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**Interagency  
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Memorandum**

*Prospects for Eastern Europe*

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PROSPECTS FOR EASTERN EUROPE\*

MAIN POINTS

- Unrest is likely to grow in Eastern Europe over the next three years. The destabilizing effects of detente, slower economic growth, and dissident activity will all add to the tension between the East European regimes and their peoples.
- The impact will not be uniform. Poland will be the most volatile, and a blow-up there, which might bring down Gierek and even conceivably compel the Soviets to restore order, cannot be ruled out. The situation will be less volatile in East Germany, but the Honecker regime is going to have a harder time balancing its economic need for closer ties to the West with the unsettling effect those ties have on the East German people.
- In the rest of Eastern Europe, the tension is not likely to get out of hand. Nowhere will dissident activists by themselves seriously challenge the regime.
- Under economic pressures, all of the East European countries will show more interest in expanding their trade with the West. Despite misgivings, the Soviets will acquiesce or even encourage such expansion because they are increasingly reluctant to subsidize the East European economies. But balance-of-payments problems will help limit East European economic ties to the West.

\* This Memorandum was prepared by an interagency group representing CIA, State/INR, and DIA under the auspices of the National Intelligence Officer/USSR and Eastern Europe.

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- East European leaders will continue to give ground, sporadically and reluctantly, on human rights issues of interest to the West. But they will resist anything that looks like a Western effort to bring about significant political change.\*
  
- If there is no major threat to internal order in any of the countries, the prospects are fair for a slow evolution toward less authoritarian methods of rule in East Europe.\*
  
- The East Europeans are not likely to seek or get any significantly greater independence in foreign affairs.
  
- The US is not likely to have a major impact on how the internal picture develops in any of the East European countries. But the East Europeans will attach more importance to developing relations with the US, not only for the possible economic benefits but also for the increased prestige such ties bestow on the current leaders.

\* DIA does not agree that East European leaders will accommodate to Western views on human rights or that prospects are fair for a decline in authoritarian methods of rule in the absence of a threat to internal order. DIA believes that the necessity for tight centralized party control, the likelihood of growing unrest, constraints imposed by the USSR, and the example of Soviet treatment of dissent all argue against such developments.

DISCUSSION

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SCOPE NOTE

This paper covers the next three years. It assumes Soviet ability to deal, militarily if necessary, with any serious threat to the USSR's security interests in Eastern Europe. The paper is guided by these questions:

- What are the prospects for instability in the region, and in particular countries?
- What are the various countries' economic prospects?
- What is the outlook for an amelioration of traditional Communist practices?
- Do any of these countries have leeway for a foreign policy selectively independent of Moscow's in areas of significant interest to the US?
- What impact is the US likely to have?

Because of its unique status vis-a-vis the US and the USSR, Yugoslavia is not considered in this paper.

DISCUSSION

1. The riots by workers in Poland last year and the emergence of dissident activity in Czechoslovakia, East Germany, and Romania are signs that East European countries will live in a more fragile than usual situation over the next two or three years. The underlying causes are unchanged: the chronic disaffection of the East European people with the Communist systems they are stuck with, nationalism, and the attraction of the West.

2. But there are some new factors. Moscow's detente policy has reduced the isolation of the East European people and raised demands for more personal freedoms and a better standard of living. At the same time, the requirements of detente have made it harder for the regimes to deal with their peoples in authoritarian ways abhorrent to Western sensibilities.

3. New economic problems are also emerging. The East European economies and the material well-being of the East European people have grown significantly over the past 15 years. But the growth rates are slowing down, and the prospects are good for growing consumer dissatisfaction over the next few years. This is dangerous because rising material expectations were consciously generated by the regimes to help neutralize unfulfillable political and national aspirations.

Economic Trouble

4. The region as a whole is resource-poor. Even in good harvest years, the northern countries are not self-sufficient in grain. Eastern Europe is especially dependent upon energy imports. Heavily reliant on foreign trade anyway, these countries have in recent years also suffered the consequences of Western recession and inflation, higher prices for Soviet oil and raw materials, and larger grain import needs due to poor harvests. At the same time, East European manufacturing plants are obsolescent in important sectors. The labor force is relatively skilled, but productivity suffers from lack of incentives. Management is beset by the irrationalities and inefficiencies endemic to centralized planned economies.

5. Unable to generate sufficient exports, the countries of the region--especially Poland--are accumulating a large hard currency debt. In order to keep new borrowing down, the East Europeans will have to restrict imports from the West while attempting to maximize exports. But economic growth itself depends on quality Western equipment and industrial materials. The East Europeans have already scaled down their growth projections for the current (1976-80) five-year plan. There is reason to doubt that even these more modest projections will be met. Tensions will rise as consumers feel squeezed. The regimes will want to raise consumer prices to stem demand, but they will be wary in view of the Polish experience.

6. In the background loom more severe strains in the early 1980s, when anticipated declining Soviet oil production will reduce oil imports from the USSR (see Figure 1) and will greatly increase East European hard currency purchases of oil.\* As a result the East Europeans will have to take steps to increase conservation and to substitute coal for oil in power plants.

7. All these problems will renew the case for reforms--increased material incentives, realistic price structures, and more decentralization. Most of the East European leaders will be reluctant to embark on this road. In addition to their inherent ideological misgivings, they are likely to want more, not less, centralized control at a time when hard economic choices must be made. Under pressure, they are likely to be more concerned about Soviet misgivings regarding the orthodoxy of reforms. While reluctant to make basic structural changes, the East Europeans will want to increase the output from the private sector of the economy, and perhaps increase its share of the economy.

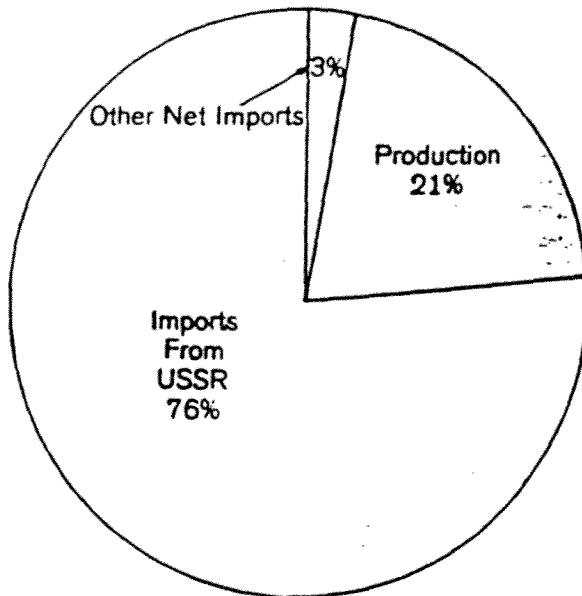
8. Increased economic constraints do not augur well for political stability, but how bad things will get politically is much less clear. The East European people know they are better off materially than ever before. They also are accustomed to some economic discomfiture and even deprivation. They know that the West is experiencing high levels of unemployment and inflation. Experience will tell them they cannot expect much help from the West. With adroit economic tinkering and reasonable luck, many or all of the East European regimes may dodge

\* DIA believes that the decline in Soviet oil production will not be as rapid as indicated in this paper and that the Soviets should maintain production at current or higher levels into the 1980s.

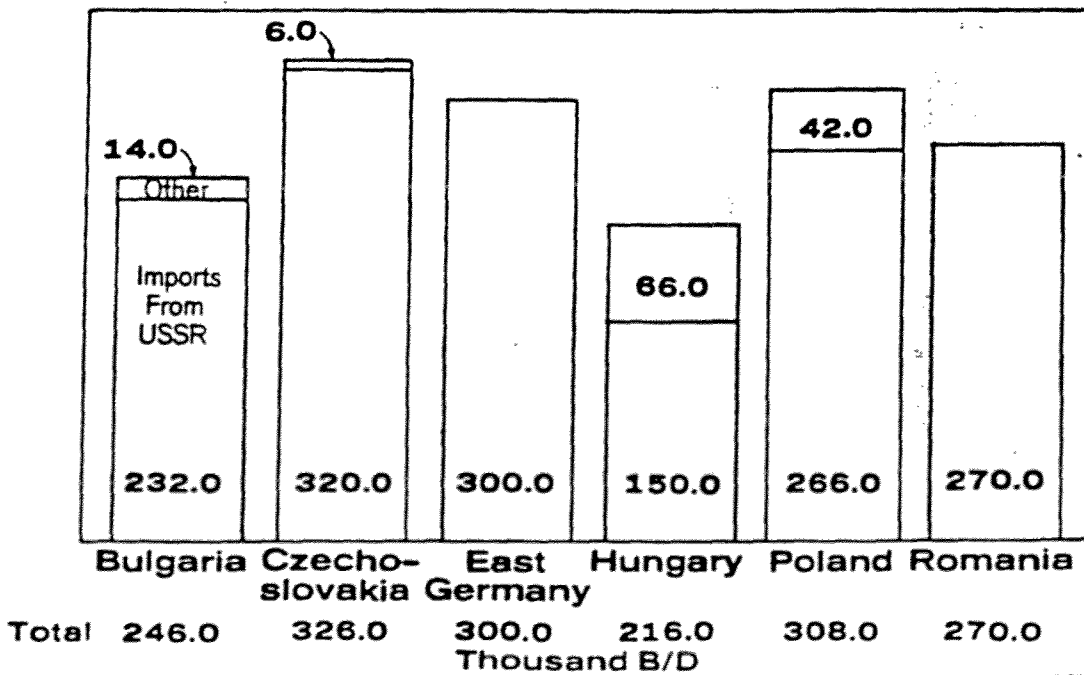


Figure 1. Eastern Europe: Oil Consumption, 1975

**Total by Source**



**Total by Country**



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the various hazards of the next few years with the grudging support of peoples reluctant to risk their hard-won margins of improvement. The greatest hazards lie in Poland, whose people are the most volatile in the region, and East Germany, where the attraction of West Germany cuts very deep.

The Dissident Problem

9. Dissidence is not a new phenomenon in Eastern Europe. But its re-emergence over the past year is of more than usual concern to the East European leaders. Their performance as rulers is being judged against Western standards of freedom and human rights, at a time when their economic performance vis-a-vis the West is being found wanting. These concerns are increased by the evidence that dissident activity in one country spills over into other countries. Helsinki has been a major stimulus, "Eurocommunism" has added its fuel, and the East European leaders are concerned that the Carter administration's emphasis on human rights will further encourage the dissidents. They also know that Helsinki has impacted, particularly in East Germany, on wide segments of the population in addition to the dissidents.

10. Nowhere do the dissidents seriously threaten Communist rule, nor will they do so in the foreseeable future. The danger for some of the East European leaders is that the dissidents will incite a population restive over economic and other grievances. The dissidents also make it more difficult to maintain the kind of political relations with the West and the US that can be helpful on the economic front. Further, their activities create another source of tactical disagreement with Moscow and among the East European party leaders themselves.

11. So far, the East Europeans have been given considerable latitude in handling the dissidents by the Soviets. But if Moscow decides to impose a tougher dissident policy on the East Europeans, then the prospects for miscalculation and serious troubles increase. Specific consequences are far less certain or predictable, although they may well become severe and might even result in a situation reminiscent of Hungary in 1956 or bring down a leader, like Gomulka in 1970.

If Leaders Change

12. A change in the leaders in any of the East European countries would have an unsettling effect. New leaders might have trouble establishing their personal authority and would have to gain Soviet confidence.

13. Serious instability in Yugoslavia or a clearly discernible movement toward the West after Tito would cause the East European leaders to tighten up their internal control and to take special care in their external policies not to give the Soviets cause for concern. Dissidents and disgruntled elements in countries like Poland, East Germany, and Czechoslovakia might be encouraged by such developments in Yugoslavia to press harder for changes at home.

14. A leadership change in the USSR would have a more pronounced effect. The East European leaders are comfortable with Brezhnev because he has given them considerable latitude in managing their internal affairs. His demands usually have not been unreasonable and they have with time gained some sense of his limits of tolerance. New understandings with Brezhnev's successors might be reached with relative ease if they consolidate power smoothly and conduct similar policies toward Eastern Europe and toward the West. But a period of political infighting in the Kremlin, or the emergence of a new Soviet leadership with a tougher stance toward Eastern Europe, would be very unsettling. Contradictory Kremlin signals on policies and personalities might well be mirrored in the politburos of Eastern Europe.

The Soviets

15. Moscow is obviously concerned about the unrest in Eastern Europe. A blow-up in any country not only has important implications for the region as a whole and for its ties to the USSR, but also for the tranquility of the Soviet Union itself and for its dealings with the West.

16. While Czechoslovakia in 1968 proved that Moscow can be pushed too far--and will intervene with force if it feels its security interests are seriously threatened, by and large the Soviet leadership under Brezhnev has opted for stability in

Eastern Europe at the expense of ideological purity. The Soviets feel uncomfortable with the more permissive approaches of the Poles and the Hungarians, but they have reluctantly permitted both Gierek and Kadar to fashion their tactics to fit their own circumstances. Gierek and Kadar are, in Soviet eyes, good Communists who will neither be transformed into social democrats nor forget the special relationship with Moscow.

17. The Soviets helped create the tougher economic environment in which the East Europeans must now operate. In 1975, Moscow sharply increased the price it charged East Europeans for oil and other raw materials, and prices also went up in 1976 and 1977. Moscow's policies derive from its own economic problems, plus a lingering feeling that the Soviet Union has had to sacrifice to ensure that people in Eastern Europe continue to live better than Soviet citizens.

18. The Soviets will have to continue to subsidize Eastern Europe, for the alternative is political unrest which is the last thing Moscow wants. Realizing this, Moscow has restricted its price increases, accepted payment in overpriced machinery, permitted the East Europeans to run sizable trade deficits, and granted credits and supplementary oil deliveries. Establishing the proper balance between economic and political equities will become harder as the Soviets begin to face up to an oil shortage in the 1980s and a more constricted Soviet economic outlook generally.

19. One consequence of these economic pressures is that the USSR will have to continue to look relatively favorably on Eastern Europe's economic ties with the West. They hope that the West will share the burden by continuing to finance Eastern Europe's purchases of industrial and raw materials and agricultural products and by helping to modernize East European industry so that it can pay with quality goods for Soviet imports. The Soviets probably will be willing to countenance such ideologically questionable arrangements as joint ventures with Western companies. They will be willing to allow a more favorable political relationship between Eastern Europe and the West to the degree that seems necessary for closer economic ties. They will probably allow some internal reform if it seems to promise economic results. But they will be concerned about the cumulative effect of these trends. How far they will be willing to let the East Europeans go will depend on their confidence in the particular Communist leader's ability to retain essential control and their perception of Western political intentions. This is a complicated equation that Moscow will recalculate as specific situations arise.

The Western Connection

20. Without making any special effort, the West has a substantial unsettling impact on Eastern Europe. Many in the region identify with Western cultural and social traditions and consider an "Eastern way" in alliance with Russia as alien to those traditions. Other East Europeans are drawn to the dynamic and material features of Western life that contrast sharply with the drabness of their own lot.

21. At the same time, the West has been in some respects a force for stability. Detente has helped the East Europeans to gain more latitude in their dealings with the USSR. Western goods bolster economic growth and enrich consumer supplies; Western credits permit large trade deficits; Western contacts cater to, as well as arouse, popular aspirations. Eastern Europe's economic needs have been a strong underlying motive for detente in Europe and for the region's opening to the West. These needs will grow over the next few years, and while increased trade and credits from the West will not be a panacea for Eastern Europe's economic ills, they can be of considerable help. The East European leaders will discover that the USSR will be increasingly reluctant to bail out their economies and that they must do more business with the West. Those countries which do not have MFN status will have increased interest in getting it. All will show increased interest in barter arrangements with Western companies and in joint economic ventures.

22. Partly because of these interests, East European leaders will continue to give ground, sporadically and reluctantly, on some human rights issues of interest to the West. But they will be hypersensitive to indications that the West is seeking to bring about significant political change in Eastern Europe. The Soviets in particular will be disposed to see evidence that the West is seeking to make trouble for them in their backyard. They will continue to see in the US emphasis on human rights a hostile political, rather than humanitarian, motivation. If problems of internal order grow serious enough--if for example there is a blow-up in Poland or East Germany--the imperative of order will prevail, with the Soviets seeing little choice but to accept the damage to wider equities with the West.

23. There are definite limits to present and feasible Western economic input to East European economic needs. Except for Romania, trade with CEMA countries will continue to predominate. Balance of payments constraints will also be a limiting factor. Trade with Western Europe is, and is likely to remain, much greater than that with the US (see Figure 2).

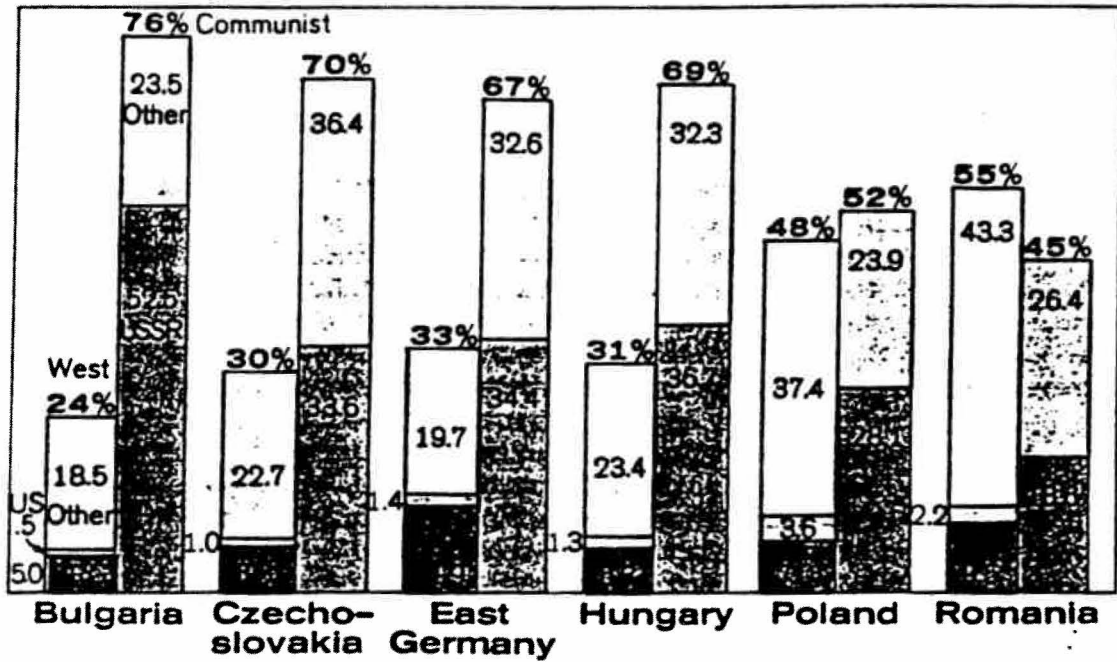
Poland

24. Internal unrest is more serious in Poland than anywhere else in Eastern Europe. It will continue to be so during the next two or three years. Disaffection with the regime, and with Communist rule, is widespread. The mood of the Polish workers fluctuates between resignation and surliness. As last year's riots and sabotage over proposed price increases proved, the workers are ready to express their grievances in action. They know that what they do sometimes counts; in 1970 they brought down Gomulka. The workers are angry over the failure of the Gierek government to make good on its promises of a better material life. The quality of life has improved but has not kept pace with expectations. People still face a shortage of apartments, long lines to buy food and other necessities, and long waiting lists for automobiles, refrigerators, and the like.

25. But the workers' resentment is not entirely fixed on pocketbook issues. The riots last year were also a response to the sudden and arbitrary nature of the regime's decision to raise prices steeply. For years, Gierek has been touting his commitment to consultations with the workers; his action gave the lie to his words.

26. Polish dissidents have tried, through the establishment of such organizations as the Workers Defense League, to make common cause with the workers. This has not yet paid off in any tangible way, but they are still working to create the impression that they speak for more than themselves. They are pushing for more freedom in the arts and mass media and for the right to travel. Beyond such personal freedoms, some dissidents are urging a more pluralistic system for Poland in which the Communist Party would share some of its power, for example, with independent trade unions or even with other political parties.

Figure 2. Eastern Europe: Foreign Trade Turnover by Geographical Area, 1975



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27. The irony is that personal freedoms are greater in Poland than anywhere else in Eastern Europe. Moreover, it is the only country in the region where agriculture is still largely in private hands and where the number of people engaged in retail trade and in services is increasing.

28. The position of the already powerful Catholic Church has been strengthened by the recent unrest. It has helped Gierek by urging restraint on the workers and, more recently, on restive students. The Church calculates that a breakdown in order will work against its interests and the prospects of a less authoritarian state by bringing to power leaders more orthodox than Gierek, possibly through the direct intervention of the Soviets. At the same time, the Church will be exerting increasing pressure on the regime on behalf of its own direct interests and in the area of human rights.

29. Gierek's primary goal will be to keep the lid on. He can do little else, for there are no short-term solutions to the underlying economic problems. Supplies of consumer goods will continue to fall short of demand. The regime will continue to juggle reserves of foodstuffs and to import extra supplies of consumer goods to take the edge off frustration and get through the sensitive periods of Christmas and Easter.

30. Much of Poland's economic progress since 1970 has been due to extensive imports of Western technology. This pace cannot continue during the next few years because of Poland's serious balance-of-payments problem. Central planners must find ways to use the resources already on hand more efficiently. The leadership has hesitantly taken measures to encourage private farmers and craftsmen to expand their activities. More investment funds will be diverted to the production of consumer goods. Poland may well seek refinancing of its Western debt.

31. On the basis of the evidence of the past year, Gierek seems inclined to move toward a less authoritarian



Poland. He has given new encouragement to the private sector of the economy, has loosened censorship, and is quietly encouraging members of the rubber-stamp parliament to act more like real representatives of the people. He has to proceed carefully because such policies are not universally supported within the party, and the Soviets undoubtedly are suspicious about their implications.

32. So far, the Soviets are acquiescing, for what they want most out of Poland at this juncture is quiet. They have even helped out with an approximately billion-ruble commodity credit and additional supplies of oil and grain. If order should break down, both Warsaw and Moscow will want to see it restored by Polish forces. Only if these fail will the Soviets intervene.

33. The policies of the US and the West are not likely to be critical to what happens in Poland over the next few years. But they will have some effect on Gierek's prospects. On the economic side, he hopes that the US will encourage private lenders to be responsive to Poland's needs both with respect to refinancing and to granting new credits, particularly to cover the importation of consumer goods.

34. There are few trade barriers to an increase in Polish sales to the US (the US accounts for only 4 percent of Polish foreign trade) and little the US can do over the short term to help Poland do a better job marketing in the US. But the Poles are concerned that recent protectionist actions against some of their exports may set a precedent that will restrict their sales in the US. Warsaw wants recognition by the US that it is doing better in the human rights area and muted coverage of internal and dissident affairs by Radio Free Europe. Above all, it wants to avoid a too vigorous US policy that would arouse Moscow's fears of American intentions in Eastern Europe and generate higher Soviet pressure against Gierek's reforms.

Hungary

35. The principal question in Hungary over the next few years is whether the Kadar regime will continue to pursue economic and cultural policies that are among the most liberal in Eastern Europe. The prospects seem good.

36. Hungary's economic reforms--introduced in 1968 as the New Economic Mechanism--feature some decentralization of decision making, a greater role for material incentive, and more reliance on price fluctuations to control supply and demand. The reforms encouraged innovation, productivity, and efficiency. They improved the performance of the Hungarian economy. But they also created political problems for Kadar. Workers complained about growing inequities in wage scales, conservatives about the creation of a bourgeois atmosphere, and the Soviets about the implications for socialism. The consequence has been some retrenchment and the fall from power of the leading reformists. But Hungary has not returned to the centralized, rigid model of the other CEMA countries.

37. Indeed, in its economic dealings with the West, Hungary has continued to be the most innovative East European country. It has led the way in establishing joint ventures with Western companies and recently has allowed Western companies to hold majority ownership in banking and service enterprises. Hungarian leaders are arguing that increased economic ties with the West are necessary to cope with the changing world economic environment. They have acknowledged that questions have been raised within the "socialist system" about the compatibility of increased economic ties to the West and further economic integration in CEMA. Kadar is under some pressure from the Soviets, other East European leaders, and within his own party ranks not to go too far in orienting Hungary's economy toward the West.

38. Kadar's social and cultural policies have been, by East European or Soviet standards, enlightened. The security apparatus is less in evidence, its abuses curbed. Writers and artists can pursue nonideological work, and there is little formal censorship. A wide range of Western literature, movies, and plays is available in Budapest. There are limits, and the government does not hesitate to enforce them. Intellectuals must take care in commenting on the regime, must not criticize

the Soviets, and cannot question Hungary's commitment to communism. The party is sensitive to unauthorized ideological interpretations of its practices. It clearly wants to avoid giving Moscow reason to believe that questionable practices are hardening into ideological positions.

39. Kadar himself seems to have won the support, grudging or otherwise, of most Hungarians. A small number of Hungarian intellectuals have come out in support of the Charter 77 group in Czechoslovakia but have avoided criticism of conditions in Hungary. Kadar has successfully ignored them.

40. He has had some trouble with workers and others over the cumulative effects of price increases; last year, after the Polish riots, there was a work stoppage in a large Budapest factory. None of this got out of control and Kadar raised prices on some goods this past winter without incident. He has also promised no additional significant price increases in consumer goods this year and he has raised some wages. Nonetheless, Kadar knows that the consumer will inevitably be facing more stringencies, and he is therefore moving to expand his support. He is seeking better relations with the Catholic Church and will soon visit the Pope. His projected trips to Western Europe are, in part, designed to show the Hungarian people that he has developed an active foreign policy within the framework of Hungary's Soviet alliance. He has also mounted a new campaign to recover the national treasures held by the US.

41. Kadar's light touch has not endeared him to all of his colleagues in Eastern Europe. The Soviets are more of a worry. Kadar's most powerful argument for his policies is that they work, that Hungary does not have a significant dissident or stability problem and is still a Marxist state faithful in its own way to the USSR. But if unrest grows elsewhere in Eastern Europe, the external pressures will increase on Kadar to impose a tougher regimen in Hungary. His reluctance to line up against some of the ideas espoused by some West European Communist parties will also create more trouble for him in Moscow if the Soviets get more concerned about Eurocommunism. These pressures will be manageable as long as Kadar stays on the scene.

42. Like other East Europeans, Kadar looks to the US to help his country primarily by maintaining the process of detente. He sees the detente atmosphere on balance as favoring the internal autonomy that he has carved out. Specifics are less important, but there are two largely symbolic concessions

that he seeks: the return of the crown of St. Stephen and the granting of MFN status. Both, in his view, would signal US acceptance of Communist rule in Hungary and recognition of his relatively enlightened policies. Thus they would strengthen his domestic position and his ability to withstand pressures from his own hard-liners and from Moscow. But they would not much affect Hungary's foreign policy, which by necessity if not conviction will continue to follow the Soviet lead.

#### East Germany

43. The Honecker regime is not nearly as rigid or doctrinaire as its predecessor, but it remains one of the more orthodox in Eastern Europe. It has sought not only to instill in the average East German a genuine commitment to Marxist goals and strict adherence to regime policies, but also commitment to East Germany as a lasting nation state. It has not been notably successful.

44. West Germany is the rub. It keeps alive the idea of a German, rather than East German, identity. Its achievements give the lie to East German assertions regarding the superiority of Communism. And its impact in East Germany has been growing since the two-Germany agreements of the early 1970s. There have been over 35 million visits by West Germans in East Germany since 1971. West German television is watched throughout East Germany; children hum West German commercials; young people get into arguments with party hacks who think they should be watching the right kind of programs on the right stations.

45. The Helsinki agreement increased the pressure because it seemed to imply that the regime would recognize the right of East Germans to travel and even emigrate to the West. It also gave restive East Germans a basis on which to apply to leave. By late last year, more than 100,000 had made application to emigrate to West Germany. To make matters worse, they were the kind of people--young, well-educated professionals and technicians--already in short supply in East Germany. The regime denied the applications and also passed the word through the party apparatus that applicants would lose their jobs. Some did.

46. But Honecker has also used his large and relatively efficient party and security organizations to find out why the East German people are not happy. When not constrained by overriding ideological or security considerations, he has tried to be responsive. For example, one message he has received is

that there is growing resistance to the government's effort to organize and politicize even the leisure time of its citizens. As a result, urban dwellers are now being allowed to plant their own private gardens, and more "free" leisure time is being allowed.

47. The cultural scene in East Germany is not as open as in Poland or Hungary. But Western observers who have returned to East Germany after a long absence are struck by the progress that has been made. A flourishing literature exists, in which the regime takes some pride. This does not prevent it from exiling those, like the folk singer Wolf Biermann, who go too far in their criticisms. But it has had some success in reaching a truce with East Germany's artists and writers. There is no organized dissident movement, and the activities of individual dissidents, like Biermann and the writer Reiner Kunze, do not seem to resonate strongly among the population.

48. One of the most important forces for stability is the character of the East German people. They are more disciplined than the Poles and the Hungarians and far less quick to give expression to their grievances. Material things count for much. The East Germans are the best off people in East Europe, and they know it. But despite their gains, the gap between them and the West Germans remains an enduring problem for Honecker. An absolute decline in the standard of living would be more serious, particularly if there were no corresponding decline in West Germany. Apathy might grow into unrest and the prospect for disorder, demonstrations, and efforts to get to the West would grow.

49. To forestall such developments, East Germany needs to maintain or increase its trade with the West. It must continue to import Western machinery and technology to keep its economy competitive in Western markets. Its projected economic growth over the next three years (11 percent) will mean an increase of its Western debt from \$4.8 billion at the end of 1976 to about \$8 billion. As Honecker openly admits, the country faces a serious shortage of hard currency. He also knows that the East German economy will be under increasing pressure because of its energy shortage. The upshot is that East Germany has an increasing economic incentive in maintaining or improving relations with West Germany and other Western countries.

50. At the same time, Honecker feels under increasing political pressures from the West. He is concerned about West German efforts to expand its ties to West Berlin and about

what he regards as its efforts via the media to create trouble for him with the East German people. He also is afraid of increasing person-to-person contacts with West Germany because it further loosens his grip over his own people. He cannot sharply curtail the contacts that already exist because this would jeopardize increased economic dealings with West Germany, would prompt a strong negative reaction from the East German people, and could upset Moscow because of its implications for detente in central Europe. Honecker has tried to strengthen the image of East Germany as a separate and fully "normal" nation state by seeking to erode the special status of East Berlin. But this does not help very much with his domestic problems, and it creates problems in his relations with the West. He also has little latitude from the USSR when it comes to Berlin questions: Moscow decides when and how hard to push on Berlin.

51. The East Germans are likely to continue to push for increased economic ties with the West over the next two or three years. If this proves to be a failure, if the domestic economy declines seriously, then a tightening at home and a move to drastically cut contacts with West Germany might well result.

52. In the meantime, the East Germans will push for increased economic ties and high-level contacts with the US. This would help them improve the regime's image at home. It would also provide some additional flexibility in economic dealings with West Germany. If such ties were to develop, the East Germans would have an additional incentive to ease up on human rights questions at home. They would also have another reason to keep the Berlin situation quiet. Their views on this, while not ruling, have some weight in Moscow. The East Germans are not likely to stray far from the Soviet line on foreign policy questions, even if relations with the US are significantly expanded.

#### Czechoslovakia

53. In Czechoslovakia, political and economic stagnation continue to masquerade as stability. The Husak regime is one of the more orthodox and unimaginative in Eastern Europe.

Operating under the close supervision of Moscow, it has worked to limit Western influences and to keep a tight lid in the cultural area. Prospects for internal liberalization in the human rights or economic areas are dim. Czechoslovakia's foreign policy will not deviate from Moscow's.

54. The Prague leadership is divided and mediocre and has little genuine support or respect in the country. The economy is hard pressed by Soviet and Western price increases, badly requires extensive modernization, sorely misses the expertise of the 1968 reformers, and needs greater productivity from an apathetic populace. Its growth rate is one of the slowest in Eastern Europe and is likely to remain so.

55. All these factors would add up to a seriously unstable situation if it were not for the apathy and despair that have characterized the popular mood since the collapse of the "Prague Spring." The emergence of the Charter 77 dissident group has been a pointed reminder that the problems and sentiments that gave rise to the "Prague Spring" in 1968 are still at work. But the dissidents have not struck a responsive chord with the wider population.

56. The prospect is for more of the same over the next few years. Economic problems are not likely to result in serious popular disorder and, without strong pressure from below, the impasse between the moderates led by party leader Husak and hard-liners led by Bilak is likely to continue. Moscow seems comfortable with a divided leadership in Prague, and it will continue to be reluctant to endorse any efforts to introduce economic innovations or to bring back into the mainstream of Czechoslovak political and economic life those who were implicated in the 1968 revolution.

57. Given its disabilities and priorities, the Czechoslovak leadership looks hardly at all to the US for help and is unwilling to modify its internal or foreign policies to get it. Increased contacts could, over time, help promote change, but the real impetus will have to come from within Czechoslovakia.

#### Romania

58. Party leader Ceausescu is not likely to lose his firm grip on Romania's rigidly authoritarian political and economic system during the next several years. Party cadre

and popular resentment of Ceausescu's authoritarianism and personality cult may grow, but we judge that Ceausescu can contain or thwart any such reactions.

59. Romania faces an economic slowdown because energy and balance-of-payments constraints will prevent it from achieving its projected annual growth rate of 6 percent. This will affect the Romanian consumer and could spur grumbling within the leadership over Ceausescu's overly ambitious economic goals. But it probably will not provoke serious popular disturbances or threaten Ceausescu's predominance. Ceausescu has long slighted consumers, always with a keen sense of what they will bear, and in the past has successfully blamed underlings for economic shortfalls.

60. Ceausescu is unlikely to relax the strict domestic controls which he considers necessary to maintain his personal power and to allow him freedom of maneuver vis-a-vis the Soviets. The appearance of Romanian dissidence--as feeble as it is--has alarmed him, and he has also stepped up his efforts to increase vigilance in the media and cultural affairs.

61. For the past year there has been a perceptible thaw in Soviet-Romanian relations, symbolized by Brezhnev's visit to Bucharest in November 1976. The thaw appears to be limited, however, largely to bilateral issues and to represent a decision of both sides to mute polemical exchanges over some contentious issues. Romania's interest in assuring supplies of Soviet raw materials may have played a role. Both sides, however, continue to assert fundamentally conflicting conceptions of how relations among Communist countries both within and outside Warsaw Pact should be conducted. This breach of the "unity and cohesion" of the pact, a fundamental Soviet aim, remains the major source of tension between the two countries. Romania's other foreign policy initiatives are of lesser concern to the Soviets.

62. A fundamental shift in Romanian policy is, however, unlikely. Nationalism is a fundamental part of Ceausescu's psychology and not merely a ploy to enhance his leadership position. Moreover, while Ceausescu enjoys considerable tactical latitude, even he probably could not undertake any major move to return Romania to subservience to the USSR without provoking a major upheaval in party ranks.



63. Ceausescu will continue to pursue a "special relationship" with the US and the West as well as the Third World. It provides psychological sustenance for his maverick stance vis-a-vis Moscow and has helped support Romania's economic growth. The economic motivation will grow as the Romanian economy slows down.

Albania

64. Serious ideological differences with China and reduced Chinese assistance to the Albanian economy have evidently prompted Tirana to move out of its isolation in Europe. It has made some cautious overtures to Greece, Turkey, and France in search of increased trade. It seems likely that these efforts will continue. The Soviets want to get back into Albania, but their prospects are poor.

65. How far Tirana will go in overcoming its xenophobia depends in part on how its internal politics develop. These have been in some turmoil, and a number of younger people have emerged whose political orientation is not clear. No major adjustments are likely as long as party boss Hoxha and Premier Shehu are in power. But our information on Albanian internal forces is fragmentary, and a political upheaval should not be excluded. Should one occur--whatever its policy directions--it could provide a destabilizing focus for other endemically troubled nationalist currents in the Balkans.

Bulgaria

66. Bulgaria has been, and probably will continue to be, the most stable country in East Europe. The recent purge of party leader Zhivkov's long-time associate Boris Velchev could precipitate other changes farther down the party hierarchy. But these are unlikely to change Bulgaria's close economic and political affiliation with the Soviet Union. Popular affection for Russia predates the birth of Bulgarian Communism, and Bulgaria can be counted on to carry a spear for Soviet foreign policy positions.

67. Bulgarian domestic policies will continue to be among the most conservative in Eastern Europe. There has been evidence of some limited popular dissatisfaction with economic and social conditions, but the chances of large-scale unrest seem very remote. Intellectual dissent will remain only a minor irritant, in large part because Bulgaria is both geographically and intellectually far removed from the West.