15 March 1966

MEMORANDUM FOR THE RECORD

SUBJECT: DCI Country Briefing, 14 March 1966: Economic Growth in Eastern and Western Europe

1. On 14 March, I briefed the Director and his staff on postwar economic growth in Eastern and Western Europe. The main purpose of the briefing was to evaluate, by means of comparisons with Western Europe, the performance of the Soviet-type economic system as it has been applied to Eastern Europe. The conclusion was drawn from the statistical data on postwar growth that economic performance in Eastern Europe has been decidedly inferior to that in Western Europe.

2. The Director asked several questions in the course of the briefing, mainly to obtain elaboration on some of the points mentioned. He appeared satisfied with the answers.

3. An approximate transcript of the briefing is appended. A map of Europe and 4 charts, which were used in the briefing, are available [redacted] The charts concern: (1) Indexes of GNP, Industrial Production, and Agricultural Production in Eastern and Western Europe, prewar and 1950-64. (2) Comparison of average annual increases in GNP for 1951-64 and 1961-64 in Western Europe as a group and in Eastern Europe, as a group and by country. (3) Comparison of percentage increases in personal consumption per capita, prewar to 1964, in selected Western and Eastern European countries. (4) Comparison of the percentage of investment expenditures in GNP in typical Eastern and Western European countries and of the percentage distribution of investment expenditures among industry, agriculture, and services.

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GROUP 1

Comparative Economic Growth in Eastern and Western Europe

Postwar economic growth in Europe gives us a basis for comparing the performance of two different economic systems -- the market economy of Western Europe and the Soviet-type planned economy of Eastern Europe. By the term "Eastern Europe", I am referring to 6 countries: East Germany and Czechoslovakia are the most economically developed of the area, with a per capita GNP around three quarters of the West German level; Hungary and Poland form an intermediate group, with per capita GNP slightly below half of the West German level; Rumania and Bulgaria form the least advanced group, with per capita GNP less than one third of West Germany's and roughly on a level with Greece. Together these 6 countries form an economic unit, as measured by GNP, slightly smaller than West Germany, and more than one third of the USSR.

I would like to approach the comparison of economic growth from 3 points of view: (1) Production -- The growth of production was rapid in Eastern Europe, but no more so, and in recent years, less so than in Western Europe. (2) Consumption -- The increase in per capita consumption was far smaller in Eastern Europe than in Western Europe. (3) Efficiency -- Economic growth was less efficient, that is, more costly, in Eastern Europe than in Western Europe.

The growth of production during the postwar period and in comparison with prewar levels is shown in the first chart. There is little difference between Eastern and Western Europe in the growth of GNP. However, the pattern of growth was different. Industrial growth was more rapid in the

Eastern than in the Western countries. On the other hand the growth of agricultural production was much greater in the West -- in recent years it was about 50% above prewar levels in Western countries, but barely above prewar in Eastern countries.

The next chart contrasts the growth of GNP over the entire postwar period (1951-64) with that in recent years (1961-64) and also gives some data for individual Eastern European countries. Since 1960 there has been a sharp decline in the rate of growth in Eastern Europe, but virtually no decline in Western Europe. Now let us look at individual Eastern European countries. Over the entire 1951-64 period, the less advanced countries on the whole had the fastest growth -- Rumania and Bulgaria are on top, Czechoslovakia at the bottom, Hungary and Poland in the middle. East Germany is an exception, but rapid East German growth was due to a delayed recovery from the effects of World War II. In recent years, East Germany falls into line, with the slowest growth after Czechoslovakia. You will note that by far the largest declines in growth rates are in Czechoslovakia and East Germany. In fact, Czechoslovakia had a drop in production in 1963 and no increase in 1964 -- amounting to an economic recession that is probably the most severe that any industrial country has experienced since World War II.

The very poor performance of Eastern Europe in raising the economic welfare of the population is clearly seen in the next chart. This chart shows percentage increases in personal consumption per capita from prewar years to 1964 in selected countries of Eastern and Western Europe. The increases are much smaller in Eastern Europe with only one exception, Poland. But the improvement in Poland is due largely to a large reduction in population since prewar days and an increase in productive capacity as a result of boundary changes. The severe lags in the growth of consumption in such countries as East Germany and Czechoslovakia has reduced their consumption levels to less than 60 percent of the West German, while before World War II they were about at parity with West Germany. The current discrepancies are evident to every traveler.

One of the main causes of this lag in consumption is illustrated in the last chart. To achieve a similar growth of GNP, the Eastern European countries had to use more of their GNP for investment than the Western European countries -- typically about a quarter instead of a fifth. Moreover, investment costs were higher in Eastern Europe than in Western Europe in spite of a distribution of investment that should have kept investment costs lower. Eastern Europe put a much larger share of investments into industry and agriculture than Western Europe -- for these sectors together, 60 percent compared with 40 percent. The strategy was to build as many new factories as possible while postponning the construction of such things as houses, roads, warehouses, and modern railroad facilities as long as possible and using existing facilities more intensively. But the strategy did not work. The large investments in industry were not used efficiently. And in recent years, the lack of adequate transportation, warehouse space, and so forth has become an obstacle to economic growth. Moreover, the large investments in agriculture proved extremely unproductive. This is mainly because of the collectivization of agriculture in all of the Eastern countries, except Poland, which caused a flight of labor from the farm and a great weakening of farmers' incentives.

What do we conclude from these statistics? -- that the economic performance of the Western European countries has been clearly superior to that of the Eastern European countries. The Eastern European countries make a poorer showing, for the entire postwar period, on at least 2 of the 3 criteria that we have examined; and in recent years, on all three. East Germany and Czechoslovakia, the more industrialized Eastern countries, show up especially poorly. The communist regimes of these countries apparently have arrived at the same conclusions. For the past two or three years they have been groping for economic policies that will work better and for changes in the Soviet-type system of economic planning and management that will increase efficiency. They have had little help or inspiration from the USSR, and consequently have been more interested than in the past in Western goods and technology, and more open to Western ideas. The outcome cannot be predicted, but surely there is a potential for political instability and there will be many opportunities for increasing Western influence in Eastern Europe.

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