

19696

~~SECRET~~
CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

INTELLIGENCE MEMORANDUM

PRINCIPAL ECONOMIC DEVELOPMENTS
IN THE EUROPEAN SATELLITES IN 1958

CIA/RR IM 59-14

7 August 1959

~~WARNING~~

~~This material contains information affecting
the National Defense of the United States
within the meaning of the espionage laws,
Title 18, USC, Secs. 793 and 794, the trans-
mission or revelation of which in any manner
to an unauthorized person is prohibited by law.~~

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

~~SECRET~~

~~SECRET~~

FOREWORD

This memorandum was prepared initially as part of the ORR Contribution to NIE 12-59, The Outlook in the European Satellites.

~~SECRET~~

BLANK PAGE

~~SECRET~~

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Summary | 1 |
| 1. Economic Policy | 2 |
| 2. Economic Growth | 5 |
| 3. Agricultural Collectivization | 7 |
| 4. Foreign Trade and Economic Cooperation | 9 |
| 5. Relations with the USSR | 11 |
| 6. Living Conditions | 13 |

~~SECRET~~

~~SECRET~~

PRINCIPAL ECONOMIC DEVELOPMENTS
IN THE EUROPEAN SATELLITES IN 1958*

Summary

The dominant economic trends in the European Satellites** in 1958 were a greater conformity to Soviet policies, impressive rates of industrial growth, an over-all decline in agricultural output, progress in expanding and balancing foreign trade, more intensive efforts to rationalize the structures of the economies, and a slowing down or absence of improvements in living conditions.

Changes in economic policy generally reflected more optimistic views of opportunities for increasing production and stronger emphasis on investment. The socialization of the economies along Soviet lines was pushed with greater determination. Increased attention was given to improving the efficiency of economic management and the productivity of workers. These shifts in policy are exemplified by the projected "leap forward" in Bulgaria; the upward revisions of important goals in Czechoslovakia, East Germany, and Hungary; intensified collectivization of farms in several Satellites; the gradual revision of work norms and wage systems; and some decentralization of decision-making in operational matters.

Increases in national income*** were lower than the averages for 1954-57 in several Satellites, but rates of industrial expansion were favorable throughout the area. Gains in gross industrial production ranged from 10 to 12 percent in the most developed countries and even more in Bulgaria and Albania, exceeding the planned goals in each instance. In Bulgaria, Czechoslovakia, and East Germany, the increases were the largest of the past 5 years. Increases in employment made an important contribution to the growth of industry in nearly all of the countries, including those with labor shortages. New and improved production facilities and the increased availability of industrial materials also yielded important gains in output.

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 15 June 1959.

** The terms European Satellites and Satellites are used interchangeably in this memorandum.

*** All references in this memorandum to the national income of the Satellites are based on the Communist concept, which excludes "non-productive" services but includes indirect taxes.

~~SECRET~~

~~S-E-C-R-E-T~~

Considerable progress was made in the formation of collective farms* in several Satellites during 1958. The collectivized areas in East Germany, Czechoslovakia, and Rumania grew by about one-fourth to one-half. By the end of the year, collectivized areas in the Satellites ranged from about 86 percent of total agricultural land in Bulgaria to a mere 1 percent in Poland.

Czechoslovakia, Hungary, and Poland were able to boost their exports substantially in 1958, and trade balances were favorable in each Satellite except Albania and Poland, which continued to utilize long-term credits extended earlier. New Soviet credits for the Satellites were much smaller than in 1956 or 1957 and probably were exceeded by Satellite loans to underdeveloped areas.

The efforts of the Council for Mutual Economic Assistance (CEMA) to coordinate Satellite economic plans and promote specialization of production were intensified in 1958. Bilateral trade agreements between countries of the Soviet Bloc were prepared for the period through 1965 (and in outline through 1975). Under the terms of these agreements, the USSR has agreed to supply much larger volumes of industrial materials to the most developed Satellites, especially East Germany. An analysis of long-term trade and production plans by CEMA, however, reportedly revealed serious deficiencies in the plans for supplies of industrial materials. Steps are being taken to correct these inconsistencies.

Little or no improvement in living conditions took place in Hungary, Czechoslovakia, Rumania, or (probably) Albania in 1958, and the advances in the other countries were smaller than in the previous 2 years. The availability of food, in terms of calories per capita, has been adequate in recent years except in Albania, but progress in improving the quality and variety of the diet has been slow. Supplies of durable consumer goods, although increasing rapidly, are still quite limited. The shortage and poor quality of housing remains a serious problem except possibly in Czechoslovakia. Housing conditions continued to worsen in Poland, Hungary, and Rumania in 1958.

1. Economic Policy

Significant changes in economic policy occurred in 1958 in most of the Satellite countries. The dominant orientation of policy in

* The term collective farms refers in this memorandum to all types of cooperatives for agricultural production.

~~S-E-C-R-E-T~~

~~SECRET~~

1957 was adjustment to the uprisings of 1956, consolidation of earlier achievements, moderation in fixing production goals for the following year, and increased consideration of the needs of consumers. In contrast, the policy changes of 1958 reflected a more optimistic official assessment of economic capabilities, a greater concern with future rates of growth than with improvements in living conditions, and a desire to press forward with the "building of socialism" in spite of some cost in productive efficiency and popular support. Economic developments in 1958 were determined largely by the policies of the previous year, but changes in policy during 1958 already have had important effects on agricultural collectivization and can be expected to make themselves felt in other respects in 1959-60.

The most striking change in 1958 was the projected "leap forward" in Bulgaria. This proposal by Party Secretary Zhivkov calls for a speedup of economic activity that is without precedent among the Satellites. Even if the announced intention to fulfill the Third Five Year Plan (1958-62) in 3 or 4 years is taken seriously -- and fulfillment in 3 years is most improbable -- such specific objectives as doubling agricultural output in 1 year and trebling it in 2 years seem unattainable. The subsequent reduction of the agricultural goal for 1959 to a 74-percent increase does not conspicuously improve the realism of the plan. The speedup appears to be based on the hope of a miraculous upsurge of productive effort by the population rather than on a reasonable estimate of what might be accomplished with the means at hand, even under the assumption of an extreme shift of resources in support of a "leap."

Revisions of over-all production goals were also announced in Czechoslovakia, East Germany, and (in early 1959) Hungary, but the changes are appreciable only for the last two countries. The planned increase from 1955 to 1960 in the gross industrial production of East Germany, initially announced as 55 percent and then cut to 34 percent in 1957, was boosted to about 42 percent in 1958. Although this latest revision might be considered a consequence of Party Secretary Ulbricht's victory over the "economic realists" in the East German government, the goal does not seem unrealistic in view of recent accomplishments and the economic assistance granted in 1958 by the USSR. In Hungary a recent resolution by the Central Committee of the Party called for the achievement in 1959 of the most important objectives set for 1960 in the interim Three Year Plan. Except in industry, this accelerated program appears to be beyond the capabilities of the economy.

Some changes in agricultural policy appeared in the Satellites in 1958 and early 1959 -- all in the direction of greater conformity with current Soviet practices. Collectivization of agriculture

~~SECRET~~

~~SECRET~~

was pushed more vigorously in several of the Satellites. The push was more subtle than in the early 1950's, although instances of harsh methods have been reported, especially in Rumania. Bulgaria and Czechoslovakia announced plans for the elimination of compulsory deliveries of agricultural products in 1959 and, together with East Germany, indicated their intentions of transferring at least some of the equipment and personnel of the machine tractor stations (MTS's) to collective farms.

In some of the Satellites during 1958, policy concerning the division of national income between consumption and investment shifted slightly to the advantage of investment. Investment grew much more rapidly than consumption in Czechoslovakia, although a more equal expansion is planned for 1959. In Hungary the pace of economic recovery from the effects of the uprising encouraged the regime to raise the investment goal for 1958 by 13 percent, but the regime adhered to its earlier position that living standards could be maintained only at the 1957 level. The share of investment in the national income thus is being increased more rapidly than was scheduled in the Hungarian Three Year Plan for 1958-60, but the proportion (about 14 percent of national income in 1958) remains low by Soviet Bloc standards.

The principal development affecting consumption in East Germany was the abolition of rationing of certain basic foods. The move was evidently motivated by the desire to eliminate the aspect of the "garrison state" that continued rationing suggested and to reduce the dissatisfaction of the consumers by offering greater freedom of choice among goods. This action, however, implied no major change in policy concerning the share of national income devoted to consumption.

During 1958, several Satellites undertook revisions of work norms and wage rates to encourage their workers to increase production. The characteristic features of the "reforms" are increases in both norms and basic wage rates, reduction of bonuses for above-norm performance, and some adjustment of wage differentials among various industries or occupations. Perhaps the most striking aspect of these reforms is the cautious manner in which they are being instituted. The revisions in Czechoslovakia, first announced in 1956, were finally tried out in a few establishments during the second half of 1958 and, despite some demonstrations by workers, were extended to include 72 enterprises by March 1959. Completion of the reform is scheduled for 1960. Changes were also introduced experimentally in 70 enterprises in Bulgaria and in a few enterprises in Poland in 1958, and gradual extension to other enterprises is planned in both countries. Little progress was made in East Germany, where long-continued efforts by the regime to introduce reforms have been frustrated by actual or threatened opposition from

~~SECRET~~

workers. Efforts to strengthen work incentives in Hungary were focused on a profit-sharing plan, the amounts distributed being determined in part by reductions in production costs. In Rumania the wage reform begun in 1957 was completed in 1958, apparently without much open resistance.

2. Economic Growth

The degree of plan fulfillment and actual percentage gains in industrial production were quite favorable in every Satellite in 1958, but the slow growth or decline of agricultural output held some over-all rates of economic growth below earlier levels. Preliminary official data and estimates indicate increases in national income (as defined in Communist countries) of about 4 to 8 percent in five of the larger countries and 15 percent in Albania. There apparently was little or no growth in the national income of Rumania. These increases generally compare favorably with recent growth rates in Western Europe, even after an allowance is made for differences in the concepts and methods underlying the statistics. The announced or estimated percentage increases in the national incomes of the Satellites are shown below.

| | Average, 1954-57 | 1957 | Preliminary 1958 |
|----------------|------------------|--------|------------------|
| Albania | 9 | 14 | 15 |
| Bulgaria | 5 | 8 | 7 |
| Czechoslovakia | 7 | 7 | 8 |
| East Germany | 7 | 5 to 6 | 6 to 7 |
| Hungary | 3 | 21 | 4 |
| Poland | 9 | 8 | 6 |
| Rumania | 7 | 15 | 0 to 3 |

Agricultural production in the Satellite area was lower in 1958 than in 1957, principally as a result of poor weather. The gains in gross agricultural output of 3 to 7 percent claimed by Czechoslovakia, East Germany, and Poland appear to be exaggerated. The estimated increases were more than offset by the declines in the other countries, where weather conditions for crop production were below average.

Increases in gross industrial production were large throughout the area, amounting to 10 to 12 percent in the most developed countries and even more in Albania and Bulgaria. Planned levels of industrial production, which reflected more cautious official expectations than in earlier years, were exceeded in every country by margins

~~SECRET~~

of 2 to 6 percent. Rates of growth in Bulgaria, Czechoslovakia, and East Germany were the highest of the past 5 years and an evident source of satisfaction to the regimes.

Several factors contributed to this expansion of industry. Increased employment in industry was an important source of additional output in nearly all of the countries. Even in East Germany and Czechoslovakia, where there has been a shortage of labor for several years, the number of "production workers" (a classification used by the Satellites in computing gains in productivity) grew by about 2 percent and 4 percent, respectively. Increases of 3 percent or more were registered in all of the other countries except Poland, where the gain was only 1 percent. Shortages of labor or drives for greater efficiency resulted in a transfer of workers in some of the Satellites from "nonproductive" to "productive" activity within industry. Over-all industrial employment consequently did not in every case rise as much as the number of "production workers."

The improved availability of raw materials and semifinished goods contributed appreciably to the rise of industrial production. This improvement was the result of the buildup of inventories of such goods in 1957 -- when additions to inventories were especially large in East Germany, Hungary, and Poland -- and a greater volume of imports of industrial materials in 1958. These improvements in supply facilitated a more complete and efficient use of the labor force and plant capacity.

New and improved production facilities also contributed to the increases in output. This factor probably was of greater importance than usual in Czechoslovakia and East Germany, where the growth of investment in fixed capital was especially large in 1956 and exceeded the rates of growth for national income in 1957. The payoff from this investment in these countries began to appear significantly in 1958.

Several of the Satellites also attempted to boost output through reforms of their wage structures (as outlined above) and through changes in their systems of economic organization. Changes of the latter type were carried out in Czechoslovakia, East Germany, and Poland in 1958 and were begun in Bulgaria in early 1959. The nature of the modifications varies from country to country, but all of them have some decentralization of decision-making in operational matters as a central feature. At the same time, the higher policymaking functions in East Germany have been concentrated further by broadening the powers of the State Planning Commission at the expense of the economic ministries, some of which were abolished. The motivation for the East German reorganization was strongly political, but the

~~SECRET~~

~~SECRET~~

strengthening of Party control was expected to have a decidedly favorable economic effect. Although the effects on output of the wage revisions and changes in economic organization in the various Satellites can hardly be isolated, these effects clearly did not disrupt the expansion of industrial output. Indeed, in view of the accomplishments of industry during the year, some beneficial effects might reasonably be inferred.

3. Agricultural Collectivization

One of the outstanding economic developments in the Satellites in 1958 was the substantial increase in the area held by collective farms in Albania, Czechoslovakia, and East Germany. The area under collectivization was also expanded in Bulgaria, Hungary, and Rumania, but there was no change in Poland. By the end of the year the proportion of total agricultural land in the collective sector ranged from about 86 percent in Bulgaria to a mere 1 percent in Poland. Changes in the degree of collectivization during the year and the varying importance at the end of the year of the socialist sector (collective farms and state farms combined) may be summarized as follows:

Percent of Total Agricultural Land*

| | <u>End of 1957</u> | <u>End of 1958</u> | <u>End of 1958</u> |
|----------------|--------------------|--------------------|----------------------|
| | | | <u>(End of 1958)</u> |
| Albania | 58 | 76 | 83 |
| Bulgaria | 81 | 86 | 93 |
| Czechoslovakia | 47 | 58 | 77 |
| East Germany | 25 | 37 | 45 |
| Hungary | 12 | 14** | 28 |
| Poland | 1 | 1 | 1 |
| Rumania | 25 | 30 | 57 |

The data show that the socialization of agriculture was essentially completed in Bulgaria and covered more than three-fourths of

* The data on Albania and Hungary represent arable land only. Agricultural land consists of arable land plus pastures, meadows, orchards, vineyards, and gardens.

** This share increased to 31 percent by the end of March 1959.

~~SECRET~~

the land in Czechoslovakia and Albania by the end of 1958. Socialization was less advanced in East Germany and Rumania in spite of the increases of the year. The previous cautious efforts of the Hungarian government to recoup the losses of 1956 gave way to a vigorous campaign in late 1958 and early 1959 which doubled the collectivized area within 5 months, so that the proportion approximated the previous peak of 1953. In Poland, however, there was no serious effort to increase the collectivized area.

Developments in 1958 thus accentuated the already great differences in the status of agricultural collectivization among the Satellites. In no other sphere of economic activity are there comparable differences in effective policy, and in no other respect do economic institutions in any of the Satellites diverge so much from the Soviet model as in Polish agriculture.

Most of the peasants in the Satellites evidently remain opposed in principle to the idea of collectivization. Recent trends show, however, that this resistance can gradually be overcome under certain circumstances without causing a reduction in output, although not without making increases in output difficult. The growth of collectivization in these countries during the past several years cannot for the most part be attributed to a degree of coercion or economic discrimination greater than in the campaigns of the early 1950's. Such methods are still to be found, but (with occasional exceptions, as in Rumania in 1958 and Hungary more recently) they have become less prevalent since the introduction of the "new course." Nevertheless, the continuation of collectivization efforts over a period of 10 years or so no doubt has caused some loss of hope among independent peasants and worn down their resistance.

The attitudes of these peasants have also been influenced in a more positive way by changes in policy that have facilitated increases in output (by expanding agricultural investment and the availability of supplies) and increases in agricultural incomes (by raising commodity prices and other means). Changes of this type, benefiting both independent and collective farmers, during the past several years have overshadowed efforts to drive independent farmers into collectives by increasing the burdens on private operations or by broadening the economic advantages offered by collective farms.

Efforts to collectivize clearly have had a depressing effect on agricultural output in the sense that the potential for production with existing resources and technology has not been realized. Collective farms in the Satellites have on the whole proved to be less efficient producing units than private farms. Peasant resistance to joining collectives has been overcome and the collectivized area

steadily expanded, but the sluggishness of the growth of output, in spite of the increased attention given to production inputs and incentives, shows that the program has had a high economic cost.

4. Foreign Trade and Economic Cooperation

One of the foremost objectives of economic planning in the Satellites is a rapid expansion of the output of exportable goods. Steadily rising volumes of exports are needed in the more industrialized countries to pay for growing imports of raw materials and in the less developed countries to pay for needed capital equipment. Nearly all of the Satellites, moreover, have the task of maintaining or achieving surpluses of exports in spite of rising requirements for imports. Surpluses of exports in commodity trade were needed in several of the countries in 1958 to cover customary deficits on the services account, to implement credits extended to underdeveloped areas or other countries of the Sino-Soviet Bloc, or to reduce short-term foreign indebtedness. The Satellites that recently have received long-term credits -- notably Poland and Hungary -- have the additional task over the next few years of developing export surpluses sufficient to permit initiation of the repayment of the loans.

The scattered data available for the Satellites indicate creditable achievements in foreign trade in 1958. These achievements were made possible not only by the sizable gains in industrial output throughout the area but also by changes in the terms of trade, which helped Czechoslovakia, East Germany, and Hungary. Increases in the physical volume of exports were especially large in Czechoslovakia, Hungary, and Poland, while their volumes of imports either stayed about the same as in 1957 or declined slightly. Balances in commodity trade were on the whole more favorable than in 1957, and there was no net foreign investment in the countries as a group. As the following tabulation of the net export or import balance in commodity trade shows, export balances were achieved in 1958 in each Satellite except Poland and Albania.

| | Million US \$* | |
|----------------|----------------|-----------------|
| | 1957 | 1958 |
| Albania | -45 | - (amount N.A.) |
| Bulgaria | +47 | +50 |
| Czechoslovakia | -29 | +156 |
| East Germany | +195 | +210 |
| Hungary | -194 | +50 |
| Poland | -277 | -167 |
| Rumania | -44 | + (amount N.A.) |

* Dollar values are given in current US dollars throughout this memorandum.

~~SECRET~~

Poland managed to increase its volume of exports by an impressive 20 percent in 1958, but lower prices in the West for coal held down earnings from trade with countries outside the Sino-Soviet Bloc and limited the over-all growth of exports to about 9 percent in terms of value. Because the value of imports declined, however, the trade deficit was about three-fifths as large as that of 1957. This reduction is a considerable achievement, but further intensive efforts will have to be made to expand exports if adequate surpluses are to be available for scheduled payments of debt in the 1960's.

The foreign trade balance of Hungary in 1958 reflects the surprisingly rapid recovery of industrial output since the revolt, as well as more favorable terms of trade. The value of exports rose about 40 percent above the value in 1957, while the very high level of imports made possible by foreign aid in 1957 was reduced by 8 percent. The large deficit of 1957 accordingly was converted to a small surplus in 1958, and a small payment was made on the debts incurred in 1957.

East Germany, the largest net importer of raw and semifinished materials among the Satellites, also profited when surpluses of these materials developed in Western markets. West Germany was unwilling, however, to increase deliveries of materials (against East German shipments in 1959-60) to the extent which the Ulbricht regime proposed in an effort to take economic and propaganda advantage of West German market difficulties. In spite of a decline in East German exports to Western markets, a balanced growth of over-all exports and imports of about 4 percent, in terms of value, occurred in 1958. The real volume of imports of industrial materials increased considerably more than that, however, with beneficial effects on production.

The share of the turnover of foreign trade accounted for by the Sino-Soviet Bloc declined in Poland (from 59 to 56 percent of the total), increased moderately in Czechoslovakia, and continued at about the 1957 level in the other Satellites for which data are available (Bulgaria, East Germany, and Hungary). These shares, which now range from 56 percent in Poland to perhaps 95 percent in Albania, remain below the 1953 level for every Satellite. The USSR accounted for only 26 percent of the total trade turnover of Poland in 1958 compared with 31 percent in 1957.

The efforts of CEMA to make the economic structure of the Soviet Bloc more rational were intensified in 1958. An impetus to heightened activity in this field was provided by Khrushchev during his visit to Hungary in April. The Soviet leader sharply criticized the inadequacy of economic cooperation among the Satellites and urged both increased

~~SECRET~~

industrial specialization and coordination of plans as bases for more efficient production. These remarks were followed by an economic conference attended by Party leaders in Moscow in May, at which the importance of plan coordination and the role of CEMA were stressed, and by a plenary session of CEMA in Bucharest in June, which directed the preparation of trade agreements through 1965 and in broad outline through 1975.

Subsequent analysis by CEMA of the preliminary plans for production and trade in the Satellites through 1965 reportedly revealed serious deficiencies and inconsistencies, especially in the plans for supplies of industrial materials. This problem was discussed at the 10th plenary session of CEMA in Prague in December, and the standing CEMA committees for various industries were instructed to draw up detailed recommendations for presentation to the 11th plenary session, which met in May 1959.

5. Relations with the USSR

New credits extended by the USSR to the Satellites in 1958 were much smaller than those of 1956 or 1957 and probably were exceeded by Satellite credits of about \$280 million to underdeveloped countries outside the Sino-Soviet Bloc. This change reflects less pressing needs in the area as a whole rather than an alteration of the recent Soviet policy of promoting the economic growth and stability of these countries.

East Germany was the principal beneficiary of new Soviet extensions of economic assistance to the Satellite area in 1958. A credit in the amount of \$162.5 million was negotiated to cover substantially increased Soviet deliveries, chiefly of industrial materials, to East Germany during the next several years. In addition, East German payments for the support of Soviet troops stationed in the country were first reduced and then completely eliminated as of the end of the year. How these concessions affected East German support payments in 1958 is uncertain, but their value in 1959 is 800 million DME (Deutsche Mark East), or about \$200 million.

Of the other Satellites, only Bulgaria received new credits in 1958. A Soviet loan of \$32.5 million was granted for the construction of an oil refinery, and an additional credit for specific industrial projects was negotiated in July 1958. The amount involved in the latter agreement was not announced, but it may well exceed the credit for the oil refinery. Although only East Germany and Bulgaria obtained new Soviet credits in 1958, several of the Satellites (notably Hungary and Poland) received goods from the USSR during the year under the terms of Soviet loans arranged in 1956-57.

~~SECRET~~

Each of the Satellites except Albania negotiated a long-term trade agreement with the USSR in 1958 to cover the period through 1965. These agreements suggest that the USSR is willing to support the economic development of the Satellites, and especially of East Germany, by furnishing greatly increased quantities of industrial materials in the future. This willingness is underlined by the large increase planned in Soviet deliveries of iron ore, which is in tight supply in the USSR. The degree of Satellite dependence on Soviet supplies already is large. According to a recent statement by a high Czechoslovak official, the USSR provides more than 90 percent of Satellite imports of crude oil, about 80 percent of the iron ore, 75 percent of the copper, 67 percent of the cotton, 57 percent of the rolled steel products, and the major part of the grain. The following data show some of the increases in Soviet deliveries that are scheduled in the long-term trade agreements.

Thousand Metric Tons

| | 1957 | 1965 Plan* |
|--------------------|--------|------------|
| Crude oil | 13,600 | 16,000 |
| Iron ore | 10,700 | 22,900 |
| Pig iron | 790 | 2,160 |
| Rollled steel | 1,310 | 2,240 |
| Metallurgical coke | 1,890 | 2,740 |
| Copper | 564 | 834 |
| Aluminum | 55 | 91 |

These supplies are to be exchanged primarily for Satellite machinery and equipment, chemicals, and chemical products, although exports of certain raw materials, foodstuffs, and industrial consumer goods will continue to be important in the trade of some of the countries.

The development of such trade relationships between the USSR and the Satellites is motivated by both economic and political considerations. The exchange of goods corresponds at least in a general way to comparative costs of production and natural lines of specialization, judging from the distribution of natural resources and the varying stages of industrialization reached in these countries. The USSR probably also wishes, for political reasons, to avoid any further sizable increase in the share of Satellite foreign trade carried on

* Including 1 million metric tons of Austrian crude oil shipped on the Soviet reparations account.

~~SECRET~~

with countries outside the Sino-Soviet Bloc other than the underdeveloped countries. The underdeveloped countries may be able to supply increasing amounts of some materials (mostly foodstuffs and fibers), but the USSR must take upon itself the task of satisfying growing Satellite needs for fuels and metals.

Economic policies in the Satellites are influenced both by the doctrine and example of the USSR and by the judgment of Satellite leaders of how the Soviet line should, and under the circumstances can, be applied to conditions in their respective countries. The recent changes in the Satellites that are most suggestive of Soviet influence (and perhaps pressure) are the sudden farm collectivization drive in Hungary after almost 2 years of caution, the economic reorganization now under way in Bulgaria (which resembles the earlier Soviet action), and the moves by Bulgaria and Czechoslovakia to reduce the role of the MTS's. When Khrushchev's plan to merge the MTS's with the collective farms was first reported in early 1958, the initial reaction of the Bulgarian and Czechoslovak regimes was that conditions in their countries were not suitable for such a change.

The USSR probably also influenced the decision of East Germany to abolish rationing of food last year. Abolition of rationing reportedly had been encouraged by the USSR for some time, no doubt with an eye to its political effect. Certainly, this step could be considered a prerequisite to successful propaganda use of the campaign to surpass West Germany in the per capita consumption of foodstuffs and the most important industrial consumer goods by 1961. It seems likely that the USSR supported the action either by assisting in the buildup of stocks or by guaranteeing the supply of additional quantities of foodstuffs that might be needed to meet consumer demands.

6. Living Conditions

The gradual improvement in living conditions that has taken place in the Satellites in recent years continued in some of the countries in 1958 but not in others. There was little or no change in Hungary, Rumania, Czechoslovakia, and probably Albania, and the gains in the other countries generally were smaller than in preceding years because of lower rates of growth or sizable increases in exports and in domestic investment. Even in the countries where the trend in living conditions has been distinctly favorable, dissatisfaction with current levels of living still is widespread. The more rapid growth of national income in 1958 and the continuing decline in population permitted an increase of 4 or 5 percent in consumption per capita in East Germany -- probably the largest gain.

~~SECRET~~

~~S-E-C-R-E-T~~

among the Satellites. Poland's increase of 4 percent in total consumption yielded only a 2-percent gain per capita because of the rapid growth of the population. The improvement in living conditions thus was small compared with that in 1956 and 1957. There was virtually no increase in consumption per capita in Hungary, where the regime aimed only at the maintenance of the gains granted in 1957 as a reaction to the revolt. The rise amounted to less than 1 percent in Czechoslovakia, where there was a noticeable shift of resources to investment.

Per capita availabilities of food (in calories) rose substantially in Albania, Bulgaria, and Rumania in the 1957/58 consumption year, making up for the declines of the preceding year in each instance and reaching the highest postwar point in Rumania. A reduction of these levels is expected in 1958/59, however, because of less favorable harvests. East German per capita availabilities of food increased in 1957/58, and a further rise in 1958/59 is anticipated. Little change in either 1957/58 or 1958/59 is indicated for the other countries.

Now that average daily food consumption in the various Satellites (except Albania) has been raised to the level of about 2,700 to 3,100 calories, the problem is more one of improving the quality and variety of the diet of urban families than of adding more calories. Only Czechoslovakia has achieved an almost satisfactory balance between cereals and the desirable high-protein foods of animal origin. The greatest improvement in this respect in 1957/58 probably occurred in Poland, particularly in the supplies of meat in urban areas. In Hungary, however, the pressure to boost exports of food products left few opportunities to improve the quality of the diet.

There were further sizable increases in the Satellites in 1958 in production and retail sales of some types of durable consumer goods, such as bicycles, radios, television sets, and certain household appliances. Measured against the demand, however, quantities of most manufactured consumer goods remain quite limited, and prices are very high for the average family.

The shortage of housing is an outstanding deficiency in the levels of living of urban consumers in nearly all the Satellite countries. Although little change one way or another can be expected in the course of one year, it is significant that the stepped-up housing programs were not sufficient to prevent a worsening of conditions in Poland, Hungary, and Rumania in 1958. Conditions are improving very gradually in Czechoslovakia, East Germany, and Bulgaria, but even Czechoslovakia -- the Satellite with the most adequate housing facilities -- has a long way to go to catch up with such Western countries as West Germany.

~~S-E-C-R-E-T~~