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Where Is Eastern Europe Going ?

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Economic Trends In Stalin's Buffer Zone

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A study of the general tendencies of the economic evolution of Eastern Europe reveals that, beginning with 1948, these countries have experienced an accelerated process of assimilation into the Soviet system and economy. It reveals also that this process is still far from completion and that decisive elements still exist in the economy of the satellite countries which make them qualitatively different in character and function from the USSR. We propose to show these differences not so much in the structural plane as in everyday economic life. The general conclusion which will emerge from this study points to the existence of a whole series of structural difficulties in planning in the satellite countries from which flows the characterization of this planning as partial and hybrid, midway between Soviet planning – itself a bureaucratic deformation of socialist planning – and "regulated capitalism."

We have already indicated in our balance sheet of the second wave of nationalizations in the satellite countries that although statification of industry and wholesale trade was practically achieved in most of these countries, agriculture on the contrary remained dominated by small-scale private peasant farming [1]. The sector of farm cultivation accounted for by the scale constitutes a negligible fraction of the total cultivated area. Private farming consists of the whole gamut of property forms ranging from the "dwarf-farms" of a hectare or less to large-scale farming employing farm labor, running to more than 50 hectares (one hectare appr. 2.5 acres). The form of agricultural property varies from country to country not only because of important historical and national differences but also as a result of the different effects of agrarian reforms between the years 1945 and 1948. The *Hungarian* example will suffice to indicate the very pronounced diversities which remain in the form of agricultural property in the satellite countries.

Statistics reveal that the small proprietors, who constitute more than two-thirds of the Hungarian peasantry, actually possess, only *one-sixth* of the land ; the middle peasants who constitute one-fourth of the peasantry possess more than 35 percent of the land ; and a small minority of kulaks, hardly 5 percent of the peasantry, possesses more than one-fourth of the land, that is more than all the poor peasants together. Property exceeding 200 arpents consists for the most part of forests, communal property or collectives, state lands or model farms.

This relationship of forces implies a constant superiority of the kulak over the rest of the village. The mass of landless peasants, allotted veritable miniature lots, possess neither draft animals nor the most rudimentary agricultural implements. It falls to the kulak to supply these essentials and to set the price of their use himself. The agricultural tax in kind ("the quota of compulsory deliveries"), which was enforced from the beginning in all the satellite countries with the exception of Poland, hit the small producer much harder than the large. The kulak profited from the harvest, the interval between shipment and sale, often so lengthy as to compel the small peasant to sell the kulak in advance his entire crop in exchange for which the kulak would supply him with the amount required by the government. Speculation rages both at the source (the harvest) and in distribution (black market or "free" market in the cities) and exclusively favors the well-to-do elements who dispose of all the reserves and who can wait for the most opportune moment for each of their operations.

It took a long time before the Stalinist leaders began to recognize that their entire agricultural policy beginning with 1944-45 had only favored the kulaks. While the Fourth International exposed and detailed this situation in its first statement on the "buffer" zone in July 1945 (Resolution of the European Executive Committee : *The New Imperialist Peace and the Tasks of the Fourth International*, October 1945), it was not until 1948 that the Stalinist leaders felt

themselves compelled by experience . itself to take a position on this question. Hilary Minc, Poland's Minister of Industry, and the chief Stalinist economic specialist not only for Poland but for all the satellite countries, wrote in the Cominform organ for January 10, 1948 :

The wealthy elements on the countryside are the most important producers supplying the wheat market. They manipulate to cause a drop in prices so as to buy up all the wheat themselves and then to resell it at higher prices to the cooperatives and state farms ... The Plenum (of the CC of the PPR) ... has noted that a considerable part of the 13 billion zloty allocated as credit to the small and middle peasants fell into the hands of the wealthy elements despite government instructions.

And Gero, "strong man" of the Hungarian Stalinist party wrote in the Cominform organ (Jan. 12, 1948) :

... The leadership of our party has come to the conclusion that agrarian reform, which has been applied on a vast scale, has in no way halted capitalist development on the countryside. In fact, it has had the opposite effect. A census covering hundreds of villages shows that during the past years the exploiting class on the countryside – the kulaks – have grown numerically and have greatly enriched themselves.

In fact, the Stalinist leaders have been compelled to acknowledge in all the satellite countries – with the exception of Yugoslavia and Bulgaria which have also experienced this development although not so acutely – that the kulaks had everywhere introduced a direct or hidden system of wage labor, that they had established a virtual monopoly over the wheat trade and were involved in buying up land, circumventing existing legal obstacles by extremely ingenious means. (In Hungary for example farming contracts are transforming the small farmer into a laborer for the kulak.)

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Cooperatives and Capitalism

The main obstacle which checked an analogous development in the USSR during the period of the NEP was the *nationalisation of the land*, prohibiting the sale and purchase of the land which the peasants had just received in usufruct from the state. This obstacle does not exist in the satellite countries where the peasants own the land outright and where the only legal restriction is on the size of this property which varies from country to country (from 30 hectares in Yugoslavia, 50 hectares in Poland to 50 hectares for certain categories and 200 for others in Czechoslovakia) : In addition, the Stalinist policy is directed especially toward transforming the system of *peasant cooperatives* into the main barrier against a swift development of capitalism on the countryside.

Peasant cooperatives have a long historic tradition in some of the Balkan countries. In Yugoslavia they have often served as the direct route from a patriarchal economy based on communal ownership of the land to modern small-scale private production. In Bulgaria, the cooperatives have developed through combinations of a number of small individual peasant properties. But whatever its historic origin, the' peasant cooperative implying private property of the land and its produce constitutes beyond any question of doubt a form of *small-scale commodity production*, ceaselessly giving rise to capitalism and not at all to a "definite sector of socialist economy," as the theoreticians of the Yugoslav CP pretend. On this point, the theoretical criticisms of Tito by the Cominform are justified, but naturally they did not point out that this erroneous theory originated directly in Moscow and was disseminated in all the satellite countries in the past years.

Far from being a barrier to the kulaks, the development of cooperatives up to now has been utilized by the wealthy elements in order to strengthen their hold over all agriculture. Having gained key positions in the Stalinist party (as Gero admits in the above article) the kulaks dominate the cooperatives and decide the best way for the cooperatives

to divide land and seed among all the peasants. They also use the draft animals and machines belonging to the cooperatives to cultivate their own land. This entire trend has been favored by the fact that the so-called "consumers" cooperatives only engage in trade in certain produce ; in Poland this applies particularly to vodka which is a state monopoly.

"Leadership of the cooperatives," T. Janczyk writes in **Prag**, August 25, 1948, "is to be found in most cases in the hands of the rich peasants and the activity of the cooperatives consequently is oriented to satisfy the needs of the rich peasants."

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The Spread of the "Scissors"

A turn took place in the agricultural policy of the "buffer" countries as the result of directives issued by the Cominform meeting which first condemned Tito. The turn can be summarized in this way : to endeavor to initiate a struggle against the kulaks with the help of state intervention favoring the middle and poor peasants (this point, at any rate, has remained on paper). The state has various levers at its command for this purpose among which the most important are : the sale of manufactured goods, the price policy, the tax policy, the possibility of legally altering the organizational form of the cooperatives, etc.

All these levers have been effectively employed in one way or another in most of the satellite countries. In Hungary, for example, the government has instituted a sliding scale of state deliveries of agricultural produce, obliging the kulak to furnish three and one-half times more grain per arpent than the poor peasant. In Poland, the government has decreed a fixed price for wheat the year round so as to counteract the drop in price which occurs after the harvest and serves as the best device for kulak speculation. Up to early September each year the poor peasants are given an absolute priority in obtaining fertilizer. But these measures as a whole *can* be effective only in so far as they *harmonise* and do not *conflict* With the logic of operative economic laws. Otherwise they must inevitably precipitate a whole series of reactions : artificial cut-backs in production, sale of livestock and agricultural equipment, wholesale slaughter of livestock, etc. These can give rise to a real agricultural and food crisis.

This is what happened in 1948 in Czechoslovakia where the government was obliged to beat a retreat and to provide an open market for industrial products in order to induce a real economic interest in the increase of agricultural production. Similarly in Poland the government was obliged to provide goods to the peasant wheat suppliers, allowing them to obtain industrial products below the market price. (**Glos Ludu**, May 4, 1948.)

These measures are an illustration Of the famous phenomenon of the "scissors" : Agriculture had rapidly recovered from the years of famine and depressed output while the consumer goods industries experienced a great lag as compared with those producing capital goods ; the tendency was for the peasants to lose the incentive to increase production because of declining agricultural prices as against rising prices of consumer goods. The stabilization of the price of wheat in Poland is one of the examples of such art attempt to proceed contrary to the interests of the peasantry.

No one can predict the immediate effect of the totality of these empirical -and sporadic measures whose object is to curb the influence of. the kulaks both upon the peasantry and upon the national economy as a whole. Nevertheless one thing is certain : as long as the present system of exploitation of agricultural property exists, economic laws will continue to favor the wealthy elements and primitive accumulation will remain the essential motive of developments en the countryside.

It is no accident that the Stalinist theoreticians have suddenly dug up Lenin's famous formula :

"Small individual exploitation generates capitalism and the bourgeoisie in a permanent way, every day, every minute, with an elemental force ! and on a mass scale."

This is exactly what is happening today in the satellite countries. Around 80 percent of the working population in Rumania and Bulgaria are engaged in agriculture, approximately 70 percent in Yugoslavia and more than 50 percent in Hungary, Poland, Czechoslovakia. Moreover, "the big artisans and tradesmen engaged in the exploitation of wage labor" – that sector of urban economy which, in Gottwald's definition remains capitalist (Report to the CC of the Czechoslovak CP, Nov. 17-18, 1948) – constitute the natural and permanent allies of the capitalist elements on the countryside.

Finally, it is necessary to reject the absolutely erroneous point of view,

"the point of view which I will call that of the specialists, according to which all questions concerning our agriculture will be resolved simply by the intensive application of agricultural technology. However, small agricultural property imposes fixed and well-defined limits on agricultural mechanisation and on agro-technological measures. These measures are inadequate, and the only ones to profit from them will be the capitalists from the countryside and the cities [how true !] at the expense of the small and middle peasant proprietors." (Kardelj, **Borba**, April 26, 1948.)

The unavoidable conclusion is that the present structure of agricultural property in the buffer countries constitutes and as long as it continues to exist will remain the most important structural obstacle to all planning even of the deformed and bureaucratic type that exists in the USSR.

National Boundaries and Planning

Economic planning requires not only nationalization of all means of production and exchange (of which the land remains the most important element in agricultural countries). It also requires the abolition of national frontiers which, along with the private ownership of the means of production, constitutes an absolute brake on any growth of the productive forces. This is not only a Marxist axiom, a general and abstract point of view opposed to the absurd theory of "socialism in one country." It is also an absolutely basic consideration for the purpose of defining the character and possibility of a given economy. Construction of a socialist economy is possible only on an international plane. With the exception of a few ultra-lefts, no one in the communist wing of the movement has ever disputed the possibility of *making a start* in this construction during a transitional period within that concrete national framework established by the victory of the proletarian revolution.

It was the Left Opposition itself which, toward this end, drafted the first plan in the USSR against the violent resistance of the bureaucracy and of the Stalinist faction. But, it does not at all follow from this that *any* national framework whatever lends itself to planning on the mere condition that the proletariat had conquered power. It is obvious that a *minimum material base* is indispensable even to the preparatory work of socialist planning. To *make a start* in the building of socialism in Rumania, in Luxembourg or in Paraguay is an even more patent absurdity than to pretend that this construction is *being completed* in the USSR.

The material basis upon which a plan is established is delimited by the entirety of the economic resources of a country : wealth in land and in natural resources, labor force, the totality of the instruments of labor and machines, the level of productivity and culture, etc. The narrower this material base and the more economic progress depends

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on foreign countries, the more the pressure of foreign countries limits the possibilities of *native* development. Of all the countries in the world, the USSR is the one which undoubtedly, alongside of the United States, possesses the greatest natural wealth and, for this very reason, is least dependent on foreign countries. But, on the other hand, its character as a backward country, its low level of productivity and culture, rendered it from the outset of its planning extremely dependent on foreign countries from the *technological* point of view, both in production as in the labor process. To the extent that the four Five-Year Plans have only accentuated Russia's technical and economic needs, they have not diminished, but increased this dependence.

What is true for the USSR is a thousand times more true for the buffer countries which are not only generally backward from the point of view of their technical development, but are far too small and too poor to be able to realize a degree of autarchy comparable to that of the USSR.

Now, the maintenance of national frontiers as the concrete framework within which the economic life of all these countries evolves is by no means a necessary historical product ; it is exclusively the product of the political orientation of the Stalinist bureaucracy. No major factor, no social force would have been able to prevent the proletariat . from smashing the old outlived national frontiers in all of Central and Eastern Europe (and for that matter, in Western Europe also !) during its revolutionary upsurge from 1943 to 1945 and erecting in its place a Socialist United States of Europe or, at the very minimum, at least a Balkan-Danubian Socialist Federation.

This occurred exclusively because of the orientation of the bureaucracy, its efforts to stifle all initiative of the masses as quickly as possible, its attempt to create a buffer zone by means of agreements and compromises with imperialism (Teheran, Yalta, Potsdam, Paris), the need it felt to maintain the old repressive state apparatus and to utilize it in its counter-revolutionary actions. If once again in its lifetime, this bureaucracy is witnessing a rebellion against itself and the theories it has created, and if today, it is forced to polemicize against the obviously grotesque theory of "the victorious construction of Socialism in Yugoslavia," it is only receiving just punishment for its own crimes against the international revolution in the Balkan-Danubian area.

To make a start in the building of a socialist economy in a transitional period even on a national or a limited international plane does not signify in any way that this is to be done on an *autarchic* basis. It is one of the paradoxes of history that the same Stalinist bureaucracy, which during the first Five-Year Plan became the champion of the baneful thesis of the "autarchic plan" in Russia against the Trotskyist opposition, today finds itself forced -to fight its own theory in the buffer countries.

The least costly method of making a start in the construction of a planned economy, not only from a strictly economic but from a social point of view, is in the first place to develop those sectors of the economy where it is possible to obtain a maximum level of productivity and to succeed in surpassing the average productivity of the world market in these sectors. This production can then be utilized as a means of exchange for the maximum amount of capitalist goods also produced under the best conditions of productivity (naturally taking into consideration the military and economic-strategic defense needs in the event of military conflict). Only this method will enable the proletariat to reduce to a minimum the sacrifices it is compelled to make in order to start the transformation of the economy. By so acting, a workers' state would begin to defeat capitalism on its own ground, would sharpen the economic contradictions of the capitalist world and would begin to compensate for its own dependence on the world market, which remains and even grows, by a *reciprocal interdependence* between the capitalist market and the workers' state. More efficacious than the autarchic orientation followed by Stalin in the USSR, this policy, however, like Stalin's, requires a minimum of material basis as a starting point. Failing this, planning, as all evidence shows, becomes an empty dream.

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Dependence on World Market

There is no other way of defining the effort now being made not only in Yugoslavia, but in all the buffer countries, to build a planned economy within the framework of narrow national boundaries and with a ridiculously limited material base to work on. It was obvious that, to the degree that this effort of planning began to go beyond the preliminary stage of *economic recovery* (1945-47) it was bound to develop within the framework of a dependency on the world capitalist market qualitatively different from that which was experienced, as it still is, by the USSR.

It Suffices to get a clear idea of this difference to compare the total volume of foreign trade of the USSR, which comprised some 6 to 7 per cent of the national income up to 1932 and fell below 3 per cent in the beginning of 1935, to the foreign trade of Czechoslovakia or of Poland, which comprises between 35 and 45 per cent of the national income ! (74.3 billion Kcs in Czechoslovakia in 1948 out of a national income estimated at 200-210 billion Kcs.)

The theoretical significance of this percentage is obvious. In accordance with the law of the equal distribution of the average rate of profit, the capitalist world participates in the division of surplus value produced by a worker in the satellite countries and thus finds a kind of bond with the capitalist elements within these countries. In their lucid moments, this is understood as much by the Stalinists (see Rakosi's speech reported in the **NY Herald Tribune**, Nov. 30, 1948) as by the bourgeoisie as is proved by the following comment in the **Journal de Geneve**, May 29, 1947, referring to Hungary :

"The deficit resulting from the difference between the prices of the internal market (and those of imported products) is paid by the Hungarian government ; profits resulting from such transactions, on the contrary, redound to private enterprises and are rarely or never touched by the government."

An extremely important series of consequences as to the character of planning itself flows from the inadequacy of the material base of the satellite countries, each enclosed within its national limits in the building of a planned economy :

(a) In an immediate sense (and not indirectly, as in the case of the USSR) each of them depends for its supply of raw materials on the world capitalist market. Every disturbance, so far as quantity, quality or the price of essential products is concerned, immediately upsets the plan. The Hungarian textile industry, for example, during the summer of 1948, suffered both from difficulties of supply and difficulties of price, cotton imports dropping from 2,400 tons in April to 1,696 in May, to 1,334 in June and to 1,011 in July, resulting in a 25 per cent cut in production in July, and a 50 per cent fall of cotton goods exports. (**Neue Zuericher Zeitung**, Sept. 17, 1948.)

(b) In an immediate sense (and not indirectly, as in the case of the USSR) each of the buffer countries depends on foreign markets capable of absorbing exportable merchandise, the only method of obtaining necessary resources for the importation of necessary raw materials and machines. Once these markets disappear or contract, the "plan" as a whole is immediately called into question. An example is furnished by Czechoslovakia. Entire sectors of Czech industries have lost, or are in the process of losing their foreign markets, either because of the contraction of the world market or because of foreign competition. We cite only costume jewelry and glassware and especially textiles. The total production deficit of the latter since "the liberation" is estimated at 5 billion Kcs (and at 14 billion if the free UNRRA deliveries of raw materials up to 1948 are taken into account). The Chairman of the National Bank, Dr. Nebesar, has flatly declared that it would be necessary to seriously curtail production in this industry if it does not quickly regain its foreign markets (**Neue Zuericher Zeitung**, Sept. 21, 1948).

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Fear of World Crisis

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This factor is one of the decisive elements in getting a clear idea of the real nature of present planning in the satellite countries. In reality, this planning is *directly connected to the conjuncture of world capitalist economy*. It is sufficient to take the case of Poland, 50% of whose exports consist of coal (valued in 1948 at 250 million dollars) to understand how an eventual World overproduction leading to a depression will have a decisive influence : over Polish economy which will suffer both by the loss of markets and by the fall of prices.

Willy-nilly the Stalinist theoreticians have had to take this evidence into account and have themselves indicated how vulnerable they are because of their position in foreign trade. They are constantly haunted by fear of a world economic crisis.

"One of the most important tasks of the five-year plan is precisely one which is concerned with spurring an increase of foreign trade with planned economy states. In this way, the repercussion of world economic fluctuations on Czechoslovak economy will be considerably diminished."

So writes Radovan Simacek in **Parallel 50**, December 31, 1948.

But at the same time, unable to jump over hard material necessities, the "planners" are obliged to admit that with the termination of the industrialization plans (in 1952 or 1953) trade relations with western countries will still be set at approximately 50% of the total volume of the foreign trade of the three most advanced of the satellite countries, Poland, Czechoslovakia and Hungary. Anton Gregor, Czech Foreign Trade Minister, in a statement to a Reuters correspondent, September 8, 1948, predicted that 55% of total trade will be with the western world at the end of the five-year plan period.

Hilary Minc estimates that half of foreign trade will remain oriented to the western world at the close of the six-year plan (**Polish Information Bulletin**, December 20, 1948). And the aim of the Hungarian three-year plan is likewise based on an orientation of 50% of foreign trade with the USSR and the "People's Democracies." (**The Economic Situation of Hungary**, January 5, 1949.) That they are still not in a position to attain these aims, at least in Poland and Czechoslovakia (48% of Hungary's imports in 1948 came from the USSR and from buffer countries and 51% of its exports went there), is proved by the foreign trade figures of these countries in 1948 :

	Imports from the USSR & Buffer Zone (in percentage)	Exports to the USSR & Buffer Zone (in percentage)
Poland	37.82	37.82
Czechoslovakia	35	38

Another very serious consequence which flows from this position of dependence on the world capitalist market is the fact that these countries have been obliged to *recognise old debts* and to pay large indemnities to foreign capital which has been nationalized, thus imposing a supplementary charge upon the economy which is already strained to the utmost. To cite a few of these :

- The Franco-Polish agreement indemnifying French capital, March 1948.
- The Swiss-Czech agreement indemnifying Swiss capital, June 1948.
- The Anglo-Hungarian agreement of April 1948 on the payment of pre-war Hungarian debts.
- The Franco-Czech agreement indemnifying French capital, July 1948.
- The Anglo-Yugoslav agreement indemnifying British capital, November 1948.
- The Swiss-Hungarian agreement for the payment of pre-war Hungarian debts, October 1943.
- The Swiss-Bulgar agreement for payment of prewar Bulgarian debts, December 1948.

Trade Relations Between the Satellite Countries

However the dependence of *all* of the satellite countries on world capitalism would not be so heavy if the economy of these countries were effectively managed and planned *as a whole*. But this has not been the case in the past and is still not so today. Instead of coordinating their respective efforts of reconstruction and industrialization, the Eastern European countries have undertaken plans which not only are not complementary but often conflict with one another. Under pressure of the world market the only safety-valve is an increase of trade among the buffer countries and between them and the USSR. But up to now this trade, whatever its relative scope, does not in the least mitigate its disturbing effects on the plan. The character of present trading between the "People's Democracies" and between them and the USSR is described as follows by Tito :

"As long as the capitalist form of trade ... continues among socialist countries, each country seeking to sell as dearly as possible and to buy as cheaply as possible, no one has the right to demand that we restrain our efforts in exploiting our own resources to the maximum." (**NY Herald Tribune**, December 27, 1948.)

This situation leads to a number of contradictions :

(a) Each plan of investment and industrialization envisages a *parallel* development, at great cost in each country, of the same type of industries while from a rational point of view a geographic concentration is indicated. Thus, Hungary and Yugoslavia are engaged at great expense in the development of a steel industry which has its natural base in Poland and Czechoslovakia.

(b) Each country seeks to derive the maximum profit from its particular economic or geographic resources at the expense of a neighboring "People's Democracy." Thus **The Economist** for July 3, 1948 reports that Czechoslovakia, because of a shortage in dollars and foreign exchange, found itself forced to route a large part of its exports and imports with western countries through Polish ports. It graciously received berths in the port of Stettin from its "sister republic" but was confronted at the same time with port duties several times higher than those of the ports of western Germany or the Benelux countries.

(c) Each country seeks to secure its own balance of trade, pushing exports to the utmost for this purpose, without considering whether the products exported to the west are indispensable for the industrialization of neighboring "People's Democracies" and whether or not the latter are blocked by the west in the acquisition of such products. Thus, V. Clementis, Czech Minister of Foreign Affairs, stated before a UN commission in Paris on November 5, 1948 that during 1948, 89.9% of all its coal exports, 74.5% of all steel and iron exports, 50.2% of building material and 37.5% of all exports of machine tools were directed to Marshall Plan countries (**NY Herald Tribune**, November 6, 1948). Who can doubt that the neighboring countries had great need for these products, especially those who are practically barred from the exports of a number of western countries ?

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In Search of Capitalist Credits

It is clear that each of the satellite countries has been in practice left to its own devices in finding the necessary funds to finance its efforts at industrialization. That is why in the absence of mutual aid and after a brief initial period, during which economic recovery had not as yet been attained, the satellite countries have again appealed to western countries and to international capitalist institutions like the International Bank for Reconstruction and others to obtain credits needed for the financing of their various "plans." Recently the World Bank granted small credits to Yugoslavia and to Finland to purchase the necessary equipment for mechanical saw mills, and similar negotiations are now in process with Czechoslovakia.

It should also be noted that Poland and Czechoslovakia were able to undertake considerable investments during 1947, which were not financed by a new recourse to inflation

because the enormous banking credits (57 billion zloty in Poland in 1947) were largely covered by unusual foreign resources : sale of UNRRA goods, German property seized in the so-called recovered territories, German land seized in Czechoslovakia, etc. These resources now being practically exhausted, the satellite countries are desperately engaged in the search for indispensable credits for new investments.

The problem of *deliveries of materials* as well as payment for investment funds seems to be the veritable Achilles heel of the vast new plans of industrialization elaborated in 1948 (Czech and Bulgarian five-year plan, Polish six-year plan).

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The Blockade and Its Loopholes

World imperialism has not taken a common position toward this problem which can be decisive for the future course of the satellite countries. Deeply occupied in its rearmament policy, American imperialism has begun to erect a veritable blockade of the buffer countries and the USSR which covers the supply of machine-tools, aluminum alloys, rare metals, etc. The existence of two lists of products for which export licenses to the satellite countries are either prohibited or granted after long delays and red tape was recently denounced publicly among other matters in a speech of Vladimir Garaschenko, head of the Soviet Delegation to the UN World Trade Conference at Geneva (**NY Herald Tribune**, Feb. 15, 1949).

Similarly, through the mechanism of the Marshall Plan, pressure is being brought to bear on Sweden which has close ties with the economic life of the satellite countries, especially Poland. British imperialism, however, for its part has followed a contrary policy seeking to assure itself of markets by accepting orders even for jet-planes. Under these conditions, the so-called "discriminatory" American policy has merely led to the replacement of the US by Britain as the principal supplier of investment needs of the satellite countries.

How decisive a role western German industry, now being reconstructed, can play in this sphere depends to a large degree on the policy of the occupation powers and on the "timing" of the third phase of the Marshall Plan, which by the admission of American imperialism itself will be dedicated to the political and economic reconquest of the satellite countries.

Confronted with this situation, the Stalinist leaders of the USSR and the satellite countries have decided upon two kinds of temporary and interim solutions to overcome the most immediate difficulties in the realization of their investment plans :

(a) To find indirect roads and byways to participate themselves in American credits. Often this involves taking advantage of thinly concealed complicity on the part of certain US government departments. For example, at the end of January 1949, a trade agreement between Austria and Hungary provided for the delivery of 20,000 tons of rye and 3,000 tons of oil at prices slightly lower than those on the American market, in return for which Austria placed a part of its own credits in dollars at the disposal of Hungary for the purchase of cotton in the USA. Similar agreements have been proposed to Austria by Rumania and Poland. This incident is also a typical example of the pressure the capitalist market succeeds in bringing to bear. on the prices of satellite country products.

To increase their weight in negotiations with the "western" countries, Eastern Europe seems to have set up a virtual "pool" of their exportable supply of cereals (statement by Harold Wilson, British Minister of Foreign Trade, **Neue Zuericher Zeitung**, Feb. 9, 1949). Thanks to this measure, the USSR was able to offer 100 million quintals of wheat – or one-fifth of the exportable supply in the world – at the recent world wheat conference. However the efficacy of such measures depend on the world economic conjuncture ; an extended collapse of the price of wheat would strike heavily at the export possibilities and therefore also at the industrialization of the buffer countries.

(b) They have taken some preliminary measures of economic coordination and have obtained some credit from the USSR. This new orientation was most strikingly illustrated by the constitution early this year of the Council for Mutual Economic Aid. A typical agreement of this kind was the one between the USSR and Czechoslovakia providing for the delivery on credit of a quantity of raw cotton by the USSR, in exchange for which Czechoslovakia would deliver a part of its textile manufactures to the USSR and keep the rest for its own internal consumption or for export to the "western" countries. Similarly, the USSR accorded Poland and Czechoslovakia credit in gold and exchange (of course at a 3½% rate of interest, 1% more than the rate charged by the Import-Export Bank for short term credits to the U. S. – an example of the sharp trading which confirms the statement of Tito quoted above).

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Significance of Economic Coordination

These measures of economic coordination, somewhat more general in character, were prepared by three attempts during 1947 and 1948 to initiate a complementary development in certain economic sectors through bilateral agreements. Such attempts were made in the Bulgar-Yugoslav, the Hungaro-Yugoslav and Polish-Czechoslovak agreements. The first of these, coming within the scope of the Tito-Dmitroff project for a Balkan Federation, was abandoned on Moscow orders and never given a serious try. The second attempt has had more substantial results. Genuine coordination had been established in the aluminum sector whereby Hungary was to supply the tools and metal parts required to equip complete factories valued at 120 million dollars in exchange for 10,000 tons of aluminum per year produced with cheap Yugoslav electric power.

Moscow's split with Tito and the blockade of Yugoslavia has seriously unsettled the Hungarian economy which was centered around collaboration with Yugoslavia ; the formation of the Council for Mutual Economic Aid is also intended to compensate for the losses resulting from this split. Finally there is the Polish-Czechoslovak agreement primarily concerned with the synchronization of metallurgical development, standardization of products, etc. Recently a new agreement between these countries provides for the joint construction of a coal-burning electrical plant at Auschwitz. The Russians and Czechs are to cooperate in building a giant steel plant producing 1½ million tons annually at Gleiwitz in former German Silesia.

All of these measures taken together do not however remove the nationally limited character of planning and do not consolidate the sum total of resources available in a single "pool," the indispensable base for common planning. So long as the national boundaries continue to exist, all empirical measures adopted in response to the symptoms of current crises can only have a limited meaning and will not eliminate the fundamental causes of the difficulties.

The Russian Mortgage on the Satellite Countries

Even if their significance is limited, the measures recently taken by the Soviet bureaucracy to aid, albeit at a high price, the satellite countries in overcoming their difficulties are nevertheless the first tacit admission by Stalin that the orientation of the USSR up to this point in its economic relations with the satellite countries threatened to provoke a real catastrophe.

This orientation can be summarized simply in this way : the utmost exploitation of all the resources of Eastern Europe with the single aim of hastening the economic re-construction of the USSR regardless of the needs of the countries involved. This was a truly typical expression of the narrow petty-bourgeois nationalism of the Soviet bureaucracy, because it should have been obvious that the political consolidation of the satellite countries was incompatible with the systematic economic plunder of the buffer zone. This pillage harmonized fully with the empirical Stalinist policy which each time finds itself obliged to "rake-in" a maximum of "profits" from its temporary successes without any regard for the fatal long-range consequences of such "rake-offs."

The following, are the most important features of this policy of exploitation by the Soviet bureaucracy which at the same time constitutes one of the fundamental obstacles to planning in the satellite countries :

a) The payment by Rumania, Bulgaria and Hungary of heavy reparations as well as high occupation costs fixed by the armistice treaties. By applying the so-called reparations orientation of levying a charge against current production, the USSR has in fact levied for many years a tribute on the production of these countries. Reparations on Hungary for instance were set in 1946-47 at 40.3% of its total budgetary expenses, at 28.4% in 1947-48 and at 14.5% in 1948 (first half). This tribute limits to the extreme the possibility of accumulating an investment fund and is the main reason why the Hungarian Three-Year Plan is in fact limited to reconstruction and the perpetuation of a predominantly agricultural structure in the country.

b) The seizure in Rumania, Bulgaria and Hungary of formerly German industrial, banking and commercial property which constitutes an important part of the key economic sectors in each of these countries. This Russian hold on a portion of the national wealth of these countries is usually implemented by a series of Mixed Companies, often administered directly by bodies under the jurisdiction of the Moscow Planning Commission, and therefore excluded from the "planned" economy of the given country.

c) The inclusion of preferential tariffs in trade treaties, sometimes by the fixing of inflated rates of exchange for the ruble and sometimes by the imposition of prices out of line with those on the world market. One such example was recently cited by Felix Belair in the **NY Herald Tribune** : the Polish-Soviet agreement of 1948 provided for the granting to Poland by the USSR of a vast credit in goods, in exchange for which Poland agreed to deliver to the USSR 6 million tons of coal at \$1.20 per ton instead of at the world price which ranges from \$14 to \$20. Another example of this kind is the famous "aid" given Czechoslovakia by Moscow in the form of the delivery of raw materials. Shoes manufactured with leather which the USSR had supplied to the former Bata plants were sold to Russia at a price fixed at 170 Kcs a pair although the actual cost price per pair was 300 Kcs.

These measures taken as a whole are not only a supplementary charge on countries already deeply shaken by the war. They are also a major unsettling factor because they preclude any serious planning and because key elements of the national economy are withdrawn from the purview of the planners. If Stalin has agreed to relax his pressure on

these countries slightly it is because the economic situation of the USSR is considerably improved over its reconversion crisis, and because experience has demonstrated to the Stalinist bureaucracy that a continuation of its former course would paralyze all economic and political consolidation and play directly into the hands of American imperialism.

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A Case of Bureaucratic "Good Will"

This change of course by the Soviet bureaucracy has been manifest for a half year in such actions as the reduction of reparations from Rumania, Hungary and Bulgaria ; by measures for the extension of credits referred to previously ; and by returning to the Bulgarian government German property seized in Bulgaria. However, although these three measures unquestionably indicate a new orientation to the satellite countries, they were not unselfishly made by the bureaucracy. We have already illustrated this as far as credits granted by the USSR are concerned. The return to Bulgaria of German property seized in that country was settled on terms which provided that Bulgaria deliver certain quantities of products for many years to the USSR. The lowering of reparation charges constitutes only a relative relaxation of cynical Soviet speculation.

In fact, the reparations agreement fixed total payments to the USSR by the three above-mentioned countries at 200 million dollars, payable in goods. But the prices of these goods were not based on prevailing world market prices but on those of 1938 plus 18%, whereas the price of most of the goods had risen by more than 100% since 1938. In July 1948, Hungary still owed 131.4 million dollars after its reparations had been cut by half. But if one takes into consideration the rise in prices which occurred on the world market, instead of having delivered goods valued at 68.6 million dollars as they were billed, Hungary had in reality already delivered goods amounting to some 110-120 million dollars. There remained therefore a balance of some 80 millions for it to pay.

The "generous" new agreement imposed by the USSR calls for 65.7 million dollars worth of goods calculated on the basis of 1938 prices, that is in reality on goods worth 90-100 million dollars. The total reparations paid is far above the 200 millions initially fixed.

At the same time, the Russian mortgage constitutes a disorganizing factor on attempts at planning as is shown in the consequences of this reduction of reparations in Hungary. Miklos Nyarady, Finance Minister, explains in an article in the July 1948 issue of **The Hungarian-Soviet Economic Review** how the Hungarian government attempted to make reparation payments, especially in the products of heavy industry. The reasons he gives are particularly significant in revealing the social character of these countries and the qualitative difference between their economies and that of the USSR :

The desire of the government to cover reparation payments through the steel and machine industries has also been motivated by the fact that capacity operation of these industries is thereby assured. In fact these industries had begun the fulfillment of orders received within the framework of reparations. If these orders had been cancelled because of the reduction of reparation charges, these industries would have been confronted with a very embarrassing situation. The disposal of goods already manufactured would have caused serious problems and mass production would have had to be abandoned in favor of the manufacture of other articles more suitable to market demand ...

This closing phrase, written after the second wave of nationalization in Hungary, speaks volumes about the present stage of the economy of that country.

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The Condition of the Workers

The freeing of the creative energies of the proletariat is a decisive element in planning. Despite the crushing of the Trotskyist Left Opposition and the strangling of the Soviets, the opening of the period of industrialization in the USSR at the time of the first Five-Year Plan engendered a wildfire of enthusiasm among millions of workers. Even the most outspoken opponents of the Soviet Regime have not been able to deny this (see **I Chose Freedom** by Kravchenko). To the extent that this enthusiasm gave way to passivity, and later to silent hostility, to that extent the bureaucracy turned more and more to methods of coercion and forced labor. It is one of the most tragic ironies of history that socialism – which can only be built on the basis of the free development of the initiative and inventive spirit of the proletariat – has been deformed by the bureaucracy into the very suppression of the slender freedoms of labor and movement which the capitalist system had granted its workers.

Workers' democracy (participation by the workers in the management of industry and their effective control over economic life at all levels) and the gradual subordination of planning to the needs of consumption (workers' participation in the elaboration, adoption, application and reviewing of plans) are the indispensable conditions for the flowering of the creative capacities of the proletariat. If these are lacking, the masses resent the plan as a burden upon them and they become the object instead of the subject of the economy. The Stalinist bureaucracy reacts to this silent opposition, which it considers a sign of "backwardness," by reflexes of a purely police character (forced labor, prison terms, and police and spy networks, etc.). The entire tragic evolution of the USSR is contained in the dialectic of this process. The Stalinist leaders are now preparing to follow a similar road in the satellite states.

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The Toll of War and Famine

The first postwar years were years of terrible suffering for the masses of the satellite states. The enormous scope of destruction caused by the war, the German occupation, the so-called "liberation" struggles and then the Russian occupation resulted in such a disintegration of the economy that the countryside no longer shipped foodstuffs into the city and no longer received manufactured products in return. Without the heroic activity of the proletariat and without considerable UNRRA aid, vast Balkan areas would literally have been depopulated. On top of these scourges there came the runaway inflation which we described in the May **Fourth International**, and then the catastrophic loss of two crops which created vast famine zones unknown in Europe since the terrible 1921 famine in Russia.

A survey of the health of the people in several European countries affected by the war, published on November 19, 1948 by **La Documentation Française** and consisting of reports of the International Committee of the Red Cross, relates the indescribable tragedy which crashed upon Rumania, the country most affected by the drought :

It is difficult to convey the misery of the Rumanian population in 1947 : famine prevailed in whole sections of the country, in some regions people were eating grass and the bark of trees and even clay. It is estimated that 6,000,000 persons were dependent on the government in 1947-48. Here are some of the consequences of the famine and misery which prevailed in this country : 1. The complete disappearance of little children in some districts ... Infant mortality actually reached a rate of 80% ... 2. An increase of all kinds of diseases and a steep rise of the mortality rate ; corpses were thrown into sewers adjacent to the houses. 3. Universal poverty conducive to the spread of venereal diseases ... one out of twelve persons is syphilitic according to recent reports furnished by the Minister of Health ...

To be sure the Stalinist leaders cannot be held responsible for this natural catastrophe which was prepared by decades of social poverty resulting from the reign of the Rumanian nobility. But it must not be forgotten that in the USSR, thanks to the proletarian revolution, the hardest years were endured under a regime of war communism which

guaranteed an equal division of scarce goods available. With the exception of Yugoslavia, it was quite different in the satellite countries. It was precisely during the years of famine that the bourgeoisie retained a large part of its economic positions and every opportunity for speculation.

The result of this orientation of the Stalinists, who wanted to avoid the proletarian revolution and to go through a stage of "constructive" collaboration with the bourgeoisie, was – contrary to what happened in Russia – to place the whole frightful burden of misery on the masses of poor in the city and country. A Stalinist specialist recognizes *ex post facto* in the magazine **Problemi Economici**, Bucharest, May 1948, that in these years all government credits distributed to areas affected by the famine had fallen into the hands of industrialists and merchants who used them in order to transfer their capital out of the country.

Toward the end of 1947 a change took place in the condition of the working masses of the satellite states (in Rumania this occurred only in mid-1948). Since these countries were predominantly agricultural, it sufficed to reestablish a normal agricultural situation in order to overcome at least the worst aspects of the famine. Moreover it should be noted that some countries, especially Poland and Czechoslovakia, were in a favored position with a lower density of population in relation to the pre-war period due to the expulsion of the Germans. Also there was a gradual rise in the standard of living of the workers which in 1946 was generally around 50% of the pre-war level – with the exception of Czechoslovakia where it was higher. This living standard also corresponded roughly to the starting point taken for the stabilization of wages during the various currency reform periods. Once the famine situation had passed, a series of new needs naturally arose among the workers which often conflicted with the economic preoccupations of the Stalinist leaders.

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Employment, Prices, Housing

Let us rapidly review the most important factors determining the material conditions of the workers :

a) *Employment* : Since agrarian reform had not done away with rural overpopulation, which can only be absorbed by intensive industrialization, a serious *unemployment* situation arose in Poland, Hungary and Rumania. During the initial period of runaway inflation, unemployment was hidden by the extremely low level of real wages which permitted mass hiring of all seeking work in the factories. But when the economy returned to normal, and the concern for productivity became foremost, mass layoffs took place. At the same time these layoffs were used as a political weapon to get rid of oppositionist elements. Official statistics reported more than 130,000 unemployed in Hungary in late spring 1947. At the end of September 1948, the same sources still indicated 80,000 unemployed in Hungary and in Poland (**Revue Internationale du Travail**). Since then unemployment seems to have disappeared in Poland. As for Rumania, V. Toma estimates the number of unemployed at at least 100,000 at the beginning of 1949 (**Le Peuple**, March 1, 1949).

b) *High Cost of Living* : Since currency stabilization, prices have been climbing slowly but surely, reflecting the normal play of the law of supply and demand. The Stalinist leaders have had to permit periodic increases in nominal wages which however lag considerably behind rising prices. Here is an example of how this is recognized in Poland by Minc, writing in **Glos Ludu**, May 18, 1947 :

"Everything that takes so much effort to produce, everything that is achieved in the sphere of production often turns against us in the sphere of trade and distribution. Despite all the efforts made ... we have to recognise the towering of the standard of living of the working class (owing to rising prices)."

This situation changed in Poland and Hungary only in 1948 following an excellent harvest which would have caused a

general collapse of agricultural prices if the government had not intervened by introducing a "fixed price" for wheat.

c) *Housing Crisis* : It is especially in Yugoslavia and Poland where the most extensive attempts at industrialization have been undertaken that the housing crisis, although general in the satellite countries, has hit the workers the hardest. Many workers have often been sent to places where there was no provision whatever for housing and where they have been obliged to find makeshift solutions. In a recent speech Tito cited several of the worst examples.

d) *Working Conditions* : The weakest side of all Stalinist "planning" is always the struggle for output whose success is indissolubly connected with the extension of workers' democracy. This, as we have already indicated, is the opposite road to that taken by the Stalinists. **The Economic Situation of Hungary**, January 5, 1949, observes that :

"During the currency reform our plan called for an output equivalent to 75% of pre-war levels with wages amounting to 50% of pre-war. But in 1947, output has only attained 65% while wages have gone beyond 75% of the 1938 level."

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"The Workers Are Lazy ..."

The Stalinist leaders took the customary road and "... *the government therefore instituted piece work ... bonuses, etc.*" When this system did not bring the desired results, Rakosi began mouthing the cynical invectives of a Stalinist bureaucrat : the workers are "lazy" (**NY Herald Tribune**, November 30, 1948, reporting a speech delivered on November 27th) ; the factory directors are "capitulating" to the lazy workers ; the production quotas are too low ; "we cannot eat up the future of the nation" etc. This vituperation was followed by a considerable increase in the basic norm.

On their part, the workers reacted by absenting themselves as much as possible from this exhausting speed-up. Official sources admit that in *Czechoslovakia* in the last nine months of 1948, an average of 233 hours of labor was lost per worker !

The Stalinist Prime Minister Zapotocki, confronted with this situation, openly threatened the workers with the introduction of forced labor in his speech at the closing session of the National Assembly in October 1948.

Istvan Kossa, Stalinist Minister of Industry in *Hungary*, in a speech at Debrecen on December 6, 1948 shouted that "*The workers have assumed a terrorist attitude to the directors of the nationalised industries*" and he also threatened them with forced labor.

Chivu Stoica, Stalinist Minister of Industry in *Rumania*, in a speech delivered on Dec. 25, 1948 to the workers of the Resita plant, the largest metallurgical establishment in the country, accused the metal workers of not having fulfilled the plan and of being "capitalist agents" (reported by V. Toma in **Le Peuple**, March 1, 1949). Sad to say, the revelations of the British delegate to the UN, Mayhew, concerning the development of forced labor camps in several of the satellite countries corresponds too much to the reality and to the new political methodology of Stalinism to be brushed aside ...

To summarize : the standard of living of the Czech workers, the highest in the satellite countries, reached its low point at the end of 1948 ; the living standard of the Yugoslav and Bulgarian workers has slowly improved and has reached the pre-war level ; the conditions of the Hungarian and Polish workers are almost at the pre-war level and both of these countries now have a prosperous peasantry and urban middle class which is entirely lacking in the other

countries ; the Rumanian standard is now the lowest.

Tito has been obliged to mobilize a popular following behind his regime. For this reason he has undertaken a series of tours speaking directly to the workers where he characterized exactly the general attitude of the Stalinist leaders to the masses in the satellite countries in the sphere of economic relationships and he was also quite precise in his criticism. It remains to be seen if Tito himself will draw the practical conclusions from his words :

"It is necessary to teach the masses, but it is also necessary to learn from the masses. If we consider their criticisms unjustified, we will learn nothing at all ... Our communists are too absorbed with the question of what percent of the Five-Year plan we have fulfilled, how many factories we have built, how many kilometers of road and track we have laid. But we are not taking much interest in the men who are participating in these great efforts. We are not always interested in their daily life, how they live and what impression events make on them."

Tito severely criticized the local or district Stalinist leaders

"who joyously arrive seated in autos in the villages to give orders in a dictatorial manner to the people. We cannot command the people. The people are accustomed to having things explained ; You must get out of your autos and look into every village home to see how the peasants live." (Speech to the Congress of the Croatian CP, reported in the **NY Herald Tribune**, December 3, 1948.)

The bureaucrats' autos seem to have especially caught the imagination of the masses of the satellite countries. Toma reports that the Rumanian workers jeer at the Stalinist Minister Stoica, who uses three American limousines, saying that "he has forgotten how to walk."

The High Price of Bureaucracy

The people who "do not know how to get out of their autos" have determined the direction of planning not only in Yugoslavia but even more in the other satellite countries. Even in the USSR a considerable section of the new bureaucracy, which has climbed onto the backs of the proletariat, originated in the petty-bourgeois strata of former "specialists," intellectuals and technicians of the pre-revolutionary regime. In the satellite countries, where the old state apparatus was never destroyed by a revolution and where the Stalinists utilized all the bourgeois and petty-bourgeois elements who proved amenable, the specific weight of this element is even more decisive in the economic apparatus today.

To this should be added the fact that a genuine dictatorship of the proletariat existed in Russia during the period of decisive transition, in which the proletariat exercised a strict control over the "spetzes," and the Bolshevik party exercised collective control over the apparatus. Naturally neither factor exists in the satellite states and as a result the "directors of the economy" display the most contemptuous and ignorant attitude to the conditions of the workers. Bureaucratic wastefulness in planning in the satellite countries is tremendous. With the exception of Czechoslovakia and Poland a large stratum of bureaucrats has not yet been able to skim off the cream of the results of economic progress, at least not in the way it is being done in the USSR. But in their place are bourgeois and petty-bourgeois elements who continue to take a lion's share of the slowly increasing national income ; and the incompetence of the economic directors as well as their fundamentally erroneous and conservative orientation cannot fail to still further limit the unquestionably great potentialities opened by nationalization of the industries and the banks. For his part, Hilary Minc delivered an eloquent attack on bureaucratism in **Glos Ludu**, Sept. 25, 1948 :

Many directors of our economy, among them many comrades, have become accustomed to living in a kind of artificial world, out of touch with real life. They are surrounded by sycophants and "spongers" who are always in agreement, flattering everyone, applauding at the least provocation, thus hiding the reality to those who occupy responsible positions. Many of the directors of our economy, among them our comrades of the PPR, have thus come to hold the opinion that everything that is reasonable and intelligent is enclosed within the walls of the administrative buildings ...

A Disease Requiring Surgery

The same Minc denounces this state of affairs as a mortal danger to planning and admirably demonstrates how it combines "*the symbiosis of various links of our economic apparatus with the class enemy.*" But has not the apparatus itself been educated in this manner by the Beloved Leader himself ? What can still be taken cognizance of in theory, can no longer be remedied in practice, because art appeal to the masses would sweep away the bureaucrats with their arrogance and their automobiles ...

Such is the picture of the satellite countries today. In the very midst of change, they more and more approximate the type of society existing in the USSR. But survivals of the past combined with the results of Stalinist policy in the last few years are still giving rise to qualitative differences between their economy and the Russian, differences which we have tried to sketch in their broad outline. Within this hybrid framework there is developing a planning, itself hybrid, which more and more clashes with the narrow limits of the national boundaries. The communist conviction and revolutionary enthusiasm of the proletariat which marked the first years of the USSR is lacking most of all in these countries. In place of this, the bureaucratic waste of the USSR is reproduced on a far higher scale because it develops under conditions of "the symbiosis of the economic apparatus with the class enemy." This formula of Hilary Minc, the most intelligent of the Stalinist leaders in the satellite countries, admirably sums up the present situation, there. This formula defines the framework in which the proletarian struggle will inevitably be revived, a struggle that will scorn an alliance either with imperialism or with Stalinist dictatorship – and with the aid of the workers of the advanced countries will go forward to a genuine socialist economy and a proletarian democracy.

March 15, 1949.

[1] See [Fourth International](#), May 1949.