment. Within the Warsaw Pact countries, the relative advantage of the USSR over its allies will persist by virtue of the size of its economy and population, and because of its position as their main supplier of energy and raw materials, and purchaser of a wide range of the manufactured products they export. In addition, the recent Polish experience may well be indicative of the intent of the USSR to rescue its allies in case of serious financial difficulties.

II. RECENT ECONOMIC PERFORMANCE AND PROSPECTS

A. MAIN FEATURES

14. 1975 was the concluding year of the five-year plans 1971-1975 in all the member countries of COMECON(1). The economic evolution during the entire period was characterised by high and sustained growth rates of Net Material Product (NMP)(2), apart from the USSR (Plan: 7.1%; actual: 5.1%), the increase in NMP reaching a yearly average of 7.8% (previous Plan: 6.5%) in the Eastern European countries. No country had a growth rate below 4.5% in any year, except for the USSR in 1975. The five-year plan targets were achieved and/or surpassed in all East European countries. The most marked over-fulfilment in NMP took place in Poland (Plan: 7%; actual: 9.8%), where the development strategy incorporated in the original Five-Year Plan was revised upwards in October 1973. In Romania, the June 1972 Party Conference had also decided to raise the planned targets, and overall growth objectives were practically reached (Plan: 11.5%; actual: 11.3%). In both these countries two-digit growth rates in a number of sectors were frequently recorded.

15. The main contribution to the increase in NMP invariably came from an expansion of industrial output(3). The average annual growth rates of industrial output were over 6% throughout the region except for two years in Hungary (1972: 5.2% and 1975: 5%), and the GDR (1971: 5.6%), and most frequently exceeded planned targets. Again in the case of Poland and Romania, two-digit rates were recorded in the industrial sector for the aggregate Plan period (10.7% and 13.1% respectively). All the countries within COMECON fulfilled their individual overall Plan targets for industrial output, except for the USSR (Plan: 8%; actual: 7.4%).

16. In contrast to the relatively stable performance of the industrial sector throughout COMECON, annual growth rates in agriculture reflected in most cases an erratic performance - primarily as a result of variable weather conditions which essentially affected crop production, the livestock sector registering much more stability in most of the COMECON countries. Consequently, agricultural output proved to be a significant factor in the short-term fluctuations of growth rates in

(1) In this paper, COMECON comprises the six East European countries and the USSR only
(2) Growth of Net Material Product which excludes most services is usually 1-2% higher than Western estimates of growth of GNP of the USSR and the East European countries
(3) Relative coefficients of industrial growth (i.e. elasticity of industrial growth with regard to total growth) were rather uniform in the East European countries and averaged 1.13, while the Soviet Union recorded a coefficient of 1.32

national income. Even negative rates were recorded in a number of COMECON countries (Bulgaria: 1974, -1.9%; Czechoslovakia: 1975, -0.7%; Poland: 1975, -2.6%) and especially the Soviet Union (1972, -4.1%; 1974, -2.7%; 1975, -6%). The 1975 Soviet harvest result of 140 million metric tonnes was one third below target levels. Despite these problems, the average annual growth rates of global agricultural output throughout COMECON for 1971-1975 exceeded 2% when calculated on the basis of average annual output for 1966-1970.

17. In 1975, economic development throughout COMECON proceeded at a slower pace than in the previous year. The aggregate NMP for COMECON as a whole increased by an estimated 5.1% just under 1% below the 1974 rate achieved. In the USSR the deceleration in the NMP growth rate from 4.8% in 1974 to some 4% in 1975 was primarily due to a sharp decline in farm output, because of exceptionally adverse weather conditions in major Soviet farming regions throughout 1974-1975, the effects of which were aggravated by the ongoing structural weaknesses in the agricultural system.

18. The pace of Soviet industrial expansion slackened somewhat in 1975, although it remained high (1975: +7.5% compared with 1974: 8.0%). The pattern of development in industry in the East European countries reflecting a slight slowdown overall, grew more or less similarly: total industrial growth for the bloc without the USSR is estimated at 8.7% in 1971-1975 (1966-1970: 8.1%). These slowdown trends in major production sectors in the six smaller European COMECON countries contributed to reduce the growth rate of their aggregate NMP from 8.3% recorded in 1974 to some 7% in 1975.

19. One of the factors leading to the decleration in overall East European growth rates in 1975 has been the adverse economic conditions in the West, (especially over the period 1974-1975, resulting in substantial boosts in the cost of much needed sophisticated equipment which has to be imported). In addition, difficulties were created by manpower shortages in a number of countries and problems with investment outlays as well as by the serious price increases for Soviet crude oil and raw material deliveries which, apparently, have not been offset by a proportionate rise in the price of East European deliveries to the USSR.

20. The existence of these adverse factors has led the East European countries to adopt more moderate growth targets for their new five-year plans (1976-1980) with greater emphasis on investment in agriculture and farm autarchy in mind. There has also been a more cautious appraisal of overall investment

priorities and stress on the export potential to the industrial West. This latter objective is vital if East Europe is to earn convertible currency so as to import needed Western technology without incurring serious additional indebtedness, already estimated at over $18 billion for the six smaller COMECON members at the end of 1975.

21. The success of these policies clearly depends on the pace of Western recovery and/or the continuing availability of Western credits should the East European export campaign fail. However, if the six East European countries can accomplish their daunting tasks over the next five years, this grouping will remain one of the fast growing economic regions in the world.

22. After the disappointments for the Soviet Authorities of the Ninth Five-Year Plan period (1971-1975), the Tenth Five-Year Plan is rather restrained and will probably make the 1970s by far the lowest growth decade in the USSR since the end of World War II. Major economic policy goals will remain similar to those of the previous period: the priority sectors will continue to be heavy industry (with its implications for defence) and agriculture. The latter retains a prominent place as far as investments are concerned with, hopefully, more benefits for the consumer later in the Plan. Productivity and trade will be stressed as keys to more rapid growth. The major unanswered questions concern the likely pace of expansion in Soviet imports from the West and in hard currency borrowings - the USSR's net indebtedness to the West is assessed at $11-13 billion for end-1975, i.e. about 18 months of Soviet exports to convertible currency countries.

23. As regards intra-COMECON economic relations, it is likely that closer ties between the USSR and Eastern Europe will, as in the past, be one of the main Soviet objectives over the current Plan period. Eastern Europe will remain heavily dependent on the Soviet Union for fuels and raw materials. As a precondition to increased Soviet deliveries of these items, the East European countries are being pressed increasingly to invest in Soviet natural resources by providing equipment and, where possible, labour, e.g. the Orenburg pipeline. Oil and natural gas are of primary importance to the East European countries because, whilst growth of most of their industries will be curtailed under the 1976-1980 plans, their petrochemical industries are due to expand much more rapidly in order to boost output, in particular in fertilizers, synthetic resins and plastics. This economic dependence in vital sectors on the USSR will doubtless strengthen Moscow's hold over the area, but some COMECON members, in particular Romania, are likely to continue to oppose Soviet moves to create supranational organizations and thus weaken individual autonomy.

B. USSR

(a) Domestic developments

24. The Soviet economy suffered, in 1975, its most serious setback during the Ninth Plan, due to a combination of adverse factors both structural and temporary. Internally, the weather caused the worst harvest since 1965, resulting in a disastrous agricultural year which retarded economic growth (see paragraph 26). In so doing it illustrated once again, just how vulnerable the Soviet economy is because of its heavy dependence on agricultural performance. Constant failure to achieve sufficient productivity gains (both labour and capital) also contributed; as did the recession-induced decline in Western demand for Soviet exports, coupled with increased grain imports which led to a substantial increase in the country's convertible-currency indebtedness (end 1975: $11-13 billion).

25. Growth in gross Soviet NMP in 1975 dropped to about 4% compared with the 5.5% annual average growth rate in 1971-1974. Industry turned in a respectable performance with a growth rate close to 7.5% compared with a 6% annual average rise in 1971-1974 - although the final year in any plan period tends to reflect a more dynamic effort to meet targets. Consumers enjoyed their highest level of living with consumption increasing some 3% on a per capita basis.

26. The 1975 harvest was the lowest in a decade. Grain production was less than two-thirds of the planned goal, with livestock particularly hard hit by feed grain shortages. Despite the cancellation of certain export commitments to Eastern Europe, extensive purchases in the West and on the positive side the 25th October announcement by Brezhnev that this year's grain harvest could even surpass the record harvest of 222.5 million tonnes gathered in 1973, it is uncertain whether the régime will be able to make up this year the grain shortfall: this is due to growing consumer demand for a more varied diet, the need once more to build up livestock herds slaughtered last year and to meet the country's emergency reserves requirements which are additional to the stocks normally held(1). In this context, contracts signed since July 1975 for foreign grain and soybeans total around 32 million tons as of end June 1976.

(b) Foreign Trade

27. Foreign trade turnover rose 35% in value with much of the growth accounted for by sharply rising imports of Western technology, equipment and grain. Since Soviet exports did not

(1) Possibly as high as 6 billion tonnes and created in case of an international crisis

increase appreciably - primarily because of the West's recession - the Soviet Union's trade balance with the OECD area deteriorated dramatically from a surplus of $900 million in 1974 to a deficit of $3.7 billion in 1975. It is estimated that over 85% of the Soviet 1975 hard currency deficit derived from trade with the West.

(c) The Tenth Five-Year Plan (1976-1980)

28. In 1976-1980, the growth of combined factor inputs - capital, manhours and land - will be substantially lower than in the last decade. If NMP is to grow by the planned average annual 5% and industry by the targeted 6.8% in 1976-1980, the productivity of manpower and productive capital will need to increase substantially, and the combination of these two factors will have to rise by a faster rate than in the recent past, i.e. by at least 1% per year. The accumulation of economic problems offers little hope that this increase will occur. In October 1976, GOSPLAN Chairman Baibakov predicted that Soviet national income in 1980 would reach some 85% of the US income figure at the end of 1975, as against 67% at the start of 1976. Western estimates of Soviet national income are as much as 10 points lower and claim the Soviet "67%" figure fails to take into account all the components of the US gross national product.

29. Prospects for the major sectors in 1976-1980 are: heavy industry (Group A) - relatively rapid growth - 38% - with the highest rates to be achieved by fuel and power, metallurgy, machinery and chemicals; an additional sector worthy of mention is the cement industry which has shown dramatic growth patterns with 45 m.m.t. produced in 1964, 95 m.m.t. in 1970 and 143 m.m.t. projected for 1980 making the USSR the world's largest producer; Group B (including light industry and food) output will rise 32%. Agriculture (planned gross output: +16%) - this sector which generates approximately one-fifth of national income will reflect continued firm resource commitment and ambitious mechanisation, chemicalisation, grain and livestock goals - the 1980 target of a 235 million tonnes grain output apparently remains unchanged. Consumer welfare - anticipated ongoing fluctuations in living standards will be affected to a considerable extent by oscillating farm output. Investment - completion of long outstanding projects and expansion of existing facilities will absorb some 64% of all new investment, and condition the investment programme through the current period. Manpower - slower growth of the labour force, but no serious shortage until the 1980s. Transport - total freight turnover to increase 32% with road and oil and natural gas transport in the lead. The merchant fleet will be replenished with 4.6 million deadweight tons. Trade - increase by 33.5% overall, but Soviet trade with the socialist countries is to grow 41%.

30. Although Baibakov gave no figures on Soviet trade development with the West for the current period, there is evidence that this trade will continue to increase, while perhaps at a slower rate in 1976-1980, and could grow by some 24% in the current plan period. Last year, the Soviets placed a number of orders for complete plants as well as for increased quantities of machinery and transport equipment. These orders together with significant imports of steel and large amounts of grain should result in an upturn in Soviet purchases from the Western industrial nations over the next two years. On the basis of half-year trade statistics, it is likely that the USSR will incur a somewhat smaller trade deficit with the West in 1976 because of a substantial increase in exports.

31. The capacity of the USSR to finance imports will depend on external resources derived from its exports and on continuing availability of Western credits and loans. Raw materials will continue to provide the bulk of these exports with little chance of manufactured goods reaching high volume. Exports to the West will, by the end of the decade, also be augmented by larger deliveries of natural gas, timber, coal and ammonia based on compensation deals signed earlier.

32. The fact that the Soviet Union is still recovering from the shock of its 1975 crop failure and is experiencing secondary effects in other sectors is suggested by the figures released on industrial production for the first nine months of 1976: industrial output for the period was 4.8% above the same period in 1975, but was 5% at mid-year 1976 over the same period for 1975(1). The Soviet press noted that while positive results were achieved by, for example, the instrumentation, automobile and machine-building sectors, other branches such as timber processing, construction materials and light industry failed to meet their assigned targets. A principal complicating factor in August-September output was, reportedly, the fact that a substantial percentage of transport was diverted as in the past for the harvest, thus exacerbating production schedules, and that many industrial workers were temporarily assigned to farm work.

33. A modestly higher growth target for aggregate industrial production and a substantially higher growth goal for consumer goods output have been announced for 1977 by GOSPLAN Chairman Baibakov: this shift may have been motivated by the relative neglect in the USSR of the consumer sector for many years, a fact conceded by Brezhnev to the October 1976 session of the Supreme Soviet. Industrial plan targets for output are to rise by 5.6% compared with 7.5% in 1975 and a targeted boost of only 4.3% this year, with heavy industry

(1) As against 7.5% growth for the whole of 1975

(Group A) set to increase by 5.9% (1976 target: 4.9%). Special stress is to be laid on fuels - energy, ferrous/non-ferrous metallurgy, chemicals/petrochemicals and machine-building. The consumer goods industry (Group B) is expected to increase by 4.9%, almost double the 1976 planned increase of 2.7%; and the volume of agricultural output by about 3% (average annual growth rate for 1971-1975, 2.5%). National income should increase by 4.1% (Plan 1976: 5.4%) and per capita income by 3.8%.

34. It is estimated that some 11-13% of Soviet Gross National Product is, purportedly, devoted to defence programmes. This represents a large share of national production particularly in a country which is aiming at rapid economic development in the civilian sector. Western economic experts assess that approximately 20% of industrial output and 33% of that in the mechanical engineering industries goes on defence(1).

C. EASTERN EUROPE

(a) Growth Targets Achieved

35. Increase in NMP was primarily due to the faster progress of the economy in Poland and Romania which recorded the highest NMP growth rates in the COMECON area over the period - about 10% and 11% (average annual increase) respectively - the performance of the other countries was less impressive. Economic advance in these two countries, especially, was conditioned by the steady upturn in industrial employment levels and, particularly after 1972, by an increase in labour productivity in industry derived partly from an accelerated programme of technical modernisation (e.g. 1975: Bulgaria: 7.9%; Hungary: 5.6%; Poland: 10.6%; GDR: 5.8%; Romania: 7.1%; Czechoslovakia: 6.1%)(2).

36. By comparison with previous years of the last Plan period, NMP growth in 1975, however, was significantly lower in almost all East European countries. In Poland, Romania and Hungary the rate of increase in NMP fell between 2 and 2.5 percentage points and the aggregate growth of NMP of the six East European countries declined from 8.3% in 1974 to 7% in 1975.

(1) In 1976 the official Soviet defence budget was given as 17.4 billion roubles, i.e. 7.8% of the total Soviet budget: in 1977 a slight reduction in defence outlays has been announced - 17.2 billion roubles (nominally $23 billion) or 7.2% of the aggregate budget

(2) Because of the drop in industrial growth rates for the period 1971-1975 in the USSR (overall plan: +47%; actual: +43%) and the relative size of Soviet industry within COMECON, the average annual industrial growth rate of the entire COMECON region declined to 7.8% compared with 8.4% in the previous five years

This disappointing development was partly due to poor harvest results in a number of East European countries, especially Hungary, Poland and Czechoslovakia. Additionally, the industrial sector, whose dynamism weakened in 1975 for the first time since 1971, also contributed considerably to the deceleration of growth rates. In this sector there were noticeable downturns in the GDR, Romania and Hungary. In the latter, for example, growth dropped from 8.5% in 1974 to some 5% in 1975, whereas Bulgaria, admittedly with a lower industrial base, reached a new growth level of 9.9% in 1975.

(b) Energy Sector

37. Economic trends in 1971-1975 were also affected by the growing shortages of domestic raw materials, energy and fuel. Growth targets for energy output fell below Plan targets in the East European countries and below growth rates attained during the last two plan periods in all these countries. Throughout the six, efforts were made to use available resources of solid fuel where possible for energy production, while oil and gas were diverted to the increasingly vital petrochemical sector.

38. Higher East European exports to the USSR are required to finance the increased cost of imports of Soviet fuels. (especially oil) and raw materials. The USSR's terms of trade with Eastern Europe have been substantially improved, especially since 1974-1975. Nevertheless, the USSR does not appear to have taken full advantage of this change. Although it has been made clear to the other European COMECON members that not all their increasing requirements for fuel and raw materials will be met from Soviet sources, deliveries are to be increased over the next five years, linked with active East European participation in joint resource development projects on Soviet territory. Under the present system Moscow is not charging world market prices for its exports of these goods to Eastern Europe and the East Europeans pay largely in non-convertible currency. The nominal price for Soviet crude oil deliveries to European COMECON members may rise, however, by a third in 1977, compared with an 8% increase in 1976. Consequently, in 1978 the price difference between world and intra-COMECON prices for oil should grow even smaller, assuming no wide price swings in world oil prices in 1976-1977, and no abandonment by Moscow of the present pricing formula for political or other reasons(1).

(1) Information concerning the exact type of goods and the quantities of each exported to pay for the Soviet oil, as well as their prices, is unknown outside East European official circles; and it is very difficult, if not impossible to arrive at the actual cost carried by East European countries for Soviet-delivered crude petroleum without this important information. The same applies to virtually all commodities exchanged among members of COMECON

39. Recent studies indicate that by 1980 the East European countries may have to import some 33 million tons of crude oil from non-Communist sources in addition to the 75 million tons they will be procuring from the USSR. On present price indications the total convertible cost to the East European countries could be some $2.6 billion FOB. Such an outlay could not but have serious consequences for these countries' balance of payments and for their indebtedness towards the West.

(c) The Current Plan Period until 1980

40. Now that the 1976-1980 plans of the six East European countries have been published, it is clear that over the five year period a slower NMP growth rate is anticipated in all six; nevertheless the targets do not differ significantly from those of the last Plan period, i.e. between ½% and 1% below, except in the case of Poland (last Plan: 9.8%, current Plan: 7-7.3%). The present period foresees an average annual NMP growth rate of around 5% for the whole COMECON area, including the USSR (1971-1975: +6%), and for Eastern Europe slightly less than 7% (1971-1975: +7.8%).

41. The same degree of caution tends to permeate growth targets throughout the various sectors of the economy over the next five years: for example, industrial output in Eastern Europe is expected to increase at an average of some 1% less than in 1971-1975, except for Bulgaria (last Plan and current Plan: 9.2%): Poland's industrial growth rate on the other hand, is substantially less than the last period's achieved target (8.2-8.5% against 10.7%). Agricultural growth will not differ substantially in the East European countries from the 1971-1975 rates, except in the case of Romania and, especially, the GDR, both of which have set rather more ambitious targets: 5.3% and 4.7% respectively, against 4.6% and 2.7% in the last period.

42. In the present period, even more than during the last, the chances of extensive deployment of production factors - especially manpower already critical in several countries - will become more limited, so that economic growth will depend increasingly on gains in labour and capital productivity. Consequently growth will become more uncertain than in the past, when spare capacity was still available in the economies of the six East European countries. Also, account must be taken of existing negative external factors, i.e. possible further increases in world grain prices, the higher prices for crude oil and other raw materials imported both from the USSR and the non-Communist countries, growing costs of the increasing volume of licences and technology which are procured with convertible currency from the West. These elements cannot but have an impact on Eastern Europe's economic trends in 1976-1980 which include the sensitive areas of private consumption and personal incomes. These internal and external restrictions suggest that the East European countries have consciously made the current targets more realistic than in the past.

43. Specifically, a number of issues have become more critical. Hungary, GDR and Czechoslovakia continue to have the problem of little or no growth in their labour force, and the other three East European COMECON members will be facing the prospect of a more limited increase in manpower availability in the producer sectors. On the other hand, investments cannot be allowed to grow excessively, otherwise consumption would suffer which, in turn, could further disappoint populations hopeful for improved living standards. In general, East European governments are committed to providing a greater range and volume of consumer goods in 1976-1980; but judging by the considerable upswing in private savings throughout Eastern Europe in recent years, substantial untapped spending power will remain a problem over the current Plan period.

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