

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE
COPY

N° 574

N A T O R E S T R I C T E D

ORIGINAL: ENGLISH
21st May, 1971

DOCUMENT
C-M(71)43

RECENT ECONOMIC TRENDS IN THE USSR AND EASTERN EUROPE:
ASSURANCES FOR THE CONSUMER;
OVERALL GROWTH TO SLOW IN 1971-75

Report by the Chairman of the Economic Committee

SUMMARY AND CONCLUSIONS

The popular dissatisfaction with living standards that brought down the Gomulka Government last December has evoked limited redress from the Polish Authorities. After five years of stagnation, real wages are scheduled to rise substantially in 1971 as a result of Soviet financial assistance and domestic reallocations raising money incomes and cancelling retail price rises of last December. No substantial action of this type is in evidence in other Eastern countries. In the Soviet Plan for 1971-75, consumption barely rises as a share of national income. Retail sales seem to remain fairly constant as a share of net material product in Soviet, Hungarian and Czechoslovak plans, but decline in this regard in the Bulgarian and Rumanian.

2. Economic growth of Warsaw Pact countries taken as a whole speeded up substantially in 1970, but fell short of recent averages. Soviet GNP rose an estimated 5.5% or more, approximately double the 1969 rate. Polish growth also accelerated substantially, but all other Eastern countries except East Germany reported a slowdown. These results turned largely on the performance of agriculture in Poland, Hungary and Rumania; of investment in Czechoslovakia; and of both in the USSR.

3. Slower economic growth than achieved in 1966-70 is envisaged in the new Soviet and Czechoslovak Five-Year Plans, reflecting projections of declining rates of expansion of the labour force and investment. More basically, the restrained Soviet projections indicate a disinclination to use available remedies (e.g. reallocation of military resources, economic decentralization) which, the leaders may believe, involve substantial political or military risks or costs.

This document includes: 1 Annex

N A T O R E S T R I C T E D

RECENT ECONOMIC PERFORMANCE

4. Accelerating Growth. Judging by the official figures of Net Material Product(1), collective economic growth of Warsaw Pact countries accelerated last year after a slowdown in 1969. The overall growth of the Soviet economy (which constituted about 70% of the Eastern total in 1965) exceeded 8% in 1970 compared with less than 5% the year before. Statistically, Poland's performance also improved, East Germany's was about the same as in 1969 while growth in Czechoslovakia, Hungary, Bulgaria and Rumania slowed down somewhat.

5. The USSR and most of her allies claimed that the overall growth targets for the period 1966-70 were attained and that, except in the case of Poland and Rumania, the rates of increase were higher in this period than in 1961-65. In the USSR, however, all but four of the main industrial products officially specified failed to reach the levels envisaged despite the claim that industry as a whole fulfilled its plan. This could mean that: the overall figures are exaggerated; the price (and the quality) of certain goods has risen appreciably; the output of certain goods not specified, e.g. strategic materials, military and space goods rose in excess of plan.

6. Fluctuations in agricultural output are the main reason for the variations in the annual rates of growth. Thus in 1970 the Soviet harvest broke all records after a bad year in 1969. In Hungary and Rumania floods and other climatic hazards caused agricultural output to fall and reduced overall growth. In Poland a modest rise in agricultural output following a bad year in 1969 permitted overall growth to rise but was insufficient to meet the expectations of the population.

7. Investment. Investment continues high in all countries of the area. In the USSR rises over 1966 have been more or less as planned; in the other countries plans have been surpassed so that the share of the Net Material Product going to investment was higher in 1966-70 than in the previous period. In 1970 the growth of investment speeded up in the USSR, Hungary and Rumania, and slowed down in Czechoslovakia, DDR and Poland. In Bulgaria it did not rise at all for the second year running.

8. In some countries, notably the USSR, the output of the domestic engineering industry has been the main factor in determining the investment programme and the regular expansion of this industry has had a stabilising effect on investment. In the case of Poland, Czechoslovakia and East Germany, fluctuations in the imports of machinery and equipment have had some influence on the investment programme. In those countries where imports constitute a major source of equipment (Bulgaria, Hungary and Rumania), fluctuations in imports have had a powerful influence on their investment programmes.

(1) GNP calculated in Western terms rose about 5½% in 1970

9. Military Expenditure. Towards the end of the last Five-Year period there was a levelling off of the upward trend in overt defence spending in the Soviet Union but outlay on science (about two-thirds of which must go on defence) continued to mount. Over the 5 years, total military outlay was probably higher than originally planned but its share of GNP may have fallen slightly to something short of 10%.

10. In the other Warsaw Pact countries the share of GNP devoted to military expenditure is around 5%, rather more in the industrially developed countries, rather less in the others. On the whole, defence outlays in these countries have been rising relative to those in the USSR, no doubt owing to Soviet pressure.

11. Foreign Trade Accelerates. Soviet trade turnover rose 10-11% in 1970, that of the East European countries 12.6%. As in 1969, all these countries except East Germany increased their trade with the West more rapidly than with each other. Buoyant Western markets and a resultant increase in earnings of Western foreign exchange facilitated this development.

12. Consumer Discontent. A relatively modest consumer share in total output has been a permanent feature of the planned economies of the Warsaw Pact area and a latent source of trouble for the régimes. In Poland the poor harvest of 1970, following the bad one in 1969, led to a shortage of agricultural produce and the increase in prices of food and fuels triggered off riots which brought down the Gomulka Government. Real wages had risen only insignificantly (1-2%) over the 1966-70 period, and the Authorities were forced to admit that they had made the mistake of developing the economy at the expense of satisfying the consumer. A further factor in the Polish situation was the introduction of a new incentive system which might have reduced wages and increased unemployment.

13. Improvements in the lot of the consumer varied considerably in the other countries of the area in 1970. Real wages rose 1% in Czechoslovakia, where the government was striving to deal with inflation, 3% in East Germany, but 5% or more in the USSR, Bulgaria, Hungary and Rumania. However, food shortages were reported in the USSR, Czechoslovakia and East Germany, and in the USSR such basic household articles as crockery were difficult to get. Soviet, East German and Czechoslovak wage-earners continued to channel a sizeable proportion of their incomes into personal savings, thus increasing potential inflationary pressure.

POLICY DIRECTIONS: PLANS FOR 1971-75

14. Greater Consumer Security? The new government in Poland has moved to restore the previously declining share of the consumer in national income. In February, First Secretary Gierek announced the cancellation of the retail price increases of December and upward revision - from 1.5% to 4.2% - of the 1971 plan target for growth of average gross wages. Shortages of fodder, meat and other foods have been temporarily relieved with imports; prices paid to Polish farmers for most meat products have been raised to stimulate production. Though these measures sacrifice some investment and foreign exchange, they seem to have at least temporarily appeased Polish dissidents who have remained relatively quiet despite the slow growth of industrial (including food) production reported for January-March 1971.

15. No substantial reallocations for the benefit of the consumer are in evidence in other countries of the East, however. In his address of 30th March to the 24th Soviet Party Congress, Brezhnev struck a balance. He emphasized the importance of higher living standards as a "pre-requisite for the rapid growth of output". But he also counselled restrained expectations: "The implementation of the aim of a considerable increase in the people's well-being requires time, serious efforts and enormous means".

16. Accordingly, most Eastern régimes have recently taken action, favourable to the consumer, on retail prices - either cutting them or giving assurances of a freeze or limitation on increases for the future. Moscow reportedly extended substantial new credits to help finance the extra Polish food imports. In the Soviet 1971-75 plan, consumer goods are given preference over producer goods in rate of increase of production. On the other hand, the same plan expands by only 0.4% the share of consumption in Net Material Product. Lower growth rates than achieved in the past 5 years are assigned to Soviet wages, housing, consumer services and social welfare. In all Eastern countries reporting, retail sales are scheduled to grow more slowly during 1971-75 than they did in 1966-70. In the case of Rumania and Bulgaria this deceleration is scheduled to take place in spite of a planned acceleration in overall economic growth.

17. Outlook for Foreign Trade. Long-term trade agreements between the USSR and the other COMECON countries were concluded last year and no doubt incorporated into the new Five-Year Plans. Intra-COMECON trade is stressed to an extent which leaves only modest scope for the growth of East-West trade. Even the Rumanians and Hungarians who were particularly interested in arrangements with Western Europe have stated that they attach prior importance to trade with the USSR. The Soviet Union may

nevertheless step up trade with the West and conclude important compensation deals with Western firms if the occasion presents itself. It is likely that the other countries too will develop relations with the West to the extent that their prior COMECON commitments and their balance of payments problems permit.

18. Slower Growth Projected. A moderate decline in the rate of economic growth is incorporated in the Soviet Plan for 1971-75(1); according to some Western estimates, increases in Soviet GNP may slow down to 4-5% per year. Czechoslovak and Hungarian Five-Year Plans project substantial decelerations; Bulgarian growth is to speed up slightly; and an approximate continuation of the 1966-70 pace is scheduled for East Germany. (Poland has not yet announced its 1971-75 targets.) Only the Rumanian plan envisages substantially more rapid growth over the next five years; this in turn reflects the strikingly faster expansion planned for agricultural output. Czechoslovakia, on the other hand, expects a slower average annual increase in agricultural production than attained during 1966-70. In most plans, rates of growth of industrial production are lower than averages of the past five years.

19. Reasons and Motives. The downward trend in economic growth projections seems plausible in view of evidence of increasingly constricted resources. Soviet, Hungarian and Czechoslovak plans envisage slowing investment growth rates. (Rumania, the exception, projects accelerating investment as well as economic growth.) The labour force is expected to remain nearly static in Czechoslovakia and to grow at declining rates in the USSR and Bulgaria. Poland by contrast still foresees problems of unemployment; political/cultural obstacles will probably continue to keep its labour surplus from moving abroad and helping to relieve the labour shortages of surrounding countries.

20. More basically, projection of generally slower economic growth implies during 1971-75 that Warsaw Pact régimes are unwilling to use available remedies - or are unable to do so because of Soviet pressure. Neither in the Soviet plan nor in speeches of leaders at the recent Party Congress is there a hint of a reallocation of resources from defence to investment or consumption. Investment quality and technical advance could be stimulated by a genuine economic decentralization but the current trend is generally toward centralization. Confirming past indications (C-M(70)63, 18th November, 1970), Premier Kosygin told the Soviet Party Congress that "fulfilment of plans requires a general increase in state discipline. The leading and decisive element is directive planning". Last

(1) The average annual growth of Soviet Net Material Product was 7.1% during 1966-70 and is projected at 6.5-7.0% for the next five years

C-M(71)43

-6-

February the Polish First Secretary also referred to "the national economic plan as the chief tool for directing the socialist economy" and withdrew the new wage system. Even in Hungary, the only Warsaw Pact country still ostensibly experimenting with price flexibility, a limit of 1-2% per year in retail price rises during the next five years was announced last January.

21. Such policies probably appeal to the Soviet leadership because they (a) promise economic growth that is creditable though reduced, and (b) seem less costly in political or military terms than alternative policies that promise higher growth rates. The prospect of economic growth at 4-5% per year is not unsatisfactory by Western standards. In Soviet eyes, back-tracking on experiments with market-oriented reform may diminish risks of erosion of Party control and may even be popular with those workers who value economic security and consumer welfare above economic freedom. And maintenance of the more or less current pattern of allocations in the Soviet Plan for 1971-75 preserves the option of continued rapid growth of defence spending. As Brezhnev said in his remarks at the Party Congress on future military spending, "we must continue to be ready for any turns in the development of events".

(Signed) Y. LAULAN

NATO,
1110 Brussels.

N A T O R E S T R I C T E DANNEX to
C-M(71)43SELECTED ECONOMIC DATA, WARSAW PACT COUNTRIES, 1966-75
(Percentage Growth)

	1961-65(1) annual average	1966-70(1) annual average	1969(1)	1970(1)	1971-75(2) annual average
<u>USSR: NET MATERIAL PRODUCT(3)</u>					
Industrial output	5.7	7.1	4.8	8.5	6.5 - 7.0
Agricultural output	8.6	8.5	7.1	8.3	7.4 - 7.9
Fixed capital formation	2.3	3.9	-3.3	8.7	3.9 - 4.2
Retail sales	7.7	7.3	3.5	9.0	6.4 - 7.0
Real income per capita	5.9	8.2	7.3	7.4	7.0
	3.6	5.9	5.0	5.2	5.4
<u>BULGARIA: NET MATERIAL PRODUCT</u>					
Industrial output	6.7	8.2	7.9	7.0	8.5
Agricultural output	11.6	11.1	9.9	9.3	9.2 - 9.8
Fixed capital formation	3.2	3.1	2.2	4.0	3.2 - .8
Retail sales	7.9	10.0	1.0	-	-
Real income per capita	5.4	8.7	7.8	8.1	6.7 - 7.0
	5.6	5.8	3.0	5.0	
<u>CZECHOSLOVAKIA: NET MATERIAL PRODUCT</u>					
Industrial output	1.9	6.8	6.5	5.0	5.0
Agricultural output	5.2	6.5	5.2	7.7	6.0 - 6.3
Fixed capital formation	-0.4	4.8	1.0	1.3	2.7
Retail sales	1.1	8.3	13.1	6.1	6.2 - 6.5
Real wages	2.3	6.5	7.3	2.2	5.6 - 5.9
	1.2	3.5	6.1	1.0	

(1)

Source is The European Economy in 1970, Part II, Chapter 2, ECE, 1971

(2)

Source is published data of governments concerned. Poland and East Germany have not yet announced new Five-Year Plans

(3)

"National income distributed". These figures may differ from the corresponding figures for "national income produced"

N A T O R E S T R I C T E D

	1961-65(1) annual average	1966-70(1) annual average	1969(1)	1970(1)	1971-75(2) annual average
<u>GDR: NET MATERIAL PRODUCT</u>					
Industrial output	3.5	5.2	5.1	5.2	5%
Agricultural output	5.9	6.5	7.0	6.4	6%
Fixed capital formation	0.8	1.0	-6.3	-	-
Retail sales	4.9	9.7	13.0	7.0	-
Real wages	1.4	4.6	6.0	4.2	4%
	2.5	-	4.5	-	4%
<u>HUNGARY: NET MATERIAL PRODUCT</u>					
Industrial output	4.7	6.8	7.2	5.0	5.4-5.8
Agricultural output	8.0	6.2	3.0	7.4	5.8-6.1
Fixed capital formation	1.3	3.5	5.2	-5.0	3.6-3.9
Retail sales	5.1	10.4	7.0	14-15	5.9
Real income per capita	5.4	8.6	8.0	11.0	6.7-7.0
	4.0	6.0	6.0	7.0	4.5-4.9
<u>POLAND: NET MATERIAL PRODUCT</u>					
Industrial output	6.2	6.0	2.9	6.0	-
Agricultural output	8.5	8.3	8.9	8.3	-
Fixed capital formation	2.8	1.7	-4.7	1.9	-
Retail sales	7.1	8.5	8.7	5.2	-
Real wages	4.5	6.1	6.3	3.8	-
	1.6	1.9	1.7	1.2	-
<u>RUMANIA: NET MATERIAL PRODUCT</u>					
Industrial output	9.1	7.7	7.9	6.6	10.0-11.0
Agricultural output	13.7	11.8	10.8	11.8	10.0-11.0
Fixed capital formation	2.5	1.8	3.1	-5.4	6.0-7.0
Retail sales	12.7	10.5	6.0	11.0	11.1
Real wages	7.4	8.2	4.7	8.6	5.5-6.5
	5.5	1.9	2.0	8.0	3.5-3.7

Footnotes: See Page 1

N A T O R E S T R I C T E D