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RECENT ECONOMIC TRENDS IN THE USSR AND EASTERN EUROPE

Report by the Chairman of the Economic Committee

INTRODUCTION

Economic performance in the USSR and Eastern Europe seems recently to have improved. Early reports indicate an agricultural recovery and accelerated growth of industrial production in the USSR, implying faster growth of Soviet GNP in the first part of 1970 than in the corresponding period of 1969.

2. According to recent information, it appears that the decline in the growth rate of Soviet GNP in 1969 was much more pronounced than indicated in C-M(70)17, dated 11th May, 1970. This downturn seems to be related to a lower than expected industrial growth rate and a net decline in agricultural output. Whereas in that document the growth rate in 1969 was estimated at a little less than 5%, against 5.5% in 1968, recent figures would tend to indicate that in 1969 the Soviet growth rate declined considerably. According to one estimate(1), it was approximately halved, falling to 2.3%, the lowest rate since 1963 (2.2%). Such information, if confirmed, would tend to indicate that Soviet economic performance in 1969 has been much more unsatisfactory than previously realised and would justify the blatant criticism voiced in the USSR by the Soviet leaders at the end of last year.

3. In economic policy, the Soviet leaders seem largely to be marking time. The current period could be called a transitional one, with experiments with economic decentralisation de-emphasised in Warsaw Pact countries and announcement of the new Soviet Five-Year Plan (1971-75) postponed until next March.

(1) "Economic Performance and the Military Burden in the Soviet Union", Joint Economic Committee, US Congress, September 1970, page 9

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AGGREGATE OUTPUT: RECENT UPTURN

4. Early reports would seem to indicate that, in the first part of 1970, the Soviet economy picked up momentum, reversing the slow-down of 1967-69. The favourable outlook in agriculture and the resumption of an accelerated growth rate for industrial production suggests that the rate of growth of Soviet GNP in 1970 might range between 4% and 5%, the average annual pace during the 1960s. In regard to Eastern Europe, available data are insufficient to make a GNP estimate for 1970, but advance estimates for 1969 (4.5%) seem to be confirmed.

5. A spurt in economic growth this year would still fall far short of solving basic Communist economic problems. Though major objectives of the Soviet 1966-70 plan appear likely to be reached, the targets themselves have twice been revised downward substantially.

6. It has been known for some time that the USSR has postponed announcing its economic plan for 1971-75 until next March. However, on 3rd July, Brezhnev announced 1975 agricultural targets which seemed to imply rapid growth of over 10% per year for state agricultural investment. Beyond that, almost no major innovation in economic policy has materialised and the Soviets seem largely to be marking time and delaying decisions.

INDUSTRIAL FLUCTUATIONS: 1970 REBOUND

7. Soviet and Eastern European industry has shown some signs of recovering this year from the 1967-69 deceleration in growth of production. According to Communist data, gross industrial output grew only about 7% last year (the lowest increment since World War II) in the USSR and in Communist Europe as a whole. Some of the lost momentum has apparently been regained in recent months, however. During January-June 1970, industrial production of Warsaw Pact countries expanded 8.7%. Growth rates bounced back to 8.3% in Czechoslovakia, 8% in Hungary and 8% for the Soviet Union(1). In the other Eastern European countries, the industrial slow-down has been less pronounced.

8. Despite the rebound, high-level officials in Czechoslovakia, Hungary and the USSR have recently called for further improvement and have criticised "short-comings". In

(1) The Soviet estimate is a prediction (made by Suslov in his 6th November speech) for the whole year 1970

a speech of 2nd October in Baku, Brezhnev continued to single out production of oil and gas as significant bottlenecks. Fuels and ferrous metals were the sectors where most of the recent fluctuation in the Soviet industrial output growth rate was reflected.

9. An additional problem in Czechoslovakia has been the general apathy of the population in the wake of the Soviet occupation in 1968. The labour shortage that afflicts most Warsaw Pact countries in varying degrees is particularly acute here. A decree of September 1970 limits the number of workers in certain sectors in order to permit a shift of labour to priority industries that are understaffed.

AGRICULTURE: SOVIET OUTLOOK FAVOURABLE

10. According to advance reports, the Soviet grain harvest for 1970 is record-breaking - 180 million tons(1), according to the Soviet Agriculture Minister. If confirmed, such a figure would imply growth of more than 10% over the 1969 grain harvest. In spite of a lack of information on other agricultural sectors, it may be surmised that aggregate agricultural performance will be favourable in the Soviet Union. Grain harvest prospects in Eastern Europe are considered poor (Rumanian output was reduced by floods in early 1970) except in the case of Bulgaria, but this problem seems manageable because of the expected availability of Soviet grain.

THE CONSUMER AND INFLATION

11. In some Eastern European countries, living standards may be somewhat improved - and inflationary pressures reduced - if advance indications of a step-up of economic growth in general and agricultural production in particular are confirmed for 1970. Until this year, in most Warsaw Pact countries, money wages had been rising more rapidly than output, creating excess demand, shortages of consumer goods and increases in retail prices. Brezhnev in his 2nd October speech still acknowledged a "certain backwardness" in growth of output of Soviet food and light industries - a development that may also be reflected in the unusually rapid growth (28% at an annual rate) of Soviet personal savings during January-June 1970. In Czechoslovakia, where retail prices rose significantly in 1969, the leaders admit that popular consumer goods are still scarce but now claim that inflation is curbed.

(1) In Soviet terms, i.e. including excess moisture and impurities, which might account for 10-20% of the total

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POLICY DIRECTIONS

12. Experiments with decentralisation and liberalisation have been slowed down or halted in Warsaw Pact countries. Frequent "self-criticism" suggests that Communist leaders are aware of economic imperfections and genuinely desire to stimulate individual ingenuity, speed up introduction of new technology and cut down on waste. Clearly, however, the Soviets do not countenance methods which may seem to jeopardise direct control of the economy by the Party anywhere in the Warsaw Pact area. The disillusionment the Soviets suffered in 1968 over the aims of the Dubcek régime has doubtless increased Moscow's suspicion of what masks under the name of economic reform. Disciplinary measures seem to be stressed in recent Soviet labour laws and, on 6th November, Suslov publicly affirmed that "moral factors" (including tighter labour discipline, heightened worker responsibility) are at least as important as economic stimuli and material incentives in Soviet management and administration. In his speech of 2nd October, Brezhnev conspicuously refrained from prescribing measures of decentralisation as a solution for the Soviet economic problems that he mentioned.

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