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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC DEVELOPMENT IN EASTERN EUROPE 1965

Note by the United States Delegation

Summary

The Eastern European regimes appear generally less hopeful about economic prospects than they were a year ago. Performance in 1965 reflected little progress in solving basic economic problems, although the economists may now have acquired a better grasp of the problems. There are new signs of doubt and disagreement within the regimes over economic policy, especially with regard to decisions on reform, foreign trade, and goals for 1966-70.

Economic Growth

2. The general pattern of economic growth in Eastern Europe in the 1960s is for the highly industrialised countries to grow more slowly than the less industrialised countries. Thus, the gap between these two groups is slowly closing as the less developed countries become more industrialised.

3. In 1965, the pattern held in general for industry but not agriculture. Some of the less developed countries - Albania, Bulgaria, and Yugoslavia - did poorly in agriculture and one of the highly industrialised ones - the Soviet-occupied Zone - had an unusually good year. Thus the countries with the lowest rates of economic growth include not only two of the relatively industrialised countries (Czechoslovakia and Hungary) with a poor year in agriculture, but also Albania and Yugoslavia. The rate of growth - as measured by official national income figures or by our estimates of increases in gross national product (GNP) - was not above three percent in any of these four countries. On the other hand, the Soviet Zone, the most industrialised region in Eastern Europe, had a rate of growth of 4.5 percent, almost as high as that of Bulgaria and Poland (5 percent) and substantially exceeded only by Rumania (6.5 percent) = (See Annex).

Industry

4. In industry, the slow rise in the productivity of labour and capital that occurred from 1960 through 1964 continued in 1965. The overall increase in industrial output (about 7 percent, adjusted for comparability with Western statistics) was only slightly higher than the annual average for 1961-65. However, in 1966, Eastern European leaders have decided to hedge, following the example of Hungary and Yugoslavia, which allowed the rate of growth to drop sharply in 1965 in an attempt to put their economies on a sounder basis. Most of them are planning on lower rates of growth in 1966, in the face of similar problems.

Agriculture

5. Agricultural output in Eastern Europe has been increasing more slowly than demand for food, and unit costs in agriculture continue to rise. The mixed results in 1965 stemmed primarily from local differences in weather. Of the main agricultural producer-countries, Rumania had a good year and Poland a fair one. As a result, there was apparently a small overall increase - estimated at 1.5 percent - in net output of agriculture for the area, excluding Albania and Yugoslavia.

6. This slight rise leaves no room for increasing exports, except in Rumania, or for reducing agricultural imports, except perhaps for some cutback in East German imports of meat and butter. Moreover, production increases in recent years have been obtained with disproportionate increases in investment, industrial inputs (fertilizer, diesel fuels, etc.,) and agricultural incomes. The regimes, nevertheless, have little choice but to persist, hoping that they arrive at a formula for raising efficiency.

Economic Reform

7. One of the main reasons why Eastern European planners have reduced their expectations of industrial growth over the next few years is that they have been learning the difficulty of economic reforms. The Yugoslav Government decided to take new steps to increase the role of market forces in the economy, beginning with basic reforms of the banking and investment systems. Although strongly supported by most top officials and economic enterprises, such steps are quietly resisted by some middle-level administrators and regional leaders who favour the continuation of direct state controls over the economy.

8. In most of the other countries where limited economic reforms are being discussed, experimented with, or already begun, the leaders are proceeding with caution and considerable perplexity. During the last year they seem to have become more aware of the problems of changing their systems, more doubtful that reform will help much unless it is fundamental, and more fearful of the political consequences of any essential change.

9. Many officials, economists, and enterprise managers remain convinced, however, that reform is the only way out of present economic difficulties. Thus, differences in policy are being accentuated. Policy differences are most evident in Czechoslovakia, where prolonged debate, forced compromise, and timid reform have served only to sharpen disagreements about the scope and utility of the reform programme now adopted. Behind-the-scenes disputes exist in several of the other countries. Only Rumania seems to have suppressed any conflict over the matter, for the time being.

10. Difficulties in foreign trade also pressed heavily on economic policy throughout Eastern Europe in 1965. The Yugoslav Government devalued the dinar and continued import restrictions to curb balance-of-payments pressures, at the same time embarking on a programme of gradually giving market forces a great influence on economic decisions. Albania sought to improve trade relations with Eastern and Western European countries, in an apparent effort to supplement aid from China, which evidently is not giving adequate support to Albanian industrialisation; no drastic reduction in trade with Communist China is foreseen, however; trade with Eastern Europe, which in 1964 regained the 1961 level after declining in 1962-63, is expected to grow slowly, judging from the trade agreements recently negotiated.

11. The other Eastern European regimes faced harder bargaining than they had expected in negotiating trade agreements with the USSR for 1966-70. The new agreements still cover much of their needs for industrial materials and foodstuffs, at terms more favourable than they can generally get in the West. The terms, however, are apparently less favourable than in the recent past. Moreover, the negotiations brought home the point that after 20 years of increasing economic dependence on the USSR, the Eastern European regimes will have to learn to fend more for themselves, as the Rumanians have already begun to do. Czechoslovakia, the Soviet Zone and Poland have had to turn Westward for a larger share of their grain, as a result of the cutbacks in Soviet grain deliveries since 1963. Over the long run, all the Eastern European countries will have to depend on their own resources - which are relatively small - and trade with the free world to supply an increasing share of their industrial materials and foodstuffs.

12. The necessity to look to the West for industrial materials, in addition to the need for Western help in modernising industries and meeting grain requirements, is already having an effect on Eastern European plans and policy. It gives added weight to economic considerations in dealing with the free world. It reinforces the recommendations of planners for much closer economic relations with the industrial West. For political reasons, however - and because it looks easier - the leaders of Eastern Europe would prefer to rely as much as possible on the less-developed countries for materials. Besides the effect on foreign policy, the need for increased trade with the West adds to the domestic pressure for effective economic reform. Thus, policy differences tend to sharpen. Those who urge better commercial relations are in some cases brought into direct political conflict with senior policy makers.

Goals for 1966-70

13. The division of opinion between "liberals" and "conservatives" in most countries was brought to a head in 1965 by the requirement for decisions on the five-year plans for 1966-70. These decisions, which were expected to be reached by mid-year, were delayed until this spring, except in Rumania, which brought out its plan on schedule last summer. The depth of feeling is considerable, as indicated by two sensational incidents in 1965 - the Bulgarian coup attempt last April and the suicide of the Soviet Zone's chief planner Erich Apel in December. Both incidents reflected deep-seated internal differences within Bulgaria and the Soviet-occupied Zone of Germany on economic policy.

14. The "realistic" policies favoured by some Eastern European economists are disadvantageous in that they involve specific measures likely to provoke popular dissatisfaction. For example, public protests and grumbling resulted from reform measures announced in 1965 by Hungary and Yugoslavia which involved rises in the price of consumer goods and cuts in the take-home pay of some groups. The concern of the leaders in both countries has been indicated by elaborate propaganda, including a series of speeches by key officials.

15. On the other hand, the adoption of measures strengthening central controls - for example, in the Soviet Zone following Apel's suicide - tends to demoralise the middle-level planning and management officials who make most economic decisions. The consequences of such shifts in policy can usually be checked before they become too serious, but Eastern European leaders are evidently anxious about even slight unfavourable reactions. Continued drift in economic policy is likely to result.

OTAN/NATO,
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EASTERN EUROPE: SELECTED ECONOMIC INDICATORS

A. OFFICIAL CLAIMS OF ECONOMIC GROWTH

(Percentage increase over preceding year)

	Industrial Output			National Income		
	1964	1965	1966 Plan	1964	1965	1966 Plan
Bulgaria	10.5	13.5	10	9.6	6	9
Czechoslovakia	4	8	5.5	0.9	2.5	3.8
Soviet Zone	6.5	6	7	4.5	4.7	5.2
Hungary	9	4	4-6	4.7	2	4
Poland	9	9.5	6.5	6.6	6	3.7
Rumania	14	13	10.5	11	8	7
Albania	7	6	9	4	3	10
Yugoslavia	16	8	7	12	2	8

B. U.S. ESTIMATES OF ECONOMIC GROWTH

(In percent)

	Industrial output		Net Agricultural output	Gross National Product	
	Annual Average 1961-65	1965 over 1964	1965 over 1964	Annual Average 1961-65	1965 over 1964
Bulgaria	8.8	10.5	-2.0	4.8	5
Czechoslovakia	3.2	5.5	-6.0	1.4	1.5
Soviet Zone	4.2	4.5	5.5	3.3	4.5
Hungary	8.3	5.5	0	4.1	2
Poland	8.4	9	1.5	4.9	5
Rumania	11.4	11	7.0	5.2	6.5
Eastern Europe (excluding Yugoslavia, Albania)	6.4	7	1.5	3.7	4
Yugoslavia	10.7	8	-7.0	6.2	2