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Dependency Theory and Eastern Bloc Trade:
Reformulating a Forgotten Paradigm

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Thesis Submitted for the Fulfilment of the Degree of Doctor of Philosophy in
International Relations

April, 2015

University of Sussex

April, 2015

I hereby declare that this thesis has not been submitted, either in the same or different form, to this or any other university for a degree.

Signature:

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Acknowledgements

SCHOOLS SUPERINTENDENT (*gloomily*): I wouldn't want my worst enemy to work in education. Everyone's afraid of everyone else, everyone interferes with you, everyone wants to prove he's cleverer than you are. It's a dog's life.

Gogol, The Government Inspector

The wisdom of Gogol's schools superintendent aside, never-the-less working in education is the goal towards which this thesis is submitted. Many people have played parts, large and small, in supporting me over the course of the last four years, only a small selection of which can unfortunately be named here.

Firstly, thanks are due to my supervisors, Benno Teschke and Steffie Ortmann, for astute comments on draft chapters as they were prepared, and then for similarly valuable input on the final piece. Their efforts and attentions have undoubtedly improved the quality of this thesis and have helped me to clarify my own thoughts on fundamental issues in social science.

I was lucky enough to benefit from detailed comments on draft chapters from a number of other academics as well, and to them warm thanks are due: Hugo Radice, Mark Harrison, Linsey McGoey, Ben Selwyn, and Julian Fellows.

The constructive comments of my examiners, Richard Saull and Zdenek Kavan, was also very much appreciated and significantly strengthened the thesis as a whole.

In my second year I was fortunate to be accepted to a conference on comparative political economy at which I was able to develop my ideas and from which a publication resulted. Organised by Ian Bruff, Mathias Ebenau, Christian May, and Andreas Nolke, the 'Comparison, Analysis, Critique – Critical Perspectives on the Diversity of Contemporary Capitalism(s)' conference in Wiesbaden, Germany was an invaluable part of my scholarly development. For this experience I am grateful to the organisers of the conference, as well as for their tireless work in editing and refining the paper that resulted; Weiss, O. 'Economic Surplus and Capitalist Diversity', in *Capital and Class*, 38:1, 2014; which contains parts of chapter 3 of this thesis.

For facilitating my teaching at Sussex and providing excellent support for Associate Tutors, Anna Stavrianakis deserves a lot of praise, as does the most committed and hard-working academic I've encountered, Pedro Rosa Dias, who provided a model of good conduct in teaching for me.

In my fourth year I greatly benefited from the opportunity to teach on a course about centrally planned and transition economies at the Centre for Medieval and Renaissance Studies associated with Keble College, Oxford. For this enriching and enjoyable experience I sincerely thank Oxford Senior Tutor, Mark Philpot.

While a master's student at the University of Leeds, the encouragement of Jeremy Larkins to pursue a research degree was very much appreciated. While at Leeds I wrote my undergraduate and master's theses, both on aspects of Soviet political economy, and these early experiences gave me what I hope will be a life-long interest in centrally planned economies.

This would not have been possible in the first place without the financial and other support of my parents, Sheila and Bernard, and I only hope I can repay their kindness and belief in some way.

I have greatly enjoyed my time in Brighton, in no small part due to the intellectual companionship of numerous friends inside and outside Sussex University, many of whom read and commented on various sections of the thesis: in alphabetical order, Neil Broatch,

Des De Moor, Sarah Finney, Beth Gibson, Jasper Green, Michael Hamilton, Matt Kelly, Johnny Potkins, Mark Qwahm, Mark Speight, Nancy Turgeon, and Jess Weiss all have my humblest thanks.

A massive thank you is due to the Sussex Dphil community at large for providing such a stimulating environment in which to conduct research, and finally perhaps most of all my deepest gratitude goes out to all those I've encountered trudging the road of happy destiny!

Brighton, April, 2015

Summary

This thesis is concerned with the intentions and effects of subsidised trade within the Eastern bloc. It argues that the core Soviet objective in Eastern Europe from the Thaw onwards was not exploitation for economic gain; subsidisation in return for political concessions; or an ideologically-driven desire for socialist integration, but instead to secure the dependence of the smaller socialist economies on the USSR. It is argued that advances can be made on existing literature by employing a concept of dependence which is capable of linking-up the primarily political concerns that motivated socialist international economic policy with the economic consequences for development that resulted. In order to accomplish this, a revised version of dependency theory (DT) formed through a critique of classical dependency work is used.

DT is proposed as a starting-point for two reasons: firstly it was concerned to look at the interrelation between international processes and national development, a notable absence from the literature on Eastern bloc trade, and secondly the subsidised nature of this trade seems to beg the application of a theory which stresses the significance of international political and economic asymmetries.

The type of dependency analysis proposed here differs from classical DT in several ways, most centrally in that an ideal-typical approach is used which allows for open-ended investigation of reciprocal influence between centre/periphery, as well as the recognition of significant differences between Soviet-type and developed market economies by refraining from making positive statements about either the nature of centre/periphery in themselves or their interactions. The impetus for this reformulation comes from the result of the literature review that some concept of dependence could help to fully articulate the consequences for development of Eastern bloc trade relations in the context of East-West antagonism.

Oliver Weiss

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Trade and Development in the Eastern bloc

1. Introduction

Shonfield (1968) recounts a joke about a Hungarian trade official who triumphantly announces to a colleague that he has had a successful day in his role as a representative of his country's trade agency: "A marvellous day! I managed to export a cat under the trade agreement with our Socialist neighbour, X, for \$50,000". The second official answers, "You can't really mean it—one cat?". "It's true", replies the first, "and that's not the end of it. I managed to import two dogs for \$60,000, as well!". As a concise expression of the absurd situation where quantitative augmentations of physical flows of commodities across borders within the bloc were celebrated by officials in spite of the limited demand for such commodities in their home markets, the joke is extremely apposite.

This thesis offers a reinterpretation from existing data of the structure of trade between the Soviet Union and Eastern Europe and its consequences for development during the Cold War. It argues that part of the post-Stalin reconstruction of Soviet power in Eastern Europe—initially in response to the Marshall Plan and its reinforcement of capitalism in Western Europe—was the introduction of economic incentives, specifically subsidised trade, which led to a particular development process taking place within the bloc, the contradictions to which became apparent from the 1970s onwards. In this thesis, contradictions are understood to be results inherent in the processes making up a particular phenomenon which simultaneously undermine the stability of the phenomenon itself. This thesis traces the changing interaction between trade and development within the bloc over the Cold War period and situates this regional dynamic within the broader geopolitical context which is essential for understanding the origin and development of intra-socialist economic relations.

I argue that the key phases of the geopolitical antagonism of the Cold War as it related to intra-bloc trade which will be included in the historical narrative given in later chapters were as follows. Firstly, the unclear geopolitical contours of the period 1945-47, as the war-time alliance between the Soviet Union and the Western powers, began to unravel is the first relevant period, since it was at this time that the Eastern bloc began to emerge. 1947-53 was the period in which Stalin's domination of the bloc formed a key part of early militarised Cold War antagonism; the pronounced military element to both

Soviet domestic and international economic relations will later be argued to be of relevance for the development of intra-socialist trade, most notably the central position established for the defence industry in the Soviet economic system from this point onwards. 1953-57 is considered to be a period of general crisis following the death of Stalin and the recognised need for change in both relations with the West and within the bloc. It was from this conjuncture that the trade system which facilitated a unique form of dependent development in the bloc emerged, and so these developments will be focused on in detail in chapter 4.

I argue that the maintenance of this trade system right until 1991, with only a partial reform of the price mechanism in 1975, means that this early period is the most worthy of examination; however, key shifts in the Cold War after this period also need to be covered as they threw light on the changing significance of bloc trade. The most significant features of the later decades to be focused on include: the genuine sense that socialism could compete with capitalism in the 1950s and 1960s; the relative success of the USSR in the Third World in the 1970s; the increased East-West trade fostered by *détente*; and the return of overtly militarised inter-bloc relations and the general stagnation of the socialist bloc in the 1980s. The periodization of trade and development of the Eastern bloc given in chapter 4 aims to show how these international developments interrelated to the international economic relations within the bloc this thesis aims to elucidate.

Categorising trading partners in terms of the Cold War distinction between East, West, and South, in general Eastern bloc countries conducted around 60% of their trade with other members of the Council of Mutual Economic Assistance (CMEA), 30% with developed market economies (DMEs), and 10% with the developing world. Invariably trade with the Soviet Union took-up a larger share than trade with any other single partner, and the commodity composition and price structure of this exchange implied substantial net transfers from the USSR to Eastern Europe (see table 14 for price data specific to Hungary illustrating this pattern). Whilst the existence of implicit Soviet subsidies is rarely questioned, as the literature review will make clear there is substantial disagreement over their interpretation. As Orłowski (1993) points out, such indirect trade transfers are not unique to socialism, but their central place in the entire system of intra-socialist trade, as well as the systematic nature of the transfers, was exceptional. This thesis will argue

that Soviet geopolitical concerns—such as the maintenance of communist power in Eastern Europe; the security concerns stemming from the hostile international environment during the Cold War; the Soviet desire to assert primacy within the world communist movement; and central place of military production in the Soviet economic system—are vital for understanding this.

This thesis constructs an international political economy of this regional system in terms of a revised version of dependency theory (DT) which sees the Eastern bloc as a centre/periphery arrangement with an internal development dynamic which was none-the-less subject to external economic and geopolitical influences as well. Although the international political dynamic of the Cold War in itself is outside the scope of this thesis, given that Cold War context and the changing geopolitics of East-West relations are argued to be essential to conceptualising the origins and development of CMEA, the interrelation between intra-bloc and global factors is given a central place in the historical narrative and is conceptually secured as part of the reformulation of DT proposed in the theoretical chapter. In this light the uneven nature of capitalist development outside of the bloc—particularly the technological backwardness of the bloc as a whole in relation to the West and how this related to CMEA—will be discussed, as this comparison exposes a key contradiction in the developmental results of the Soviet strategy of subsidised trade. In this way the thesis attempts to consciously incorporate how the dynamics of the uneven capitalist environment outside CMEA interacted with intra-socialist dynamics, and the question of how to do this without resorting to determinism is focused upon in chapter 3.

Poznanski (1988) raises the fundamental puzzle of Soviet economic policy towards Eastern Europe during the Cold War.

For several years the annual subsidy calculated by Marrese and Vanous [whose ground-breaking work will be introduced later] exceeded total Soviet imports of Western products, and was far above the transfers provided by any other single economy to any region in the world (including the US involvement in the Middle East). Why should the Soviet Union shoulder such an enormous burden, given that it is a poorer country than most of its CMEA partners in Europe, and that it has enough political leverage over those countries not to allow such a tremendous outflow of resources [?] (p.290).

In examining this puzzle, this thesis aims to make two contributions: firstly that the methodological and theoretical framework presented in chapter 3 is an original

formulation of DT which can be distinguished from prior work in the field, and secondly the substantiation of the claim that trade within the bloc can be analysed as resulting in a historically-specific form of dependent development.

The central research questions are as follows:

1. What were the intentions and effects of Soviet trade policy with Eastern Europe between 1945-89?
2. Can DT be developed through a consideration of this historical case?

A series of secondary research questions will be used in order to open-up these wider concerns:

1. Taking into account the high volume of trade within the bloc, what were the dynamics of economic interaction between the Soviet Union and Eastern Europe?
2. How did the structure of trade in terms of prices, quantities, and commodity composition relate to development?
3. What were the implications of this system of international economic relations for structures of production in Hungary, Yugoslavia, and the Soviet Union?
4. How did this regional system of trade and development relate to the wider geopolitical context of the Cold War?

Since this thesis consciously tries to incorporate the international context outside of CMEA into the main argument about intra-bloc trade and development, it is necessary to begin to specify how this will be approached, with fuller details provided in the theoretical chapter. Essentially, the two key components of the international context outside the bloc—the capitalist world market and uneven capitalist development, and the geopolitics of the Cold War—are both important for understanding CMEA in different ways. The geopolitical context of the Cold War is claimed to be necessary in order to explain the *extra*-economic significance of Soviet trade policy with the Eastern bloc, and

for this reason this issue is presented as a research question in its own right. The uneven nature of capitalist development outside the bloc is argued to be significant chiefly (but not exclusively) in the sense that trade dynamics internal to CMEA gave development in the bloc a particular character which fundamentally influenced the type of engagements with and the overall relation in which the bloc stood to the capitalist world market. Accordingly, international economic relations outside CMEA are included where appropriate to highlight the specificities of development within the bloc, but it is the geopolitics of the Cold War which is argued to be the most significant element of the international context for the purpose of explaining the character and operation of CMEA. These two issues together form part of the global context in which it is vital to place CMEA if its peculiarities are to be fully comprehended.

In order to provide answers to these questions, a revised version of DT will be used which, it is suggested, can improve on existing literature in International Relations (IR) and East European area studies. As the most coherent account from the existing literature, the subsidisation thesis is emphasised from this point of view; I argue that while this position can account for the initial decision to subsidise trade with Eastern Europe, it struggles to explain the continuation of the subsidies into the 1970s and 1980s in the face of dramatically rising costs and pays insufficient attention to the nuances of the political-economic and geopolitical dimensions of the puzzle. Another viable alternative, which will be termed the East European thesis, contains valuable empirical information but doesn't offer a systematic theoretical framework for the interpretation of this material. I argue that by approaching the empirical material from the perspective of the dependency tradition, both that a gap in the area studies literature can be identified and that DT can be reformulated in a useful and potentially transferable way.

This thesis was prepared and submitted in an IR department, and so it is important that both the historical case and the theory chosen to analyse it are today relatively rarely discussed within IR or its subfield International Political Economy (IPE). In terms of drawing-out why it is interesting to study Eastern bloc trade in an IR context, the first theme to be highlighted is that in the post-Cold War, multi-polar international system, regional development dynamics have increasingly come to replace global narratives of 'the West and the rest'. Theoretical studies which take regional development dynamics and non-Eurocentric world history seriously are making major contributions to

understandings of world politics, and this thesis shares something in common with these efforts. IR is a subject with a rightly prized theoretical diversity, and since a significant part of this thesis' contribution is to DT as a theoretical tradition, this also speaks of the wider significance of this study for IR/IPE. As will be returned to specifically in the concluding chapter, the version of DT developed here could potentially be applicable elsewhere, and in this way the thesis aims to make a general case for the continuing relevance of certain DT categories for the analysis of trade and development.

2. Socialist International Economic Relations

As a theoretical concern, the Soviet Union's subsidised trade relations with Eastern Europe stand as a unique example of a relatively underdeveloped centre interacting with a set of comparatively advanced satellites. For this reason Dawisha (1990) posed the rhetorical question whether any other examples of an 'impoverished' imperial centre transferring resources outwards to its dependencies ever existed before. Similarly, Roberts (1999), has claimed, 'The Soviet 'empire' in eastern Europe was, as many writers have pointed out, very strange indeed – an empire in which the metropolitan power was economically exploited by the 'colonies'' (p.49). I argue that the key to this puzzle can be found in the DT, and more specifically in the theoretical concept of dependent development once it is reformulated in such a way that contradictory dynamics of international development—specifically the coerced industrialisation of peripheries by the centre—can be accounted for in terms of geopolitical exigencies. The literature review and theoretical chapters to follow will further substantiate this point in relation to other frameworks.

It should also be made clear from the start that whilst I agree with the broad perspective implicit in the above statements about the peculiar nature of international economic relations within the bloc, a number of qualifications of these general characterisations are needed in terms of challenging the relatively homogenous image of Eastern Europe during the Cold War which they imply. These kind of assessments could be taken as implying that the East European economies as a group were substantially more advanced than the USSR. From a theoretical perspective which focuses on the interrelation between trade and development, it is necessary to point out that while this was the case for East Germany and Czechoslovakia, Rumania, Bulgaria, Hungary and all

but the most Western regions of Poland were substantially less industrialised than the USSR at the establishment of communist power. It is highly significant that the system of planned economy was established in the USSR and different parts of Eastern Europe when they were at different stages of economic development; i.e. Russia in 1917 was substantially less industrialised than parts of Eastern Europe in 1945, and therefore the task of socialist construction began from a much higher base in some parts of Eastern Europe. This meant the imposition of the Soviet model of central planning and the later system of subsidised trade had different effects across the region. What Dawisha and Roberts can be agreed with about is that the Soviet Union didn't enjoy a comprehensive developmental advantage which could have justified its central role in the system on purely economic grounds. This makes it essential to consider the geopolitical factors at play which influenced the way the Soviet Union engaged in economic relations with Eastern Europe, and thus shaped the origin and development of intra-bloc economic relations.

It is useful to start with a brief description of the political economy of Soviet foreign economic relations. Firstly it should be recognised that the goals, institutions, and mechanisms of planned economies differ fundamentally from those of DMEs. Here only those elements which affected international economic relations are considered; this means directing attention towards nationalised ownership of the means of production and the state monopoly of foreign trade. In addition to this, the geopolitically-influenced nature of the Soviet economy due to its existence in a capitalist world-system should also be mentioned. Soviet industrialisation was carried out explicitly to provide the kind of industrial base which would be capable of providing for a modern military, and the particular character given to the Soviet economy by the perceived necessity of achieving this goal as quickly as possible and at any cost under Stalin remained in place throughout the Cold War. Specifically, the special status given to heavy industries, armaments production and military technology gave the Soviet economy characteristics which influenced its engagement with CMEA in several ways. In addition to this, the export of the Soviet model of industrial development, with its central focus on producer goods, to Eastern Europe will also be returned to later.

Since Soviet production was planned towards meeting targets, and not maximising profitability, retail prices were stable and changes in production methods were rare. Although not all exchanges involved direct controls, all prices were centrally fixed, and

important products relating mainly to defence, capital goods, and foreign trade were subject to direct control by state agencies. Planners determined output targets, delivery dates, and told enterprises who to procure inputs from and where to ship finished products. Since decisions were taken paying little attention to the structure of demand, shortages of high-demand goods and surpluses of things no-one wanted were common. State subsidies concealed losses by inefficient producers, and targets to produce more and more with little consideration of quality or consumer preference generated widespread waste and inefficiency.

As a result of these problems, the question of reform became a characteristic theme post-Stalin in both the Soviet Union and Eastern Europe. The different nature of these reform paths and how they interrelated to both the dynamics of intra-bloc and East-West relations will be described in later chapters. In general, the reforms were usually partial, partly due to the fact that full employment and stable prices, the two main macroeconomic goals the planners were working towards, were achieved but at relatively low levels of comparative efficiency, and partly due to the ability of vested interests to maintain the status quo. The increased affluence enjoyed from the 1950s onwards (again in relative terms) made the planning process much more complex than it had been in the 1930s when the bureaucracy had administered the first wave of industrialisation centred around heavy industry and armaments production. For this reason, attention must be directed towards conflicts of interest between different elements of the *nomenklatura* present in the party, state bureaucracies and management positions in industry.

The industrialisation of the 1930s had involved what has since been termed extensive development—quantitative augmentation by adding more land, labour, or capital—and the bureaucracy was to prove either incapable or unwilling to oversee a move towards intensive development through raising factor productivity via technological or organisational innovation. The distinction between the two development strategies exposed a fundamental weakness which became increasingly apparent in the post-war period: the failure to innovate in the way that competition (in theory at least) forces Western firms to resulted in technological stagnation, and with fewer new inputs available to be added into the production process, growth necessarily slowed. I will later argue that the type of dependent development which took place in the bloc buttressed by a system of subsidised trade was contradictory partly because it could only generate extensive

growth, while the increased economic interaction with the West from *détente* onwards highlighted the necessity of moving towards intensive growth. Arguably this lack of technological dynamism was because in spite of significant scientific expertise, innovation is essentially a risk-driven activity, and the system of planned targets provided no incentive for managers to employ new, and therefore untried, technologies. As such, central planning and the conflicts of interest around it emerges as a key domestic institution which must be understood if both the nature of and the links between Soviet-type economies are to be properly grasped.

The fact that the dynamic of intra-bloc relations tended to discourage fundamental reforms of the planning mechanism—a necessity of intensive growth—whilst increased East-West trade in the 1960s and early 1970s made the need for such reforms clear represents a key contradiction between the logic of dependent development within the bloc and the possibility of increased participation in the world economy which will be returned to in the historical chapters. The manner in which this claim is to be substantiated makes clear the dual way in which the extra-CMEA international context is included by this thesis; I argue Cold War geopolitics are essential to understanding the origin and evolution of CMEA as a discrete grouping, and the particular way in which the perceived geopolitical necessity of binding the satellites to the Soviet centre was translated after Stalin into a unique system of trade and development within the bloc fundamentally influenced the relation of the socialist economies to the world market. From the mid-1950s onwards, Soviet leaders saw the benefits to increased commercial relations with the West, both in economic terms and as a material support to peaceful co-existence with the leading capitalist states. In this way, the issue of changing Soviet perspectives on the ‘cost/benefit ratio’ of subsidised trade within the bloc needs to be brought into the narrative.

With the appearance of multiple socialist states after 1945, three general options for international economic policy could be identified: complete autarchy (e.g. the Soviet Union till the 1950s, China between 1960-1977); trade and integration with other socialist countries (e.g. Eastern Europe, Mongolia, Cuba, and Vietnam); or integration into world markets (e.g. Yugoslavia after 1948, China after 1978). This thesis is primarily concerned to examine the developmental consequences of the second strategy and how geopolitical and economic pressures from outside the bloc related to this. The forum within which the

Eastern bloc economies' international economic relations took shape needs to be introduced. Although noting that CMEA was never synonymous with the socialist bloc as a whole, the organisation never-the-less provides a convenient empirical point of departure. Created in 1949, the politics of who could become a full member, who had observer status, and who was excluded entirely reinforce the impression that CMEA served a political as well as an economic purpose. 'The six' (Hungary, Czechoslovakia, East Germany, Poland, Bulgaria, Rumania) and their relations with the Soviet Union are the main object of inquiry, although a discussion of non-aligned Yugoslavia's trade and development is included to provide a comparative case. Whilst there are things that can be said in general about this group, their lack of homogeneity in terms of both levels of industrial development and the differing subsidies they received from the USSR (see table 1 in appendix) means care must be taken to avoid the kind of structural generalisations which will later be argued to have been problematic in DT.

It needs to be mentioned that the monopoly of economic decision-making exercised by the Soviet state was not as total as sometimes presumed. The totalitarian state model (associated with Sovietologists like Friedrich and Brzezinski, 1961) which was prevalent in the West in the first decades of the Cold War was gradually replaced by the view that there was substantial political conflict within socialist societies, and that in some sense their economic problems stemmed from the weakness of the centre, rather than its strength. The totalitarian state approach has been substantially revised since 1991 due to the work of Fitzpatrick (1992), Kotkin (1995), and others who emphasised the frequent inability of the party-state apparatus to control social life as totally as had previously been assumed. With the demise of the totalitarian state thesis, the need to accept the diversity of social struggles around the state, bureaucracy, party administration, nomenklatura practices, enterprise management, etc. has been fully established, and this involves giving social contests over resource utilisation a central place in the political economy of socialism.

This necessitates conceptualising economic structures within and between socialist societies as essentially contested, and therefore if some structures were maintained through the period in question then the agency behind their reproduction also needs to be investigated. The most significant groups whose agency was of relevance were the party, state bureaucracy, and firms across the bloc. These are not to be claimed

to be unitary actors, merely as useful groupings who can be seen to have had relatively discrete interests which influenced their choices. These are examples of elite agency; the focus on long-run development tendencies means attention is directed here and away from less powerful agency, such as labour struggles. It also needs to be mentioned that it will be necessary to sometimes give great weight to the agency of individuals like Stalin, Khrushchev or Tito. To be clear, this is not recourse to the so-called ‘great man’ theory of history, since the discussion of such individuals is always grounded in the analysis of groups, institutions and their relation to economic development. This outline is generally accepted in East European area studies; what is often missing from such accounts is the fundamentally international nature of the pressures acting upon these agents in terms of the variable interactions of party, state and enterprises. This is a significant example of where the DT emphasis on constructing an international political economy of trade and development can fill gaps in the area studies literature. Such a perspective can allow local developments to be viewed not in isolation from the international context which may lead to significant components of the interests and material basis of these groups being consequently understudied.

3. The Argument

Following this introduction, chapter 2 provides a literature review in which two general motifs are focused on: the binary distinction between politics and economics which is implicit in many interpretations—either political interests trumped economic considerations (subsidisation), or Soviet economic interests overrode political considerations (exploitation)—is unhelpful in explaining the peculiar phenomena of intra-CMEA trade over the whole period in question, and many existing accounts do not adequately relate these features to developmental consequences. Attention must be paid to the complex intertwining of (geo)political, economic and also ideological considerations; I argue that the dependency tradition has within it valuable elements which can be reformulated to accomplish this.

Chapter 3 gives a concise statement of the reformulation proposed to do this. It is firstly concerned with questions of methodology, by which is understood a system of concepts which provide a clear guide to practical research upon which a theoretical framework can be based, before moving onto the explicit critique and reformulation of

DT. In establishing the possibility of a useful reformulation, chapter 3 introduces and critiques the two main variants of DT; those associated with Frank, whose work needs to be covered as he is by far the best known proponent of DT, and Cardoso. Agreeing with Larrain (1998) that, ‘although less well-known than [Frank and Wallerstein]... Cardoso and Faletto’s approach is by far the most cogent, balanced and complete analysis of dependency that has appeared so far’ (p.159), the chapter makes a case of the continued relevance of the category of dependent development over and above other concepts often associated with the dependency tradition (namely unequal exchange and underdevelopment). The chapter culminates in a reconstruction of dependent development as an ideal-type and an elaboration of what this means for the ensuing historical chapters.

Chapter 4 considers what the relationship between the USSR and the six looks like once the framework presented in the previous chapter is used to organise the empirical material. This account is the necessary complement to the criticisms offered in the literature review and provides the regional and global context within which nationally-specific developments need to be seen. This chapter has the task of identifying and charting the course of what is argued to be a process of dependent development within the Eastern bloc whilst setting this phenomena in the changing context of Cold War intra-bloc rivalry, the geopolitical considerations of which are ultimately evoked as a key factor explaining both the instigation of the system, the contradictions in its operation, and the extra-economic significance attached to it by the USSR. The doctrine of ‘Socialism in one country’ needs to be mentioned in this regard, both because it helps to unpick the interrelation between geopolitical and ideological factors behind Soviet policy, and since the export to Eastern Europe of the autarchic model associated with it led to economic problems in terms of parallel development which CMEA had to address.

Bearing in mind the criticism of DT that social relations tended to be excluded in favour of structural determinism, the next three chapters (5, 6, and 7) will show how the theory can be operationalized to analyse nationally specific development trajectories. Chapter 5 focuses on industrialisation within the USSR under Stalin and argues that there are significant parallels between this and the later expansion of international economic relations in the 1950s, and that study of this period helps to explain why CMEA integration took place in the way it did. Further, the intertwining of geopolitical and ideological considerations identified in Soviet policy of this period will be argued to be

similar to the mix of geopolitical and ideological concerns behind the creation of the unique international trade system established in the 1950s. In both instances, ideological justifications for essentially geopolitical policies were presented which serve to illustrate the secondary and derivative role of ideology in relation to geopolitics. The second part of the chapter will focus on the unintended consequences of the reform of CMEA trade in the 1950s in terms of the necessary allocation of Soviet resources to meet the export requirements that resulted. This is not to claim that this was the main determinant of investment allocation, rather that the trade relations internal to CMEA can be seen to have affected the allocation of investment and development in all countries involved, including the 'centre'. This line of inquiry represents a significant theoretical break with the DT tradition. The return to militarised inter-bloc rivalry in the 1980s, and especially the economic costs this placed on the USSR, are also discussed at this point.

Chapter 6 gives an analysis of Hungarian development in the context of the Eastern bloc and is aimed at answering the question of how did participation in CMEA affect the contested process of economic reform? As a reformed and to some extent decentralised market socialist economy, Hungary participated in the world economy relatively more than other CMEA members. In this way Hungary provides an ideal illustration of the contradiction between the two orientations, either towards the world economy or inwards to the rest of CMEA, in that the demands of the two orientations can be seen to have incentivised different and sometimes directly opposed economic behaviour. This is essential to understanding the course of the reforms, and the specific nature of Hungarian society (especially conflicts of interest between different sections of the Hungarian nomenklatura) will be discussed in order to highlight what was distinctive to struggles around dependent development in Hungary. Instead of focusing on the nomenklatura system in general, emphasis will be placed on the unusual relation between intellectuals and technically-educated people and the Hungarian nomenklatura (Frentzel-Zagorska, 1990).

In chapter 7, Yugoslavia, as the originator of both the market socialist model and of the example of developing socialism outside of the USSR's sphere of influence, will be used as a comparative case. Arguably the fact that Yugoslavia evolved from the traditional planning model makes it an ideal comparative case-study for any Eastern bloc economy, but this is especially true of Hungary who went farthest towards market socialism whilst remaining within CMEA. The question these chapters attempt to

answer—and one that is highly significant from a DT perspective—thus becomes, what did it mean to reform a planned economy inside or outside CMEA and with necessarily different relations to CMEA and the world economy? This chapter thus allows some perspective on the relative significance of factors internal to the bloc to be offered on the grounds that Yugoslavia was outside the dependent development dynamic of CMEA and faced a different geopolitical context.

In terms of making an assessment of strengths and weaknesses, I would propose the clearly stated and consistently applied theoretical framework to be the study's main virtue. In terms of weaknesses, the most obvious thing is the lack of primary evidence. However, the academic context in which the thesis was prepared should be taken into account—language skills and archival/interview fieldwork are not as central to IR as they are within area studies. Conversely, many area studies projects do not have a detailed or explicit theoretical framework. Further to this, several points can be made to justify the lack of fieldwork: all the data needed for this study have been known for many years (the point is to reinterpret known information in the light of a new framework), and secondly, there seems little reason to believe any new information is out there to be found. Commenting on Stone's (1996) field-work, Sanchez-Sibony (2009) has claimed,

Moreover, [Stone's] archival material was vetted by extensive interviews with officials from many of the countries involved, making Stone's research unsurpassable under current conditions [of restricted access to previously open archives]. The material to be found in Gosplan, the Council of Ministers and other agencies still open to the researcher merely replicates his findings and offers, in my experience, little additional insights into the matter (p.10).

This suggests that existing data should be considered sufficient as it is highly unlikely new information will come to light which would fundamentally alter the picture.

4. Dependency Theory and Eastern Bloc Trade

Having given some context to the research questions presented above, it is necessary to discuss what the dependency tradition is and why it is proposed as capable of adding to the literature. The essentials of the dependency approach, which will be introduced and critiqued in more detail in chapter 3, can be stated quite simply. The central claim of DT as it developed in the 1960s and 70s was that international economic relations were the fundamental determinant of an economy's ability to develop. In the

world economy, Western nations prospered at the expense of the Third World via a direct transfer of wealth enforced by the international division of labour, which condemned former colonies to engage in low-value activities such as providing cheap labour, agricultural goods, and raw material extraction. Meanwhile, high-value technologically and organisationally sophisticated activities were concentrated in already rich countries, and a cycle of cumulative causation meant both groups of countries, one termed the core, the other the periphery, largely continued on their allotted paths. It is assumed that, had these countries not been integrated into the world economy in the manner in which they were, other development trajectories were possible, and crucially, according to classical DT, it is capitalism that is responsible for this global structure of exploitation. As such, development is impossible for the periphery which is condemned to a permanently subaltern position in the world economy.

There are both positive and negative things to say about this model. I argue that due to serious problems with the dependency framework, the only way to proceed is with a targeted critique and reformulation which will focus on three key issues:

1. The categories of centre/periphery were reified to the point where changes in the world economy were ignored in favour of a supposed continuity. Specifically, the constitution of the model in terms of positive claims about the structure of the world economy, many of which were problematic in terms of world trade at market prices and completely irrelevant to trade within CMEA, needs to be addressed. The core propositions typical of classical DT include: ‘Surplus is transferred from periphery to centre’; ‘periphery exports raw materials and imports finished goods’; ‘terms of international trade always benefit the centre’; ‘industrialisation is impossible for the periphery’; ‘periphery economies are technologically inferior to the centre’; etc. For examples of classical DT making such claims, see Frank (1969, 1982).
2. Internal factors, notably social relations, were consistently minimised in favour of an emphasis on external conditions in forming explanations. This served to further curtail the theory’s ability to explain the diverse economic histories of countries it

collectively labelled peripheral, which faced similar external constraints but experienced different development processes.

3. The conceptual definitions offered were sometimes rather vague and this had implications for the quality of DT analysis. Terms like monopoly, surplus, underdevelopment and dependency itself were often left as intuitive ideas without clear definitions.

Due to these problems, classical DT did not deliver on its promise to be a political economy of the interrelation between trade and development. Therefore, whilst the drawing of attention towards the global context of national and regional development was valuable, a stylised account of the consequences of international economic relations left the theory unable to explain development within the world economy. The reformulation proposed in this thesis instead seeks to provide a framework within which the interaction between regional dynamics, namely the mode of development encouraged by CMEA processes of trade and integration, and geopolitical factors, namely the shifting nature of Cold War pressures, can be articulated in a non-deterministic way.

4.1 Centre and Periphery in the Eastern Bloc

Given these problems, it is not clear why any form of DT could or should be used to analyse Eastern bloc trade. Two justifying reasons are given for using DT as a starting point: firstly, the voluntary and massive subsidisation of the smaller socialist states by the USSR seems to be well suited to analysis via some concept of dependence, since this can make explicit what the centre gained by the adoption of this strategy; and secondly, I argue the theory can be usefully reformulated through a consideration of Eastern bloc trade, as this forces a complete break with the problematic assumptions of classical DT. As such it is necessary to begin by thinking about what it is that makes any centre/periphery paradigm permissible in the context of the Eastern bloc.

Although the static sense in which centre/periphery came to be understood is argued against in this thesis, the idea of artificially separating an international economic system into two parts in order to look at the interactions between them is held to be a useful analytical device, so long as its application does not efface differences between

economies characterised by some similarities. In this way, the reformulation attempts to give explicit space for the articulation of differences in spite of similarities. This thesis also breaks with DT tradition in removing the assumption that this system must necessarily or usually be the capitalist world economy; the Eastern bloc can be argued to provide an example of a regional system with an internal logic of its own which related to the world economy but was not fully determined by it. As such, centre and periphery are held to be useful concepts which could potentially be applied at various levels of analysis depending on the specifics of the case under consideration.

In making a general case for the utility of this frame, it is worth remembering that the concept of centres/peripheries was always meant to provide an alternative to theorisations of trade based on assumptions of equal market players (Preston, 2002, p.186), and this idea is clearly appropriate for the Eastern bloc. A number of political, economic, and historical asymmetries justify considering the Soviet Union as the centre of the bloc. These include the dominant military capability of the Red Army; the size and diversity of the Soviet economy; the geographical expanse of the USSR and its resource endowment; the historical priority of the Bolshevik Revolution over the latterly created People's Democracies; and the geopolitical status of the Soviet Union after 1945. As such, once the centre/periphery paradigm is separated out from assumptions about the capitalist world economy, it seems uncontroversial that a centre and a periphery can be identified within the Eastern bloc.

Following on from this, the core DT concept of dependence as something linking periphery to centre seems to be intuitively relevant to relations within the bloc. In fact, it is precisely in regard to the assumptions of classical DT that CMEA emerges as an interesting case. This is to say that a centre and a periphery can be identified on the basis of observable asymmetries, but that their interrelations actually resemble a mirror image of classical DT claims. Clark and Bahry (1983) comment that,

This structure of trade between the Soviet Union and her dependencies reversed, then, the normal dependency pattern of 'vertical trade' in which a dependent economy exports raw materials and imports finished products. Nevertheless, this changing trade structure evidently increased East European economic dependence upon the Soviet Union in that there were few, if any, viable alternatives to Soviet markets for both raw material imports and industrial exports (p.280).

Whilst historians have recognised and described this unusual state of affairs, and economists have used various methodologies to try to quantify the extent of this transfer,

as the literature review highlights there appears to be little by way of a satisfactory theoretical explanation of the political economy of the intentions and effects related to it.

This implies that the intuitive starting-point that economic relations within the bloc can be investigated from a dependency perspective necessitates breaking with the pre-existing DT frameworks which cannot fully be dissociated from questionable positive claims. For this reason, I propose reformulating dependent development as an ideal-type which describes asymmetrical international situations but refrains from making specific positive claims in favour of preparing for historical investigation to proceed free from presumptions about intentions or effects. In short, when an international relationship such as that within the Eastern bloc intuitively seems dependent, and commentators regularly use this term to describe it, if the existing theory of dependency is irrelevant because its propositions are too rigid to take account of the historical case, this implies that one way to rethink the theory is to base it instead on an idealisation which avoids making positive claims.

4.2 Soviet Intentions

The question of Soviet intentions behind the design of economic relations within the bloc is a complex one. I argue that there were three key motifs: geopolitics, ideology and technocratic or economic considerations. The changing balance between these agendas will be discussed further in later chapters, but the essence of each perspective and the kind of policy they sanctioned will be introduced here.

I argue that the geopolitical approach to intra-bloc economic relations was the most widely accepted view during the Cold War within the Soviet leadership, the most significant example of this which this thesis deals with directly being the decision to subsidise trade with Eastern Europe from 1956 onwards. This approach saw trade and other international economic relations as servants of Soviet international policy more generally, and so moved the assessment of the utility of economic relations onto how they supported political goals such as bloc stability and unity; the acceptance of Soviet leadership of the international communist movement; co-existence and peaceful competition with the West; and security concerns. These diverse motivating factors can be grouped together in that they all make geopolitical considerations of some sort the key evaluative principle of trade, and concerns of this type can be clearly distinguished from the technocratic rationality to be outlined below. Most significantly for intra-bloc

relations, this view accepted large economic costs in terms of trade policy so long as visible geopolitical gains were achieved in return. I will show in chapters 4 and 5 how the policy of subsidised trade and the process of dependent development it led to need to be viewed as arising out of the perceived geopolitical necessity of maintaining communist power in Eastern Europe during the Cold War. Evidence of the exceptionally high valuation of this geopolitical objective is provided by the fact that Marrese and Vanous (1983) estimate the Soviet Union paid approximately \$87 billion dollars to Eastern Europe between 1960-1989 through the mechanism of subsidised trade prices.

The role of ideology in the formation of Soviet policy has long been a source of debate amongst historians. Westad (2000), defines ideology as, ‘a set of fundamental concepts systematically expressed by a large group of individuals’ and understood to be of some significance in terms of explaining their actions (p.552). Although this thesis argues that geopolitical considerations were relatively more significant throughout the period in question, the role of ideology cannot be entirely discounted. Since the end of the Cold War and the opening of previously closed archives, some sort of consensus has emerged that ideology was in fact a relevant factor in policy debates in the USSR and so cannot be entirely discarded as a factor motivating policy decisions (Kramer, 1999a). This thesis follows some key contributions to this debate in seeing ideology essentially as a flexible justifying device, usually made to conform to geopolitical objectives. For instance, one major post-Cold War study, (Evans, 1993), has argued that Soviet ideology was far from static after Stalin, but actually in a continual state of revision and adaptation to meet changing needs, and Checkel (1997) has explicitly argued for the importance of ideology as a justifying factor in Soviet international policy.

In terms of intra-bloc relations, ideological considerations suggested the following types of policies: supporting the industrial development of Eastern Europe out of a genuine sense of socialist solidarity; maintaining the non-transferability of the rouble and other East European currencies to shield the region from inflationary pressures emanating from world market price changes (i.e. an ideological assessment of inflation as something necessarily negative and inferior to the stability provided by centralised planning and financial controls); allowing terms of trade to favour the smaller socialist states at the expense of the Soviet Union; and the use of price negotiations to foster equal exchanges between the socialist states. I argue that such ideological concerns were a fluctuating

factor behind Soviet policy which need to be investigated principally through their interrelation to geopolitics.

Perhaps the most important way ideology influenced bloc trade and development was that the assumed superiority of central planning, which was both popular and credible in the 1950s and 60s, to some extent led to a lack of urgency in the development of the institutions and theory of socialist trade; if capitalism is a contradictory and crisis-prone system doomed to fail soon enough, then socialist trade need not be fully developed, either in terms of intra-socialist or socialist to capitalist relations (see Kuusinen, 1961). This mistaken notion was directly challenged by what will be termed the technocratic approach which should also be mentioned in this introduction. This view, which became more popular in the 1980s having been side-lined in previous decades, stressed the need for Soviet international economic relations to at least in part serve the interests of the Soviet economy (Alexeev et al, 1992). The intellectual origins of this perspective were the fundamental advances made by the mathematical school of Soviet economics in the 1950s and 60s (see Zauberman, 1976, for an excellent survey of this), and this agenda was increasingly popular in the 1980s as the social basis of the Soviet nomenklatura began to shift slowly towards the inclusion of more technically educated individuals. As such, the politically-motivated practice of massively subsidised trade with Eastern Europe, as well as the extension of large-scale aid to Cuba, Mongolia, and other struggling socialist economies, were seen as expensive and unsustainable policies without clear economic rationales from this perspective. The fact that the technocrats did not succeed in re-shaping Soviet trade policy with CMEA has to be seen as telling evidence of the deep-seated nature of the geopolitical approach.

At times these three perspectives moved in and out of favour, and sometimes there was agreement between various combinations of them about certain issues, but I argue that until the late 1980s the geopolitical approach held by far the most support. Especially interesting is the interaction between geopolitical and ideological concerns. Whilst the geopolitical and technocratic agendas were fundamentally opposed in terms of the criteria they offered for the evaluation of policy, ideological concerns often marched hand-in-hand with geopolitical motivations (most obviously in the sense that both could provide justifications for subsidising trade), although when an irreducible contradiction between the two emerged it was more often than not the geopolitical agenda that triumphed. The

technocratic approach only started to gain ground in the late 1980s—see the reversal of attitudes towards the International Monetary Fund (IMF) and World Bank to be discussed later—and the declining hegemony of the geopolitical view is an essential part of the ideational context to the end of CMEA.

What first-hand evidence is available suggests the Soviet leadership was well aware of the geopolitical implications of subsidising trade with Eastern Europe. A report prepared by the Soviet Institute for the Economy of the World Socialist System and presented to the politburo reads as follows:

It would be desirable to develop a flexible, manoeuvrable tactic with respect to these socialist countries in order not to alienate them, but at the same time in order that they might really feel an economic loss as a result of their nationalistic isolation from the socialist camp; and, in order that every step in the direction of unity with the socialist countries gave them perceptible economic benefits... A differentiated approach to the various countries with regard to providing them with deficit fuel, energy, and raw material commodities would be very important in strengthening the cooperation of the other countries of the CMEA with the USSR (quoted in Stone, 1996, p.72).

This suggests ideology stood some way behind geopolitics in terms of assessing the general contours of Soviet trade with Eastern Europe. Further evidence is provided by Kurierov (1998), a member of the Research Institute of the Soviet Ministry of Foreign Trade.

Foreign trade was used by the Kremlin to bolster various regimes, to assist ‘friendly firms’ (i.e., lined with the local Communist parties), and ‘friends’ themselves... In all these cases, the leadership disregarded the disadvantageous terms of the contracts and even pushed foreign trade organizations to go ahead with the deal at any price. Instructions and ‘recommendations’ to this effect were not always properly documented, and sometimes were given orally (p.273).

This dominant geopolitical approach, as against the usually subordinate ideological and technocratic approaches, needs to be related to the historically specific execution of state policy in the Soviet Union where the system of *nomenklatura* was first established. Djilas (1962) was the first to highlight the significance of this group which emerged in the 1930s, and more recently Pakulski (1986) has emphasised how distinct the patterns of organisational rationality were in the USSR—deference to superiors and their sometimes arbitrary decisions; the role of patronage and the prevalence of clientism; ideology as a flexible justifying factor; the lack of oversight or control agencies—which

outlived Stalin and put a permanent stamp on how the system functioned. As a category for the analysis of socialism, it needs to be acknowledged that the *nomenklatura* had contested boundaries; exactly who was in it was sometimes unclear, especially in Hungary, the case-study in which the question of the *nomenklatura* will be returned to, due to the inclusion of intellectuals on party and state committees to a far greater extent than elsewhere in the bloc. In this thesis the term essentially refers to elites, i.e. individuals in senior positions within the party, state bureaucracies or industry.

The *nomenklatura* system meant the fate of top officials often depended on alliances with more powerful patrons further up the hierarchy. Accordingly, it seems reasonable to presume in view of Kurierov's testimony that the *nomenklatura* system assisted the implementation of geopolitically-motivated trade policy and eased senior party-state officials' task of keeping technocratic elements at bay; i.e. the dominance of the geopolitical approach to trade meant that rising through the ranks of the *nomenklatura* within the institutions managing trade was more achievable if you had geopolitical, rather than technocratic, opinions. Only in the late 1980s did the struggle begin to be more evenly pitched, and as such technocratic reformers only got close to power at the time when the socialist system itself was teetering on the brink of collapse (Bruce and MacPhee, 1995).

The question of Soviet agency behind the subsidies will be investigated in chapter 5 from the point of view of examining the crisis of Soviet authority in the region that resulted from Stalin's death, which I argue the strategy of subsidised trade was adopted in response to. The contradictions inherent in Stalin's approach to the bloc had generated unrest and instability; the introduction of substantial economic incentives was meant to be a more stable approach to cementing the unity of the bloc under Soviet leadership. This strategy also contained structural contradictions however—for instance, between the traditional centralised planning encouraged by CMEA trade and the need for economic reform and technology transfer from the West—the increasing severity of which ultimately contributed to the demise of this unique international system of trade.

According to Brzezinski (1967), Khrushchev 'realized that an important substitute for Stalinist coercion was to create such economic interdependence [within the bloc] that any separatist temptations would be tantamount to courting national disaster' (p.285). This is a fairly uncontroversial thesis and fits with the general shift in Soviet foreign policy

after Stalin, under whose direction economic relations within the bloc had been heavily slanted in the USSR's favour. Situating this shift in terms of the Cold War context, Khrushchev's commitment to peaceful co-existence and competition with the West encouraged the significant re-orientation of intra-socialist trade policy away from Stalinist domination of the bloc backed-up by military power towards a much more politically and economically complex situation between the USSR and the six. Similarly, the fact that the Soviet model of industrial development was then highly attractive to leaders across the Third World as signifying a route to modernity and relative independence from the West meant the need for the bloc to function in a more mutually beneficial manner was seen as paramount. Westad (2005) has provided a detailed history of the significance of the Soviet model for developing countries in the post-war decades. The fact that Soviet military interventions still occurred after Stalin will be returned to later in connection with the 'militarised' nature of the Soviet economy due to the large share of surplus going into the Soviet military-industrial complex. Thus, post-Stalin Soviet leaders displayed a much greater degree of latitude and flexibility in adapting intra-bloc trade relations to a changed geopolitical environment, although military intervention was not discarded as a potential strategy until Gorbachev.

The mechanism by which the USSR aimed to secure the dependence of Eastern Europe, and thus to reduce the need for Stalinist domination and to raise the credibility of the bloc as an advert for Soviet socialism, was the instigation of a historically-unique system of international trade in which prices systematically and deliberately deviated from those on world markets. Specifically, this involved the under-pricing of Soviet raw material and energy exports and the simultaneous over-pricing of East European manufactured goods. Szymanski (1982) explains the nature of post-Stalin trade relations between the USSR and Eastern Europe:

The terms of trade used in [the USSR's] trade with its CMEA partners are *not* set by the Soviet Union, and they certainly are not exploitative. Since 1956 CMEA countries have established the prices used in their mutual trade by negotiation (p.77).

Given the eccentricities of these negotiations to be described in the literature review, it is not hard to see how, say, an enterprising Czechoslovakian trade delegation might manoeuvre to secure an advantageous price for the processed industrial exports of their

country against a Soviet 'opponent' who Kurierov's (1998) evidence suggests was often under direct instruction from above to play by a different set of rules.

The relatively stable state of this deeply unbalanced situation means the agency of East European party leaders, as well as of economic interests within the countries, must also be integrated into the account. That East European parties were aware of the subsidies has been established by Stone (1996). Likewise, Westad (1997) gives archival evidence of East European's awareness of their 'privileged' position and ability to articulate themselves against the USSR in agreement with Stone. As such it is well established that both East European and Soviet parties and bureaucracies knew about the transfers taking place. This thesis does not attempt to argue that the subsidies or their distribution were entirely the outcome of deliberate political decisions by the Soviet leadership, but rather agrees with Köves (1983) that the subsidies should be read as the outcome of a mutual bargaining process.

This involves conceptualising the ruling parties in Eastern Europe as both part of an international socialist coalition and as national elites in complex relations to domestic interests, and thus facing contradictory policy choices derived from these two spheres. All the regions' communist parties needed stability and growth in order to legitimate their rule; since stability meant the continuance of existing policies as much as possible, while it became increasingly evident that maintaining growth rates required economic reform of some kind, the question of how to reform the traditional planning system was thus heavily implicated in this contradiction. The role of factory managers also needs to be included. Since CMEA market orders were often fixed in size and specification for several years, these contracts were highly desirable (from the producers' point of view) because they did not require innovation or efficiency.

4.3 Effects

It is now necessary to summarise the effects of the continuance of subsidised trade within the Eastern bloc. Particular attention is paid to the contradictory nature of these for both the Soviet Union and the six which emerge clearly once the regional system is set in the context of changes in the world economy. This thesis will argue that the intended consequence of the mid-1950s price reforms, that of making Eastern Europe economically dependent on Soviet resources, was achieved and that this led to a particular

type of development for Eastern Europe. However, also significant were the unintended consequences exacerbated by the dramatic rise in the opportunity cost suffered by the USSR after the oil shocks of the 1970s. The Soviets were compelled to forgo substantial windfall gains to be had from trading outside CMEA so long as they wished to extend aid to the six and so continue to secure their dependence. I argue that this policy dilemma is best captured by a DT frame of analysis which highlights the geopolitical significance of Eastern Europe's dependence on the USSR.

This system of trade had various effects for the development of Eastern Europe. Firstly, damage was done in terms of international competitiveness as the six were re-structured away from areas they had comparative advantages in and towards Soviet-type industrialisation. This resulted in structures of production which were only adept at meeting the needs of the Soviet market and could not export successfully to the West. From the theoretical perspective developed in this thesis, the geopolitical significance of this was that subsidised trade with the Soviet Union did lead to development in Eastern Europe, but the nature of this development effectively limited the ability of the smaller CMEA members to diversify and expand their international economic relations outside the bloc, thus reinforcing dependence on the USSR. The blanket imposition of the Soviet model across the region even generated conflicts within the group, as less developed Rumania initially celebrated the possibilities for industrial development made available by CMEA, whilst Czechoslovakia and East Germany resented the imposition of the Soviet model and even tried to block the development of rival industrial branches elsewhere in the bloc (Staar, 1971, p.258).

Secondly, energy inefficiency became a common feature of East European production as cheap, plentiful Soviet inputs were not economised on. Csaba (1988, p.268) has underlined how there was no effective demand constraint on East European industry, and taking account of the structural intertwining of Soviet and East European industry on the one hand, and Soviet raw material and energy sectors on the other, this disproportion needs to be considered as highly significant. The price rises after 1973 that faced East European firms as CMEA prices slowly approached those on the world market were thus especially harmful, and the adjustment process entailed a further fiscal burden on the state as it strove simultaneously for full employment and stable retail prices. Systemic pressure for high resource use can be seen even in the relatively advanced GDR and

Czechoslovakia. This is an example of how the structures of production CMEA reproduced left the region as a whole poorly placed to take advantage of opportunities outside CMEA, and the technological inefficiency of the region in relation to the West widened greatly over the period.

Whilst it is generally accepted that there was a link between the Soviet model of industrial development and this inefficient development pattern (Winiecki, 1988, p.102), it is not always observed that CMEA trade reinforced both and provided the link between the two. In fact the significance of intra-bloc trade and the logic of bloc development is underestimated in general; this is one example where the attention directed to a crucial international dimension by DT leads to the reinterpretation of empirical information. Examples of scholars who tend to undertreat CMEA in relation to development include Bleaney, 1988; Brown, 2009; Fowkes, 1995; Nove, 1988; and Priestland, 2009. A recent example of work on socialist economic development which represents this tendency is Harrison (2012), which does not mention CMEA at all. Similarly, the international nature of the material basis and influences acting upon agents in the Eastern bloc is often underestimated. For example, the struggle within the Soviet party-state apparatus between technocrats who wanted to raise efficiency, and the leadership who had to consider geopolitics, or the Hungarian large enterprises who wanted to monopolise soft CMEA contracts in opposition to the party who increasingly pushed for modernisation and trade with the West in the 1980s, need to be understood in terms of the dynamic of intra-bloc relations.

Thirdly, the type of industrial development encouraged in Eastern Europe by the USSR created an economy centred round heavy industries which could only function if connected to the Soviet supply network. This was a result of the fact that Soviet industrialisation in the 1930s had seen the heavy industries as the backbone of a necessary military-industrial complex, and this emphasis was transferred on to Eastern Europe without questioning its viability. Dependence on these delivery networks meant that switching suppliers not only involved facing higher prices but major infrastructural issues as well. This had severe implications for the USSR, too, as was openly acknowledged by Gorbachev (see Rumer, 1991, p.453). This technocratic assessment of trade with Eastern Europe and the investment pattern it implied competed on an uneven basis in the Soviet party-state apparatus with the predominant geopolitical perspective and can be seen to

have motivated the timid and moderate modifications of CMEA price formulas in the mid-1970s.

The accumulated effects of this meant that economic development in the Eastern bloc cannot be adequately comprehended in isolation from the international system centred on the USSR, and the origins and development of this system itself needs to be put in the context of the Cold War. I argue that this led to a form of development which was dependent on the continuation of the CMEA system of trade, the limits to the development potential of this system being increasingly exposed in the 1980s. Only further links to the world economy could enable further development for the bloc. The conclusion is therefore that, despite static gains from the subsidies, smaller CMEA members ultimately bore substantial costs from their close association with the USSR. So prevalent did this opinion become in Eastern Europe in the 1980s that Lavigne (1991) has termed it the 'East European thesis', in contradistinction to the subsidisation/exploitation debate that took place in the West. The dependent development account developed here differs from this in stressing that some sort of development did take place, but the contradictions within it created dependence alongside this development, and in fact dependence was an outcome of the particular way this development took place.

5. Dependency Theory Past and Present

Simplifying a little, there are two key strands of DT: the neo-Marxist stream associated with Frank (1969) and Wallerstein (1993), and the dependent development approach of Cardoso (1977a). In addition to these approaches, DT bears a close resemblance to other critical theories of international trade such as structuralism (Furtado, 1964), unequal exchange (Emmanuel, 1972), and the work done at the UN Economic Commission for Latin America (ECLA), most notably the Prebisch-Singer thesis (Toye and Toye, 2003). Frank and Cardoso have been selected to be examined in detail since their contrasting contributions were central to the development of DT, and crucially their work, in distinction to many other important contributions (Sunkel, 1976; Dos Santos, 1970), has been seen as and can potentially be argued to be applicable outside the context of Latin America.

A trend established in the 1990s with regard to re-working DT was to extend the theory to include the analysis of newly industrialised countries (NICs) and their position in the world economy (see Cardoso, 1993; Hoogvelt, 1997). Whilst this was probably the most common theme of more recent contributions to DT, the continuing potential of the dependency tradition has also been argued from a number of other perspectives: Blaney (1996) argues for a more explicitly political conception of dependence; Elsenhans (1996) has tried to reinvigorate the structural economic position; and Hornborg (2006) has used DT to approach ecological issues. This thesis takes a different approach to these in suggesting that DT can be re-worked via a consideration of socialist international economic relations which represent a significant case in terms of challenging the classical models.

A large body of critical literature developed in response to DT. Good surveys of both the original and the critical literature are provided by Brewer (1990) and Kay (1989). This can be divided into two general camps: liberals who saw DT's analysis and policy prescriptions as flawed (this position is well summarised by Nove, 1974), and a group of Marxist commentators who took issue with various theoretical premises. Foremost among this second group was Warren (1988), who charged that there is little evidence for the positive claim of a global process of underdevelopment; Brenner (1977), who showed how the over-emphasis on exchange led to a problematic treatment of capitalist development itself; and Laclau (1982) who alleged the imprecise definition of capitalism left the theory with no clearly defined object of study. More recently, Hobson (2012, pp.234-6) has charged that a more serious problem with DT and subsequent WST analyses of development was that they were Eurocentric and denied agency to non-Western societies.

This thesis accepts these critiques of the validity of the classical accounts of dependency and that DT is largely irrelevant to the Eastern bloc in its current form. Three key areas where improvements must be made have already been raised, and now a short summary of the proposed reformulation is given.

1. I argue that ideal-typical method is useful for DT and that chapter 4 demonstrates this by forming a coherent account where previously only intuitive and under-specified references to socialist dependency existed. It

seems it should be possible to circumvent many of the problems highlighted in classical DT by abstracting from the historical details of particular instances of dependency to arrive at an ideal-typical description. Referring back to the first key problem mentioned before, beginning from an ideal-type seems to provide a way of avoiding the reification of the centre/periphery system into a static structure with an assumed dynamic of interaction expressed as positive statements. This reconstruction of abstract dependency as a discrete theoretical object is carried out not to insulate the model from the intrusion of messy historical reality, but rather on the explicit premise that the purpose of such rarefied abstractions is to give a basic account of what dependence actually is against which the subsequent historical account can be calibrated. This means that instead of the empirically problematic claim that relations between centres and peripheries are a zero-sum game where the development of one is a function of the underdevelopment of the other, open-ended questions of reciprocal influence can be focused on.

2. Another problem relates to the methodological issue of structure/agency. Whilst there are various approaches to this issue within the dependency tradition, and many contributors do not explicitly state their approach, a simple interrelated conception taken from Cardoso is given in chapter 3. This interrelated conception is not claimed to be original or controversial but is especially relevant given the problems with structuralism often associated with DT. In this way the valuable contribution of classical DT that development should not be analysed in isolation from the international context is strengthened by beginning from an ideal-type which allows analysis to cover the entirety of the system, and the conception of structure/agency as interrelated further supports this by drawing attention to agency in both the centre and periphery which either contested or reproduced the centre/periphery relation.
3. In terms of third problem, progress can be made by providing clear definitions of analytical concepts sourced from Marxian political economy (specifically

the concepts of reproduction and economic surplus). Since it will be argued in the literature review that the relation between trade and development has remained undertreated, and that this can in part be traced back to the lack of an explicitly political economy approach characteristic of many contributions, the framework presented will aim to rectify this by beginning from the concept of economic reproduction central to historical materialism.

Agreeing with EH Carr (1990) that, ‘a rationally and historically significant explanation of an event is one which could conceivably be applied elsewhere’ (p.106), it is worth beginning to consider how generally applicable such a reformulation could be. Lichtheim (1974) has argued that,

Since imperialism is older than capitalism, there seems to be no particular reason why, for theoretical purposes, the two should not be dissociated, to the point perhaps of laying the groundwork of an as yet non-existent theory of post-capitalist imperialism. Such a theory, if and when it comes into being, will have to take the Stalinist era for its starting point. What it will look like remains to be seen, but it seems improbable that the analysis of market relations will figure prominently within it (p.128).

It seems that by a theory of post-capitalist imperialism Lichtheim has in mind an approach which rejects the central role given in the classical theories of imperialism to market exchange and the international action of the labour theory of value to explain global accumulation, rather than a post-capitalist theory which would be more inclined to stress the role of political factors alongside but not instead of production and exchange in assessing international economic relations. Similarly Woods (2006) emphasises a distinction between economic imperialism, which she associates solely with capitalism, and previous non-economic forms on account of what she calls capitalism’s, ‘unique capacity of economic power to *detach* itself from political coercion’ (p.18). Whilst this thesis avoids having to define and theorise a contested idea like imperialism in favour of referring to a specific type of international development instead, some of the sentiment expressed by Lichtheim could be attached to the potential application of a theory of dependent development in other historical contexts.

Early DT held out the promise of being a political economy of international processes and how they interrelate with national development, and part of the motivation

for re-thinking this paradigm is that there would appear to be many asymmetrical international instances which simply do not resemble the classical models, but still intuitively look dependent. Kubalkova and Cruickshank (1985) suggest that the unwillingness to develop the theory of dependence to take account of the Eastern bloc may have been a strategic move; 'It is then no wonder that *dependencia* authors often tried to ignore the USSR and conceptualize the core and periphery as 'two halves'... to make the surprised discovery that their analysis does not apply to Soviet relations with her communist periphery' (p.231). In reformulating DT in relation to this international system and its extreme variance from the assumptions of the classical model, perhaps the foundations of a generally applicable approach to asymmetrical international economic relations could be laid. This will be returned to in the concluding chapter.

Literature review

1. Introduction

The position implicit in this review is that the chief objective of the Soviet Union towards Eastern Europe after the Thaw was not exploitation for national enrichment; subsidisation in return for non-economic gain; or an ideologically-driven desire to equalise national levels of development, but rather to secure the dependence of the smaller socialist states on the USSR. Since this dependence was secured by initiating a particular type of development process, I argue that to fully capture this, a new theorisation of dependence is needed. Accordingly this review attempts to highlight two absences, one in the empirical literature which has not fully articulated the phenomenon of socialist dependency, and one in pre-existing DT studies of the Eastern bloc which shows the possibility for DT to be rethought in relation to this historical case. In terms of the area studies literature, the interrelation between trade and development is a notable weakness in the extant literature and I argue that some concept of dependence is ideally suited to rectify this.

A political economy approach which focuses on the co-determination and interaction of political and economic factors is useful to do this, and for this reason the review will often examine the implicit assumptions of how politics and economics relate in the literature. An explicitly political economy approach is relevant on account of the peculiarities of interaction between planned economies, where the statements, a) Eastern Europe was an economic burden on the USSR (as argued by Marrese and Vanous, 1983), and b) Eastern Europe was an economic benefit to the USSR (as argued by Staniszkis, 1992), can both paradoxically be argued to be true. A political economy approach is further needed as the subject matter is planned economies where state and economy were fundamentally co-constituted. Accordingly the separation between politics and economics specific to market economies should not be carried over unquestioned to the study of actually-existing socialism, where the extensive role of public ownership and planning mean attention must be directed towards their interaction. Similarly, the significance of geopolitical factors is essential to explaining the origins and development of the regional system of trade and development focused upon, but such concerns are not normally included (most problematic from this point of view are customs union theory and world-systems theory). Accordingly, the reformulation and the historical account it

generates will pay particular attention to this dimension of the problem, and situations where the exclusion of geopolitics is problematic will be highlighted in this review.

This absence is perhaps understandable as there is relatively little IR literature available, with the debate mostly taking place between economists and area-studies specialists. Several reasons can be proposed for this. Firstly, the issue of Eastern bloc trade and development is inherently and irreducibly of a political economy nature, and the sub-optimal and strict division of labour in Western academia between economists and political scientists perhaps inhibited IPE scholars from moving into this area. Secondly, the Cold War context and the US-dominated nature of IR as a discipline meant work on Soviet foreign policy tended to focus on its military-strategic aspects, leaving trade relatively neglected. Finally, the core theoretical approaches characteristic of IR; realism, liberalism and their various reformulations, as well as the English school and more contemporary theories of gender and environment which have significantly broadened the scope of the discipline; seem poorly suited to the analysis of the particular international phenomena approached here. Accordingly, a relatively in-depth discussion of area studies literature is included. This is justified partly by the theoretical point that the tendency to over-generalisation in DT and WST is claimed to be problematic, and so beginning with the specifics of the situation is important, and partly as this is the best way to substantiate the intuitive starting-point that some form of DT could fill a gap.

2. *English Language Soviet Literature*

The debate to which this thesis speaks outlined above took place in the Western academy. However, it is important to note that the English language branch of Progress Publishers, based in Moscow, released a significant number of publications by Soviet writers aimed at an international audience which dealt with CMEA and intra-socialist economic relations (for example, Sanakoyev, 1972; CMEA Secretariat, 1974; Bautina, 1975; Kuznetsov, 1976; and Shershnev, 1978). A short discussion of the general limitations of this literature is included to justify why it is not given a central place in this thesis. This Soviet literature is used to illustrate the ideological assessment of trade, as well as the later emergence of the technocratic approach. I argue there was a fundamental contradiction between technocratic and geopolitical approaches to trade, but that this was not necessarily the case between ideology and geopolitics. As such, the growing popularity of the

technocratic approach in the 1980s, albeit from a very low base, had to have implications for CMEA.

In general, English language Soviet publications on CMEA have two key characteristics: they offered in exhaustive and sometimes quite tedious levels of detail descriptions of the bureaucratic operation of CMEA and the 32 institutions it oversaw; and they made various ideological arguments about the superiority of socialist international economic relations in comparison to capitalism. I claim that the empirical information provided by these sources need not be reproduced here since this thesis is concerned with long-run developmental processes, and secondly that the theoretical arguments these works contain should be seen as interesting illustrations of Soviet ideology as they related to questions of trade, rather than as analytical treatments comparable to the other accounts to be discussed below. Finally, some examples of this literature will be briefly examined to show the beginning of the transition to a type of technocratic policy agenda which began to emerge in the late 1970s and rose to prominence in the late 1980s.

As an example of the ideological approach usually taken by Soviet writers, Kuznetsov (1976) argues at length that whilst the guiding principles behind West European integration are bourgeois individualism and nationalism, socialist internationalism is the principle of integration in the Eastern bloc, and that whilst the former leads to increases in international inequality, the latter fosters the equalising of the levels of development of all participants. The question of ideology and how seriously it should be taken as a potential factor behind socialist economic policy will be returned to in chapter 4, and whilst it should not be discounted as one factor influencing decisions, this thesis sees geopolitical factors as more significant determinants of policy choices relevant to international economic relations within the bloc.

The move over the 1970s away from ideological formulations in relation to trade with capitalist and socialist states and towards technocratic assessments can be seen from the two examples below. Sanakoyev (1972) contrasts the socialist ‘international cooperation of labour’ with the capitalist ‘international division of labour’. He further claims that these two approaches to international economic relations are so distinctive as to mean that the states of the socialist bloc actually comprise a separate social and economic system independent of the capitalist world economy. This specific theoretical proposition can also be attributed to some WST practitioners and will be discussed later on in this chapter. Sanakoyev’s ideological

position became less popular as the decade wore on, and by the late 1970s, recognition of the fact that the Eastern bloc was within the world economy and that this could be a source of growth became much more widely accepted in the Eastern bloc. An interesting example is provided by the fact that Shershnev (1978) actually went so far as to justify the monopoly of foreign trade (a corner-stone of the socialist approach to international economic relations) on the grounds that it promoted stability in long-term relations with both capitalist and socialist states. This stands for an acceptance of the fact that trade with the West was desirable and in fact necessary for the East, in contrast to the earlier grandiose proposals that the bloc would out-compete the West and so the direction of attraction would be the opposite to what actually took place.

In summary, the English language publications of Progress Publishers give a window onto how the Soviet Union wanted to present CMEA to the international community—as a collection of states whose international economic relations represented a fundamentally different type of integration to that of the world market—and provide evidence of fact that ideological considerations were often central to how such questions were framed by intellectuals before they began to give way to more realistic technocratic assessments. However, this body of literature does not contain a recognisable theoretical account of the inter-relation between trade and development, and so is not considered to be as useful as the literature to be reviewed below.

3. State Capitalism

Before going any further, there is an issue of conceptual language which should be raised which relates to notions of politics and economics. These concerns will be raised through a consideration of the state capitalist thesis (SCT) since this is one of the best known attempts to claim that conceptions of politics and economics appropriate to DMEs can be applied to the Eastern bloc (see Cliff, 1974). The open question of whether to use the theory of state capitalism is one of the extent to which it usefully characterises Soviet-type economies. The assessment of SCT is especially significant given that DT provides the conceptual starting-point for this inquiry, and all forms of DT assign high explanatory significance to capitalism. In other words, agreeing with SCT and claiming the Soviet-type economies were not any form of socialism, rather just another variety of capitalism, would have implications for the reformulation of DT. I have developed a general critique

of the varieties of capitalism approach to comparative political economy elsewhere (Weiss, 2014).

Here it is argued that the SCT effectively collapses the distinction between capitalism and socialism in favour of an imprecise typology of various capitalisms, and that this negatively affects analysis of planned economies. If capitalism is defined in terms of relations of production in which the class of producers is separated from the means of production by the institution of private property which allows the appropriation of profits by a class of owners, it would seem that this definition would have to be stretched to breaking-point to be made applicable to the USSR. Side-lining the issue of relations of production, key proponent of the SCT, Harman (1988), argued that a tendency for state intervention in the economy can be observed under both capitalist and socialist property relations, and that this renders differences between them insignificant (p.326). This position relies on a problematic redeployment of the idea of the separation of the political sphere (the state), from the economic sphere (the market), which is wholly inappropriate for the study of centrally planned economies. Aside from the fact that it is inaccurate to perceive the Soviet state as something separate and distinct from the economy into which it ‘intervenes’, this approach is inadequately general; the specific nature of economic crises in the Eastern bloc (be it the repeated shortages of strategic goods faced by the USSR; the inefficiencies of the large enterprises created by the Hungarian reform process; or inability of Yugoslavia’s labour-managed firms to manage wages increases), are clearly distinct from the economic history of the West over the same period.

Key to understanding the rise of SCT with regards to the Soviet Union is the geopolitical conjuncture in which it emerged. After the defeat of Nazi Germany, US involvement in Western Europe was instrumental to producing a peaceful, capitalist reconstruction of Europe (Saull, 2007, p.81). In this context, in order to avoid the taint of association with Moscow the establishment of a theory which differentiated their own socialism from Stalinism was essential to Western socialists. This effectively forced Western socialists into severing ties of loyalty, affiliation, or sympathy with the Soviet Union, and into reforming Trotsky’s own position on the nature of Soviet society. Essentially the SCT stands for the assertion that the Soviet Union is best understood as a new variety of capitalism where the state took on the role of the entire amalgamated capitalist class. Counter-posed to this understanding is Trotsky’s notion of the USSR as

a deformed workers' state. Whilst the term 'state capitalism' had been in use among Trotskyites since the 1920s, it was not until after 1945 that a variant was arrived at which could be applied to the USSR. Trotsky (1973) himself famously dissented from applying the term to the Soviet Union, preferring to treat the USSR as a genuine form of socialism, but one in which the state had not withered away. The importance of this conception is that it allows analysis to proceed on the assumption that the economies of the Eastern bloc functioned significantly differently from their Western counterparts, and as such must be understood to have differed in essence.

A recent example of the SCT is Resnick and Wolff (2002). This improves on older state capitalist work by offering clearer definitions of what constitutes capitalism or communism in terms of which classes appropriate surplus. In capitalist society there is a difference between the producers (workers) and the appropriators (capitalists), while in a hypothetical communist society the producers would themselves be the appropriators. State capitalism for them is therefore the, 'capitalist process of producing, appropriating and distributing surplus, consisting of and interacting with processes that place state officials in the class position of appropriators and distribution of surplus' (p. 85). Two problems arise from this; both relate to real historical aspects of Soviet-type economies which are minimised by this perspective.

Firstly, whether or not state bureaucrats can be seen as fulfilling the role Resnick and Wolff claim for them can be questioned. Most obviously there was no clearly defined objective function that this class could be understood as maximising in the same way that capitalists are defined by their need to maximise profit/minimise cost, and the minimax theorem has proved these to be essentially the same imperative. Thus if Resnick and Wolff were right they would have to face the burden of explanation for the marked lack of success of the USSR in capitalist terms. This is especially problematic given that an amalgamated capitalist class would surely be more, not less, effective than an atomised one in overcoming the contradictions that arise precisely from this atomisation. Relating this specifically to the issue of Soviet trade policy, Westad (1997) has commented on how unsuccessful the USSR was in this regard from a capitalist point of view; 'the Soviet 'empire' ... couldn't cultivate mutually-beneficial ties such as those between advanced capitalist states' (p.268).

Secondly, their criterion of what would justify considering the USSR or any society as non-capitalist is unrealistic. Resnick and Wolff acknowledge that collective

property had replaced private, and that plan replaced market (pp.91-97), but argue that since there was still a distinction between producers and appropriators this cannot be classified as anything other than a variety of capitalism. This criterion is not very useful on the grounds that it denies the significance of such fundamental structural distinctions as private/public, plan/market. The expansion of the term 'capitalism' to cover Soviet-type economies seems to stretch the concept too far, and for these reasons the economies to be studied will be referred to as 'actually-existing socialism', meaning any political economy characterised by public ownership and planned development of the economy.

In conclusion, it is argued the SCT was primarily the result of a political necessity during the Cold War. The radically different performances of the two blocs in terms of growth, one characterised by a stable deceleration of growth over the post-war period, the other experiencing boom-and-bust, should suggest an essential difference between the two blocs in terms of economic structure. The fact that the USSR imploded so suddenly and dramatically in the neo-liberal world of the early 1990s is further evidence of its fundamental 'otherness' in relation to developed capitalism. This theme of the qualitative difference between Soviet-type economies and DMEs, and the need for theory to recognise this, will be returned to when customs union theory and WST are considered.

4. Spheres of Influence or Dependency?

Securing the possibility for a new DT interpretation must show the limitations of existing DT scholarship on this area. Although the historical focus of DT had always been relations between more and less developed capitalist economies, there have been several attempts by East European area-studies specialists to apply DT to their field (Clark and Bahry, 1983; Zimmerman, 1978). These contributions will now be assessed with emphasis placed on pointing out how their limitations related to problems inherent in the classical theory of dependency.

In some respects it is strange that the question of dependency relations between socialist economies has so seldom been explicitly addressed in the theoretical debates (this absence has been commented on by Dougherty and Pfaltzgraff, 1997, p.234). Socialist planning is implicit in DT; it is perennially present as a silent interlocutor and accordingly we can find some comments in dependency literature about the situation in Eastern Europe and the possibility of non-capitalist dependency relations. For example,

Wallerstein (1993) writes that, '[w]ithin a capitalist world-economy, there exists a world market price for any item traded. A socialist country is free to sell an item for a price below the world market price... but that is a political decision which amounts to a transfer of surplus for non-economic reasons' (p.112). Although he did not attempt to describe or analyse the consequences of this any further, this is an accurate observation on the explicit role of politics in socialist trade relations.

The key issue with the application of DT to the Eastern bloc was that the approach was seen by the area studies specialists who sought to apply it as a collection of models making various structural claims which could be taken off the shelf and employed without alteration in a new context. Taking account of the fundamentally different centre/periphery relation characteristic of the Eastern bloc, this approach has to be seen as restrictive in contrast to a more open-ended engagement which tries to rethink DT in relation to new historical contexts. The problem with the application of DT as it was then was that it kept the propositions of DT as positive statements, and so the only result Clark and Bahry (1983) achieve is the discovery that these propositions only have a very limited relevance to the Eastern bloc. The same comparative method provides the starting-point for Zimmerman's (1978) paper, which need not be treated here as many of the same points apply again in this case. In setting out merely to test DT in a new context, Clark and Bahry cannot be held accountable for abstaining from carrying out an overhaul of the theory, but the rigidity with which they apply the tools forged by Frank and Cardoso results in several problematic statements which could have been avoided had they been prepared to reconsider the theory.

For example, Clark and Bahry observe that,

Despite these similarities to Western dependency, Stalin's Eastern Europe provided one radical departure from capitalist classic dependency. Instead of the externally enforced economic stagnation posited by this model, postwar Soviet dominance over Eastern Europe brought Soviet-style rapid industrialization emphasizing heavy industry and producer goods (p.277).

This 'radical departure', in that the centre actually sponsored industrialisation in the periphery, seems to both discount the relevance of the classic dependency model (which stakes so much on the stagnation and structural underdevelopment of the periphery) and in turn beg the development of a new one capable of bringing such occurrences within the horizon of theoretical analysis.

Secondly, Clark and Bahry are rather indeterminate on the Khrushchev era and the transition it saw. This is the corollary of their comparative method whereby the two dependency models they treat are superimposed onto the serried surface of the historical material simply to see what emerges. Having applied Frank's framework to the Stalin era, and Cardoso's to Brezhnev, the intermezzo Khrushchev era is left unstudied, and this disguises the issue of how we can trace the changing dynamics of intra-bloc relations over this crucial transition period. This can be seen clearly in their argument that structures specific to the Stalinist period are key to understanding the move towards dependent development (p.279). Contrary to this, I argue instead that it was post-Stalin leaderships agency in response to the *limitations* of Stalinist political and economic structures which led to the initiation of subsidised trade and dependent development, and that the continuance of these subsidies was partly due to the ability of post-Stalin East European leaderships to articulate their interests against a weakened Soviet centre.

As such the over-arching problem with Clark and Bahry is the unwillingness to undertake any revision of dependency concepts, even when their diligent application of them flags-up the need for this to happen. Surveying the fruits of the application of DT to the Eastern bloc, Kramer's (1999b) verdict is that, 'Their efforts were useful in underscoring the shortcomings of dependency theory, but their research shed relatively little light on the broad dynamics of Soviet policy in Eastern Europe'. Instead he proposes a spheres of influence approach where 'a sphere of influence can be described as a region of the world in which a preponderant external actor (A) is able to compel the local states to conform with state A's own preferences' (p.99).

There are several reasons why this state-centric conception is problematic. For Kramer, the question of power relations between the Soviet Union and Eastern Europe is framed exclusively in terms of inter-state relations with the Warsaw Treaty Organisation (WTO) being the key institution. This leads to the problem if that the state is assumed to be a rational power-maximiser, many of the Soviet states' economic actions seem anomalous. This is underlined when Kramer poses a question, his implicit answer to which seems to establish the possibility for a dependency-centred account. Kramer is aware that, 'the East European states found the relative prices for trade with the Soviet Union to be far more advantageous than the prices for comparable trade with non-CMEA countries' (p.112), but is unable to provide an explanation of why this trading system

functioned as it did. In setting up influence as the key category, Kramer's focus is necessarily turned towards state behaviour in the diplomatic-political sphere and away from the underlying structural developments. For these reasons there is no political economy of socialist trade and development to be found in Kramer's work.

5. Exploitation, Subsidisation, Prices

The task of constructing this political economy involves going outside and beyond the work of IR scholars and DT contributions and into the literature produced by economists, beginning with the exploitation/subsidisation debate. Arguably the most influential position advanced in this debate held that the Soviet Union was subsidising Eastern Europe through the provision of favourable terms of trade in order to obtain political advantages. The archetypal statement of the subsidisation thesis is given by Marrese and Vanous (1983), who sought to challenge the assumption of prior Western literature that the Soviet Union was exploiting its CMEA partners by utilising its dominant position to impose discriminatory terms of trade.

Mendershausen (1960) gave the original statement of the exploitation thesis, which appears to be accurate for Stalin's era. Under Stalin's direction, over the first decade Soviet relations with the new states of Eastern Europe were not so different from Frank's claims about the world market, as the Soviets unilaterally forced unfavourable terms of trade on Eastern Europe (Nove, 1988, p.316). A notorious example was the case of the under-pricing of Polish coal, for which the Soviet Union would later officially apologise. Under the agreement, Poland was compelled to supply 13 million tons of coal per year between 1947 and 1950, then 18 million tons a year afterwards at the price of \$1.25 a ton, which was 1/10 of the world market price (Fejtö, 1971, p.228). Immediately after the war, the USSR was worried her newfound political and strategic clout might prove unsustainable by a war-damaged and still relatively backward economy; this motivated the Soviet Union to extract surplus wherever possible, chiefly in the form of reparations and dismantled industrial plant, to bolster its own economic base. This took place because many of the territories over which the Soviet Union now enjoyed *de facto* control were at higher levels of industrial development than the USSR. In fact, as early as the second CMEA meeting in Sofia, August, 1949, Czechoslovakia was openly

criticized for preferring to trade with the West and not sharing her industrial expertise within the bloc (Fowkes, 1995, p.62).

Marrese and Vanous' position is that whilst Soviet-dictated prices unfavourable to Eastern Europe may have been the case under Stalin, it grossly misrepresents what has happened since. Their view is that,

implicit trade subsidies have played a major role in Soviet-East European trade—in other words, that Eastern Europe has received preferential terms of trade from the Soviet Union compared to those available on Western markets. Furthermore, it has been our contention that the Soviet Union has at least in part made a conscious decision to continue these subsidies in return for what we have called unconventional gains from trade—that is military, political, and ideological nonmarket benefits from Eastern Europe (p.145).

That the Soviet Union accepted poor terms of trade with Eastern Europe—defined as below world market prices (wmps)—in return for non-economic benefits, is a popular opinion shared by various other scholars. Recent examples demonstrating the longevity of this position include Saull (2007, p.97) and Castells (2010, pp.18-9).

Marrese and Vanous' study is a valuable econometric attempt to quantify the extent of the transfer between the Soviet Union and Eastern Europe, but the authors go no further than this. There is no consideration of the socio-economic impact of this state of affairs on either Eastern Europe or the Soviet Union. The restrictive focus on whether the terms of trade benefited either the Soviets or their European partners allows for no enquiry into the (inter)dependence stemming from this asymmetrical relationship. Marrese and Vanous seem to consider it beyond the task they set themselves, which was essentially to show that there was an implicit subsidy, but in setting out their basic thesis that the trade relations between the two cannot be understood by reference to national economic interests alone, this sudden halt is a disappointing end.

The fundamental problem with the subsidisation thesis is that it leaves it unclear why the Soviets continued to bear the burden of subsidising Eastern Europe for so long; this is where the concept of dependence is useful as it makes explicit what the Soviets got out of the relationship, and we can infer how much they valued this goal by how consistently it was pursued. In this way, I argue that the policy of subsidising trade with Eastern Europe led to economic dependence, and this implies an account which centres round the idea of dependence, rather than subsidisation, can contain the valuable material

of the subsidisation thesis, as well as going further into the intentions and effects of this policy. Marrese and Vanous calculate that the difference between wmps and CMEA foreign trade prices (ftps) meant that the subsidy paid to Eastern Europe was approximately \$87 billion over the twenty year period after 1960. This is a staggering amount, and the maintenance of Eastern Europe within the WTO (which was only seriously questioned at several flashpoints: 1956, 1968, 1981) alone seems insufficient to explain the continuance of such vast subsidies.

Since it was the difference between wmps and ftps which allows the calculation of this transfer, it therefore becomes necessary to look into how intra-CMEA ftps were actually formulated. The classic treatment of this is offered by Hewett (1974). The fact that planners within the government of each member state fixed prices to be used domestically meant that it was impossible to derive a set of prices acceptable to all members for use in intra-CMEA trade from any of the national price indexes. The solution adopted was a system of bilateral negotiations in which a representative sample from the world market was selected to serve as a base, and what Hewett calls the 'battle of the documents' ensued.

In this way the unusual price structure of intra-CMEA trade was in some sense the outcome of the fact that CMEA was a group of planned economies but was not itself planned. This relates to the changing relevance of ideology as it affected trade policy. Over the first decades when growth rates were impressive, it could be argued that it was enough for the socialist states to simply 'hold on', since the final crisis of capitalism would soon ultimately tip the scales in favour of global communism. As this ideological view came to be seen as more and more illusionary, and the relative economic superiority of the West became more apparent, the need for a more comprehensive system of international socialist prices was accepted. However, Csikós-Nagy (1973) has stressed how a truly socialist system of international prices was needed but remained fundamentally out of reach for CMEA, and by the 1970s acceptance of the long-term co-existence of capitalism and socialism, and the fact that the latter confronted the former from a position of increasing weakness, was wide-spread.

Initially organised around the Bucharest principle, which set prices to be used for 5-year periods based on world market data from the previous 5-year period, the inherent ambiguity of this operation should be underlined. Lavigne (1983, p.136) has emphasised

how even for raw materials, for which wmps can be assessed fairly objectively by looking at the major commodity markets, prices diverged significantly, and this was even more true for manufactured goods where there was significant scope for interpretation and negotiation in price formation. This was superseded in 1975 by the Moscow principle which retained the main formula but included provisions for prices to be renegotiated annually if deemed necessary. This step was taken in response to the first oil shock and will be discussed in more detail in subsequent chapters. In this way the system of domestic planning begat a particular mode of international trade based on a price structure completely dissimilar to—although in some sense deriving from—that governing trade between market economies.

6. Subsidy scepticism

Marer's (1974; 1982) work stands out for his explicit rejection of both the subsidisation and exploitation theses. Marer is notably restrained in his final verdict: 'one would be hard put to establish beyond controversy which side benefits or loses the most economically. The possibility that there are no net beneficiaries but only substantial net costs to all partners certainly cannot be excluded' (1974, p.253). In fact, Marer (1982) is one of only a handful of commentators who actually question the existence of substantial subsidies in the first place by arguing that East European manufactures were not as overvalued in intra-bloc trade as often thought.

Without presenting reams of price data, it can be pointed out that there is a very broad consensus on the relatively low-quality of East European manufactured goods by international standards (Clark and Bahry, 1983, p.280). For instance, Poznanski (1988) working from primary data has calculated that East European manufacturers often sold at up to a 40% discount in Western markets where consumers had more choices and higher expectations. Likewise Köves (1991) repeatedly drew attention to the fact that, 'A significant part of the products that Hungarian enterprises export to the Soviet market for rubles cannot be sold in the world market at all, or only at significantly reduced prices or after substantial additional expenditure for improvement' (pp.175-6). He goes on to make a distinction between 'hard' and 'soft' goods traded within CMEA depending on whether or not they were capable of sale at wmps, and notes that the Soviet Union, due to the large share of energy and raw materials in her exports, always exported more hard goods to

CMEA than they exported in return. Accordingly there appears to be enough evidence to dispel Marer's objection, and for these reasons this thesis accepts the Maresse and Vanous calculations as reasonable estimates.

7. *World-Systems Theory*

As an established theory within IPE, and one which is closely associated with DT, key attempts to analyse the Eastern bloc from the perspective of WST should be introduced here. In addition to highlighting problems in these attempts, this will also allow the distinctiveness of the reformulation suggested in this thesis to be further drawn out. First this section examines an example of WST work that attempted to understand the USSR as part of the capitalist world-system (Luke, 1985); secondly, it considers Szymanski's (1982) attempt to analysis the socialist bloc as an independent world-system in its own right; and thirdly it points out general problems with the WST framework.

WST has a characteristic approach to development by setting it in the context of a global web of connections which it is claimed sum to an analysable single entity, the world-system. This is the main unit of analysis, and many of the strengths and weaknesses of the perspective stem from this analytical move. A world-system is defined as a unit with a single division of labour and multiple political sovereignties, none of which can manage or control the whole economic system on its own. For Wallerstein (1990) this is what capitalism has been since the 16th century, and borrowing from DT, which in turn took the terms from ECLA, he proposes that the international division of labour separates the world into three categories—core, semi-periphery, and periphery—linked together by exchange on the world market. Like Frank, WST is committed to the claim that international trade leads to direct transfers of wealth from periphery to core. The existence of multiple planned economies trading amongst themselves posed a question for WST about how this post-1945 development related to their conception of a singular world-system.

Luke (1985) uses Wallerstein's category of the semi-peripheral state to explain the Soviet Union's mix of massive industrial economy with technology lag in relation to the West, and in so doing champions the notion of a singular world-system, albeit one containing non-market economies. In this perspective the availability of foreign capital and technology are held to be the key factors conditioning the growth of the Soviet

economy. As has already been suggested in the section on state capitalism, for most of the period in question the drastically differing economic performance of the bloc can better be explained in terms of the different economic structures (both national and international) characteristic of the group of planned economies, and not by the fact that they traded on the world market. However, from the 1970s onwards increasing reference needs to be made to developments in the world economy and the relation of the bloc to these, although this does not mean accepting the WST proposition that Eastern bloc development can be understood exclusively in relation to this.

The necessity of striking a balance between the internal developmental logic of the bloc and external influences which can take account of intra-socialist trade on its own terms can be illustrated by noting that the very phenomenon that this thesis focuses on and claims to be of significance (the centre/periphery system centred on the USSR) almost disappears under the WST frame of reference. For instance, Luke notes that, 'special currency and administrative exchange conditions in the CMEA bloc—not its advanced technology, greater capital reserves or higher productivity—gave the USSR whatever advantages it held in the other communist states' 'dependent development' (p.343). In other words, the Soviet Union's position as the 'centre' of this system was not based purely on economic superiority, and so trade and development within the system ran a different course which needs to take account of the asymmetrical relation between the socialist states and the specifics of how this was translated into a system of subsidised trade with very particular effects.

In this way one of the problems with applying WST to the Eastern bloc is one of levels of analysis—i.e. is a global or a regional frame most appropriate? This thesis argues both that national development until approximately 1980 was more influenced by regional than global dynamics, and that agency of both the centre and the periphery is needed to explain this. Firstly, the subsidised trade put in place in the mid-1950s allowed for a particular type of dependent development to take place, although the limits to this were increasing apparent from the 1970s onwards, and secondly East European as well as Soviet agency is essential to explain this. Since for Wallerstein the world-system predates and largely determines state behaviour, no room is left for agency in relation to this or any other system as he in effect makes politics into a function of an economies position in the world economy. This precludes analysis of how different systems come into being,

develop and disintegrate in favour of an ahistorical emphasis on ‘continuity within change’. Wallerstein locates strong states in the core, weak states in the periphery, and makes this difference in state power essential to wealth transfer. As Skocpol (1977) has pointed out, this is one of a number of simplifying assumptions WST relies upon to make the model work which seem to tap the model of explanatory potential by excessively generalising. This problem will be returned to later.

This dominant position that Eastern bloc development can be fully understood in relation to the world-system was challenged by Szymanski (1982) who claimed that ‘the USSR and the CMEA countries, on the one hand, and the developed capitalist countries, on the other, compose *two* autonomous world-systems’, and that the linkages between them were of a non-essential or ‘luxury’ type. Addressing the issue of Soviet dependence on the world market, Szymanski asserts that the ‘Soviet Union is the most self-sufficient industrial economy in the world’, and that by 1959, ‘the Soviet Union was in a position to supply virtually all the industrial ingredients necessary for its growth without engaging in any trade at all’ (p.105). This represents an improvement on Luke’s approach in that it allows the acceptance of a significant development dynamic largely internal to the bloc.

However, if this was the case then the fact that there was ‘any trade at all’, and such a large volume between CMEA members, needs to be explained. Szymanski’s answer is that the Soviet Union ‘engages in trade primarily to organize more efficiently its domestic production and consumption and secondarily to lend economic support to other countries. It does not engage in trade because its economy could not operate successfully without such trade’ (p.106). This proposition clashes on two fronts with my preliminary thesis about Soviet development: firstly, it will later be argued that preferential trade with CMEA had a significant impact on the national production of the Soviet Union, and secondly that Soviet trade with Eastern Europe was carried out from 1956 onwards specifically to secure the dependence of the later, and in so doing to achieve the geopolitical goal of bloc unity. Thus Szymanski can be questioned about both the intention and the effects of this system of economic relations.

Essentially, regardless of whether Luke or Szymanski’s view is accepted, those using the world-system paradigm do not have an explanation for why the USSR voluntarily chose to trade at a loss or an analysis of the effects of this decision for development in the bloc. The focus on understanding the Eastern bloc as a non-market

entity embedded within the world market is useful but alone is not enough to explain development within the bloc. This thesis attempts to substantiate the proposition that structures of production characteristic of actually-existing socialism were determined to a greater degree by factors internal to the bloc. Without denying the significance of the world market, economic structures within the bloc, such as public ownership, centralised planning, trade and integration within CMEA, and single-party government, are argued to have been more significant, the best evidence for the precedence of these features being the lack of success enjoyed by the region in the world market. It will later be argued that this lack of success owed much to CMEA trade and integration processes, and in this way this thesis argues that by centring the analysis round the logic of development internal to the bloc, albeit while showing how they interrelated to external geopolitical and economic factors, the type of development achieved, both in terms of its successes and failure, can be better explained.

Many problems identified with DT, particularly the reification of the categories of centre/periphery and the assumed nature of the interactions between them, are magnified in WST. Wallerstein (1982) claims that, 'the core-periphery relationship indicates the degree to which surplus-value is unevenly distributed in the direction of the core' (p.93). This is a good example of the kind of positive statements DT/WST produced—in fact it makes the transfer of surplus-value the substance of the whole relationship. Given that I have already argued that the Eastern bloc can usefully be considered as a centre/periphery relationship, but one characterised by an entirely different dynamic of interaction, this seems to make WST an inappropriate theoretical tool for this historical case given its axiomatic commitment to a particular dynamic of centre/periphery relation.

Similar issues of distinguishing between economic systems as were claimed to affect the state capitalist analysis of Soviet-type economies can be seen in WST (see for example Frank, 1977). Beginning from the world market leads WST into seeing all economies as essentially variations on the theme of exchange, and since exchange in some form or another has been a feature of every economy from the Neo-lithic period forwards (Laclau, 1982), an a-historic generality results. The uncritical transfer of concepts developed for the analysis of DMEs to the socialist bloc that results from over-emphasising world market trade has been criticised by Staniszkis (1992): 'The transposition of concepts from the capitalist context which has been typical in such

discussions [of Soviet international economic relations] simply does not allow one to deal with a phenomenon which is specific to socialism' (p.43).

Whilst WST made a deservedly large impact on social science in the 1980s, in moving the level of analysis so far away from concrete social contexts it proved incapable of fully grasping the dynamics which characterised Soviet and East European structures of production, exchange, and consumption. Although the fact that the Eastern bloc existed within the world market, and from the 1970s onwards trade between East and West became substantial, these linkages should not be privileged over interrelations within to the bloc. Such East-West linkages are very significant in terms of highlighting the limitations to the dependent development of CMEA, but should not be appealed to as core explanatory categories for development per se.

8. *The East European Thesis*

The East European thesis, examined here through the work of Staniszkis (1992), differs from WST in two key respects: the level of analysis remains national or regional, and attention stays directed towards specific socio-economic consequences (see also Köves, 1981; Gács, 1989; and Nyers, 1986). This is an improvement from my point of view given the aim is to first study the intentions and development consequences of relations internal to the bloc and then to integration the global context. For Staniszkis, dependence on the Soviet Union put a 'permanent stamp on the way in which the states and economies involved functioned' (p.42). She further argues that this dependence was unique to socialism since it grew out of the particular nature of economic interaction between planned economies. The originality of Staniszkis' position consists in her argument that the primary value of Eastern Europe for the Soviet Union was economic, rather than political or military, but she accomplishes this without simply restating the original exploitation thesis which was rightly challenged by Marrese and Vanous.

This is because the dependence relation secured the continuous flow of products into the Soviet economy which could only otherwise have been obtained with difficulty due to the inconvertibility of the rouble and the political impediments to trade with the West. This freed-up factors of production which did not have to be engaged in similar activities; the corresponding cost to Eastern Europe was in the Soviet-directed pattern of specialisation which necessarily resulted in dependence on the CMEA market. Alongside

this the import of Western components which were then turned into finished products and exported to the USSR became increasingly common. This used-up valuable hard currency which could otherwise have been used to modernise the technological base of Eastern Europe's industry by financing imports of capital goods. This could have created the possibility of lessening dependence on the Soviet Union by raising product quality and therefore increasing possibilities of exporting to non-CMEA countries.

Whilst there is much to be applauded in this perspective, there are several areas where this body of work is problematic. Firstly and most importantly there is a general lack of well-defined theoretical concepts on display meaning that analysis is sometimes ad hoc and unsystematic. Most obviously, Staniszkis loses sight of fact that Eastern Europe did not only lose through association with the USSR—dependent development is still development, and it would be difficult to argue Eastern Europe could have industrialised so rapidly without Soviet support. It also should be pointed out that this literature was primarily researched during the Cold War, and as such perhaps it could be expected that an anti-Soviet bias would be involved. Writing after the Cold War, it should be possible to go beyond the sometimes politicised nature of this East European scholarship and look at the interrelation between trade and development in a non-normative way. Finally, and perhaps as a result of the point made above, the East European thesis is weak on the issue of reciprocal influence, with the USSR almost totally disappearing from analysis. This is one of the key points of the reformulation offered here; that the internationalisation of development necessitates looking at how all parts of the system were affected by processes of trade and integration. Accordingly, the East European thesis' valuable empirical information was not complemented by a theoretical framework capable of systematically building an account based on these realisations.

9. CMEA as a Customs Union

At the same time as analysts were questioning the WST approach, a new theory was proposed which conceptualised CMEA as a customs union (CU), a trading bloc with a common external tariff. Although there was no actual common external tariff around the CMEA area, the extensive system of quotas and other administrative measures in place made it seem as though there was one. The CU position is that CMEA ftps deviated considerably from wmps, but were none-the-less in proportion to the factor endowments

internal to the largely autarkic unit (Desai, 1987; Brada, 1988). This is to say that since CMEA taken as a whole was rich in terms of natural resources and poor in terms of machinery, the high prices for machinery and manufactured goods relative to raw materials were the ‘natural’ prices which would have emerged in any CU. The conclusion is therefore there were no subsidies, implicit or otherwise, and geopolitical factors had no noticeable influence on trade. CU theory thus offers an essentially structuralist conception of intra-bloc trade, in contradistinction to the assertion made by this thesis that both East European and Soviet agency is essential to understand it.

One reason prompting the application of CU theory to CMEA was that by the mid-1980s studies were claiming that the subsidies were more diverse than had been thought (Holzman, 1986). Although Marrese and Vanous had accounted for the difference between what East Germany and Czechoslovakia, at one end of the spectrum, and Romania at the other, received from the Soviet Union by reference to their respective strategic values to the Kremlin, their theory could not account for occasional instances where the difference between ftps and wmps actually allowed for small subsidies passing *from* the six *to* the Soviet Union. CU theory could account for these instances by stressing the non-political nature of the price structure which was effectively determined by the fact that CMEA functioned as a CU in all but name. The chief virtue of the approach was therefore its questioning of the simplified understanding of ‘non-economic gains from trade’ used by Marrese and Vanous which proposed a linear relation between the strategic value of a country to the USSR and the dimensions of the subsidy extended to it.

A second more technical success for the theory was its correct prediction that CMEA integration would tend to be characterised by inter-industry rather than intra-industry specialisation (as defined in chapter 3). From 1970s there was a trend for more intra-industry specialization in the West, and CU theory suggested that a similar process would not take place in the East, or only at a much slower pace (Pelzman, 1978). This is an example of a valuable insight generated by a different theoretical frame which a reformulated DT can take account of (see the specifics of the reformulation given in chapter 3, and chapters 5 and 6 for historical examples). Whilst CU theory successfully challenged the simplified conception of politics employed by Marrese and Vanous, the new solution was in effect to try to solve the puzzle by making no reference to political factors at all, and this excising of politics from the debate was a step backwards for several reasons.

Firstly, advocates of CU theory ignored the fact that although goods, services, and to a lesser extent capital did move in substantial quantities within CMEA, the organisation never was and never could have been considered a ‘market’ in the sense understood by economic theory; non-monetised barter agreements using negotiated prices simply cannot be treated as comparable to the exchange relations in market economies. Secondly, CU theorists paid insufficient attention to the fact that the range of this semi-autarchic ‘market’ was itself a construct guided by geopolitical concerns, and the institutional mechanisms through which it operated were likewise emphatically political, most importantly the use of negotiated prices. The need to conceptualise structures in terms of social struggle will be developed in the next chapter. The example of Yugoslavia underlines this point: Yugoslavia had wanted to take part in the founding CMEA conference but was barred by Stalin. This exclusion made little economic sense as there were many treaties and cooperation agreements already in force between Yugoslavia and CMEA countries, but the decision was about the politics of who would or would not submit to Stalin’s dominance of the bloc (Singleton and Carter, 1982).

Finally, CU theorists tended to assume that the planned economies were inherently trade-averse. This was not the case—all Eastern bloc party leaders were well aware of the gains to be had from trading with DMEs and tended to resent the political barriers to accomplishing this imposed by the West (Sanchez-Sibony, 2010). This therefore represents a serious misapprehension on the part of CU theory. These problems suggest the transfer of concepts appropriate to the analysis of market economies cannot be avoided with the application of CU theory, and this approach to the study of actually-existing socialism has already been critiqued.

Conceiving of CMEA as a CU offers an internally coherent solution to the problem; it expels political concerns from the debate and then proclaims the economics of international socialism to be roughly commensurate with the economics of any CU. To re-state a core proposition, the point is that the subsidies were not primarily or just political, equally as well as they were not primarily or just economic—they were the institutional mechanism by which CMEA became a coordinated system of development, and more specifically of dependent development, the dynamics of which can best be captured by a theoretical paradigm which places such concerns at the centre of its analysis

and accepts the substantial role of geopolitical concerns behind its origin and development.

10. Institutionalism

The final item to be included is Stone's (1996) attempt to bring IPE back into contact with the Soviet bloc. In addition to the relatively recent date of publication, Stone's research occupies a unique position in that he was the first to secure access to both the relevant archives and also to former trade officials. As such, whilst some of his theoretical and methodological premises can be questioned, his study is empirically pristine and an invaluable source of qualitative information. Specifically, Stone's research represents the best available evidence to support the claim that East European party leaders and state officials were entirely aware of the economic benefits of CMEA and acted to secure the continuance of the subsidies, even after Soviet enthusiasm for the arrangement began to cool.

New evidence demonstrates that the Soviet Union's control over its satellites was much weaker than was believed during the years of the cold war. The East Europeans waged a covert campaign over several decades to rebuff Soviet proposals for economic integration, to fill official documents with loopholes, and to avoid implementing agreements that had been signed. This campaign succeeded even though the Soviet Union paid a handsome subsidy to its satellites in the form of skewed prices for machinery and raw materials (p.3).

As such, that this extensive trade system existed at all, let alone in a stable state for almost half a century despite being continually contested, is in itself interesting and reminds us of the over-riding significance of the Cold War context which led the Soviets to continue to accept the costs of the system.

Stone begins from the methodological postulate that explanations need to be based on 'micro-foundations'. This means that outcomes must be shown to follow from the choices of individuals who are assumed to be able to identify and follow their interests. This does not deny the importance of unintended consequences; rather it redefines them as puzzles to be unlocked through looking at the collective results of individual choices made in pursuit of discrete objectives. This methodological individualism is the natural complement to Stone's institutionalism, and it is the troika these two form when coupled with rational choice theory which provides the explanatory traction for Stone's thesis.

This perspective, which centres on rational actors, normally but not exclusively individuals, making choices within a determinate institutional setting, will henceforth be what is meant by institutionalism.

This leads Stone to conceptualise CMEA trade in terms of the choices of bureaucrats at various levels of the state apparatus, and in this way the key issue appears as one of bargaining strategy, or more specifically, ineffective bargaining strategy on the part of the USSR (p.72). This is a striking reorientation of the received view of the politics of CMEA; even when the economics of the Soviet 'Empire' were revised to allow for a more multifaceted picture to emerge through the various rounds of debate over the quantity and meaning of the subsidies, it was still largely assumed that despite this Eastern Europe was unable to assert itself against the Soviet Union and had instead been a passive recipient of subsidies accountable for by Soviet agency alone.

There are several reasons for thinking institutionalism may be theoretically problematic, especially given that the stated aim of this thesis is to construct an account of the links between trade and development in the context of Cold War antagonism. The most noticeable problem is Stone's almost total inversion of the relationship to arrive at a situation where it can seem as though the Soviets got little except a large bill from the situation. The application of bargaining theory compels Stone to accept a somewhat distorted perspective of the 'victories' of the East European negotiators which seemed naturally to imply corresponding 'losses' for the Soviet Union. This approach foregrounds the bargaining process and its outcomes to arrive at a minimalist account insulated from the broader dynamics which operated beyond and behind the institutional tussles Stone focuses on. Most centrally, the fact that the USSR did secure Eastern Europe's dependence, as well as the geopolitical significance of this, disappears and the mode of development CMEA trade generated is not analysed.

In this way there is a danger that institutions come to be seen as independent, exogenous variables when they are precisely the entities that need to be explained in the first place. This excludes the question of the origin and development of institutions in relation to the changing material base of society which historical materialism starts from. Who made the institutions of socialist economic life and how? They were, in fact, constantly being remade; that these recurrent reforms seldom changed anything substantial is another fact in need of an explanation. Had Stone employed a less reductive

method he could have arrived at the different question of why the East European state bureaucrats, who operated within institutions carbon-copied from their Soviet counterparts, were able to ‘vigorously [oppose] integration proposals designed to reduce the subsidy[...] As a result, the Soviet Union did not achieve any of its major goals in economic relations with its satellites from the late 1960s to the collapse of the bloc in 1989’ (p.39). This position both hints at the existence of a long-run development pattern which is not systematically examined and seems to make recourse to institutions alone insufficient to explain why the USSR was consistently outplayed in trade negotiations with its satellites.

11. Conclusion

Summarising the literature presented here, the following chief conclusions can be drawn:

1. Whilst the exploitation thesis captures the relationship between the Soviet Union and Eastern Europe in the immediate post-war period, the process of de-Stalinisation brought fundamental changes which meant Mendershausen’s position had to be rethought.
2. The subsidisation thesis provided new and important empirical insights but remained simplistic—it ignored the growing complexity of the situation and instead substituted a logic whereby the Soviets secured political influence in return for economic subsidies.
3. Marer, on the other hand, is too pessimistic—he begins by critiquing the subsidisation thesis but by focusing only on the costs of this system, which obscures Eastern Europe’s real dependence on the Soviet Union, as such this part of the picture remains out of focus.
4. WST made some interesting contributions to the on-going debate, particularly around dynamics stemming from the embedding of the Soviet bloc within the world economy. However, enthusiasm for determinist logics ultimately led

practitioners of WST away from the perception that Eastern bloc development cannot be explained just by reference to the world economy and minimised the role of geopolitics which it simplified into a function of the world economy.

5. WST, CU theory and SCT all share the notion that Soviet-type economies are best understood through market categories. This position is rejected by this thesis in favour of an approach more akin to what has been termed the Eastern European thesis. This appears to be an attempt by local scholars to study the actual implications of the system of international linkages within the Soviet bloc which WST and CU theory were side-lining in the 1980s.
6. Finally, Clark and Bahry's comparative dependency analysis and Stone's institutionalist approach were assessed with an eye to highlighting theoretical and methodological problems in what stand as the most recent treatments of the topic. The fundamental nature of many of the issues identified with Stone's research in particular means an engagement with such primary concerns would be useful if the legitimacy of any divergent interpretation is to be established.

This literature review has argued that the above approaches all made valuable contributions but do not adequately link trade to development in the context of the Cold War, and that the root cause of this is that CMEA trade generated a form of dependent development which cannot be fully articulated either by the paradigms used by area-studies scholars or economists, or by the application of classical DT. As such, I disagree with the area studies literature in so far as it treats its organising concepts intuitively rather than defining them clearly—few area studies scholars would disagree with the broad claim that Eastern Europe was dependent on the USSR during the Cold War but they do not define dependence or systematically treat the economic history of the period from this perspective—and I disagree with other theoretical frames which posit significantly different premises for analysis: for instance, with WST, that links to world economy were the only significant determinant; SCT, that planned economies can be analysed as forms of capitalism; CU theory, that the structures of exchange were independent of politics; etc. The next chapter will set-out the methodological and theoretical principles of a

reformulated DT which it is proposed can fill this gap and provide a political economy of trade and development in the Eastern bloc.

Rethinking Dependency Theory

1. Introduction

Three key problems need to be addressed if DT is to serve as the foundation for an account of Eastern bloc trade.

1. The categories of centre/periphery were reified to the point where real changes in the world economy were ignored in favour of a supposed continuity. This meant that increasingly diverse processes of development were not accurately perceived and could not be explained within the framework. Beginning from an ideal-type is proposed as a solution to this, the details of which are presented in section 4.
2. The definitions and concepts offered were sometimes imprecise. This issue is taken-up in sections 5, 6 and 7.
3. The treatment of agency typical of DT can be improved upon. The significance of internal factors for understanding the development of different regions was consistently minimised in favour of an emphasis on external conditions, and this issue is also returned to in sections 5, 6 and 7.

This chapter will first outline the primary methodological approach argued to be suitable for rectifying these issues before introducing and critiquing the key parts of the dependency tradition. It will end by stating the proposed reformulation which brings valuable elements from the DT tradition together with new concepts.

2. Methodology

This section is concerned with methodology, by which is meant a system of concepts which provide a clear guide to practical research upon which a theoretical framework can be based. Specifically, the following sections give statements of ideal-typical method in general and an account of how comparison is conceptualised in relation to this approach. The classic summary of methodological approaches in IR is Hollis and

Smith (1991) and see Jackson (2011) for a recent comprehensive survey containing a lucid description of contemporary ideal-typical analysis.

2.1 Ideal-Typical Method

Although the term ‘ideal-type’ comes from political theorist, Georg Jellinek, it is most associated with Max Weber (1949). Scholars working in this tradition are concerned with the construction and application of abstract characterisations of particular phenomena which present the essential features without the contingent elements specific to any example (Benton and Craib, 2001, p.80). Although the relationship between historical materialism and Weber is keenly debated (see Sayer, 1990), there are schools of thought which have sought to combine elements from the two. The key figure in the Marxist tradition who argued for the importance of idealisation in *Capital*—although not necessarily in Marx’s earlier work—is Nowak (1971), who gave a mathematical analysis of Marx’s system on the presupposition that it is understood to be an idealised version of real historical tendencies. From a different perspective, Lukacs (1983) has also sought to incorporate some ideal-typical elements within his Marxism; see his discussion of class consciousness as an ideal (p.50ff). However, Löwy (1996) has emphasised how Lukacs makes a purely heuristic borrowing of the *form* of the ideal-type, and the same approach is adopted here; the *content* imparted to the ideal-type is not Weberian. As such, this thesis proceeds on the non-dogmatic assumption that the analytical form of the ideal-type need not be exclusively associated with Weberian sociology. I argue that this method is useful for reformulating DT and applying it to the Eastern bloc on the grounds that the centre/periphery relation within the bloc simply did not resemble the positive claims of classical DT, but can still be argued to have constituted a form of dependence none-the-less.

Weber distinguished between ‘average types’, which are syntheses of general features, and ‘ideal-types’, syntheses of significant features which must be logically compatible with one another (1949, pf.100). Since they highlight the essential features alone, ideal-types are unreal in the same way that axioms are separate from empirical reality; ideal-typical research accepts that no concept can capture and reproduce all the details of specific situations. Partly for this reason, types must be flexible and open to being rethought as the subject matter changes. Weber (1968) proposed a large variety of

ideal-types including abstract descriptions of forms of social organisation; he was especially interested by neo-classical economics' idealisation of economically rational man. In contradistinction to these uses, here the form of the ideal-type is used to describe a particular type of development.

The set of analytical claims making-up an ideal-type provides the framework and the terminology with which to construct what Jackson (2011) terms an analytical narrative—a 'coherent story that differentiates between analytically general and case-specific factors responsible for bringing about an outcome and details their sequential interaction and concatenation over the time frame of the analysis'. Importantly, this does not constitute a testing of the theory in the positivist sense because, 'the ideal-type is implicated in the very construction of the narrative itself' (p.154). Thus, it is the beginning, not the result, of ideal-typical research that is of general validity in contradistinction to positivism where the ordering of generality is reversed. Where we intuitively suspect relations similar to those contained in the type, it can then be used to assist in depicting and understanding these relations (Ringer, 1997, p.111). Weber did not consider this procedure to be a new method; he simply saw this as clarifying and bringing awareness to what social scientists had always been doing. In this way, he felt scholars had a choice between offering logically-controlled and unambiguous definitions of the ideas they worked with, or of allowing their ideas to remain intuitive and imprecise (Gerth and Mills, 1970, p.59; Giddens, 1971, p.141). The sometimes vague use of concepts like surplus and reproduction in DT, and the usually intuitive sense in which dependence is understood in areas studies literature, has already been criticised; I agree with Weber that unambiguous statements of ideas is a useful procedure in general and argue that is especially well-suited to the project of reformulating DT.

A number of inter-paradigm criticisms need to be acknowledged in order to secure the legitimacy of this method over alternatives. One problem with categorisation is that if pursued for its own sake it can artificially circumscribe enquiry. Suspicion towards the use of ideal-types normally stems from this perceived penchant for cataloguing which critics attribute to Weberians. Developing this point of view, Teschke makes two criticisms: first, Teschke (2009, pp.50-1) argues ideal-typical analysis cannot account for social change since this is excluded by the very practice of constructing and applying the ideal-type; and secondly that Weberian method in effect offers a comprehensive 'filling-

cabinet' for empirical data but nothing more (Heine and Teschke, 1996, p.410). These represent the most regular forms of criticism levelled against such approaches; that the process of absorbing complex and varied events under ideal-types effaces difference and encourages excessive generalisation. Given that a problematic tendency towards generalisation has already been highlighted in DT and WST, this criticism has to be taken seriously and considered in the reformulation.

Firstly, it is relevant that the ideal-type used in this thesis, dependent development, is an ideal-type of a mode of development, and so it is an ideal description of a type of development process, not a static form of social organisation as Weber's models of bureaucracy and feudalism were. More generally, the answer from proponents of ideal-typical research is that they have a particular view of knowledge-creation in which abstract theoretical constructs are seen by them as instrumental tools; Weber (1949) accordingly admonished that, 'there is only one criterion, namely, that of success in revealing concrete cultural phenomena in their interdependence, their causal conditions and their *significance*'. The construction of abstract ideal-types recommends itself not as an end but as a *means*' (p.92).

This makes ideal-typical research fundamentally different from positivism, in that whilst positive statements are checked against an independent and objective reality, and thus researchers seek to find if their propositions 'hold' across multiple cases, idealisations are instrumental abstract constructs which were never claimed to serve this purpose at all. Ideal-typical research therefore is not necessarily just about measuring the distance between the ideal and reality; it is also about providing the core analytical terms that allow a narrative of that reality to be built in the first place. Having outlined ideal-typical method, how this relates to the reformulation of DT as a theory of international economic relations needs to be covered next.

2.2 Comparison

Unlike positivism, which requires attention be directed to multiple cases in order to test hypotheses, ideal-typical research aims at the crafting of case-specific analytical narratives, and so can take or leave comparative methods. When comparisons are made, they are done so explicitly to draw-out the specific features of the case under consideration. Tilly (1984) makes a relevant distinction between individualising and

universalising comparison, with ideal-typical comparison being an example of the former and positivist comparison of the later. In individualising comparison, ‘the point is to contrast specific instances of a given phenomenon as a means of grasping the peculiarities of each case... [while] universalising comparison... aims to establish that every instance of a phenomenon follows essentially the same rule’ (p.82). In this study, the given phenomenon is dependent development, the abstract description of which is therefore not meant as a set of exact definitions or rules which hold across multiple-cases.

At certain points in the historical narratives, comparisons will be used to draw-out specific features of the Eastern bloc economies in comparisons to DMEs. Most importantly, CMEA ftps are compared to those which could have been obtained on the world market, but also the posited costs to Eastern Europe in terms of reduced efficiency and disrupted innovation only make sense in relation to the world economy. This is one example of how the peculiarities and contradictions of development within CMEA will be drawn out via comparison to industrialised capitalist countries. These comparisons made between real-world historical examples can be distinguished to the comparative method in Clark and Bahry’s work, which was linked to positivist assumptions which aim to investigate whether general propositions, in their case those of Frank and Cardoso’s dependency models, hold over multiple cases. This ossifies theory, and accepts an implicit (if unstated) definition of dependency which would exclude many potential cases, which is the opposite of what this thesis aims to do.

Similarly, these individualising comparisons can be distinguished from the ideologically-motivated comparison of an idealised socialist planned economy to the reality of development. It is worth remembering that in the 1950s and 60s, the rapid growth of the socialist countries was often contrasted to low grow in the developing world by dependency theorists (Amsden, 1979). Usually the Soviet model of industrial development was the counter-factual against which the dependency conferred upon less developed economies by the world market was compared and found wanting. This is especially evident in the case of Baran (1971, 1994), but also applies to Frank (1969), Amin (2011), and Furtardo (1964). Even where contributors were not sympathetic to Marx (for example Prebisch and Singer), the existence and success of Soviet-type economies never-the-less provided part of the context for their own theories. Howard and King (1992, p.169) have stressed the importance of the successful transformation of the

Soviet Union, and the later extension of the system of planned economy to Eastern Europe and China, for leading Baran and those who built on his work to perceive any form of capitalist development as inferior to the alternative offered by central planning.

2.3 Summary

These sections have argued a number of points which are of relevance to the reformulation of DT and the analytical narrative of Eastern bloc trade and development.

1. Ideal-typical method can be used to build coherent explanations of social phenomena by specifying what should be understood as generally valid and what as conditional on particular identifiable factors. With this in mind, an ideal-typical model of dependent development will be proposed further down which can allow for open-ended historical enquiry on the grounds that the ideal-type offered refrains from presupposing any particular dynamic of interaction between centre/periphery.
2. Ideal-typical method does not make use of universalising comparison, where comparison serves to identify if the same rule holds across multiple cases. It does make use of individualising comparisons, which seek to draw out the specific nature of different instances of a given phenomenon.

3. Dependency Theory

The next task of this chapter is to establish a critical account of DT against which the reformulation can be contrasted. I argue that dependent development is more useful as a starting-point than the Frankian concept of underdevelopment, and so this will be accomplished through an engagement with Frank (1969, 1982, 1994b), and Cardoso (1977a, 1977b), from whom the concept of dependent development comes. Another major part of the critical tradition of IPE, unequal exchange, will also be considered briefly and reasons given why it are not used here. The key point is that although unequal exchange might sound well-suited to analysis of CMEA trade, ultimately it represents an approach too reliant on assumptions appropriate to market economies to form the basis of

an ideal-typical treatment of dependence general enough to cover socialist international economic relations and be potentially applicable elsewhere.

The theory of unequal exchange proposed by Emmanuel (1972) was a highly original attempt to forge a Marxian theory of trade, and so to question the dominant (neo)Ricardian understanding. Emmanuel's critique centres on the Ricardian assumption that labour and capital are immobile. He argues that whilst this is a legitimate assumption to make of labour, which cannot easily pass across national or regional borders, recent economic history is characterised above all by the increasingly global mobility of capital. This mobility of capital tends to cause the rate of profit to equalise internationally, whilst wages tend to equalise within rather than between nations. It is this discrepancy between the substantive characteristics imparted to wage-labour in different national economies which is the basis for unequal exchange. As such, the theory of unequal exchange posits that in trade at wmps, poor nations are compelled to exchange products embodying a large number of hours of labour against rich nation products containing relatively less labour-time.

The theory of unequal exchange was in part a response to the fact that there are examples of nations whose international economic relations look like the ones Frank et al claim cause underdevelopment, but are in fact rich (for instance New Zealand and Australia who export primary and agricultural products). Unequal exchange was thus a significant improvement from an analytical point of view as it could account for these examples by turning attention towards differing wage-levels and their impact on terms of trade. Unequal exchange is thus predicated on a definite link between domestic factor prices and international prices provided through a more-or-less free market. However, the dual discrepancy between both prices internal to Eastern bloc economies and CMEA ftps, as well as the only tangential relation of these CMEA prices to those found on world markets has already been made clear. For this reason unequal exchange cannot be used to look at trade between planned economies, where extensive negotiations led prices to deviate considerably from 'free market' prices and there was no link between wages and international prices. Since this deviation is the whole reason for this study, the theory of unequal exchange is argued to be a less useful starting-point than dependent development.

3.1 Classical Dependency: Andre Gunder Frank

Received in the English-speaking world as the founder of DT, Frank sees dependency as an entirely negative phenomenon caused by the hierarchical nature of the world market. Capitalism is defined by Frank solely as production for exchange on the world market in which a group of economies designated the ‘centre’ exploit another group, the ‘periphery’. The result of this exchange relation is the appropriation and concentration of capital providing growth for the centre, stagnation and underdevelopment for the rest. Frank terms this the ‘development of underdevelopment’, making a distinction between being undeveloped—the state of affairs which existed in all regions prior to their integration into the world economy—and underdevelopment, by which he means a subsequent process of restructuring to meet imperial needs. Development is thus fundamentally international, in the sense that it is driven by the global transfer of wealth, as well as zero-sum in Frank’s view since the gain of the centre comes necessarily at the expense of the periphery.

Frank’s work can be considered a reaction to the then hegemonic modernisation thesis (Rostow, 1990), which tended to downplay the significance of international context. Frank countered this by calling attention to varying socio-economic structures in different countries and their relations to one another through the world market. Contra modernisation theory, DT has always stressed the importance of considering a country’s involvement in wider encompassing economic systems, and whilst this was a valuable contribution, a number of problems can be identified which suggest Frank’s formulation should not be used here.

The first problem to emerge relates to the extremely economistic way in which international context is included by Frank. Little room is left for geopolitical factors or state agency, both of which are largely considered to be determined by the world economy. Any reformulation must include geopolitics as a variable influence on trade and development, but this is especially important given that I argue geopolitical concerns are essential to understanding the extra-economic significance attached by the Soviet Union to trade and integration within the Eastern bloc. The central and restrictive focus on exchange links to the world market can be related to Frank’s incoherent use of Marx’s categories; for example, by locating exploitation in the international circulation of commodities, attention is necessarily directed towards international exchange

independent of production. Whilst this in itself is only a problem for Marxists, it becomes a problem of more general significance once it is accepted that this is in part responsible for Frank's deterministic view that all social phenomena are explicable via a series of propositions about the logic of global capital. For example, Frank (1994b) claims that

the expansion of the capitalist system over the past centuries effectively and entirely penetrated even the most isolated sectors of the underdeveloped world. Therefore, the economic, political, social, and cultural institutions and relations we now observe there are the products of the historical development of the capitalist system no less than are the seemingly more modern or capitalist features of the national metropolises of these underdeveloped countries (pp.150-1).

Whilst the extreme generality of this claim makes it difficult to evaluate, it can be noted that this feature of his theory has drawn criticism from many different perspectives on the grounds that it cannot take account of the diversity of social and economic history over the past two centuries (Holsti, 2001, p.290). This effacement of differences is an outcome of Frank's zero-sum conception of the world economy, where the wealth and development of the centre are claimed to be a function of the underdevelopment of the periphery which is necessarily homogenised.

The empirical foundations for Frank's claims about the world economy are also unsecure (Warren, 1988, p.113). The issue of whether or not it is useful to conceptualise the world economy as an arena of mass, zero-sum, one-directional transfers is one of the reasons classical DT turned out to be a dead-end, and this thesis explicitly distances itself from such positive assertions instead favouring an idealised description of a type of development. Since the early 1980s numerous examples of successful industrialisation and rapid growth have been achieved by economies previously designated as peripheral, and this makes the stark assumptions made by Frank debateable. For a recent example of this position which reproduces many of the problems critiqued in Frank's work see Amin (2011).

The predisposition to analyse everything as a product of the historical development of the capitalist system led Frank to see the world-system as a relatively static structure of exploitation. This ahistorical external structure was consistently privileged over internal factors in explaining development paths, and the problematic over-generalisation inherent in the Frank/Wallerstein perspective is partly why an ideal-typical approach which pays careful attention to such issues is proposed here. Given the

nature of the historical concerns which will govern later chapters, it is appropriate to illustrate how this became problematic by looking at Frank's work on the collapse of the Soviet bloc (1994a). Frank's core proposition is that,

the answer to the question of 'what went wrong' [with actually-existing socialism] must be sought much more in the material reality of our one world economy than in any ideological discourse about 'socialism' or even policy in the former Soviet Union and Eastern Europe (pp.317-8).

For the project of reformulating DT, there are two problems with this. Firstly, as has already been argued in relation to WST, CU theory and the SCT, such explanations are problematic given the distinct structure of economic activity in the Eastern bloc which was certainly related to the world economy, but also had a specific regional dynamic. The attempt to subsume the Eastern bloc under the explanatory category of the capitalist world-system means this regional dynamic disappears from view, while this thesis seeks to examine it both as a centre/periphery system in its own right, and as it evolved in interrelation to the world economy. Secondly, this frame consciously and deliberately excludes agency, which is essential to explain the trading system.

The final broad criticism is that Frank seldom defined precisely what he meant by such terms as monopoly, surplus, exploitation, etc. and given the enormous amount of work these concepts do in his theory this is a big problem (Ghatak, 1986, pp.54-55). Most seriously, dependency itself was never pinned down in adequate detail. An ideal example of this is the so-called 'chain-like' conception of exploitation.

External monopoly has always resulted in the expropriation (and consequent unavailability to [underdeveloped countries]) of a significant part of the economic surplus produced... and its appropriation by another part of the world capitalist system... [This] exploitative relation in chain-like fashion extends the capitalist link between the capitalist world-system and national metropolises to the regional centres (part of whose surplus they appropriate) and from these to the local centres and so on to large landholders or merchants who expropriate surplus from small peasants or tenants, and sometimes even from these later to landless exploited labourers by them in turn (Frank, 1969, p.7).

In collapsing all social relations across the globe into this single continuum in which everyone is exploiter and exploited in turn, Frank reduces exploitation to a meaningless concept simultaneously applicable to everything and nothing. This is perhaps best

evinced by Frank and Gills' (1996) proposal that the concept of the world-system as a kind of explanatory master-variable could be extended backwards thousands of years.

As such, three major problems with Frank's theory have been encountered: (1) Centre and periphery were reified into a static structure of exploitation prejudging all future empirical findings; (2) internal factors were assumed to be determined by external ones encouraging circular explanations always beginning and ending with the world market; (3) the vague notions of capitalism, exploitation, monopoly, surplus, etc. led to errors of analysis and an inability to theorise increasingly diverse development processes. Largely in response to these problems—see Cardoso's explicit critique of Frank (1977a)—a new approach was developed in the 1970s which went some way towards solving the issues pointed out above.

3.2 Associated-Dependent Development: Fernando Henrique Cardoso

Most centrally Cardoso's approach improved on Frank's by being less deterministic with regard to international conditions and their relation to domestic politics. This brought state, class and production back into the picture, no longer as factors solely determined by involvement in the world market, although geopolitics still did not feature very centrally. This was possible because of the removal of the assumption that all countries which traded internationally were capitalist and that their development could be fully explained by reference to this set of exchange relations. Displaying a greater willingness to distinguish between different situations than Frank, Cardoso and Faletto write that,

Although there are forms of dependent relationships between socialist countries, the structural context that permits an understanding of these is quite different from that within capitalist countries and requires specific analyses. The same is also true for economies like the Indian economy—and, to a lesser extent, that of Japan—which have historical patterns of formation that cannot be explained by the unfolding of European or American capitalistic economic expansion, although they also became linked, later on, to the international market (1979, p.xxiv).

The claim that the economic development of India or Japan, or anywhere at all for that matter, could not be completely explained in reference to the development of Western capitalism would be unacceptable to Frank.

The language of Cardoso's analysis is concomitantly different from Frank's; instead of the 'chain-like' net of exploitation, Cardoso and Faletto (1979) begin by setting out their conception of dependence as follows: 'From the economic point of view a system is dependent when the accumulation and expansion of capital cannot find its essential dynamic component inside the system' (p.xx). In the case of less industrially developed capitalist economies, this dynamic component was the advanced technology which is normally only available to periphery countries via cooperation with Western multinationals. Acquiring this technical and financial capability entails relations between periphery and centre, whereby certain sections of the dependent society ally themselves with the interests of transnational capital and represent those interests within their own society (p.173).

In this way, studies of dependent development must necessarily be sensitive to the particular way domestic and international factors interact in any given instance. This can be contrasted to Frank's primary focus on circulation, and the fact that Cardoso and Faletto include the state as an independent variable capable of influencing late development is another notable shift from Frank and later Wallerstein's tendency to dissolve all states, central or peripheral, into a single continuum. Coeval with Cardoso, Evans (1979) and Petras (1978) also emphasised the need for a return to relations of production and a more open-ended analysis of the role of peripheral states as contested apparatuses to move beyond Frank's paradigm. That Cardoso and Faletto's approach represents an improvement over Frank's can be seen in the more sophisticated conception of how the international and national levels of analysis are integrated.

In the case of economically dependent countries, the explanation of structures of domination involves establishing the links that may exist between internal and external determinants. These links should not be understood in terms of a mechanical and immediate determination of the internal by the external: it is important to delineate the interconnections between these two levels, suggesting the ways through which external factors are interwoven with internal ones (p.15).

This meant abandoning the static vision of the world economy in favour of a more fluid conception which stressed the mutual interaction and co-determination of internal and external factors. In this way Cardoso stressed the need for a middle way between globalism (external factors determine internal) and internalism (vice versa) which this thesis also seeks to find.

This led Cardoso and Faletto to focus on what they termed, ‘those characteristics of national societies which express external relations’ (p.28). This attention to international class alliances which reproduce relations of dependence is an important feature of the dependent development approach, and one which is highly relevant to the Eastern bloc. This allowed the return of agency into explanations of development, while still accepting the asymmetries of the world economy.

The conflicts or agreements among these different [social] forces are not subject to determinism. In specific situations, their interactions may result in historical events that are absolutely different from the ones analyzed here, as in the case of Cuba. But to the extent that the system of social relations is expressed through a system of power, a combination of structural possibilities is established historically. Within the framework of the structural possibilities engendered by earlier social practices, certain courses are indicated and other alternatives are excluded (p.154).

I agree with the conception of structure/agency implicit in this statement, a key virtue of which was that this meant Cardoso and Faletto were better able to take account of diverse economic histories. In defining development as a socially-contested process in which various groups have a stake and outcomes cannot be assumed once external constraints are known, Cardoso demonstrated how international factors could be integrated into accounts of development without resorting to the deterministic approach Frank propagated. This means that the two fundamental elements of any explanation, agents and structures, can be thought of as interrelated and therefore neither should be privileged over the other in the process of forming a historical account which should look to their mutual interaction and possible transformation over time. This is in contradistinction to the general emphasis on global structures considered to be stable over long time-periods and largely determining agency which is implicit in much of DT and WST. This interrelated conception is argued to be an important divergence from the style of DT associated with Frank and will be employed in the historical chapters.

The consequence of these revisions led Cardoso and Faletto to reject the Frank’s static view on the grounds that some form of development in the periphery was possible. In this regard Cardoso and Faletto were concerned to see that DT should not be a mere negative teleology; i.e. just state what cannot occur (an imagined autonomous development which Frank proposed could have taken place were it not for the world market), but should instead look at what actually does occur (various development

processes dependent upon international conditions). This is the setting for the concept of dependent development which, ‘goes beyond the traditional dichotomy between the terms “development” and “dependence”, because it permits an increase in development while maintaining and redefining the links of dependency’ (p.174).

The major advance represented by Cardoso was thus that his theory allowed for recognition of international asymmetries which could still usefully be described as dependency relations, but which rejected the cumbersome claim that dependence necessarily caused underdevelopment. The balance sheet of classical DT thus reads something as follows: Frank succeeded in drawing attention to the international dimension of development, but this was achieved through a vague structural determinism which failed to take account of real changes in the world economy and simplified geopolitics to a function of an economies position. Cardoso and Faletto shifted the focus of dependency analysis back towards actual historical developments but ultimately failed to move far enough away from Frank in three respects. Firstly, Cardoso does not go far enough on the issue of offering precise definitions of analytical concepts. For instance, the claim that dependent development is distorted and non-ideal is essentially normative. Cardoso was focused on establishing a methodology for the study of actual situations of dependency, and whilst this was valid and important, abstract theory is also needed but cannot be found in Cardoso’s work.

Secondly, the re-integration of agency came to some extent at the expense of theory. The notion of structure/agency as fundamentally interrelated to the point that to talk about one in isolation from the other is meaningless is not an original point, but one that is particularly relevant to the DT tradition where the tendency to over-privilege one or the other is common. Thirdly, the ‘centre’ itself is excluded from analysis and so the issue of reciprocal influence was not considered. This is one of the most important differences between Cardoso and Faletto’s concept of dependent development and the one proposed here; the internationalisation of development means the centre/periphery relation which generated this form of development must have consequences for all parts of the system. The fact that Soviet development is brought within the frame of analysis of this reformulation of DT is a significant break with the tradition.

4. *An Ideal-Typical Reconstruction of Dependent Development*

As has already been mentioned, ideal-typical research explicitly acknowledges the implication of starting assumptions in the construction of a narrative, the criteria by which the results are to be judged being not their correspondence to the ‘Truth’, but the extent to which they are internally consistent and useful. So under this conception it could be said that to scan economic history in search of dependent development will more often than not lead to its ‘discovery’, just as to look in search of hegemony, imperialism, modernisation, etc. will also return the desired results, provided the data is not totally unamenable to such interpretations. Whilst this realisation would be problematic for positivism, this is acknowledged at the outset by ideal-typical method.

I propose that the propositions which would comprise an idealisation of dependent development as something which could occur in asymmetrical international contexts are as follows:

1. Industrialisation creates an economy of previously unknown complexity with needs for different types of labour, materials, and capital which can seldom be met entirely or even mostly from within national stocks.
2. As such, industrial development tends to generate increased economic relations between national communities.
3. A group of economies among whom these links have taken on a definite form and degree of permanence (usually expressed via the creation of an international institutional structure) can be considered as an economic system.
4. This system could be the world economy, but the ability to analyse specific developments is understood to be reduced as the size of the system under consideration is increased. In general the most appropriate unit to be analysed as a system will be smaller and be defined by some obvious geographical, political, and economic commonalities.
5. However, designating a group as a system does not mean they can be analysed independently of the world economy and geopolitical factors outside the group. The relation of this group as a whole to the international context must also be considered.

6. Significant asymmetries of power, wealth, resources, etc. can usefully be discussed in terms of centres and peripheries. This only refers to observable asymmetries and does not represent a relationship where the wealth of one is a result of the others impoverishment. Accordingly, centre and periphery are seldom entirely homogenous, and the analytical method of drawing a circle around each to make an artificial separation is carried out only to bring the nature of the interactions between the two into greater focus.
7. Dependent development refers to situations where development becomes dependent on the processes that link all the parts together into a system. Specifically, both the qualitative expansion of new products and industries, as well as the quantitative expansion of existing industries becomes conditional on essentially international processes.

The programme of ideal-typical dependency analysis, therefore, begins from the comprehension of an international system, including the centre/periphery divide peculiar to it, before moving on to analysis of the relations between the two. This is proposed as a solution to the first problem found with classical DT, the tendency to treat its basic categories as ahistorical truths. By reconstituting this model as an ideal-type, rather than as a set of positive assertions, no particular dynamic of interaction between the two parts is presupposed and the way is opened to exploring relations of reciprocal influence and co-determination. In this way the basic theoretical claim that in asymmetrical international contexts development becomes dependent can be distinguished from the claim that such international linkages fully determine development paths.

There are no essential logics in this type; international development, even asymmetrical, need not necessarily look like this, and the type is not claimed to be relevant for cases which do not resemble it. It might be argued that ideal-types are emptied of historical content too far and just become general concepts which cover everything. On the contrary, there are numerous examples which could not usefully be framed by this ideal-type and so should not be analysed as dependent development: Soviet industrialisation was carried out almost entirely in insulation from trade; economic nationalist regimes sometimes pursue policies of autarchy; developing countries embarked on ISI in the 1970s, etc. In this way ideal-types have implicit parameters within which they are legitimate, and in stating them unambiguously it should be expected that

situations to which they do not apply can be identified, just as can situations for which they are useful. The question of the transferability of the ideal-type will be returned to in the concluding chapter.

5. *Economic Surplus and Reproduction*

It is now necessary to elaborate on the theoretical ideas which are to be used in applying this ideal-type; i.e. how will the chasm between the ideal-type and historical reality be bridged? A good place to begin is to acknowledge that whilst there is agreement that economic dependence is something that places limits on the scope for development, there is no coherent definition to be found among contributors to the debates. This led Lall (1975) to argue that it is either very difficult or in fact strictly impossible to draw a line between economies which are dependent and those that are not. With this in mind, Lall proposed that DT must set down certain features of dependent economies which do not appear in non-dependent ones, and also show that these features are harmful to development. This is a serious challenge to which an answer must be provided if the category of dependence is to have any traction and if it is to be possible to identify situations for which the ideal-type above is relevant. Although I question Lall's proposition that for DT to be analytically sound a clear demarcation between dependent and non-dependent economies is required—instead I argue theoretical devices capable of investigating degrees and different types of dependent development is more useful—the answer that will henceforth be developed will rely on concepts from historical materialism on how economies (re)produce themselves.

Considering the argument that ideal-types can provide a starting-point from which some of the problems in DT can be avoided, here we begin to discuss structural factors affecting development starting from the idealised notion of reproduction as it is found in *Capital*. The key idea behind Marx's reproduction schemes was that production should be viewed as a circular process rather than the linear transformation of factors into goods and services ready for consumption. Despite the fact that Marx was analysing capitalism, here it is argued that the schemes of reproduction are not uniquely relevant to capitalism since the basic demands of reproduction apply alike to any industrial economy. Categorizing the ways an economy might experience the process of reproducing itself, Marx operated with a distinction between simple and expanded reproduction. An

economy is capable of simple reproduction when all the necessary inputs expended in the course of the previous production period can be replaced out of available stocks. However, I argue it is in expanded reproduction that the key to providing a sounder foundation is to be found. For simple reproduction to hold, saving and net investment must be zero. Accordingly if capital is to accumulate and the economy to grow some portion of the surplus value realized from the previous production period must be saved, rather than wholly consumed, thus allowing a positive rate of investment.

It is armed with this theoretical distinction with which a basic analytical criteria by which a more dependent economy could be distinguished from a less dependent one can be offered: a dependent economy is one in which the operation of expanded reproduction becomes necessarily an international affair. As such, the development of the dependent economy cannot be adequately explained in isolation from international context. Returning to Lall's challenge, whilst these criteria may sound like it would apply to every open economy, it is both a question of relative degrees and the way that this process interrelates with other factors, and so the crafting of a case-specific narrative should be sensitive to the investigation of such asymmetries of dependence.

For instance, while the Soviet centre's development must be seen to be influenced by CMEA trade and integration processes since no part of a centre/periphery system is free from reciprocal influence, the relative exposures to trade differed greatly and so the way trade effected development will also vary. Dawisha (1990) underlines how,

the USSR remains the single greatest market for East European exports, as well as the single greatest source of East European imports, including strategic raw materials. Thus, while the USSR is dependent on East European trade in certain commodities not easily substituted for elsewhere, an asymmetry of dependence places the East European countries at a disadvantage vis-a-vie the Soviet Union (p.121).

The size of the USSR's internal market meant trade was not as vital for the everyday functioning of the economy as it became for the rest of CMEA. This is principally what constituted the material basis of the Soviet Union as the centre; i.e. scale rather than superior economic development. In this way analysis of how all parts of the system were affected by processes internal to it is possible whilst still acknowledging a qualitative difference between development in the periphery and the centre.

The abstract conception of reproduction is useful as a starting-point, but a more concrete category is needed as well. Here such a concept capable of expanding the critique of classical DT's sometimes vague theoretical vocabulary is introduced which grows-out of the notion of reproduction given above. This concept is economic surplus as it appears in the works of some of the dependency school. As a category of analysis, economic surplus owes most to the work of Baran (1957, 1971), in which he argued that how surplus was produced, which classes appropriated it, and how it was disposed of were the key determinants of a societies' development trajectory. As such, Baran's work was part of the revival of interest in classical political economy, of which the publication of Sraffa's short treatise (1960) was undoubtedly the centrepiece. A forgoing premise of the following section is that this can fruitfully be employed to help bridge the gap between the ideal-type and historical research.

Stated simply, economic surplus is the sum of resources a society has at its disposal to achieve growth minus the needs of subsistence; i.e. the amount that could potentially be reinvested into increasing future social output. Comparing with Marx's model, this quantity thus corresponds to the surplus value created and potentially accumulated. However, the category of economic surplus is not an unobservable, abstract value category, but a potentially quantifiable material category as was consistently stressed by Leontief (1966, pp.135-6). As Pasinetti (1979) has noted, this category is particularly appropriate to the study of planned economies, 'where it [was] important to know what share of the net national income [could] be used for purposes other than consumption (notably investment)' (p.37).

The relationship between the two categories can be made clear by keeping in mind the insight of classical political economy that the existence of surplus value in itself does not guarantee growth; it may be consumed in the form of luxuries by a wealthy class of rentiers, or amassed into monuments, pyramids, or extravagant corporate headquarters serving no (re)productive purposes. Hence questions of distribution between social groups, which under capitalism takes the historically specific form of the ratio between wages and profits, were seen to be of vital importance (Baran and Sweezy, 1970, p.23). In this way, the concept of economic surplus allows analysis to integrate study of trade with production, in the sense that surplus is something (re)produced, rather than a static concept of wealth. This makes the idea appropriate for the historical case in question,

where the real significance of trade and surplus redistribution is revealed in the impact this had on structures of production across the bloc and the international consequences of the very particular type of development they represented.

This conveys a sense of how the concept of economic surplus can provide a concept towards which historical studies of dependent development could be oriented. Since capital formation, military expenditure, and luxury consumption amongst other things must all come out of the surplus, the identification of economic surplus as a discrete category allows analysis to highlight alternative uses and to show how the realisation of these alternatives would depend upon the decisions of social agents which either challenge or reproduce these outcomes. Indeed, it follows that since surplus is a sum on top of and in addition to the simple reproduction of the system, its use is necessarily open to contestation; the utilisation of surplus, expressed in its composition, is the arena of class struggle over the fruits of society's collective labour.

A useful distinction between inter-industry and intra-industry specialisation can be made in terms of the interdependencies between industrial sectors consuming and producing the surplus. Inter-industry trade refers to exchanges between different industries—for example how much the automotive sector as a whole buys from the steel industry—whilst intra-industry refers to exchanges within a sector. This implies higher levels of specialisation if, for example, a machine-tool or computer systems manufacturer were to purchase goods from other firms in their sector with specialised capabilities. Following on from this, a distinction can be made between complementary and competitive development at the international level depending on whether economies cooperate primarily on inter- or intra-industry lines. In this case complementary refers to the case that production profiles are consciously tailored to fit together into commodity chains, while competitive means similar sectors in different countries compete with one another. For instance, to have multiple producers of semi-conductors, and in fact of several different types of semi-conductors reflecting different production processes and end-uses, would be an example of competition; to pick a 'winner' and have this single firm specialize in that type of production insulated from competition would be complementary development.

This is similar to what Hirschman (1969) termed 'exclusive complementarity', i.e. when a large economy makes its smaller clients structure their production in such a way that to diversify away from the hegemon would be costly, if not completely disastrous. It

will later be argued that this is what the Soviets achieved by the industrialisation of Eastern Europe, the economies of which could only reproduce themselves through links to the USSR. The specific case of the Hungarian bus manufacturer, Ikarus, will be presented as an example of this later. This is an example of an economic phenomenon specific to dependent development in the Eastern bloc which a reformulated DT can capture by showing how industrial structures in the bloc need to be explained in the context of CMEA linkages.

6. *Relations to the World Economy*

In order to draw out the distinctiveness of this approach, it is useful to look at how DT was understood in the 1980s when the first attempts already discussed to apply DT to the bloc were made. DT in the 1980s was mostly focused on the perceived failure of political independence to secure economic development in the Third World (Gilpin, 1987, p.273). This situation implied that international structures were at work fundamentally constraining development in these countries, hence the general structuralist focus characteristic of much DT (and certainly of WST) at that time. Although this was a valid and important critique of traditional development theory, pushing this too far ultimately led DT into a dead-end of global structural determinism. As such, the question of how factors external to the bloc, here relations to the world economy, are to be integrated into the account without resorting to determinism must be addressed. The ideal-type of dependent development and the concepts outlined above are to be applied primarily within the system of trade under consideration, but it is also necessary to clarify that the structural context of the international more generally needs to be taken into consideration. In particular, given that the group of economies in question designated themselves as a group of socialist countries within a capitalist world-system, the uneven nature of capitalist development outside the bloc needs to be included.

Earlier in the literature review it was argued that WST overly simplified this by making the development of the Eastern bloc little more than a reflection of developments in the world economy. Leys (1996) has pointed to the issue of the unclear nature of units of analysis in DT which WST inherited; is the world-system, regional sub-systems or sub-national entities the main focus? In order to avoid the pitfall of assuming everything to be determined by the world-system and simultaneously to stake-out the significance of

ideal-typical method for this issue, points 4, 5 and 6 of the idealisation need to be expanded upon. Point 4 proposed that as the unit designated as a relatively discrete system capable of being analysed in its own right got larger, the ability to account for historical specificities could be reduced. This in effect means that the device of discussing the specificities of a group, or an individual case, in their own right and then in relation to the world economy will be the way in which global concerns will be approached, rather than in beginning from the premise that there is a singular world capitalist system and working backwards from this macro-conception to local specificities. The problem with beginning from the macro-conception is that it tends to encourage the deterministic view that all subsequent phenomena can be explained purely in terms of their position in relation to the world-system, and the fact that this leads to minimising the distinctive socio-economic constitution of actually-existing socialism has already been argued.

In terms of the historical content of this thesis, I claim that this approach leads to the minimisation, if not total exclusion, of a significant development dynamic internal to the bloc driven by the system of subsidised trade. By beginning from the ideal-type specified beforehand, it is possible to form a narrative which allows both factors internal and external to the bloc to be integrated into the account in a non-deterministic manner. The particular analytical mechanism by which this move is accomplished involves focusing on the fact that the application of the ideal-type allows the identification of a particular development dynamic internal to the bloc, and that the patterns created by this conditioned the way in which influences stemming from the world economy impacted on the group.

Point 5 cautions that this rejection of the position that everything can—and in fact *needs*—to be explained by reference to the world economy alone does not, however, mean that global factors external to the main unit are considered irrelevant. The potentially varying relation of the group as a whole and individual members of it to the world economy is instead to be approached on the basis that this interrelation could take various forms, and if the theoretical framework were to hypothesise about what these might be, the ideal-typical approach would have been violated. This formulation bears some similarity to the Political Marxist approach (see Teschke, 2009), but differs in that the open-ended nature of these potential interactions is here secured by the alternate method of beginning from an ideal-type of suitable character.

In terms of how this will play out in the historical chapters, the specific formulation of this interrelation most appropriate for the Eastern bloc will be claimed to be that the processes of trade and integration internal to CMEA were highly significant from the 1950s to the 1980s in terms of affecting the broad outline of development in the region, and that this shaped the way in which the increasingly important relations to the world economy happened from the 1970s onwards. These relations underlined the contradictory nature of the development process in the bloc. For instance, the debt problem that emerged in the 1980s has to be situated in these terms. The relative international credit-worthiness of the Eastern bloc was due to the fact that basic industrialisation had been successfully completed, and so Western banks were prepared to lend as there was a real productive basis to the East European economies, but the nature of CMEA processes of trade and integration acted to stymie the further development of these economies which meant they generally failed to export enough back to the West to finance their debt.

The final clarification necessary in this regard relates to the abandonment of the thesis of the development of underdevelopment and the zero-sum conception of trade it relies upon. Once the notion that the development of one part of the system is a function of the underdevelopment of another is removed, the issue of potential dynamics of reciprocal influence opens-up, and the assumption of the homogeneity of centre and periphery is loosened. This leads to some of the most interesting discoveries of the dynamic of dependent development in the Eastern bloc and represents a major departure from classical DT.

7. *Geopolitics, Trade and Development*

This chapter has accomplished a number of theoretical tasks:

1. An ideal-type has been proposed to serve as the basic description of dependent development and to provide a general starting-point from which inquiry into centre/periphery systems can proceed without presuming any particular dynamic of interaction.
2. Dependent development has been defined in the abstract, and economic surplus has been suggested as an object to orient empirical study towards.

3. A number of structural features (inter/intra-industry trade, for example) identifiable through the application of the concept of economic surplus which could serve to help clarify and distinguish different cases of dependent development have been put forward, and the importance of considering relations to the world economy has been stressed.

Slater (1993) reminds that the attention directed towards the interaction between geopolitics and development was one of the most important contributions of classical DT; re-examining this interaction in an open-ended way is therefore argued to be useful. Since this thesis argues for the importance of geopolitics in understanding the development of CMEA, the final section of this chapter locates geopolitical concerns of relevance to trade and development. Given the methodological commitment to an ideal-typical approach which accepts that dependent development can potentially take place in a number of ways, and given the inherent determinism in Frank's DT and later WST, it is important that the interaction between geopolitics and socially-contested development paths is approached in a manner that is sensitive to historical contingencies and avoids positive or logical claims about the 'necessity' of any particular configuration. This could limit the applicability of the framework and endanger the transferability of the type, a question that is returned to in the conclusion. For this reason, the treatment of geopolitics is less abstract than the ideal-type of dependent development and is tailored more explicitly towards the Soviet bloc.

Remembering that the centre/periphery paradigm was originally meant to be an alternative to the assumption of equal market participants, a key virtue of this political economy conception is that room is made for political and geopolitical factors to enter into explanations. This was one of classical DT's most valid criticisms of mainstream development theory, although the international and political dimensions became rather compressed in Frank and later in Wallerstein. Accordingly, here it is necessary to specify the relative autonomy of geopolitics as a factor capable of influencing trade and development. In her critique of WST work on the Eastern bloc (Chase-Dunn, 1980), Skocpol (1981) makes the important point that geopolitics is not reducible to the capitalist world economy—the USSR in particular was a geopolitical superpower whilst relatively backwards in economic terms. As such, geopolitics has to be seen as an influence over

economic relations, and not just as a function of them. However, this is not to say that geopolitics is unrelated to the world economy, just that geopolitical influence is not necessarily entirely determined by position in the world economy.

I argue throughout that the geopolitical antagonism of the Cold War was highly significant in terms of understanding the Soviet motivation behind the system of subsidised trade in the bloc. As Von Beyme (1987) has pointed out, 'It should at all events be remembered that the cost-benefit calculation of a great power, which has committed itself to the growth of world socialism, cannot be assessed solely on criteria of economic rationality' (p.100), and the intra-socialist economic relations this thesis focuses on seem to be an excellent example of this. This ultimately stems from the fact that the USSR existed as a socialist state within the capitalist world-system. The perceived necessity of establishing obedient governments in Eastern Europe to achieve security in a hostile geopolitical climate meant that after 1947, Stalin forced Eastern Europe to adopt the Soviet model of political and economic organisation; the inability of this strategy to continue in the absence of Stalin, but the continuing imperative of maintaining communist power in the region, led his successors to the introduction of substantial economic incentives to assist this. The fact that this arrangement was maintained throughout the Cold War period in the face of rising costs and increasingly apparent contradictions can be seen as evidence of the high value attached to the geopolitical goal of bloc unity in the eyes of the Soviet leadership.

As such, although the Cold War in itself is not the object of investigation of this thesis, some theorisation of Cold War geopolitics is required since it is a crucial part of the puzzle of intra-socialist trade and development. Essentially, the debate on the nature of the Cold War in IR can be simplified to two key positions, commonly termed realist/orthodox and liberal/revisionist (see Leffler and Westad, 2012). The realist position holds that Soviet expansionism was the core cause of the breakdown of relations between the USSR and the West, and that the ensuing period of world history is best characterised by the bipolar structure and strategic competition that resulted from Soviet aggression after WWII (see Gaddis, 1987). The liberal approach shares the view that the conflict was about the conflicting post-war objectives of the two superpowers, but stresses the role of ideational and domestic political factors alongside military and economic considerations (see Koslowski and Kratochwil, 1994). In addition to these two

approaches, a rich stream of Marxist scholarship has sought to cast the Cold War as about the fundamentally contrasting socio-economic structures of the two superpowers, and so to draw attention to a vitally important dimension side-lined by the other two perspectives (see Deutscher, 1960; Halliday, 1982, 1986; Harman, 1988; Saull, 2007; Hobsbawm, 2011).

This thesis situates itself within this Marxist tradition by emphasising the distinct socio-economic constitution of Soviet power in the context of the superior military and economic power of the US. The fundamentally uneven nature of this confrontation is an essential aspect of the geopolitical antagonism of the Cold War and helps to explain why the Soviet leadership brought economic incentives into their pursuit of geopolitical goals. Relating this to the retreat from the goal of world revolution to generally more achievable geopolitical objectives, Westad (2000) writes that while

Soviet foreign policy was no less fuelled by its key ideas or its understanding of what made the world tick [than US foreign policy], the crucial difference is that at most times Soviet leaders were acutely aware of their lack of international hegemony and the weakness (relative to the United States and its allies) of Soviet or Communist power (p.554).

Most centrally, Cold War geopolitics is significant for this thesis because a key Soviet objective in this regard was the maintenance of communist power under Soviet leadership in Eastern Europe, and this was what motivated the USSR to seek the dependence of Eastern Europe in the 1950s.

As will be expanded upon in chapter 5, the uneven nature of the Cold War raised security concerns for successive Soviet leaderships which meant the development under Stalin of the defence industry occupied a unique place in the Soviet economic system which it continued to hold through the Cold War.

In this sense military power and coercive militarised relations were defining of the USSR through the role of state-sanctioned command and coercion in the organisation and operation of the Soviet economy, and also through the way in which the Soviet economy was subordinated to the production of the *matériel* of military power (Saull, 2007, p.9).

The security preoccupation growing from the hostile geopolitical situation of the first decades of Soviet power could thus be argued to have been coded into the structure of the command economy from its inception. In Carr's (1973) view, this militarisation of the

economy began with the Civil War: ‘The economic aftermath of the civil war completed the process which the military exigencies of the war itself had begun. Already in March 1920 the slogan ‘everything for the front’ had given way to the slogan ‘everything for the national economy’” (p.393). Indeed, Soviet sources accepted the intrinsic link between Soviet planning and military preparedness, regularly asserting the ‘fundamental military superiority of the ‘socialist’ military establishment... [because] central planning permits the effective military and military-economic organization of society as a whole’ (Jahn, 1975, p.191).

This domestic militarisation was always likely to affect Soviet international economic relations. In particular, the origin of the position that what was good for the Soviet state was *ipso facto* good for the international communist movement needs to be discussed, since this fusion of ideology and geopolitics was highly significant for international economic relations. In terms of relating ideology to geopolitics, arguably the doctrine of ‘Socialism in one country’ is especially significant in this regard. First proposed in 1924 and made central to Marxism-Leninism in the 1930s by Stalin, ‘Socialism in one country’ effectively meant that the goal of world revolution as the objective of policy was replaced by defence of the Bolshevik Revolution as the core of the international communist movement. This meant that what was good for the Soviet state was good for international communism—in this way, ideology and geopolitics fused in the retreat from world revolution to defence of the interests of the Soviet state, conceptualised as a socialist state constrained within a hostile capitalist world-system (Thompson, 1998).

This inter-linking is fundamental to the way ideology is conceptualised in this thesis. I argue that there is a danger inherent in over-privileging the role of ideology or seeing it as a totally independent variable, when instead it needs to be situated in a (normally subordinate) role to geopolitics. For example, Kramer (1999a) argues that it was ideological considerations which prevented far-reaching reforms to the structurally weak system of economic integration in CMEA, and consequently under-examines both the geopolitical and economic development dimensions of CMEA. A similar overlapping composition of objectives which highlights the way ideology was brought into conformity with geopolitics, rather than vice versa, can be seen behind the WTO. Commander-in-

Chief of the WTO, Marshal Kulikov, writing in the CPSU's theoretical journal, *Kommunist*, in 1985:

On May 14th 1955, [the Eastern bloc countries] signed the Treaty of Friendship, Co-operation and Mutual Assistance, which has entered history as the Warsaw Treaty, in which were expressed the wish and aspirations of the fraternal peoples for unity, for *their collective responsibility to provide for the defence of the gains of socialism*, for the preservation of peace and international security (quoted in Holden, 1989, p.18, emphasis added).

In summary, this section has sketched an understanding of the geopolitical context of the Cold War and begun the task of explaining how and why the USSR initiated the very particular economic arrangement in the bloc which it did in the mid-1950s. To be clear, this is not supposed to be a possibly transferable or widely applicable theorisation as the ideal-type of dependent development could potentially be, but a specific component needed in order to address the case of CMEA.

7. Conclusion

This chapter has tried to reconstruct DT in terms of a return to the concept of dependent development re-cast as an ideal-type. Although acknowledging that 'there are also non-trivial empirical and theoretical problems', Dunn (2009) believes the decline of DT 'can be read as a symptom of a more general rightward shift in which (neo)liberalism involved a renewed determination amongst leading states and institutions to open markets' (p.190). It can be assumed Dunn essentially had Frank in mind, and on the basis of the previous critique the validity of the claim can be questioned; the rejection of DT owed more to the flaws in Frank's formulation and the partial nature of Cardoso's amendments than it did to the revival of neo-liberalism.

The key conceptual tools which have been developed and will be applied in the subsequent historical chapters are the following:

1. Rather than aiming to identify static and immutable structures, dependency analysis should focus on changing relations between centres/peripheries over time. In this way the consequences of centre/periphery relations are not assumed to be one-directional and the issue reciprocal influence can be considered. A

major benefit of this is that it allows a far greater range of asymmetrical international systems to be treated under a less restrictive dependency frame.

2. The ideal-typical description of dependence should not be considered as an exhaustive definition but can serve as a starting-point for constructing specific historical narratives. By avoiding positive assertions, and instead simply outlining what characteristics would make any particular international arrangement a possible candidate for analysis beginning from this idealisation, the model should be flexible enough to cover many asymmetrical situations.
3. The concept of economic surplus, and specific ideas derived from this notion like competitive and complementary development, and intra- and inter-industry trade, can be used to organise empirical material in order to provide answers to the research questions specified in the introduction.
4. Relations to the world economy have been considered in relation to the centre/periphery paradigm, and an understanding of Cold War geopolitics has been given which helps to explain the Soviet approach to international economic relations within the bloc.

The next four chapters aim to demonstrate the value of the framework developed in the last two chapters by using them it to generate accounts of trade and development in the Eastern bloc.

Socialist Dependency in the Eastern Bloc

1. Introduction

The historical part of this thesis moves from considering development across the bloc as a whole onto national case-studies. The object of this chapter is the interdependence between trade and development within the Eastern bloc, focusing on the relation between the USSR and Eastern Europe. In this way the chapter aims to demonstrate how a coherent narrative of trade and development in the Eastern bloc can be produced via the application of a reformulated DT, and that this leads to the identification of a particular development process which theories discussed in the literature review could not fully capture. The argument is that the economic links which emerged in the 1950s between the CMEA-six and the USSR can be understood as generating a unique form of dependent development as defined in the previous chapter. Bearing in mind that the reformulated DT was careful not to suggest that a discrete centre/periphery system such as CMEA could be analysed completely in isolation from the encompassing world economy, the changing relation of the socialist economies to uneven capitalist development, and in particular to DMEs and NICs, is also included in the account. This is essential for underscoring the limitations to the process of dependent development in the bloc, in that it ultimately proved incapable of supporting the ideological project of competing with capitalism. I argue that the contradictions within this development process became increasingly pronounced in the 1970s, before it reached its limit in the 1980s when the costs became too great for all participants to consent to, and that this was one of the factors contributing to the disintegration of the bloc. For the Soviet Union the cost meant continuing to bear the burden of subsidised trade, while the drawback for Eastern Europe was the evident exhaustion of possibilities for development within the system.

This chapter breaks the relationship down into four distinct phases characterised by different dynamics. The consistently high prioritisation of geopolitical considerations in Soviet trade policy, sometimes in opposition to and sometimes in concert with ideological and technocratic motivations, is returned to periodically as a key part of the puzzle. A major benefit of beginning from an ideal-type is that it allows insights from other theoretical frames (particularly the exploitation and subsidisation theses) to be included, whilst the concept of dependent development itself provides a central spine to

the account. For this reason the points of the idealisation of dependent development given before (1-7) will be referred to as they occur, with the emphasis placed on making explicit how these general propositions occurred specifically in the Eastern bloc. In this way the account differs from a purely descriptive chronological account in that the method and theory used to order the empirical material are clearly stated, and it differs from the other frames discussed in the literature review by using the concept of dependent development rather than subsidisation, exploitation, spheres of influence, customs union or institutionalism.

2. Stalin and the Creation of Soviet Europe, 1945-1953

In terms of how the formation of the bloc related to economic development, the most salient features of the period identified by the dependency framework are as follows:

1. The export of the Soviet model to the People's Democracies led to the creation of industrial structures in Eastern Europe which could only operate and expand through interaction with the USSR via CMEA. Although this model and the extensive growth it could provide initially allowed for the rapid development of less industrialised parts of Eastern Europe, over the Cold War period the contradictions that emerged from its transplantation to Eastern Europe became more and more pressing.
2. In the context of Soviet military dominance and the prevalence of Stalinists in the East European parties, the USSR was able to unilaterally impose unfavourable terms of trade on Eastern Europe. These observable asymmetries are part of why the Soviet Union is considered to have been the centre of the system in line with point 6 of the ideal-type. The significance of the doctrine of 'Socialism in one country' will be discussed in this regard as it paved the way for a symbiotic relation between geopolitics and ideology in Soviet international economic relations.
3. CMEA was initially dormant as Soviet policy towards Eastern Europe developed along bilateral, rather than multilateral, lines. This was appropriate given the

exploitative nature of intra-bloc economic relations at the time, and the general ascendance of Stalin and his supporters in the international communist movement.

First it is necessary to discuss the particular way points 1 and 2 of the ideal-type happened in the Eastern bloc. It is important to emphasise the different levels of industrial development in the region at the start of the period of communist power. Three tiers of development can be identified, with Czechoslovakia and East Germany as the most industrially developed, Bulgaria and Rumania as the least, and Hungary and Poland in the middle. This meant that the import of the Soviet model had different effects across the six; in general, the less developed countries welcomed the fast-track to industrialisation it offered, whilst Czechoslovakia and East Germany saw it as a limiting and distorting factor in relation to their already achieved industrialisation. Perhaps in concession to this, 1945-47 represented a period of 'co-ordinated diversity' in the region, with mixed economies, non-communists in some government posts and a fairly pragmatic approach to economic policy.

This period of negotiation ended in December, 1947, at the Moscow conference of communist parties where Titoism was denounced for, 'exaggeration of the role of these peculiarities (of a given nation) and departure, under the pretext of national peculiarities, from the universal Marxist-Leninist truth regarding socialist revolution and socialist construction' (quoted in Skilling, 1964, p.12), and the universal validity of the Soviet model was proclaimed. By 1950, the six had all been aligned with the Soviet system, while Yugoslavia, who had begun with this alignment, had gone in a different direction, and accordingly Soviet-Yugoslav relations provide an anomaly to the general pattern (Brus, 1986, pp.620-1). It was in the late 1940s that the geopolitical divide in Europe seemed to have stabilised and a clear zone of communist power was apparent, and in this context a Stalin-dictated orthodoxy involving close replication of Soviet patterns emerged.

Suny (1998) has emphasised how the instigation of the Marshall Plan in 1947 needs to be seen as a vital part of the explanation for the forced Sovietisation of Eastern Europe, in that before this date Stalin had pursued the goal of maintaining the WWII alliance and securing favourable governments in Eastern Europe in tandem; after the adoption of the Truman Doctrine with its hard-line stance on what it saw as Soviet

expansionism, Stalin let the first objective go in favour of the second. This demonstrates how early on in the Cold War the objective of maintaining communist power in Eastern Europe became so significant for the USSR. The question of the reform and reproduction of the structures which resulted from this Sovietisation within the soon-to-be CMEA area is the topic of this chapter, and accordingly the international economic relations internal to the bloc will now be turned to.

It was therefore symbolic that the first test of intra-bloc relations came when the question of the place these countries were to occupy in the world economy became too severe to be postponed as the offer of participation in the Marshall Plan was extended to Eastern Europe. The East European rejection of Marshall Aid—enforced by a coalition of Stalinist elements within all the ruling parties—crystallised the post-war geopolitical settlement just as it effectively made the reconstruction of Eastern Europe into a Soviet responsibility. However, far from reconstructing, at the time the USSR was engaged in extracting whatever it could from Eastern Europe. Marer (1974) has calculated that an equivalent amount to what was put into Western Europe through the Marshall Plan was taken out of Eastern Europe by the Soviet Union. Particularly unpopular were the mixed companies, which were nominally financed by both the USSR and the East European host country on a 50:50 basis, but in reality were administered in Soviet interests. Soviet stock companies set-up in East Germany in 1946 as a means to extract reparations were the template for the later companies created across the Eastern bloc, and even in China. Having plundered Eastern Europe and impelled the war-torn countries to turn down the US loans which were at that time fuelling the capitalist recovery of Western Europe, some form of socialist international economics must necessarily now be invented. The culmination of this was the conference held in Moscow in January, 1949, from which CMEA emerged.

This had been preceded by a series of bilateral treaties of cooperation and mutual assistance, but despite early optimism, little happened within the new institution. At this time ambitious plans for achieving regional integration were regularly raised. It seems probable that Stalin was personally involved in halting this first round of debate in 1950 when it threatened to go beyond the range of his own vision of how the bloc should operate—firmly under Soviet leadership (Bloed, 1988, p.7). By 1950, Eastern Europe was then engaged in the first stages of Soviet-type industrialisation geared towards autarchic

development; trade necessarily assumed a secondary significance and accordingly there was relatively little international exchange. The issue which soon became apparent was that the rush to grow heavy industry in Eastern Europe as had taken place in the Soviet Union was no good in terms of fostering the intra-socialist trade needed to cement the alliance and boost its economic utility. Hanson (1981) has termed this ‘under-trading’, as regional development actually reduced the incentives to specialisation and exchange.

The replication of the Soviet model in Eastern Europe was a key part of Moscow’s assertion of hegemony in the international communist movement, and of the singular conception of socialism on which Soviet leadership of this was premised at this time (Skilling, 1964). However, as a result of the export of the Soviet model, soon everyone had similar industrial profiles and the economic rationale for exchange was naturally reduced, and accordingly the Sovietisation of the East European economies can be said to have had contradictory results in this sense. Winiecki (1988) has commented that, ‘The degree of similarity has, in fact, been so high that we can almost talk about the *identical* industrial structures among [the centrally planned economies] at the end of the period [1980]’ (p.111). I agree with Winiecki’s technical assessment, although his verdict needs to be qualified by mentioning that whilst industrial structures may have been very similar, the cyclical periods of reform which followed Stalin’s death and reached a peak in the mid-1960s meant that nationally-distinct reform processes which aimed at solving the common problems of the traditional model in different ways took the socialist states in various different directions. This allowed for substantial differences in terms of control mechanisms and organisational structures between the CMEA members.

Starting to think about how this centre-sponsored industrialisation gave the development process in the periphery particular characteristics—which in fact made reform necessary relatively early on—the industrial structures created in Eastern Europe following the Soviet example tended to be inefficient both in their need for inputs and the use they put them to. That the need for such large quantities of energy and raw materials was connected to the emulation of the Soviet model of industrial development was noted in the West relatively early; already in 1962 Kindleberger could write that, ‘parallel expansion of the capital goods sector in the Soviet bloc threatened to result in excess capacity in machinery and equipment, and put great pressure on fuel and on raw materials supply’ (p.162). Lack of specialisation began to be perceived as a problem in the mid-

1950s, and the institutional history of CMEA over the next four decades was characterised by the repeated launch of initiatives aimed at improving this situation. The application of DT can help to explain why these initiatives only achieved limited success by stressing the dual political and economic significance of this trade system, and highlighting the fact that powerful interests across the bloc saw benefits to its continuance.

It has already been claimed that ideology need to be discussed alongside and in connection to other factors, and so the failure of Marxism-Leninism to produce a theory of international trade which could have set parameters to the formation of policy is important; Pryor (1962) makes the argument that the marked absence of purely economic analysis of trade in the socialist world was not only due to the lack of inherited theory from Marx, but also the fact that the USSR's vast resource endowment made trade seem unimportant. In this sense it was emblematic that Stalin's final publication, 1952's *Economic problems of socialism in the USSR*, had nothing to say about trade between socialist countries. To reiterate, there was no inherent reason why socialist states should be trade-averse, the actual reality of which during the 1930s and 1940s owes more to Stalin's agency in response to the structural constraint of the geopolitical situation after the German surrender. This theoretical lacuna and the policy gap it created meant that under Stalin, 'just as political bilateralism meant in practice Soviet domination, economic bilateralism involved a good deal of exploitation of [Eastern Europe] by the USSR in the name of the over-all interests of the Communist bloc' (Brzezinski, 1967, p.125).

The fact that an ideological gloss could be given to the pursuit of Soviet material interests during the Stalin period as an extension of the doctrine of 'Socialism in one country' has already been mentioned. A significant way ideology on its own impacted on the development of intra-socialist trade was in terms of the sometimes genuine belief of Soviet and other socialist leaders, especially in the 1950s, in the superiority of central planning. The expected final crisis of capitalism meant that a fully developed socialist form of trade and integration was unnecessary given the temporary nature of global capitalism; history was moving in the direction of full communism, and so the practical and theoretical problems raised by trade could in some sense be postponed until later. Retrospectively this seems highly unrealistic, but it can be seen as understandable given the relatively recent nature of the Great Depression and the intra-capitalist conflict of WWII. Hobsbawm (2011) termed these events 'The age of catastrophe', and emphasised

how both Soviet and US elites could not have known in the early Cold War years that ruptures of this nature would not characterise the following decades. Arguably by the 1970s this view was becoming less sincerely voiced, and the necessity of socialism existing alongside and in a relatively backwards position in relation to capitalism for the foreseeable future was more widely accepted. This made the lack of a truly autonomous price mechanism for intra-CMEA trade a more apparent failing.

I argue that the relatively low levels of trade observed in first decade, as much as it's decidedly biased slant, can be seen as the outcome of the interaction between several structural factors and the agency of the Soviet leadership personified in Stalin. Most centrally, the desire to extract reparations from former enemies and to restore the economy to full productive capacity as quickly as possible—and thus to ensure the Soviet state against external threats—made the option to economically exploit Eastern Europe attractive. The fact that international economic relations between the previously isolated Soviet Union and the new People's Democracies took on a form similar to what Frank claimed was the normal situation of the world economy is thus explainable as an outcome of the convergence of the geopolitical situation in Europe after 1945 and Stalin's particular blend of *realpolitik* and paranoia.

Thus the exploitation thesis fits quite well with evidence about the Stalinist period. What is surprising and requires a new theoretical framework is that after the death of Stalin a radical change was undertaken, one which was to have far-reaching implications for the development of the Eastern bloc economies. The argument of the following sections is that these changes created an altered centre/periphery relationship which cannot be captured by existing DT frames but which can be made sense of in terms of the methodological and theoretical tools outlined before. This can go further than the subsidisation approach which neglected to look into the pattern of historical development this trade system set in motion and operated with an overly simplified notion of politics and economics which implied Eastern Europe 'won' economically and the USSR 'won' politically.

3. Khrushchev and the Transition to Dependency, 1954-1959

The Stalin era is relatively easy to comprehend as the victorious superpower took advantage of its dominant position to form a bloc of obedient states whom it compelled to accept highly unfavourable economic relations until the mid-1950s. After this a major shift occurred which remade centre/periphery relations in the Eastern bloc. The key historical claims about the ensuing period are as follows:

1. The quantity of trade and other international economic relations within the bloc expanded rapidly and became a key determinant of growth and development.
2. A historically-unique price formula was created which reversed the terms of trade characteristic of the Stalin period. This structure became of great importance for the development of the bloc, the specific nature of which was highlighted by (increasingly unfavourable) comparisons to DMEs, and its maintenance or reform became highly significant to several social groups.
3. Soviet policy towards Eastern Europe attained a higher level of sophistication as the limits to Stalinist military and political domination became apparent. It is important to situate this shift in the context of the general crisis of Soviet leadership of the bloc that resulted from Stalin's death.
4. CMEA was transformed into a complex international bureaucracy providing the forum within which these changes were implemented. As mentioned in point 3 of the idealisation, the existence of such institutional structures is held to be a signifier of developmental intertwining.

Up until 1954, the USSR intervened to quell any initiatives which proposed to use CMEA more actively. This was arguably because such changes would have infringed upon Stalin's arbitrary exercise of power in relation to Eastern Europe. However, even before the General Secretary's death in March, 1953, parallel economic development within the bloc had become a problem, and thus the increased use of CMEA seemed

desirable. The post-Stalin activation of CMEA was accompanied by a shift in doctrine as economic policies in the region began to move towards cooperation and away from autarchy. Whilst it was now admitted that autarchy had been inefficient (Laird and Hoffmann, 1980, p.403), cooperation did not necessarily mean full integration. Disputes over the range and depth of cooperation was to be one of the key battlegrounds over the successive rounds of negotiation dedicated to expanding the role of CMEA. These contestations are relevant to this thesis' reformulation of DT since they provide illustrations of how it aims to conceptualise structures as socially-contested and so potentially subject to change based on the resolution of these contests.

Evidently, if cooperation was to make any progress it must begin with the coordination of national plans, and so one of the first new bodies to emerge were the Standing Commissions created to oversee the regional coordination of production through the synchronisation of national 5-year plans. As such the start of CMEA's re-birth was the March, 1954 meeting where plan coordination was seriously discussed for the first time. Further details were agreed at the 7th session of the Council in May, 1956. Held in Berlin, another important development was that this was the first time non-members (China and Yugoslavia) had been permitted to attend an official CMEA session, and this also seemed to suggest to the smaller members that a move away from Soviet unilateralism was taking place.

The political significance of these inclusions should be stressed, especially given that one of CMEA's first functions was as a co-ordinating centre for the Soviet-led economic blockade against Yugoslavia (Von Beyme, 1987, p.98). As such, the fact that the re-opening of relations with Yugoslavia involved their partial inclusion in CMEA was highly symbolic of the Soviet attempt to re-frame CMEA as an economic organisation at the centre of post-Stalin intra-socialist relations. Yugoslavia went on to become the first country to enter an official co-operation agreement with CMEA, and eventually participated in 21 of 32 CMEA institutions. This suggests that the inclusion of China and Yugoslavia can be seen as evidence of two things: firstly, that the Soviets accepted that leading the international communist movement after Stalin necessarily involved accepting other socialisms; and secondly that they hoped some sort of hegemonic position could still be maintained by attempting to make organisations like CMEA the forums in which socialist diversity could be managed under Soviet primacy. The argument that the Soviet

leadership was coming to see intra-socialist economic relations as a key means of both distancing itself from Stalinism, whilst simultaneously maintaining its leading role in a redefined way, is further supported by another significant development of the period: the voluntary abrogation of the USSR's right to collect reparations. These instances show a post-Stalin USSR seeking to engage Eastern Europe in a more nuanced manner and accepting the impossibility of continuing with Stalin's approach without Stalin.

3.1 Post-Stalin Crisis

Having begun to outline the fundamental nature of the changes in CMEA post-Stalin, the most significant being the move to negotiated and periphery-favouring international prices, it is now necessary to situate this shift in the context of the general crisis of Soviet international authority, both within Eastern Europe and as leader of the international communist movement more generally, which followed Stalin's death. This needs to be focused on since it was in response to this crisis that the system of subsidised trade emerged. This crisis also had domestic aspects, in the sense that fundamental features of the Stalinist system, including political centralization and centralized command of the economy, terror, purges, and legitimacy derived from the position of the leader, arguably could not be maintained in their pre-1953 form in the absence of Stalin.

Different responses and prescriptions to this situation distinguished the senior party figures who competed for power in the mid-1950s; regardless of who took over, something would have had to be done about relations with Eastern Europe. The main candidates all held Presidium posts: Malenkov was Prime Minister, Khrushchev was First Secretary, Molotov was Foreign Minister, Bulganin Minister of Defence, and Beria was Minister of Internal Affairs. However, Beria and Molotov were too closely associated with Stalinism, and Bulganin lacked enough support within the party to be a serious candidate for the top job, and this made Malenkov and Khrushchev stand-out within the group. Both were equally distant from Stalinism and shared an open acceptance of the need for reform; accordingly the main contours of the debate about the direction of the USSR after Stalin emerged between Malenkov and Khrushchev. The divergences between the two will be discussed around the two key interrelated axes of significance for this chapter, international policy and economic reform.

Beginning with international affairs, change in Soviet foreign policy was long overdue before and especially after Stalin's death in terms of relaxing tensions both the capitalist world and within the bloc (Rosser, 1969, p.280). In this way Khrushchev's adoption of the policy of peaceful co-existence was an attempt to move away from the antagonistic character of the early Cold War and to scale down superpower tension. Khrushchev was very active in terms of foreign policy, and it is notable that it was his initiative to re-open relations with Yugoslavia—as clear an indication of moving away from Stalinism and towards an implicitly pluralist conception of socialism(s) as could be found in this respect—which cost him the support of Molotov. In general, the increased international presence of the USSR in the 1950s can be attributed to Khrushchev, the significant reform of economic relations with Eastern Europe being one part of this trend (Medvedev and Medvedev, 1977, p.81). Khrushchev saw clearly that the way Stalin had managed the bloc was one of the least successful parts of Stalinism and that there was a need to find a new, more stable basis for Soviet relations with other socialist states. It is this aspect which is significant for the subject-matter of this thesis, but it is important to emphasise the changes in intra-bloc relations were part of a wider pattern of 'normalising' Soviet foreign policy.

In terms of relating changes within the bloc to Soviet international policy in general, as well as being about the confrontation of the two superpowers, it is significant that all the foreign policy crises of the Khrushchev era were ultimately crises of the socialist bloc and of intra-socialist relations—unrest in Poland and Hungary in 1956; in Berlin in the late 1950s; the Sino-Soviet split beginning in 1960; and finally the Cuban missile crisis of 1962 (Roberts, 1999, p.43). Kramer (1999a) has argued that the re-activation of CMEA was explicitly linked to the Polish and Hungarian crises of 1956, which exemplified the instability inherent to managing the bloc as Stalin had, and the widely perceived need for a new approach which had been a problem since Stalin's death. I argue that the extremely high valuation placed by the Soviet leadership on its position at the head of the international communist movement, and the central significance of maintaining communist power in Eastern Europe to buttress this claim, can be read from the introduction of subsidised trade at this time. As such, the role CMEA came to play over the Khrushchev period and the pattern of trade and development it facilitated has to

be seen as a key component of the re-construction of Soviet authority in the bloc after Stalin.

Moving on to the question of economic reform, the recurring issue of heavy versus light industry in the allocation of investment resources needs to be mentioned, since this feature of the Soviet economy had important implications for intra-CMEA trade patterns. It is necessary to emphasise in line with the depiction of the immediate post-Stalin period as one of general crisis that this struggle was not an opposition between orthodoxy and reform; Khrushchev and Malenkov were both reformers but from different perspectives and in different ways. However, in terms of economic reform, it is telling that Khrushchev and Malenkov differed fundamentally in their attitudes to heavy industry and armaments production as a specially privileged sector within this category. As Ploss (1980, p.83) notes, only weeks after Malenkov proposed switching to the development of light industry at an equal rate to heavy industry, Khrushchev openly refused to endorse the proposal in his report to the Central Committee, instead claiming the raising of agricultural production to be the key economic issue. Accordingly, it is worth saying something about Malenkov's proposed consumer policy and what potential repercussions this could have had for CMEA.

The replication of the Soviet model and its preference for a faster rate of expansion of heavy industry has already been commented upon for leading to parallel development. It is also significant that the maintenance of this approach in the USSR became highly important to allow the export of such capital-intensive products as energy resources and raw materials to Eastern Europe. Malenkov had been one of the first to push for an increase in the production of consumer goods to be financed at the expense of heavy industry coupled with a general lowering of the rate of investment. In particular, Malenkov wanted the military sector of industrial production to diversify into the production of consumer goods (Cooper, 1991, p.6), and this questioning of the privileged position accorded to that sector represented a fundamental challenge to the established pattern. Khrushchev, on the contrary, regularly depicted the US as a plotter of surprise attacks on the USSR (see press quotations cited by Horelick and Rush, 1965, pp.31-34), and did not attempt to curb the military procurement budget, the socio-economic significance of which for the centre-periphery relationship within the bloc will be returned

to again in the next chapter. The support of the military for Khrushchev, although this was receded after Cuba, was vitally important in his victory over Malenkov.

The pro-consumer policy, which was briefly trialled, was not continued after Malenkov's fall. The stifling of such a natural policy at a time when many already admitted the old focus on heavy industry was out-dated might seem surprising, but it can be explained by the well-known power of the old industrial lobby within the Soviet institutions and by the fact that the USSR was at the time consciously erecting a deeply unbalanced structural exchange between itself and Eastern Europe premised upon the existing division of investment between heavy and light industry. In this way, the unnecessary fall of Malenkov could have had necessary consequences for Soviet subsidised trade if Malenkov had succeeded in raising consumption and lowering investment in the USSR. This is one example of how the internal characteristics of the Soviet political economy—the propensity towards investment over consumption, and the tendency to minimise investment in consumer goods industry—had implications for international economic relations, and in the Soviet case-study the significance of geopolitical factors in conditioning these preferences will be addressed.

The issues of international policy and economic reform came together in the question of international economic relations within the bloc. To the extent that Khrushchev was deliberately trying to dismantle the Stalinist system, his personal significance is indispensable in accounting for the change in trade prices described in previous chapters, although this also needs to be set in the context of the general crisis of Soviet authority. See Khrushchev's declaration in *Pravda*, 31st of October, 1956, which stressed that there was need for a new post-Stalin strategy in terms of economic relations within the bloc as well as in other areas (Hanak, 1972, pp.173-175). The Secret Speech further reinforced this impression of taking seriously the need to de-Stalinise intra-bloc economic relations, and the speech can also be seen in retrospect as the signal that Khrushchev had won-out in his struggle with Malenkov, the change being finalised in June, 1957, when Malenkov was demoted from heading-up the whole of Soviet industry to being director of a power station in Central Asia.

One policy Malenkov and Khrushchev had been in agreement on was the so-called 'New Course', in which East European communist parties were urged to mould their policies to fit local conditions. This move was made explicitly in response to the unrest

set loose by the death of Stalin, but the question of just how autonomous each country was is questionable. As Ulam (1980) has posited, this ambiguity was in some ways ‘the reflection of internal dissension and uncertainty within the Kremlin circle itself’ (p.145). This relaxing of Soviet-dictated orthodoxy over this period needs to be connected to the argument that the introduction of economic incentives in the form of subsidised trade were meant to ensure the continued unity of the bloc by means other than Stalinist domination, and therefore a greater degree of divergence could be tolerated. The Secret Speech seemed to signal that genuine autonomy was being granted by the USSR, and over the next few years Khrushchev’s acceptance of national roads to socialism led to a fluid situation in which a negotiated range of diversity was allowed in terms of moving away from the traditional model of planning. Khrushchev effectively conceded that the Soviet party could no longer demand and receive absolute leadership of the international communist movement as it had under Stalin.

During this period of unclear contours to intra-socialist relations, Tito envisaged a free and voluntary alliance of completely autonomous communist states; Khrushchev wanted limited autonomy in line with an acceptance of Soviet primacy and leadership. These similar but distinct ideas became irreconcilable given the international significance of events in Hungary in 1956. This was resolved in November, 1957, when leaders of the East European and Asian communist parties arrived in Moscow to sign a declaration naming the USSR as the leader of the international communist movement. This effectively brought the period of crisis beginning in 1953 to an end. However, China had succeeded in attaining a level of independence from Moscow by now which could never be rescinded, and polycentrism in the international communist movement became highly likely from this point on, even before the onset of the Sino-Soviet split in 1960 (London, 1962, p.411).

The ‘victory’ over the Chinese party, in that more parties affirmed loyalty to the CPSU in 1957, thus came at a high cost in that co-ordination in the context of polycentrism became significantly harder to achieve. Already by this time, Soviet authority in Eastern Europe was no longer synonymous with leadership of the international communist movement as a whole. This led to a shift in the political significance of CMEA and the WTO, in that after this point in time they became organisations less associated with international communism in general, and instead associated more particularly with Soviet

hegemony in Eastern Europe as a specific (and no-longer quite as central) component of international communism.

Having challenged the Stalinist edifice, Khrushchev ultimately fell back to a middle-point; he went on the attack against ‘revisionism’ and made the amendment that not every road to socialism was valid—the Hungarian road, for instance, was argued to have been leading back to capitalism (Deutscher, 1960, p.48). Staar (1971) emphasises the problems inherent to Khrushchev’s middle-way, where common policies could be found through discussion, albeit guided and circumscribed by the USSR (pp.266-8). Two contradictory tendencies were set loose by this: the centrifugal force of national communism, and the centripetal force of bloc solidarity backed-up by Soviet economic and military power. The contradiction between nationalism and communism was thus very important for the system of trade within the bloc, given that it was consciously designed to promote bloc unity by non-military means.

3.2 Bloc Trade and Development

Behind these policy debates and conflicts within the Soviet leadership and the international communist movement, an extremely significant economic process was going on in which a structural intertwining of East European industry and Soviet supplies and final markets developed, financed by Soviet-subsidised trade. In this thesis Soviet trade policy towards Eastern Europe from this point on is understood as representing a medley of overlapping political and economic motives; arguably the geopolitical imperative of bloc stability was the primary concern which motivated the trade price reforms in the mid-1950s and their continuance till 1991. In Jones’s (1977) words, the ‘Soviets wanted the East European parties to have the appearance of autonomy, but not the reality’. Jones goes on to argue that the instigation of long-term trade and other economic relations within the bloc should be seen as a post-Stalin strategy for ensuring the unity of the bloc. I agree with this and argue that the concept of dependent development is essential to fully articulating the consequences of this.

The domestic angle of these policy debates should also be emphasised. Just as Malenkov’s attempt to limit the resources going into heavy industry and defence

production ran up against serious opposition from these sectors, Khrushchev's proposals also faced opposition from vested interests. As Sanchez-Sibony (2010) has noted,

The locus of initiative in [trade] expansion, of course, did not lie with Soviet industry; the boom and continued intensification in Soviet foreign economic relations [in the 1950s] was a testament to the will and wishes of the Kremlin. From the time of Khrushchev, it was the leadership who saw foreign trade's many benefits, and it is they who struggled against the Soviet system itself to see their wishes come to fruition (p.1575).

This struggle took the form of a contest between factory managers concerned to meet their quantitative targets and make sure such targets were not raised, and so for whom extensive trade inside or outside CMEA was to be avoided, and the party leadership who saw the significance of trade for achieving growth (in terms of acquiring Western capital goods) and security (in terms of cementing the unity of the socialist bloc). Sanchez Sibony (2010) quotes reports based on factory inspections which explicitly named plant managers as responsible for this reticence to open-up trade.

In a related development, the period also saw a major shift in the composition of investment towards energy production. Khanin (2003) states that electric power capacity grew from 19.6 million kWh in 1950 to 66.7 million kWh in 1960, in other words an increase of more than three times (p.1197). Similarly massive increases in the quantity of oil and gas being produced were also achieved: between 1958 and 1965, the first coordinated plan period following the price reform, oil production (in million tons) went from 113 to 242.9, and gas (in milliard cubic metres) from 29.9 to 129.3 (Nove, 1988, p.355). The relative changes in emphasis within the energy sector can be seen from table 2 in the appendix, from which we can see that the overall rise was mainly accounted for by petroleum and natural gas.

By the end of the 1980s the Soviet Union was the world's largest producer of oil (since 1974), of natural gas (since 1983), and held third place in coal production after China and the United States. This structure of production facilitated a particular mode of exchange between the USSR and the six which generated a form of development for the next two decades. Returning to the earlier definition, this was the period, and energy the specific resource, which bound the various national economies of the bloc together into a system in which the historical process of expanded reproduction came to be intrinsically

international and asymmetrical in terms of the size of the economies involved and the resource distribution across them.

3.3 Eastern Europe in the World Economy

Just as the change in intra-socialist economic relations in the mid-1950s was situated in the context of the crisis that followed the death of Stalin, the changing structure of the world economy in terms of the post-war pre-eminence of the US, most notably as a major influence behind West European economic integration, needs to be included as a factor relevant to the reactivation of CMEA. Whilst earlier the WST over-emphasis on relations to the world market was criticised for leading to the under appreciation of the significance of the bloc dynamics focused on here, it is still useful to make individualising comparisons with DMEs. This is how point 4 of the ideal-type is used here to take account of the global context in which these changes took place. The international political and economic context outside of the bloc is important for two reasons: firstly, I argue the dynamics of intra-bloc trade, in which the USSR voluntarily subsidised Eastern Europe from the mid-1950s onwards, are only explicable by reference to the supreme geopolitical significance the USSR attached to the maintenance of communist power under Soviet leadership in the region, and secondly because the development path that this system of subsidies propagated is argued to have resulted in a number of contradictions which are best brought into focus through East-West comparison

Beginning with how international context is essential to the origins of the CMEA project, the significance of the US-supported integration efforts in Western Europe needs to be mentioned. In 1957 the creation of the European Economic Community (EEC) signalled the increasingly successful recovery of Western Europe and the firm commitment of America to fostering free-market economies to counter-balance Soviet influence. The answer from the East came two years later with the 1959 adoption of the CMEA official charter (the organisation had been functioning in the absence of any sort of official code for the first 10 years of its existence). I agree with Priestland (2009) who has argued that the success of the EEC was a direct factor influencing the decision to expand the role of CMEA in order to continue to compete economically with capitalism. Similarly Gilpin (1987, p.295) and Fejtő (1971) have emphasised the significance of the two superpowers for understanding the integration achieved by the EEC and CMEA. At this time Europe was a central theatre of Cold War antagonism, and the two economic

organisations can be seen as parallel projects of the superpowers organising the economic structure of their alliances.

These external developments are conceptualised as representing a structural factor which influenced Soviet perceptions of possibilities for CMEA. Bearing in mind the high growth rates of the period, and the general appeal of the Soviet model across the developing world at the time, there is something to be said that the rhetoric of catching-up and eventually out-competing capitalism via a qualitatively different form of trade and development was taken seriously at this time. Arguing for the meaningful role of ideology in the early years of this trade system, Kirby (2006) claims: 'Yet in the 1950s these [price] negotiations were also marked, much more often than not, by a sense of solidarity. The concept of "brother countries" was taken seriously, and the broader cause of building socialism appears to have been a factor facilitating compromise' (p.887). The key fact is that at the time such ideological considerations were perfectly consonant with the Soviet geopolitical goal of binding the bloc together through preferential economic agreements.

The existence of substantial trade flows within CMEA which the Soviet Union engineered at great cost to some extent insulated Eastern Europe from pressures stemming from the world market, but CMEA never was and should not be understood as entirely isolated from the world economy. However, as already mentioned, once the system of subsidised trade was in place, two contrasting Soviet ideals of developing CMEA linkages along either technocratic or geopolitical lines vied for priority; the resolution of this conflict usually in favour of geopolitical concerns until the late 1980s meant that CMEA cooperation and specialisation tended to be arranged along complementary rather than competitive lines. This meant structures of production were ill-suited to the task of exporting outside CMEA, and this comparative disadvantage played a major role in reinforcing dependence on selling to the USSR. In this way it can be argued that the way Eastern Europe engaged with the world economy was fundamentally constrained by CMEA participation, and in this way the key significance of relations to the world economy, when viewed from the theoretical perspective developed earlier, is that they allow further light to be shed on the possibilities and limits inherent to the dynamic internal to the bloc which will be examined in further detail in the case-study chapters.

The fact that from the 1970s onwards East-West trade became increasingly significant for Eastern Europe, partly due to the economic inadequacies of the socialist bloc, is one of the key contradictions in the development process which CMEA fostered.

In other words, the type of development CMEA encouraged from the 1950s onwards moulded East European economies in such a way that a wide divergence opened-up between the criteria of success in exporting within or outside CMEA. A technocratic alternative was possible, but this ran-up against interests within the USSR (notably industrial managers and the party elite) as well as economic agents in Eastern Europe who preferred subsidised intra-bloc trade. DT, reformulated to allow a substantial explanatory role for geopolitics as an influence over trade, seems to be capable of explaining both why these structures were brought into existence in the first place, and why concerted efforts to alter them always fell-short since the sub-optimal nature of them assisted in achieving the goal of keeping the six dependent on the USSR. Ultimately, CMEA proved ineffectual at supplying the East European regimes with the high-grade materials, quality capital goods, and technological expertise required to take development further (Staar, 1971), and the attainment of these was a prerequisite of loosening dependence on the USSR.

By the late 1950s CMEA had undergone a momentous transformation—all the way from a hollow shell whose sole purpose was to rubber-stamp Stalin's predatory actions towards Eastern Europe—to a transnational bureaucracy capable of managing international trade across a vast geographic expanse and in a similarly huge array of products. This change has been situated in the context of the need to move away from Stalinism, as well against the backdrop of the example of successful capitalist integration represented by the EEC. Allied to the quantitative increase of intra-CMEA trade went a shift in the qualitative dimensions of this trade. The consequences of this system of economic relations for the development of the bloc over the next decades will now be discussed.

4. Dependent Development in the Eastern Bloc, 1960-1980

The eventual adoption of the official charter in 1959 provides a convenient marker from which to date the completion of the institutional framework of Eastern bloc trade. By this point the structural transformation begun in 1954, and developed particularly in 1956 both at the 20th Communist Party of the Soviet Union (CPSU) congress and the 7th CMEA session in Berlin, had been consolidated. Under a DT frame, the story of Eastern bloc trade from here on is one of the intended and unintended consequences that resulted from this. I argue that this period represented the high-point of dependent development in the bloc, in which a development dynamic internal to the bloc predicated on the exchange of raw materials and manufactured goods between the

Soviet Union at the six at prices which systematically favoured the six can be identified. However, the full consequences of this need to be elaborated by setting this development dynamic in the context of uneven capitalist development which exposed the structural limitations of this development process. This unfavourable comparison emerged in the 1970s and became more acute in the 1980s. The key themes of this section all relate to how point 7 of the ideal-type was actualised in the Eastern bloc and are as follows:

1. Firstly, this period saw the full emergence of a pattern of economic change best characterised as dependent development.
2. Specifically, the maintenance and expansion of structures of production and consumption in Eastern Europe became dependent on the continuance of a particular trade regime within the bloc.
3. This trade regime cannot be explained by entirely reference to the international division of labour in the world market, but was instead specific to the socialist bloc and must be approached on these terms.
4. Although the development dynamic of the planned economies owed much to their internal organisation and patterns of regional interaction, the fact that CMEA as a whole was embedded in the world economy needs to be taken into account as well. The significance of the oil shocks and the unintended rise in the Soviet subsidy they implied is one of the most obvious ways this manifested itself in this period.
5. The fact that the USSR chose not to capitalise on this, either by diverting oil exports away from the six and onto the world market, or by immediately raising the price it charged to Eastern Europe, is further telling evidence of the geopolitical, extra-economic significance of trade within the bloc. However, the fact that a partial amendment of the price mechanism in 1975 did take place also shows that the technocratic agenda was slowly beginning to win some support inside the Soviet state.

The early 1960s were an auspicious time for CMEA and the Soviet-led project of socialist integration. Following the price reforms under Khrushchev, trade surged ahead and the ratio of exports to national income continued to rise (Lavigne, 1991, p.14).

Table 3

	USSR	Bulgaria	Hungary	Poland	GDR	Romania	Czechoslovakia
1967	3.9	28	40	20	22	17	30
1980	8	40	54	31	33	27	29
1986	8	42	58	32	33	20	32

The only exceptions to this are Czechoslovakia, whose exposure to trade remained fairly constant at a level somewhere in the middle of the spread across the six, and the USSR, whose size insured it against the kind of trade dependence which can be demonstrated for all other CMEA members. The 1960s saw the first attempt at plan coordination in 1961-5 as the USSR sought the further structural intertwining of development in the bloc. Further progress was made in 1962 when the policy document, *Basic Principles of the International Socialist Division of Labour*, was adopted, which endorsed a more-or-less standard Ricardian notion of the gains to be had from specialisation and stressed the organisations mission to equalise levels of development (see Kaser, 1965, p.195).

The arrival of Castro's Cuba into the Soviet camp at this time also represented a substantial geopolitical victory, although it would prove an economic burden like so many other Soviet geopolitical gains. The 22nd CPSU congress held at this time can be seen in retrospect as a high-point of optimism in Soviet communism. It was here that Khrushchev delivered his famous boast that the USSR would overtake the US in all fields of economic performance within 20 years. However, the limits to the Soviet model were becoming more and more apparent in Eastern Europe. Having opened the door to national roads to socialism and accepted some degree of autonomy in economic policy for the East European parties—although the intervention in Hungary had shown this to be far from a blank-cheque—the 1960s saw the issue of fundamental economic reform return with international consequences.

4.1 Domestic and International Reform Within CMEA

The intersection between domestic and international economic reform is highly significant for the study of dependent development in the bloc. Specifically, the reforms are useful to consider since they open-up several concerns central to the project of reformulating DT and using it to provide an account of trade and development in CMEA. Firstly, the reforms illustrate the diversity of the six—especially after the Sino-Soviet split and the near inevitability of polycentrism that followed from this. The need for DT to accept the non-homogenous nature of regions designated as peripheral is essential to moving beyond the determinism already criticised. Secondly, the early beginning and fluctuating implementation of the reforms speaks of the structural and fundamental nature of the economic problems facing the planned economies over the period in question. Thirdly, the fact that decentralising reforms were often inconsistent with CMEA requirements shows the contradictions inherent to the dependent development that took place within CMEA.

Stalin's insistence that his policies be adopted throughout the bloc had given a clear criteria of obedience. Since few had systematically transgressed and instead consented to implementing unpopular policies, 'this had the effect of so alienating the peoples of Eastern Europe that the party leader in each country and the party itself became even more dependent on Soviet support to stay in power' (Jones, 1980, pp.561-2). However, de-Stalinization had changed the complexion of the East European parties. The structural context of centre/periphery within the bloc under Stalin had effectively limited the East European parties to a choice between two strategies: accept and obey Stalin's will, or isolate from the bloc. Since the second option involved excessive risk, it is not surprising that only Yugoslavia took this path given the strong, independent communist party in power there.

As Skilling (1964) has stressed, the accession of Khrushchev opened-up significantly more possibilities for socialist policy, as signalled especially by the rapprochement with Belgrade and the willingness to accept alternative socialisms this implied to Eastern Europe. Although Khrushchev in the late 1950s reasserted the primacy of the Soviet model, the centrifugal tendencies already unleashed proved hard to keep in check, despite the substantial economic incentives available within CMEA. The reform

period, which reached its height in the mid-1960s, is significant for the project of examining dependent development in the bloc in that it arose partly in response to the problems inherent in the export of the Soviet model to Eastern Europe, the negative implications of which for the initial development of trade in region has already been addressed, and because it throws light on another way the system of CMEA trade served the geopolitical objective of securing the bloc by placing restrictions on how far reform of the traditional model could go.

The 1960s saw the East European economies diverge from each other as nationally-specific reforms were launched and followed through various courses. These reforms need to be treated somewhat differently to the previous 'New Course'; as Asselain (1984) has pointed out, the reforms after 1953 were generally decentralising but did not question the basic model, and their cyclical implementation reflected the struggles in all the parties of the region between reformers and the remaining Stalinists. The later reforms went further than this in that it was now accepted fundamental institutional change needed to go along with the redefinition of economic objectives—Hungary provides the key example of this and will be discussed in more detail in chapter 6.

Szelenyi (1989) has categorised two types of reform which were put into practice in the 1960s: rationalisation of the bureaucratic-distributive mechanism, and decentralisation, with the first type involving the development and application of more sophisticated planning techniques, and the other arguing that only decentralisation and the introduction of some market elements could provide the remedy. This general dichotomy remained of significance throughout the period in question and makes it relatively easy to categorise the CMEA members. East Germany was the most in favour of rationalising the planning mechanism and systematically attempted to do this. The East German reforms tried to delegate a wide range of planning responsibilities to intermediate organisations (of which there were 80 created) who would report to the central administration on this and closely supervise firms by sector (Asselain, 1984, p.151). The USSR, Poland and Rumania were similarly inclined to the Germans although much less thoroughgoing in the design of their reforms. Meanwhile, decentralising reforms were proceeding in Hungary and Czechoslovakia. In most countries a general lack of coherence in these measures was a recurring problem, as well as the fact that centralised price determination actually became even more essential once some decisions

had been decentralised but without creating the genuine market conditions upon which this decentralised decision-making could be successful.

It is important to point out that the differing levels of development in the region meant that the problems being solved by each party differed (Hohmann, 1975, p.546), and thus the diversity of the reforms acted as a visible reminder that there was no standard Soviet-approved model for a reformed centrally planned economy as there was for a traditional one. Further to this, they remind us that given the diversity of the CMEA members it was extremely improbable that the cumbersome system of trade and integration could be maintained indefinitely in view of these diversifying tendencies. This made the Soviet geopolitical project of maintaining communist power in the region, partly through a particular system of trade, more precarious than it had been before, and further underlined the geopolitical significance for the USSR of CMEA as a potential centre of co-ordination.

A common aspect of the reforms of significance in this regard was that most CMEA countries, excluding the USSR, moved towards some links between domestic and wmps. This move, made out of the growing necessity of trading outside the bloc, cut at a key foundation of the CMEA system and the Soviet Union's central role within it, namely the highly distinct nature of prices within the bloc and the transfers of surplus from the USSR to the six this allowed. In mid-1960s, Poland, Czechoslovakia and Hungary were the most open to trade with the West, and it is significant that these were also the CMEA members most in favour of fundamental reform. The higher degree of openness to international trade outside CMEA meant the contradictions of the development path available within CMEA were more clearly seen in these countries, and this is an example of the essential tension between reform—and decentralising reform in particular—and CMEA (Colombatto, 1983).

However, this divergence was counter-balanced by a striking continuity across the region of the priority given to heavy industry in the traditional model. In fact, the gap between the growth of producer and consumer industries grew over the reform period in all countries except Hungary (Asselain, 1984, p.101). This is an example of the fact that industrial policies across the region diverged much less than other areas, notably agriculture where a whole range of public/private mixes were tried. The strategic significance of this prioritisation of heavy industry for the Soviet Union as the centre of

CMEA has been raised earlier and will be returned to in the next chapter in more detail, and it seems plausible that CMEA in general tended to reinforce the preference for investment in heavy industry, perhaps on account of the need for members to commit to long-term barter deals requiring investment resources to be made available in well advance.

These reforms began in the context of Khrushchev's general revamping of bloc relations, when a wider array of strategies became open to Eastern Europe, and from this point on East European agency is essential to explain the continuance of subsidised trade. Already by the Moscow conference of August, 1961, when Khrushchev proposed that CMEA be invested with the powers of a transnational planning authority capable of directing a regional-wide investment plan centred around expanding raw material extraction and processing capacities, East European leaders felt strong enough to oppose this move. East European party leaders opposed this on the grounds that it would have represented a growth of Soviet influence over their economies, and this makes it clear that there were limits to how much control the Soviets managed to get in return for the subsidies other than the maintenance of the bloc. For instance, resistance from Rumania was key to blocking 1960s' Soviet attempts to make CMEA decisions binding (Marer and Montias, 1980). Rumania has to be seen to some extent as a distinct case among the six, especially after Ceauşescu's rise to power in the mid-1960s and his construction of a Stalin-like cult of personality (Verdery, 1995). Rumania's relative independence in terms of international policy certainly correlates with significantly smaller (and sometimes non-existent) subsidies than were received by the rest of the six, although the fact that Rumania was not so dependent on Soviet oil must also be considered a factor in this.

However, just as the Soviet's saw their plans frustrated by recalcitrant parties who were not necessarily dominated by obedient Stalinists any more, they were themselves equally able to block proposals when they came from other members and would have loosened Soviet control of trade flows, for example, the Hungarian proposal that multilateral trade replace the bilateral system. This instance of the Soviets blocking a proposal for reform coming from one of the smaller members provides a good example of the kind of structural power which the USSR exercised within CMEA: when something was proposed which displeased the Soviets they were capable of making sure it went no further, but they seem to have encountered tremendous difficulty in sallying forth from

their outwardly impressive position whenever they tried to get the East Europeans to commit to further integration which might have reduced the subsidies. Hamilton (1990) gives the instructive example of car manufacturing, where Soviet-led initiatives to allow this specialization to be concentrated in Czechoslovakia resulted in East Germany expanding production of Wartburg and Trabant models, Poland to import Fiat technology and begin production under license, and Rumania to make a similar deal with Renault leading to the production of Dacias (p.245).

The Soviets were by now more-or-less forced to accept genuine polycentrism in the international communist movement due to China's successful assertion of independence from Moscow (Jones and Kevill, 1985, p.157), and arguably this made CMEA and WTO as key supports of the Soviet claim to (some sort of) leadership of the international communist movement more important, although it simultaneously increased the possibilities of diversity within the bloc. It is significant that the climax of the reform period coincided with this other centrifugal development, the finalisation of the Sino-Soviet split. Thompson (1998) argues that from 1965 the differences between the Soviet and Chinese parties could no longer be reconciled, and therefore the world communist movement was forever sundered. Both the varying East European reform processes and the exit of China from the Soviet camp emphasised to the Soviet leadership the mutable nature of their leadership of international communism and further reinforced the importance of subsidised trade.

4.2 Recentralisation and Development in the 1970s

By the late 1960s the reform tide was beginning to ebb and instead a strong tendency towards re-convergence on the traditional model could be identified. Two international factors were key to this: the political tension within the bloc as evinced by the events of 1968, and the dramatic rises in the price of oil on the world market after 1973. Given the focus on international economic relations and the special role of the pricing of Soviet oil exports to the six, the oil price rises of the decade are argued to be the most significant way economic developments external to the bloc impacted on the internal relationship, with debt appearing a little later as a significant linkage. The role of the oil shocks as enforcers of closer ties to the USSR, and in turn as enforcers of the

traditional model of planning, will be discussed in this context. A strong case can be made that CMEA membership played a role in hindering domestic economic reforms in general, and this was especially true following the first oil shock when the benefits of trade within the bloc became considerable. With oil prices rising so rapidly on world markets, the choice of strengthen economic links to the USSR via CMEA looked more appealing than ever, and thus the dependence of the six was probably deepened by these external economic events. The recentralisation in the 1970s coincided with the oil shocks, and this is significant in line with the theme of diversifying reforms—or in this case their stalling—relating to CMEA. Thus it can be concluded that the re-tightened of economic relations between the USSR and the six as a result of the growing magnitude of the Soviet subsidies after 1973 significantly correlated with the re-convergence on the traditional planning model, and this further reinforces the argument that bloc trade tended to be a factor counting against fundamental reform.

The events known as the Prague Spring also have to be considered as a factor influencing the relative recentralisation within the bloc in the 1970s as compared to the 1960s (Hohman, 1975, p.544). The intervention in Czechoslovakia in 1968, made when the reforms seemed to the Soviets to be going too far, is particularly important for several reasons. Firstly, it showed that the negotiated range of diversity in terms of reform had a very definite limit, and secondly the resort to the use of force by the USSR even after the strategy of subsidised trade was in place reminds that the introduction of economic incentives had not removed the contradictions of Soviet power in Eastern Europe. Deutscher (1960) has talked about the ‘inertia of Stalinism’ as a possible explanation for the continuance of military interventions, and certainly the continuing primacy of the geopolitical objective of maintaining the bloc intact by any means necessary seems to have been an example of this. Importantly, the Soviet party was not alone in this regard; East German leader, Walther Ulbricht, was especially vocal in calling for intervention. This reminds us that Stalinism was not confined to the USSR, although Stalinists were increasingly minorities within the East European communist parties.

The intervention in Czechoslovakia has to be considered a more serious indictment of the essential failure of post-Stalin Soviet leaderships to find new ways to ensure the unity and stability of the bloc other than through force than that in Hungary, which was made before the system of subsidised trade was initiated. Returning to the

debate about the relative weight of ideology and geopolitical concerns behind Soviet actions, the military intervention of 1968 can be argued to confirm that by this time the balance had tipped fully in the direction of the later. Kramer (1999a) quotes a Soviet politburo-approved report which stressed the centrality of geopolitics in the decision to invade. The report called the intervention a success and urged the leadership to keep ‘interfering as decisively as possible in the internal affairs of Czechoslovakia and keep exerting pressure through all channels’, despite the public line of non-interference (p.546). So, ideological concerns were voiced, and to some extent constrained policy choices—and certainly it would have been preferable from the Soviet point of view if the development possibilities enabled by subsidised trade had been enough to convince Czechoslovakia to remain close to the USSR and to the Soviet model—but ideology ultimately had to conform to geopolitical concerns, and not the other way around. Just as ‘Socialism in one country’ had facilitated this move before, a slightly altered formulation was developed after 1968 in which the independence of the national communist parties was respected by Moscow but in relation to the global class struggle; in other words, if the actions of a party put this greater good at risk, collective intervention by the rest could be justified (Thompson, 1998, p.151). From late 1960s onwards, the ideology of socialist economic integration was a similar case, and arguably the final arbiter of the secondary significance of ideology in relations to geopolitics for intra-bloc relations has to be the sheer level and range of types of conflict that characterised the bloc, military force being the most extreme.

Shortly after the invasion of 1968, the Brezhnev doctrine, as it was known in the West, stipulated that all communist states must abide by the doctrines of Marxism-Leninism as interpreted by Moscow. This had significant international repercussions both inside and outside of the bloc. Firstly, the commitment to international intervention put the USSR firmly outside the UN-sponsored international legal consensus against interventionism, which all members officially agreed to. The Soviet claim for justifiable interventionism was made in respect of the potential need for future interventions to maintain the bloc, but it represented a barrier to participation in the Western-dominated international organisations. As such, it stood for a firm commitment on the USSR’s part to the international significance of maintaining communist power in the bloc over completing the normalisation of international relations begun by Khrushchev (Hill, 2003). It could also be argued that this signified serious doubts on the part of the Soviet

leadership about whether economic incentives alone would be enough to maintain the bloc in the future.

This was the context in which the contestation around the 1971 Comprehensive Programme, adopted at the 25th session in Bucharest, needs to be seen. Just as with the debates over domestic reform, the same two opposed stand-points on the future direction of CMEA were apparent: the market/decentralising approach and the advocacy of more sophisticated quantitative co-ordination and planning methods (Stone, 1996). That the Programme represented an uneasy compromise between the two was symbolic of the deep split in all the parties over reform and helps to explain its very limited implementation and effects (Lavigne, 1991). The Programme defined integration rather narrowly as progress towards production and trade specialisation and the expansion of joint investment projects organised via CMEA. Importantly it focused on the region-wide development of energy resources (a key Soviet concern) and set the following priorities for energy policy within CMEA: 1) extensive geological surveys, 2) rational development and location of energy intensive industries, 3) more atomic energy plants, 4) cooperation in energy production and its long-range transmission, 5) extension of pipelines for Soviet oil and gas.

In regard to achieving this final objective, the necessity of trade with the West was openly acknowledged by the USSR who undertook to import gas-pipeline technology from Western companies with more advanced technology than socialist equivalents. The US actually opposed European companies being involved in this trade but was not able to prevent this taking place since European manufacturers saw potential for profitable exports to the USSR (Boardman, 1994, p.450). This reminds that the international interests of the US (just as those of the USSR) operated in two ways during the Cold War; both in terms of opposing the Eastern bloc and in terms of asserting US primacy and competitive leadership of the capitalist world. This is an example of how the contrasting social systems of the two superpowers are essential to explaining the dynamics of geopolitics during the Cold War (Saull, 2007, p.158).

If the US was far from capable of setting limits to the West Europeans, the USSR was equally incapable of dictating policy to the East Europeans. The defensive ability of East European agency in CMEA negotiations is demonstrated by the fact that although the Programme tried to deepen plan coordination as technocratic elements within the

Soviet party-state wanted, the 1971-75 period saw the East Europeans able to prolong the old ad hoc methods of coordination, and little progress was made towards the modernisation sought by some elements in the Soviet party (Kiss and Hajdu, 1976, p.16). The fact that even after the tumultuous events of 1968 it took a full two years to get a programme drafted, debated, and accepted, and one which Stone's (1996) evidence shows few had any sincere intentions of adhering to, seems to be a stinging indictment of the utility of Soviet power and its ability to achieve Soviet policy goals in CMEA. In this light, the economic incentives on offer appear to have been capable of holding the bloc together, but the level of domination Stalin had previously exercised could not be recaptured.

The two axes around which debate over the Comprehensive Program revolved were the related issues of whether the perfection of the planning mechanism or the introduction of market elements was to be the preferred remedy to the ills of the command economies, and how best to enable regionally balanced development to take place. These concerns are relevant for this thesis precisely because CMEA tended to discourage fundamental reforms of the planning mechanism, and so the diversity of the Eastern bloc economies, whilst remaining within CMEA, needs to be situated in relation to the tension between the need for reform and the continuity of traditional methods encouraged by CMEA. This issue is especially pertinent for DT, which was earlier argued to easily lapse into generalising too far. As was usually the case, the Hungarians were the main advocates of radical, market-oriented reforms with the Soviets and Germans arguing for more sophisticated planning techniques. However, neither side achieved any fundamental change to the structural relations within the bloc at this time.

Significantly, the CMEA that emerged from the new round of talks and agreements was an *inter*-national, and emphatically not a *supra*-national, entity. The East European preference for a CMEA to continue to deal with and between governments had won out over the Soviet preference for a CMEA empowered to act above the heads of member governments. The backdrop to these debates was at this stage still a general sense of optimism. All the CMEA economies were growing at satisfactory rates, basic industrialisation had been completed, and living standards were rising, and this thesis has argued throughout that Soviet-subsidised trade was a key component of these successes. However, as will be returned to later, the 1970s did see the slowdown in growth rates

which with the benefit of hindsight can be seen to have prevented the economies of the bloc from regaining their previous levels of growth.

This was by no mean specific to the East, with the 1970s appearing as a general period of crisis in the world economy (see Dunn, 2009). Specifically, the 1970s were a period of crisis for the US hegemony established after WWII, especially after the abandonment of dollar-gold convertibility in 1971. However, as Asparturian (1980) notes, this relative US decline did not necessarily mean a symmetrical rise in Soviet power, but rather a move towards a less bipolar international environment. That said, the 1970s were a period of relative success for the USSR internationally; with the US weakened and demoralised by Vietnam and the economic crisis, a number of communist-led and Soviet-supported revolutions took place in the Third World. As Saull (2005) has commented, these events gave some support to the classical Soviet ideological belief in capitalism as a weak and crisis-prone system, and for a time the global balance seemed to be moving in the USSR's favour, although Moscow's increasing pursuit of a truly global policy in the 1970s became a major strain on Soviet economic resources.

It is telling that the Moscow principle of price formation came in at this time, arguably signifying a relative decline in the geopolitical significance of Eastern Europe as the USSR expanded its interests elsewhere. For example, Kirshin (1998) stresses how willing the USSR was to engage in preferential arms deals at this time, and occasionally to transfer arms for no payment at all, just so long as some geopolitical goal was being furthered. This cost was accepted for the political influence it bought and because it fitted with the ideological proposition that the direction of history was flowing towards full communism (Roberts, 1999, p.63). Steele (1985) also argues that the largely continental focus of the Khrushchev era gave way under Brezhnev to a more global perspective. This brought new major economic costs for the Soviet economy to bear alongside and in addition to subsidised trade with Eastern Europe.

4.3 Constraints on Eastern Europe

In addition to geopolitical considerations, there were several purely technical constraints on East European agency in terms of their ability to change their trade relations stemming from CMEA involvement which are significant. The two most important were the financial system and the shared infrastructure. Beginning with the financial

arrangement within CMEA, the most notable feature was the absence of active money, by which is meant the holders power to influence the allocation of societies resources via its use. Trade was carried out through a clearing system and in a purely fiction unit of account. The lack of hard currency that resulted from non-convertibility effectively limited the quantity of trade Eastern Europe could conduct with partners outside CMEA, and it was not uncommon for the Soviet Union to exert pressure (chiefly in the form of the potential restriction of future energy supplies) on East European governments to bear part of the costs in hard currency of regional infrastructure or material extraction projects.

The common bloc infrastructure also acted to reproduce this system by making the quick switching of markets or sources of supply extremely risky. Van Brabant (1990) has underlined the severe infrastructural costs associated with reducing CMEA trade (p.163). Most significant was the existence of substantial energy infrastructure projects such as the Mir electricity grid which linked all the national electricity grids of Eastern Europe through infrastructure primarily owned and operated by the Soviet Union, along with the various pipeline projects with similar ownership structures. Essentially, Eastern Europe had no other options for securing essential energy and raw material imports in the 1970s than closer integration with USSR via CMEA (Von Beyme, 1987, p.105). Arguably this meant that as industrialisation progressed, because of the way it progressed, dependence deepened, and Eastern Europe was bound closer into ties of dependence on the USSR.

4.3 Growth Slowdown and CMEA

Part of accounting for the slower rates of growth of the 1970s was the general rise in the cost of raw material extraction and processing, which in turn led production costs to rise. This became a major issue in the wake of the oil crises, and the course of CMEA developments over the next decade must be interpreted in this context. In market economies this rise in costs could either eat into profits or set-off a round of inflation depending on fiscal policies, the supply of credit, levels of effective demand, etc. The central control of prices changed the appearance of both the 'illness' and the 'remedies' in the Eastern bloc. Most importantly, the gap between wholesale and retail prices, the former being established through reference to production costs while the later were the dual objects of social policy and the attempt to plan for equilibrium between supply and

demand, meant that a single unit of national currency could have two arbitrarily different values in retail or wholesale situations.

If the extent of domestic inflation was thus difficult to measure, the yard-stick of hypothetical wmps for CMEA exports served to highlight the growing dimensions of the voluntary Soviet 'loses' from consenting to supply CMEA with energy and raw materials at the price structure described previously. This accentuated the conflict within the Soviet party-state apparatus between those advocating the technocratic reform of intra-bloc trade, and those pushing for the continuance of geopolitically-motivated subsidies. As wmps rose for many Soviet exports, the implicit subsidy expanded at a pace that could hardly have been imagined when the structure of exchange within the Eastern bloc was initiated in the 1950s. The crisis of the world economy, partly brought on by oil price rises orchestrated by the Organisation of Petroleum Exporting Countries (OPEC), further underlined the structural imbalance characteristic of the bloc, since these developments represented a major gain to the USSR as a net energy exporter in contradistinction to the six.

In this way the intended consequences of making East European economic progress dependent on Soviet largesse was supplemented by the unintended consequences that the maintenance of this structure came to represent a non-negligible burden on the USSR. Living standards in Eastern Europe were now rising faster than in the USSR (Dornberg, 1995), and accordingly the opportunity cost from trade with Eastern Europe became harder for the Soviet leadership to consent to as more of the party and bureaucracy apparatus became aware of the costs of subsidised trade. The fact that part of what financed this rise in living standards from the 1970s onwards was borrowing from Western banks, leading to the rise of credit dependency on the West overlapping with the already described processes of dependent development in the bloc, will be covered in chapter 6. Kurierov (1998), a member of the Research Institute of the Ministry of Foreign Trade, claims that the scale of the subsidies only came to the Soviet leaderships' attention in a serious way in 1983-5 when export growth rates declined. This suggests that before this date the broad outline of trade policy with Eastern Europe had not been subject to regular revision but rather that a pattern established earlier had simply been allowed to continue on the premise that it served an important geopolitical purpose.

4.4 Trade and Waste

As Köves (1981, 1983, 1991) and other East European economists pointed out, the plentiful availability of cheap industrial inputs from the USSR encouraged the use of extremely wasteful production methods in Eastern Europe. In 1970 there was a strong correlation between economic growth and environmental pollution (a symptom of inefficiency); by the 1980s this link was being broken in the West but a similar delinking showed no signs of occurring in the East (Janicke et al, 1989). This was due to the type of industrial development which Eastern Europe was locked into which I argue was crucially reinforced by the nature of trade and integration within CMEA. The absence of incentives to economise on inputs both harmed the competitiveness of Eastern Europe relative to NICs and DMEs and also strained Soviet supplies. The gulf in terms of energy efficiency between Eastern and Western Europe can be seen from table 4 in the appendix. This can be argued to have been a direct consequence of processes described previously and fundamentally handicapped the Eastern bloc economies as they sought to engage with the world economy.

As costs mounted the Soviets encouraged their East European partners to secure some of their oil from other sources so as to lessen the burden on the Soviet Far East. This is an example of the technocratic policy agenda which sought to maximize the economic utility of trade relations, and so was in direct contradiction of the geopolitical agenda which emphasized the need to secure Eastern Europe within the bloc, and so sanctioned subsidized trade at almost any cost. In this way, Soviet attempts to reform their economic relations with the six from the mid-1970s onwards tried to find a middle way between these two positions; it can be concluded that the geopolitical approach had more support within the party leadership due to the fact that the Soviet's ultimately consented to continue the extant pattern. These technocratic initiatives are described by Goldman (1980), who quotes Soviet sources speaking about the inevitability that CMEA countries will need to meet part of their oil requirements from the Middle East (p.61), and Lavigne (1991) highlights to Soviet attempt in the 1980s to push Eastern Europe to restructure production towards less energy-intensive methods (p.94). This implies that the structure of exchange within CMEA was not totally under the control of the Soviet party, within which technocratic and geopolitical views competed, and supports the

contention that Eastern European agency was highly significant in maintaining the unequal exchange within the bloc.

The crisis of profitability faced by East European industry after 1991 is the best evidence that the growth of the Cold War era was dependent on the skewed prices characteristic of CMEA. The poor quality of Eastern European manufactures can be interpreted as evidence of a serious structural weakness in the socialist economies partly related to CMEA and socialist economic integration. This link is a point that emerges clearly from the application of a reformulated DT. It is well-known that there is a strong correlation between growth in the production of (higher quality) consumer goods and the attainment of a higher level of economic development in general. In this way the failure to develop consumer goods industries in the Eastern bloc gave the socialist countries the status of permanently developing countries, ‘in the sense that their industrialisation process [was] never completed and they [were] not destined to become mature industrial economies under the Soviet system (in spite of GNP per capita increases)’ (Winiecki, 1988, p.127). This represented a limit to the type of dependent development bloc integration could promote and emphasises that CMEA thus encouraged the following of a particularly inefficient development path, the drawbacks to which became all the more apparent in the final decade.

5. Stagnation, Crisis and Collapse, 1980-1989

The final years of CMEA trade were characterised by the following features:

1. In general these years witnessed by the continuance of tendencies identified over the previous decades, with the addition of the perception that costs were coming to outweigh benefits for all participants.
2. In terms of the institutional developments of the period, the meetings and sessions which were held were now pervaded by a different atmosphere—the rules of the club were still being observed, and certainly after Gorbachev’s ascension a new willingness to listen to proposals from other members could be seen on the part of the Soviet Union, but the mission of ‘perfecting socialism’ along with the other slogans of socialist solidarity were no longer voiced with much sincerity.

3. The 1980s saw the rapid development of new high-tech sectors in the West and the NICs. The failure of the East to keep-up emphasised the growing technology lag and the out-dated nature of traditional planning in this new context. As will be returned to in chapter 8, the Yugoslav economy proved more competent in this regard, and this is part of what makes it an interesting comparative case for a DT study.

In this final phase, the process of development of previous decades, during which the socialist bloc could claim to have been in competition with the West for economic supremacy, was increasingly looking like a failed model. As such, the relation of East to West, and the visible superiority of the West, needs to be included as it highlighted the structural flaws inherent to the dependent development of the bloc. As Laird and Hoffman (1980, p.399) note, by now Eastern bloc economists were openly recognising that the ability of an economy to participate in the advanced international division of labour was vital for securing further economic development, and that the domestic characteristics of the planned economies were fundamentally ill-suited to this. 1981 was after all supposed to be the year in which the USSR surpassed the US economically; by now this promise had been quietly forgotten. In fact, the 1980s saw the unprecedented move of the USSR moving away from its previous critical stance on the international financial institutions established at Bretton Woods and towards reconciliation. Few more obvious signifiers of the serious economic problems faced by the socialist states could be pointed to, and as such the developments of the 1980s can be seen as representing a final admission on the part of socialist leaders of the superiority of developed capitalism.

From the 1940s to early-1980s, the USSR had led the Eastern bloc in criticizing the IMF and World Bank on ideological grounds and put forward proposals in the UN for the radical restructuring of world economic relations. In this period, the Soviet Union tried to be the industrialised state that spoke in the interests of the developing world. However, in the long-run, this goal of a stable East-South partnership was not achieved. Some sort of reconciliation with the Bretton Woods institutions was considered alongside the critical stance, but only in the mid-1980s did this gain in prominence (Boardman, 1994). This reversal is all the more startling when it is remembered that when Rumania gained membership of the IMF in 1972 this was seen gesture of independence and even rebellion against Moscow, who had continually attempted to dissuade the East Europeans

from seeking membership of organisations outside and contrary to CMEA (Lavigne, 1991, p.350).

In 1980s, East European states openly requested more Western interaction as they wanted technology, capital, and were increasingly aware of the constraints of CMEA. Membership of the international financial organisations was seen as crucial to securing this. As the most reformed of the six, Hungary led the way and achieved membership of the IMF in 1981, accepting that Rumania's joining in 1972 should be seen as a special case. By the late 1980s, East European politicians were openly complaining about the socialist world's isolation from the Bretton Woods institutions (Boardman, 1994); much as the USSR had tried to make CMEA a viable and attractive alternative, by the 1980s it was looking like this project had failed. Likewise, several of the six sought and achieved membership of the General Agreement on Trade and Tariffs (GATT), with Hungary, Poland, Rumania, and Czechoslovakia all having joined by mid-1980s.

The contrast between enthusiasm for participation in these institutions and the general malaise around CMEA is striking and suggestive of the irresolvable problems the organisation faced by now. This was symbolised by the Moscow meeting of the Council in June, 1984, which was convened to address the issue of the lack of progress made towards industrial cooperation, where debate largely re-ran old lines and consensus evaded the participants. If CMEA had been an indecisive institution before, it was now one which appeared fundamentally incapable of reforming itself in any substantive way. This inertia had been masked to some degree through earlier decades by high growth rates and the social progress this made possible, but the inability to keep-up in the new high-tech sectors was a major issue which exposed the increasingly anachronistic nature of structures of production and exchange within the bloc, structures which had been vitally reinforced by CMEA processes.

5.1 Technology and Production

A key contradiction in the dependent development of the bloc already discussed was the tendency towards technological stagnation. The general question as to whether any form of planning was compatible with the scientific and technological revolution emerged relatively early in the bloc (see Richta, 1969). The final decade did see the adoption of the 'Comprehensive Programme on Science and Technological Progress of CMEA member countries up to the year 2000' in 1985. In contrast to the grandiose

designs of before, this program focused on five areas alone—nuclear, automation, new materials, electronics, and biotech—where there were genuine synergies to be had from the combination of Czechoslovakian and East German industrial capabilities with the vast Soviet network of world-class research facilities. The necessity of moving from extensive to intensive development seems to have been well appreciated in the East (Laird and Hoffmann, 1980, pp.387-8). However, few tangible results were achieved. One fundamental issue was always that enterprise managers were not interested in new technologies due to the risks involved in switching production techniques. Only central planners could have enforced innovation, but they equally often had preferences for the status quo. This will be explored further in next two chapters where the agency behind Soviet and Hungarian production will be discussed.

The use of DT directs attention towards possible links between national and international processes, and so the high concentration of production typical of the Eastern bloc can be related to the relatively unchanging nature of trade within the bloc and how this disincentivised innovation. In her comparison of structures of industrial enterprises between East and West in the 1980s, Ehrlich (1985) concluded that enterprise structure grew faster in the East than the West, and that the socialist economies were characterised by enterprises generally much larger in relation to the size of their national market than was common in the West (pp.284-5). These large firms preferred the stability provided by CMEA to the uncertainties of exporting to the West and the technological innovation this required. Further, the size of socialist firms enabled them to effectively struggle against party measures designed to encourage them to modernise or raise their performance. The general failure of socialist firms to export profitably outside CMEA was a key part of the debt crisis of the 1980s, which will be discussed in chapter 6.

Going further into why CMEA tended to discourage technological progress, the large nature of orders and undemanding final markets need to be emphasized. Competition among East European countries for Soviet deliveries of raw materials, with the method of competition being in terms of the quality of products delivered in return (Brus, 1979), was encouraged by the Soviet Union. This was due to the fact that the Soviet's made it clear from the 1970s onwards that they were not satisfied with the quality of imports from Eastern Europe. However, this competition only went so far:

Nevertheless, the satellites exported the same models to the Soviet Union without modification for many years, cut corners by using poor-quality materials, and

provided a poor assortment of goods... The Soviet Union launched a plethora of programs to raise quality standards, to promote new products, and to develop science and technology. In principle, the satellites applauded these initiatives, but in detail, they fought to retain outmoded models and resist technological progress (Stone, 1996, p.8).

Wasowski (1969) predicted these factors would lead Eastern Europe to drift down the Soviet priorities for oil export—that this did not happen implies the high value the CPSU leadership placed on maintaining Eastern Europe in a condition of dependence.

Bunce (1985, pp.15-7) has emphasised how the Soviets acquiesced to economic reform in Eastern Europe partly hoping that it would raise standards and lead to better quality exports. The maintenance of communist rule did not necessarily mean Moscow was opposed to economic reforms in the periphery, and in fact saw the benefits they could offer (Nation, 1992, p.223). This can be understood as an attempt to make up for the fact that there was no ‘test of the home market’ due to permanent excess demand (a sellers’ market). This contributed to poor export performance, especially in final products and technologically sophisticated items. DT seems to be capable of explaining both why these structures were brought into existence in the first place, and why concerted efforts to alter them always fell short since the suboptimal nature of them assisted in achieving the goal of keeping the six dependent on the USSR, and throughout the Cold War this geopolitical objective was held to be extremely significant.

5.2 The Denouement

The narrative of the final years of CMEA and their instability have to give a central place to Gorbachev’s reforms, which he first articulated in 1986. Part this involved a wholesale reversal of the previous policy towards the IMF and World Bank, which had been on the cards since the early 1980s, culminating in the USSR formally applying for membership. This was a crystal clear signal that the technocratic agenda was starting to come into ascendance over the geopolitical one in terms of foreign economic relations both inside and outside of the bloc. This move was based on a realistic assessment of the Soviet economy, its problems and needs. In 1987, Gorbachev’s reforms finally spilled-over into CMEA as convertibility of the rouble was broached by the Soviets for the first time. The spur to move towards full convertibility was the steady rise in the importance of trade with the West.

By now the everyday functioning of CMEA linkages were beginning to deteriorate; time-lags in delivery were creeping in from 1988 and became increasingly common the following year. This coincided with a shift towards looking for solutions to economic problems which no longer assumed CMEA as the context within which the solution would be put into practice. An increasing consensus was emerging that the economic problems of the planned economies could be solved only by closer links to the world economy, and not within CMEA. By 1989, which happened to be the 40th anniversary of CMEA, but became year of ‘indecision, vacillation, and recrimination’ (Van Brabant, 1990, p.21), it was looking bleak. Perhaps symbolically, the Soviet Union underwent a complete reversal of its prior role of buttressing continuity and made a last ditch attempt to bring support together around the theme of radical reform. Despite this final attempt, in 1990 it was decided Eastern bloc trade would be conducted in dollars and at wmps. As Swain and Swain (2003) have pointed out, this vitiated the whole rationale for the organisation, and on the 28th June, 1991, at a summit in Budapest the Council was disbanded signalling the end of dependent development in the Eastern bloc.

I argue that this sudden and rather undramatic end to the system of trade and development this chapter has focused on is extremely revealing of the profoundly geopolitical significance of CMEA. In a purely technical sense, there was no reason why the organisation should cease operate just as East-West antagonism was being overcome; it was a regional trading organisation, the members of whom continued to trade with each other after the Cold War. However, this misses the fundamental point that CMEA only existed and operated in the way it did because of the geopolitical context of East-West antagonism. The winding-up of the Council so shortly and with such little resistance after the fundamental global shift marked by the end of the Cold War is thus excellent evidence of the basic thesis that Soviet geopolitical objectives are essential to understanding both the existence and peculiarities of this trade system. CMEA literally could not exist outside the context of Cold War geopolitical antagonism which gave it its purpose, direction and key characteristics.

6. Conclusion

Having divided up the key developments into four phases of intra-socialist economic relations, it is now time to draw conclusions. The case of dependent

development in Eastern Europe is a peculiar and theoretically interesting situation—as industrialisation progressed, dependence on the USSR deepened as Soviet raw materials, energy resources, and (to a lesser extent) technical expertise were increasingly required. This appears to be what the Soviets accomplished in pushing industrialisation *a la Russe* on their satellites; the East European economies of CMEA were designed to function only through close links to the USSR. The central analytical focus of this thesis was on the interrelation between trade and development within the bloc, and the use of this historical case for reformulating DT. I have argued that it was the geopolitical antagonism between East and West during the Cold War which is a key part of the explanation for the why the USSR sought a dependence relationship within the bloc as a (flawed) resolution of the crisis of Soviet authority after Stalin. This meant that the international context outside CMEA had to be interwoven into the narrative, as it was this external pressure which led the Soviet Union to adopting a strategy of subsidised trade to be the material underpinning of ideological, diplomatic, and geopolitical security and status.

I argue that the East European economies were indeed distorted in their development due to participation in an international economic system, but since this system brought into being structures of industrial production this cannot be considered as underdevelopment in the sense meant by Frank, and neither can it be considered as dependent development as it was formulated by Cardoso. This can be argued to be a type of dependent development which is not treatable within existing DT approaches; by beginning from the idealisation in chapter 3 coherent narratives of such atypical examples can still be produced. As such, the key theoretical point this chapter has substantiated is that the replacement of implicit and explicit positive statements about how centre/periphery relate to one another by an ideal-typical approach allows a significantly more diverse range of asymmetrical international economic relations to be analysed. The next three chapters offer national case-studies which cast light on how these general tendencies manifested in Hungary, Yugoslavia, and the USSR itself.

Socialist Trade and the Soviet Economic System

1. Introduction

As has been argued in chapter 3, a key problem with DT was the ease with which the categories of centre/periphery were reified into a-historical structures. Crucial to moving past this is the reconstitution of these basic categories in such a way that reciprocal dynamics of international systems can be identified and analysed. This chapter explores links between CMEA and Soviet development with the aim of questioning the static notion of 'centre' as something unchanging over time and unaffected by the international nature of development. To investigate this, two themes will be pursued. The first is to uncover those elements within the Soviet economic system that contributed to the geopolitical approach to international economic relations during the Cold War, and secondly to show how the structural relations established in the 1950s influenced the development and gradual economic deceleration of the USSR. The claims which this chapter attempts to substantiate are the following:

1. Developments internal to the USSR in the 1930s when the Soviet model was being formed are highly significant for understanding the expansion of international economic relations in the 1950s. As such, study of the earlier period helps to explain why integration within CMEA took place in the way it did. I argue that the two key features of the earlier period for understanding the later are primitive socialist accumulation, and the position of the defence industry in the Soviet economy. Both these characteristics of the Soviet industrial model are symptomatic of tendencies within the Soviet political economy which later were to influence the manner in which CMEA operated.

2. The system of exchange between the members of CMEA played an important yet normally under-emphasised role in the Soviet economies ability to generate surplus and the uses it was put towards. This chapter will attempt to substantiate the claim that the structure of production in the USSR was severely affected by CMEA trade which, (1) provided a further impetus to hold down domestic consumption in favour of investment, and (2) gave a requirement that increasing

quantities of the sum available for investment went to the energy and extractive industries and the extensive infrastructure they needed.

The theoretical significance of these points is that they over-turn the assumption implicit to classical DT of the 'centre' as a homogenous entity benefiting unconditionally from the system around it. This was both an empirically problematic statement, and one which made the theory irrelevant to such an obviously asymmetrical relation as that within the Eastern bloc. This chapter thus stands in an analogous relation to chapter 4 as will the later chapter on Hungary, with the theoretically-significant difference that here we are concerned with analysis of how the 'centre' was influenced by the dependency relation between itself and the 'periphery'. This is a major departure from traditional DT; by historicising the development of the centre as well as the periphery, the ideal-typical approach fundamentally distinguishes itself from classical DT by taking seriously the postulate that an internationalisation of development takes place within centre/periphery systems and as such should have consequences for both.

2. Development

The angle from which I examine the Soviet economic system here is that from which the development of the structures identified in previous chapters can be seen clearly; i.e. I bring into focus those historical developments in the USSR which can be argued to have prepared for the mode of exchange internal to CMEA. It will be argued that the two key legacies which acted as harbingers for the deliberate, geopolitically-motivated unequal exchange between members of CMEA were the birth of the command economy through coercive means, and the establishment of defence production as a privileged sector.

2.1 The Birth of the Command Economy

The structural transformation of both the Soviet economy and the institutions which managed it after 1929 represent a significant legacy of the early Soviet period for understanding later developments within CMEA. It is important to emphasise in line with the framework put forward before that the way the transformation of the Soviet economy was carried out by Stalin is conceptualised not as dictated by historical necessity, but as

the result of contested political decisions. I argue that the way this happened in Stalin's USSR and the structures it brought into existence had a long legacy for the Soviet political economy, and that they significantly influenced the perception of international policy options later when the question of intra-socialist economic relations became pertinent. There are a number of reasons why theories developed to explain market economies cannot be applied as they are to planned economies. This question has already been addressed through the sections considering SCT, CU and WST, and similarly the sections explaining the mechanisms by which intra-CMEA ftps were derived serve to highlight the extreme dissimilarity between the two systems. In this light the ideas of Preobrazhensky (1966, 1980) on the production of surplus and its directed use by the state are of particular relevance since they provided the theoretical grounding for Stalin's forced, 'top-down' industrialisation of the USSR.

One of the old Bolsheviks who eventually fell foul of Stalin during the Purges, Preobrazhensky was one of the first contributors to the industrialisation debate of the 1920s to argue that some form of unequal exchange enacted via the price mechanism was the most effective tool available for achieving the economic objectives that the Soviet state had set for itself. The momentous debate which preceded collectivization and the break-neck industrial development of the 1930s is brilliantly interpreted and deciphered for a Western audience by Erlich (1960). Preobrazhensky's solution began from the observation that the historical origins of capitalism and socialism differ fundamentally. Capitalism can develop within feudal society before gradually overcoming the power of the land-owning classes; 'The socialist system, on the contrary, begins its chronology with the seizure of power by the proletariat... This fact is of colossal significance for understanding not only the genesis of socialism, but also the entire subsequent process of socialist construction' (1966, pp.79-80).

As such, the early methods of accumulation by which European capital first began to go through expanded reproduction were not available to a socialist state. Like developed capitalism, Preobrazhensky reasoned, socialist production would one day be capable of accumulating from its own resources. Accordingly Preobrazhensky distinguished between two stages of accumulation:

By *socialist* accumulation we mean the addition to the functioning means of production of a surplus product which has been created within the constituted

socialist economy and which does not find its way into supplementary distribution among the agents of socialist production and the socialist state, but serves for expanded reproduction. *Primitive socialist* accumulation, on the other hand, means accumulation in the hands of the state of material resources mainly or partly from sources lying outside the complex of state economy (p.84).

Preobrazhensky's legacy was to have argued at length that the optimum way for this to take place was by utilizing the state's control of prices to enforce an obligatory unequal exchange between town and country as the products of the peasants were systematically undervalued as they exchanged against the products of state-owned industry. This provided the Soviet state with investment resources at the expense of the populations' immediate consumption.

Other theoretical issues allied to other political agendas were under consideration at the time, some of which are raised here to emphasise the contested nature of the path that was actually chosen. Coeval with Preobrazhensky, Yushkov had been concerned with the efficient allocation of investment; i.e. how to make best use of what was already available. Although such concerns would later resurface with the rise of the mathematical school, at the time this was understandably less pressing than the problem of finding resources for investment in the first place (Ellman, 1972, p.193). In many ways the preoccupation with scale over efficiency which arose in this period was to plague the Soviet economy for the rest of its existence. In part the continuous preference of Soviet industrial managers for quantitative targets rather than qualitative improvements can be traced back to the structure of command economy set-up by Stalin. This will be returned to in section 3.3.

Another theoretician, Katsenelenbaum, agreed with Preobrazhensky that the countryside could be the source of the resources needed for industrialization but proposed the stimulation of voluntary savings and channelling them into investment projects via state credit institutions as the way to affect the transfer (Moravcik, 1961). This would undoubtedly have been a more popular way of accomplishing the same objective, but may well have been slower than Preobrazhensky's idea for the state to intervene directly, and so it was Preobrazhensky's ideas, less than Yushkov or Katsenelenbaum's, that found audiences at the top of the party hierarchy. Importantly, Preobrazhensky's scheme suited Stalin's needs, as it seemed to make both the Soviet party-state apparatus the essential tool of progress, and to justify the wielding of coercive power by this party-state fusion

in the name of material progress, regardless of the suffering this entailed in the short-term (Nove, 1988).

The hostile geopolitical environment facing the USSR also needs to be mentioned as a factor urging haste, and therefore probably some measure of coercion, rather than a gradualist approach to industrialisation. The centrality of power and coercive authority in the foundation of the planned economy will be returned to in the next section where the implications of this for international economic relations will be further discussed. As such, the coercive nature of Soviet industrialisation, and in fact of the Soviet economic system in general, which began to emerge in this period and remained a feature of its operation until 1991, has to be stressed as emblematic of the set of geopolitical and security priorities prized by successive CPSU leaderships. The fact that part of Stalin's response to the hostile international context was the doctrine of 'Socialism in one country' is also significant in this regard, since the built-in predisposition towards autarchy this imparted to the Soviet model also caused serious problems in the post-war decades once this model was transplanted to the smaller socialist states of Eastern Europe.

Given the international context and Stalin's preferences, it is not difficult to understand why the choice for Preobrazhensky's scheme of rapidly increasing the overall mass of resources at the states disposal was given precedence over other approaches. This resulted in the institution of a form of unequal exchange between town and countryside in terms of the prices which would have prevailed under 'normal' market conditions. The first key point for understanding later subsidised trade is that the practice of squeezing the production of consumer goods in order to provide the resources for (geo)politically-motivated transfers of surplus significantly antedated CMEA and was always likely to influence the mode of engagement the USSR was to initiate with the East Europeans. The second key point is that although the degree to which resources transferred in this manner were responsible for the investment needed for Soviet industrialisation is debated (see Ellman, 1978), the top-down imposition on Soviet society of a coercive economic apparatus—designed to insure the rule of the party against both domestic dissent and external geopolitical threat by facilitating the development of a powerful military sector—left a lasting mark on the Soviet economic system, one vital manifestation of which will be turned to in the next section.

2.2 Geopolitics and the Soviet Defence Industry

One more legacy of 1930s which needs to be accounted for in terms of being a relevant antecedent to post-war developments relates to the special status and role of the defence industry. There are two ways this highly significant feature of the Soviet economy could have potentially impacted on CMEA trade: either in terms of the commodity structure of the trade itself, or in terms of the structure of the political economies which made up the bloc. Beginning with the first possibility, military equipment formed a relatively insignificant part of intra-CMEA exchanges. As has already been established, trade in manufactures, raw materials and energy resources were the key motors of exchange within the bloc. In fact, the overwhelming importance attached to geopolitical, and in this case specifically security concerns, by the Soviet leadership even in dealings with ‘fraternal’ socialist states is further demonstrated in the case of advanced weaponry; despite complaining about Czechoslovakian and East German reticence to share their relatively advanced industrial technology within the bloc, the Soviet Union carefully guarded its monopoly of satellite, space and advanced military technology within CMEA (Von Beyme, 1987).

However, this is not to say the special role of the defence industry in the Soviet economy was irrelevant to CMEA. The heavy influence of geopolitical concerns in terms of the position of the defence industry within the USSR is instead significant for the problem of understanding dependent development in the bloc due to several things it makes clear about the Soviet model as it was practiced in the USSR and the consequences of its export to Eastern Europe. As an unconditionally privileged sector, the defence industry has to be considered as the main beneficiary of the non-market, centrally-administered system; in Cooper’s (1991) words, ‘the very core of the administrative system’ (p.5). As such, the position of this sector from the 1930s onwards at the centre of the planned economy has to be seen as significant for both the political economy of the USSR itself and for the later replication of the Soviet model in Eastern Europe and the system of intra-socialist trade that developed.

In terms of the politics of situating the defence industry at the core of the traditional administrative-command apparatus, and thus as a fundamental constituent of the socio-economic constitution of the USSR, attention has already been drawn to the coercive way the system of planned economy was established under Stalin. Namely, the

required destruction of the nascent institutions of capitalism—private property, market relations, formal separation of politics and economics, rule of law, etc.—if the socialist system was to exist. I agree with Saull (2007) that a fundamental source of the Cold War has to be sought in the contrasting socio-economic constitutions of the two superpowers; the attempt to construct the material foundations of socialism and of the security of this system ensured through a colossal military establishment in the manner in which it was undertaken by Stalin thus gave the Soviet economy what has been termed a ‘militarised’ character (Holden, 1991). The continuance of military interventions into Eastern Europe after Stalin, notably Hungary in 1956 and Czechoslovakia in 1968, would seem to be the strongest indicator of how this domestic characterisation manifested in terms of international relations, but in general the prevalence of geopolitical and security concerns behind the design and operation of CMEA linkages also has to be seen as an example of this.

There is a wide spectrum of opinions on the economic significance of defence spending for the USSR. One of the most extreme assessments is Agursky and Adomeit (1978), who famously claimed that there is, ‘a core of truth in the aphorism that “the USA *has* a military-industrial complex, the USSR *is* a military-industrial complex”’ (p.6). Counterbalancing this position is the more moderate take of Barber et al (2000), who argue that despite its size, central role, and monopoly of access to the best resources, ‘this does not mean that the whole [Soviet] economy should be seen as just a supportive apparatus for the defence industry and nothing more’ (p.24). Finding a middle point between these positions and locating the core motivation behind the privileging of the sector in geopolitical terms, Saull (2007) argues that it was precisely the nuclear and strategic inferiority of the USSR in comparison to the US exposed by the Cuban missile crisis that cemented the already established perception of the necessity of putting such a large portion of the national surplus towards military purposes; US ‘strategic nuclear advantage forced a humiliating public Soviet climb-down, which was to have profound consequences for the future of the Cold War and the long-term health of the Soviet economy in particular’ (p.117). It is ironic and symptomatic of the fundamentally uneven nature of the Cold War that the stationing of missiles on Cuba was seen as a means to redress the global nuclear balance, but the subsequent need to back down in the face of superior strategic power just made this more pronounced.

Although acknowledging that there is substantial debate over the economic implications of defence spending in general (see Dunne, 1990), this thesis agrees that the special status enjoyed by the sector needs to be understood as representing a burden of some degree to the rest of the economy alongside and in addition to that associated with subsidised trade, and makes the further argument that, most essentially, the role of the defence industry is important as it signifies the firm and enduring commitment to the model of industrial development which saw heavy industry as the key to growth. With the export of the Soviet model to Eastern Europe after WWII, this militarised economy was reproduced on much smaller scales but the same fetishism of heavy industry, and defence as the core within this category, was repeated (Spechler and Spechler, 2009). This resulted in the replication of heavy industrial sectors elsewhere in the bloc, the negative consequences of which for trade and development have already been discussed.

The solid Soviet commitment to the defence industry thus served to sharpen the contradictions already highlighted, the costs of this sector being very hard to reduce given the political power of the sector itself as well as that of the KGB, military officials and the general geopolitical mind-set of the party leadership (Allen, 2000, p.77). This inter-related with a number of themes already raised in relation to dependent development, especially reform and technological stagnation. Indeed, the close relationship between senior party and state officials and the military sector represented a formidable bulwark against reform in general which acted to effectively restrain technocratic elements (Lane, 1985). In terms of technology, Castells (2010) has argued that the privileging of the defence industry can be related to low levels of technological innovation, in that defence firms only had to satisfy one customer, the Soviet military, whose needs were far removed from those of the civilian economy. This resulted in 'a technological trajectory increasingly removed from the needs of society and from the processes of innovation of the rest of the world' (p.29). Only under Malenkov's brief period of leadership was the issue of fundamentally cutting the military and defence industries share of state resources seriously raised, and by the 1980s the costs of the pre-existing pattern had come to be accepted as a structure almost beyond questioning.

3. Disintegration

The second part of this chapter traces the consequences of CMEA trade for the Soviet economy. Once the post-Stalin introduction of substantial economic incentives in intra-bloc trade was established as a key component of Soviet hegemony in the region, the regime's high valuation of the geopolitical stability this buttressed helped to ensure it was maintained despite the mounting costs. As was argued previously, this system ensured a form of dependent development in the post-war decades, the intrinsic limits to which were increasingly revealed after the 1970s. A key turning-point came when the wmp of oil started to increase exponentially. This put an acute policy dilemma to the Soviet leadership in the form of what to do with the Soviet hinterland's vast endowments of oil and other exportable resources; either to continue with the geopolitically-motivated practice of subsidised trade with Eastern Europe, or to follow the technocratic prescription and export outside the bloc at significantly higher prices and for convertible currency.

The way this choice was actually made had serious development consequences for the Soviet economy, consequences which logically followed from its role as the centre of the bloc. This area of analysis cannot be opened-up by classical DT but can by the reformulation proposed here. The choice took the form of how much to export out of total domestic product, and secondly how much to export to the USSR's two main trading partners: the developed Western economies and the European members of CMEA. By now détente had led to a significant increase in East-West trade, so much so that it had come to outweigh the negligible amount of East-South trade. The choice thus presented itself in the form of either exporting profitably for hard currency to the West, or at a loss to the East for transferable roubles. The dimensions of this exchange relation are made clear by tables 5 and 6 which show the commodity composition of Soviet trade as percentage of total value (Lydolph, 1990, p.410). To emphasise the relationship between the two key categories, rows describing other commodity types have been removed.

Table 5 – Soviet exports:

	1950	1960	1970	1975	1980	1983	1985	1987
Machinery and equipment	12.3	20.7	21.5	18.7	15.8	12.5	13.6	15.5
Fuels and electricity	3.9	16.2	15.6	31.4	46.9	53.7	52.8	46.5

Table 6 – Soviet imports:

	1950	1960	1970	1975	1980	1983	1985	1987
Machinery and equipment	22.4	31.1	35.6	33.9	33.9	38.2	37.2	41.4
Fuels and electricity	11.8	4.2	2.0	3.9	3.0	5.6	5.3	3.9

This choice can be conceptualised as resulting from a series of inter-locking international structures which made certain options available to the USSR; i.e. wmps and the existing structure of CMEA ftps both represented structures to which the Soviet leadership had to act in response to, the choice essentially standing for a trade-off between the economic gains to be had from trading with the West, and the political gains to be had in terms of bloc stability which could be secured by trading with the East.

3.1 CMEA, Consumption and the Allocation of Investment

Having already focused on the geopolitical concerns that led the USSR to choose to continue to subsidise Eastern Europe, I argue that DT can identify two main consequences which followed from the continuance of subsidised trade but are not commonly related to this; further pressure was added to keep the overall rate of investment high, and secondly there was increased need to allocate investment in a particular way.

Total social product can be divided into two parts, consumption and savings/investment. Although it is not necessary to go into detail here, it is well-known that Stalin enforced a high rate of accumulation on the Soviet population in the 1930s in the name of investment today for prosperity tomorrow. Stalin referred to this rather euphemistically in the following way: ‘as a result of the advantages of socialism, the increment in effective demand of the masses of the Soviet Union always exceeds the

increment in production, pushing it forward' (quoted in Kaser, 1970, p.120). The fabled age of socialist abundance never arrived, and the Soviet Union continued to consume less and invest more than other societies of comparable levels of development. The fact that a very large share of this went into the defence industry has already been commented upon, as has the fact that this prioritisation signified a geopolitical mind-set which was highly significant for understanding Soviet international economic relations. Given the central role of energy resources in intra-bloc trade, this section proposes an analysis of how the situation within CMEA fed back into the Soviet economic system and reinforced this pre-existing tendency for geopolitical considerations to impact on economic relations.

Earlier it was discussed how Preobrazhensky gave a particular social interpretation to the fact that accumulation must come at the expense of consumption. The unequal exchange he suggested moved resources from private to public sector, thus putting an increasing share of the surplus at the planner's disposal. Whilst neither the objectives nor the methods of central planning changed substantially between Stalin and Khrushchev, a new imperative seems to have been added to the system in the mid-50s, one which we must assume carried the authority of a plan directive. Plan directives were the bureaucratic mechanism by which ministries communicated their priorities to enterprises which were compelled to act in accordance with them if they were to keep the favour of their superiors in the nomenklatura. The most well-known directive was the privilege accorded to the military sector which enjoyed access to the best materials, technologies, workers, locations, etc. Kirshin (1998) reminds how sophisticated the sector was in international terms, and this is reinforced by considering Zisk's (1997) study, which has shown that, unlike every other sector, defence enterprises managed to survive the turbulence of the post-Cold War transition with their structures relatively unchanged. This implies they were capable of surviving in the new economic climate after 1991 in their Cold War forms, partly due to the advantages they received due to their privileged position in the Soviet political economy.

Berliner (1957) quotes a Soviet source as saying:

Suppose three supply expeditors came to me. Who gets the pipe first will depend upon who is the most important firm. If it is a choice between a soap factory or a military factory, the latter will get it. Usually the director himself decides. If there is a quarrel the ministry or the Party will be called in (p.200).

In other words, it was not possible to ensure that the plans for any of the thousands of controlled commodities were entirely consistent. This meant that when contradictions appeared, it was the pecking order of sectors that determined their access to resources. It is noteworthy that in complaints East European's had about their links to the Soviet Union, late or incomplete deliveries were mentioned significantly less than by domestic Soviet purchasers, for whom the inefficiencies of the planned economy often meant production having to be stopped due to materials not arriving on schedule (Sanchez Sibony, 2010, p.1561). Although lack of documentary evidence still shrouds the business of foreign trade, production for export to CMEA seems to have been held as a higher priority than many domestic uses. In this way both military production and energy can be seen as sectors of the Soviet economy whose status and share of surplus needed to be situated in terms of international relations.

An interesting comparison can be made between how the USSR traded with CMEA versus with the rest of the world which underlines the theoretical argument that trade and development within CMEA was of a highly specific nature. There was a substantial divergence between the proportions of intra-industry trade in the USSR's exchanges with non-CMEA partners compared to with CMEA members (see table 7). The consistently higher proportion of intra-industry specialization in trade with the rest of the world is evidence of the greater utility of this trade (from the economic point of view) and reminds that the scale and nature of exchange within CMEA was a product of the geopolitical project of maintaining communist power in Eastern Europe first and foremost.

One consequence of this imbalance was that so long as the project of solidifying the bloc through economic integration sweetened by the inclusion of preferable terms of trade was pursued, the ratio between consumption and investment in the USSR's national accounts must remain heavily tilted in favour of the latter. This was because the provision of below wmp hard goods necessitated enormous capital outlays for their production and transportation, and the subsequent export of such a large share of them essentially reduced down to the indirect export of capital. Sobell (1984, p.46) quotes Soviet calculations of the capital/output ratio in crude oil extraction in the 1960s as around 8.5 times higher than in manufacturing, and that one rouble obtained through the export of iron-ore, coal or electricity cost 5 to 8 times as much in fixed assets when compared to engineering exports.

These figures show that Soviet export sectors were more expensive to operate than less export-intensive sectors like engineering, and most significantly the same report claims that the capital intensity of Soviet fuel exports to CMEA was about 3.5 times greater than the capital intensity of the manufactured goods imported in return.

It is no exaggeration to say that the systematic exchange initiated in the 1950s with the smaller European members of CMEA had important consequences for Soviet economic development both in adding a new and intractable weight to the side of the scales pushing to maintain the high rate of investment over improving opportunities for consumption, and secondly in prescribing that a substantial amount of this investment be directed to projects in specific industrial sectors and geographical regions. DT deepens the analysis of these tendencies by linking them to international processes within the bloc which reinforced them, and also to international processes outside the bloc, which underlined their contradictory nature. The next section will develop this further by uncovering the dynamic losses this system implied for the Soviet Union.

3.2 Socialist Economic Integration and the Soviet Economy

It is difficult to assess what the impact of any policy was or will be; these generic difficulties are amplified when dealing with the Soviet Union. A first difficulty is the degree to which official figures can be trusted. The origin of the belief that the Soviet leadership had been exaggerating growth figures was the post-Cold War US controversy in which the CIA was accused colluding in this myth. The explanation for this accusation was that the CIA had made the Soviet threat seem larger than it really was to ensure the security services enjoyed increases to their budgetary allocation. For the sake of establishing the extent to which the relevant data can be quoted with confidence, it suffices to note that if this had been the case one would expect a consistently skewed perspective on Soviet economic achievements to have been offered by the CIA, and this does not match-up with the record. Two obvious examples are the CIA's downgrading of Soviet growth in 1963 from the official 4.2% to the (below US) 2.5%, a phenomenon repeated at regular intervals, and the 1977 prediction that the Soviet Union would be net oil importer by 1985 at the latest. As Millar et al (1993) conclude in their survey report, it is contradictory to see CIA economic reports casting aspersions on Soviet growth during the Cold War, and then to claim in the early 1990s that quite the opposite had been going on.

In conclusion, the problems found with Soviet statistics should not be considered unassailable, especially given that this thesis is concerned with long-run historical trends rather than statistical analysis.

The DT focus on linking international processes to national development reveals that filling CMEA orders compelled the Soviet planning authorities use a substantial part of the surplus available to them in a particular way; to allocate the maximum potential resources to the energy and mineral extraction sectors in order to be able to continue the existing export regime. To this end a dual strategy of both opening up new production sites in Siberia and restricting domestic consumption was employed, and in this way the Soviet state was provided with the necessary exportable resources. The opportunity cost to the Soviet citizenry in terms of forgone consumption cannot be precisely estimated but should be considered to have been substantial. In this sense, the investment requirements of CMEA trade acted to reinforce the pre-existing tendency already identified originating in the prioritisation of defence industry for investment over consumption, and both sectors held this special status partly due to the influence of geopolitical factors on Soviet development.

The high and rising costs of oil extraction due to geographical and climactic factors should also be considered when taking account of the costs. Even after the extensive modernisation of Russia's privatised oil industry, Blinnikov (2011) estimated that in the late 1990s one barrel of Russian oil cost between 10 and 15 dollars to produce while a Saudi barrel could be produced for just 1 dollar (p.265). This contributed to a general drag on capital assets which provides the context in which the need to continually re-invest in extractive industries in the far eastern regions should to be seen. Opinions on how severe the shortage of capital goods was vary considerably; Khanin is one of the more pessimistic who evaluates that, '[f]ixed capital, especially equipment, was aging. In some sectors, structures and equipment were kept beyond their normal life, because by the end of the 1970s, the volume of newly commissioned fixed assets at best barely equalled the volume of assets scheduled for retirement' (1992, p.76). The fact that as resources were used-up, extractors were forced to move further and further east can be inferred from the dramatic increase in Soviet freight movement in billion tons-kilometres between 1960 and 1980 seen in table 9.

The increase in oil pipeline freight is significant as this shows the extent of the pipeline network needed to move oil from the fields deep in frozen Siberia into European Russia and from there on to Eastern Europe. An early move in this direction was the 10th session of the Council in Prague, 1958, where delegates agreed to cooperate on the Druzhba pipeline. Almost completed by 1962, a full two years ahead of schedule, it was significantly extended by the installation of a parallel line in 1969-72 as the single line was unable to meet demand. The point is that none of the final recipients could have hoped to receive as much oil as they did had they been paying in hard currency and at wmps; in other words, had their procurement and use of oil not been conditional on being within CMEA and its particular centre/periphery relation. This can be demonstrated beyond all doubt by the fact that the Adria pipeline, which goes north from the Yugoslavian port of Omisalj with the intension of supplying Hungary and Czechoslovakia with Middle Eastern oil, came on stream in 1977 but all parties quickly found they could not afford to buy oil at the planned quantities in hard currency. The project thus stands in stark contrast to the active system of exchange fed by Druzhba.

The final burden to the Soviet economy stemming from CMEA was the losses of hard currency and gold entailed. Although the Soviet economy was not dependent upon hard-currency for its day-to-day operation, the treasure expended could have been put to more profitable uses than simply being poured away to preserve the integrity of the bloc in the face of serious structural contradictions. Unclassified data from the CIA on the USSR's hard currency balance of payments shows a rather mysterious item 'net errors and omissions' which includes 'hard currency assistance to and trade with Comecon countries, credits to developed Western countries to finance sales of oil, and other non-specified hard currency expenditures' as well as estimated errors in other lines of the account. It seems reasonable to assume the first item in this itinerary was the most substantial, and the data can therefore provide a rough estimate of hard currency aid extended to CMEA members by the Soviets. Net errors and omissions in million US dollars (Steinberg, 1992, p.20):

Table 10

1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
-2416	-1754	-5043	-1328	-3219	-4540	-2006	-3177	-4378	-2550	-1105

Integrating this analysis of economic development with relations to the world economy, the spike in 1981 can be accounted for by Soviet hard currency provision to Poland, then facing a major crisis brought on by increasingly unmanageable debt repayments to Western creditors. This provides evidence of the variable extension of aid to CMEA partners depending on circumstantial considerations:

In 1981, for example, Poland received raw material and energy supplies from the Soviet Union which were valued at about \$6.7 billion but which cost the Poles approximately half that amount. Indeed, in that year the Soviets charged the Poles one-half of the OPEC rate for Soviet oil; the charge to the rest of the bloc was 70 to 80 percent of OPEC prices (Bunce, 1985, p.17).

Jefferies (1990) argues that the import-led strategy followed by Poland in the 1970s was seen by the party as a short-to-medium term substitute for fundamental economic reform; by the early 1980s the debt that resulted from this had itself become a serious problem on a par with the problems of the planning mechanism. This instance helps to substantiate the theoretical point that the transfers of Soviet surplus to Eastern Europe were not merely the outcome of structural relations, but crucially depended on the continual reproduction of these relations by agents acting in response to changing situations. Further to this, the situation in Poland in the early 1980s highlighted the fact that by now credit dependency on Western lenders was so advanced that the stability of the Polish economy depended at least as much on interest rates in foreign capital markets as it did on intra-CMEA trade.

This aid was given in defence of bloc stability which was seriously threatened by the unrest and was the subject of a special CMEA meeting in Sofia in July, 1981 (Summerscale, 1981, p.595). Critics of the subsidisation thesis who have argued that Eastern Europe was never an economic burden on the USSR, Spechler and Spechler (2009) have claimed that, 'The pattern of subsidies was probably accidental, rather than intentional, but followed the trade profiles of the countries involved, rather than any plausible evaluation of their contributions or needs in any short period' (p.1647). This was not the case here as Soviet economic policy towards a particular East European country clearly demonstrates both the capability and willingness to use Soviet economic

resources to affect specific outcomes, notably the stabilisation of the Polish economy and the maintenance of Poland within the bloc. This reminds us of the need to consider CMEA both in terms of the centre/periphery relation within the bloc, as well as in terms of relations to the world economy which highlighted the particular nature of the dependent development in the bloc. In effect Spechler and Spechler are claiming the subsidises to be entirely structural in character in that they were determined alone by the trade profiles of the countries in question, while this thesis instead argues both East European and Soviet agency is essential to understanding them.

The same CIA source also provides estimated figures of Soviet gold sales, another source of hard currency for the Soviet Union besides sales of oil. Again there is a sharp increase in 1981, and the major increases seen from 1986 onwards can be read as a symptom of the growing severity of the problems faced by the Soviet economy and increased demands from Eastern Europe. Gold sales in million dollars:

Table 11

1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
725	1580	2700	1100	750	1000	1800	4000	3500	3802	3665

As such, it should not be forgotten in assessing the costs to the USSR of maintaining Eastern Europe's dependence that the implicit subsidies were along-side and in addition to explicit grants which constituted a further transfer of economic surplus. The contradictions within the Soviet strategy are fully exposed by noting that this financial aid was given precisely to allow Poland to finance their external debt with lenders outside the bloc, and thus lends credence to the characterisation of the 1980s as a general crisis of actually-existing socialism, the pronounced contradictions within the Soviet-subsidised dependent development of the bloc being one facet.

3.3 The Remilitarisation of the Cold War

In terms of situating the costs of the CMEA trade system for the USSR within the broader context of the Cold War, the return in the 1980s to a much more militarised dynamic of global confrontation between the US and the USSR needs to be mentioned. Given that it has been shown how the role of the USSR as the centre of the dependent

development of the bloc implied major costs in terms of the provision of hard goods at politically-determined prices, the remilitarisation of the Cold War in the 1980s and the resultant costs in terms of arms expenditure this implied have to be seen as a further severe drain on Soviet resources which arose at a time when the Soviet economy was already struggling.

The events which resulted in the ending of *détente* can be recounted quite quickly. On the Soviet side, the decision to invest in a new generation of nuclear missiles to be based in Eastern Europe—thus underlining the continuing Soviet commitment to the region—eroded the progress of the previous decade in terms of arms limitations treaties and the diplomatic fluency this had helped to create; on the US side, the election of Reagan in 1980 signalled the re-emergence of a US policy agenda intent to roll back and contain the USSR which had fallen out of favour after Vietnam. The high-point of *détente* had seen the signing of the Helsinki Declaration, in which the USSR secured Western recognition of the territorial status quo in return for a weak commitment to allowing the free(er) flow of people and less censorship. As Asparturian (1980) has pointed out, this fundamentally contradicted the Brezhnev doctrine, and thus the seeds of the ending of *détente* can be found in the 1970s as the Soviet Union would ultimately always have faced a choice between the commitment to maintaining communist power (in Eastern Europe and potentially elsewhere), if needs be through force, and the desire to normalise international relations.

Arguably it was the Soviet invasion of Afghanistan in 1979 in support of the local communist government, and the US decision to arm and train the Islamist resistance there, in which this came to a head and finally ended *détente*. This made it easy for the Reagan administration to portray the USSR as a military threat—a ploy which served several purposes given the US objective of restoring its leadership and economic hegemony over the Western world so fatally damaged by the crisis of the 1970s and the unravelling of Bretton Woods (Saull, 2007, pp.157-8). Just as Vietnam would come to represent a terrible cost to the US in human, economic and morale terms, the same fate awaited the USSR in Afghanistan (Hill, 2003). Although not directly related to CMEA, the failure of the Soviet intervention to maintain the Afghan communist party in power was none-the-less symbolic of the difficulty and costs the USSR faced in supporting domestically unpopular but geopolitically-aligned regimes.

The pressure this shift in the 1980s geopolitical climate put on the Soviet economy was considerable, especially given the emphasis now placed on advanced technologies and nuclear capabilities. Steinberg (1990) notes how the Soviet defence burden went from around 12-14% of gross national product in the late 1970s to 15-17% in the late 1980s. This large share of national surplus going into the defence sector necessarily undermined the ability of the Soviet economy to meet the consumption needs of the population as effectively as it otherwise could have. This was part of the explanation for the social tensions which came into the open after Gorbachev's reforms began and fundamentally destabilised the Soviet system. As such, the costs of subsidised trade and of intensified military competition in the 1980s were related in that both ultimately derived from the global geopolitical context of East-West antagonism, and both represented severe costs to the USSR made in pursuit of geopolitical goals.

3.4 Soviet Perspectives

This section assesses Soviet perspectives on the phenomena identified above and tries to uncover the agency behind economic relations within the bloc. It seems to have been the case that trade with Eastern Europe led to a debate in the USSR between technocratic elements of the bureaucracy and party concerned with the efficient use of resources, and the party leadership concerned with geopolitics and bloc stability. Although ideology was also identified as a significant factor in the initial decades, this thesis argues that after approximately 1970 ideology was a minimal influence on policy. Ladygin (1998), a consultant on CMEA trade to the Central Committee of the CPSU from 1970-90, has made it clear that the implicit subsidies were,

to the great displeasure of Soviet economic officials. Their attitude was shared by the sectorial departments of the [state]. CMEA and other joint economic institutions of the socialist countries were derogatively called "plant management with no plants", "parasites", and "despoilers of the Soviet Union". Behind-the-scenes, criticism of CMEA was allowed and even became fashionable (p.285).

The bureaucracy's negative view of CMEA was presumably informed by an awareness of the scale of the subsidies. Ladygin goes on to claim the attempts of these two groups to achieve their opposed goals amounted to a 'veiled struggle [which] was the manifestation of a conflict between economic officials defending domestic interests and

top politicians, together with the military-industrial complex, the KGB, and the Ministry of Foreign Affairs, making geopolitical considerations their top priority' (p.285).

Before reform period of the mid-1960s, the Soviet nomenklatura tended to accumulate roles based on the ideological conformity of the individual. As Lane (1985, p.88) has pointed out, this was partly in response to the fact that despite their power, the party-state elite, as well as industrial and technical managers who were normally members of the nomenklatura were, unlike capitalist owners, ultimately dependent on occupation for their income. This further reinforces the distinction between the socio-economic structure of actually-existing socialism and Western capitalism. After reforms began it became harder of individual members of the nomenklatura to hold multiple positions simultaneously, and thus the scope for conflicts of interest within the elite structure got wider. This provided room both for traditional elites to delay reforms, and, as detailed above, for technocratic elements to resist what they saw as the arbitrary use of Soviet economic resources.

An interesting example of the conflict between the two agendas is the fate of politically-motivated moves towards extending further hard currency and gold assistance to Eastern Europe.

At the end of the 1970s, afflicted by constant requests for hard currency credits, the Politburo decided to set-up a hard currency fund of CMEA members... However, the idea was killed before it hatched. The Finance Ministry, supported by Gosplan and the Department of Financial and Planning Organs of the Central Committee, [deliberately] failed to find the hard currency necessary to start the fund... Actually, these organizations feared that pressured by the CMEA countries, the Soviet leadership would extent them subsidized hard currency loans (p.285).

The implication is that these sections of the bureaucracy acted in concert to limit how far the leadership could go in this regard, since table 10 shows the leadership was in fact siphoning sizeable quantities of the Soviet surplus in the form of hard currency assistance to Eastern Europe. I assume these figures would have been even larger had the bureaucracy not acted as it did, and so the actual size of the total subsidies represents a kind of crude metric describing the relative influence of the two agendas. Specifically, this evidence seems to suggest that technocratic agency before the 1980s was essentially confined to *limiting*, but not reversing or over-turning, geopolitically-motivated international economic policy. Much like the intellectual strata of Hungarian society to

be discussed in the next chapter, technocrats wanting to reform Soviet international economic relations only got a large enough share of state power to seriously combat the old agenda when change in the system was already inevitable as the only way out of a serious crisis of the system (Lengyel, 1996).

In addition to the bureaucracy, another group which needs to be included are the managers responsible for the daily economic activity of their plants. Sanchez-Sibony (2010) has uncovered evidence of considerable divergence between the interests of the party leadership and those of Soviet industrial managers in his archival work. Although his focus is exclusively on the response of Soviet industrial leaders to the Kremlin's desire for increased Soviet involvement in the world economy, the power relations involved are substantively the same as those at play in terms of Soviet engagement with CMEA. Essentially, party elites wanted economically beneficial trade with the West, and politically beneficial trade with the East, while industrial managers wanted achievable targets and stability.

The knowledge that various social groups would have opposed the policy of subsidized trade had they known its extent explains why when data expressing just how much the USSR was donating was produced it was confined to the upper echelons and was not made public.

Foreign aid climbed as the USSR made concessions on the prices of exports and imports, provided subsidized loans, free professional training, and technical assistance. When at the beginning of the 1980s the amount of foreign aid was calculated according to UN methods, it came out at about 2% of Soviet NMP. The Party and the economic officials were shocked at this figure and decided not to publish this statistic at home (pp.292-3).

The implicit subsidies extended to Eastern Europe would appear to be an excellent example of this.

4. Conclusion

This chapter offered a historical analysis of certain features of the Soviet economic system which can be seen to have prepared for the peculiar system of trade internal to the Eastern bloc. I argued that centralised planning itself—established via the forced transfer of surplus and the creation of a coercive command apparatus—and privileged position of defence production within this political-economic structure were especially significant in

this regard. The consequences, both intended and unintended, of the reorganisation of CMEA in the mid-1950s for the Soviet Union were then discussed emphasising the material costs of securing economic dependence in Eastern Europe for the Soviet economy. Throughout effort was taken that structures and tendencies were identified along with a focus on the agency that either enabled or questioned their continuance. The theoretical significance of seeing the development of the centre as affected by the processes of trade and integration characteristic of the system is the result of beginning from an ideal-type which does not make specific claims about how the two parts interrelate.

In this way the CMEA price reform in 1956, which is comprehended as resulting partly from the crisis of Soviet authority in Eastern Europe after Stalin's death and the widely-accepted need to set intra-bloc relations on a different footing, can be seen to have had profound consequences for both Eastern Europe and the USSR as economic surplus was redistributed between them. These consequences emerge from the application of the reformulated DT framework and show how the removal of the static notion of 'centre' allows for the crafting of historical narratives that can account for reciprocal influence. Having shown how the ideal-type can serve as a starting-point for the construction of a narrative of development across the bloc in chapter 4, this chapter has shown how DT ideas can be used to destabilise the reified conception of centre prevalent in classical DT, and in so doing to conceptualise international development processes in a more multifaceted manner. The next chapter will continue the analysis of the interrelation between trade and development in the bloc, this time looking at a part of the 'periphery'.

Hungarian Development within the Eastern Bloc

1. Introduction

Having discussed how the development trajectory of the Soviet ‘centre’ was influenced by CMEA, the focus is now on the consequences of this international relation for a part of the ‘periphery’. Hungary has been selected as a case-study not because it was typical of the six, but because it is a good place to investigate the contradiction between reform and tradition in planning mechanisms in relation to both CMEA and East-West trade. The ideal-type would expect one of the six to be relatively more dependent on international conditions due to the observable asymmetries that characterised the bloc. The regional and global context for this national case-study has been given in chapter 4, and three main theses will be advanced:

- 1) From ambitious beginnings, the raft of reforms known as the New Economic Mechanism (NEM) ended-up creating little more than a new arena in which pre-existing power struggles between party, bureaucracy and large enterprises played out. Ultimately the reforms left untouched the basic power relations of Hungarian society, although they did substantially alter the parameters within which the actors maneuvered.

- 2) DT can contribute by suggesting links between internal and external factors, specifically that CMEA membership was a key factor in conditioning the reforms. The most significant feature of this was the continuation of the inefficient exchange of over-valued yet outdated manufactures against under-valued Soviet resources.

- 3) This constituted a form of dependent development in that the Hungarian economy’s ability to produce the surplus necessary for development was conditional on CMEA membership, both in the sense of the qualitative expansion of new products and industries, as well as the sheer quantitative expansion of existing industries.

2. *Hungarian Economy and Society, 1945-1955*

After WWII Hungary received similar treatment to the rest of Eastern Europe as trade was conducted on Soviet terms and joint-companies under Soviet directorship established. For present purposes it is necessary to just insert a discussion of several features which were particularly heightened in Hungary. It has already been discussed how the geopolitical situation of Stalin's USSR influenced the Soviet model of industrial development, and how contradictions arose following its transplantation into Eastern Europe, especially after 1947 when the adoption of the Soviet model became mandatory. Firstly, Hungary was a small, landlocked economy with a high degree of openness to international trade. This meant that the autarchy of the first decade was particularly badly received in Hungary given the recent imperial past and experience of participation in the central European division of labour. These international links had previously served to ameliorate the developmental handicap of a small domestic market and a comparatively poor resource endowment; under autarchy the negative implications of both became clear.

Secondly, the issue of the consumption/investment ratio had a different history in Hungary. From the first years of socialism, Hungarian society reacted extremely negatively to this development schema. The tension that resulted between the necessity of maintaining a high rate of investment for growth encouraged by Moscow and the Hungarian welfare-centred conception of socialism served to further underline the problems inherent in the project of exporting Soviet socialism to Eastern Europe. As an example of the unusual social context of the consumption/investment debate in Hungary, it can be pointed out that General Secretary of the Hungarian party, Mátyás Rákosi, had initially pushed under Stalin's tutelage for a high rate of investment as a vital component of socialist construction. His replacement, Kádár, reversed the policy in favour of consumption and all subsequent leaderships felt obliged to maintain the consumer-oriented policy. Accordingly there was a higher level of consumer satisfaction in Hungary than elsewhere in the Eastern bloc. Kornai (1997) has termed this 'Goulash communism'. These two factors combined to make Hungary the East European country least suited to Soviet-type industrialization. Likewise, the cultural and educational priorities of Hungarian society were at first poorly suited to undergoing Soviet-type industrialisation, although these were quickly realigned: in 1938, 40% of Hungarian students did law or

theology; by 1970 over 50% were doing engineering, agronomy, or economics (Berend and Ránki, 1985).

In the years when Stalin's influence was still being established, (which conclusively ended in 1949 when the communist party stood its candidates unopposed in national elections), a number of embryonic schemes to overcome these deficiencies at the regional level were hatched. In 1947 plans were laid for Hungarian-Yugoslav cooperation in the development of an aluminium industry capable of serving both markets and potentially exporting as well. When Stalin's leadership of the bloc became unquestionable, and after the split with Tito encouraged the severing of links with the Balkan heretic, Stalin was able to personally intervene to terminate this example of socialist economic integration on the grounds that it would not centre round the Soviet Union. I argue this scheme can be seen as potentially viable alternatives to the Soviet-centred network which eventually emerged and thus serve to underline the contested nature of the way regional integration did actually go ahead and how important Soviet geopolitical objectives are for understanding this.

One important feature of the organisational structure of Soviet society which was later exported to Eastern Europe was the system of nomenklatura appointments. The classic treatment of the question of the nomenklatura in Hungary is Konrad and Szelenyi (1979, pf.186), where the system of nomenklatura appointment is seen as a particular type of bureaucratic management structure. The form that the nomenklatura took in each East European country, as well as its relations to other social groups, varied and needs to be investigated as this provides a good illustration of the specificity of dependent development in Hungary as opposed to the general nature of the phenomenon. Given the emphasis placed on conceptualising development processes as fundamentally contested, the nomenklatura as a specific form of communist elite, where advancement was accorded based on largely politically-evaluated achievements, needs to be introduced into the narrative here.

The early Hungarian nomenklatura had followed the Soviet approach and been recruited almost exclusively from the working class and farmers, with intellectuals and scientifically educated people excluded on the ideologically-dictated necessity of diversifying the social origins of those entering official appointments. The establishment of the nomenklatura system of appointments went hand-in-hand with the nationalisation of industry, since this required both a new system of central control and a new elite to run

it, and initially allowed for a dramatic rise in social mobility. This initial stock of nomenklatura was later joined after 1968, and again even more so after 1980, by a rise in the proportion of technically-educated and privileged (i.e. from families with professional backgrounds) people entering its ranks. Thus the changing social basis of the Hungarian nomenklatura to some extent correlated with how prominent the reform agenda was over time—for instance, after 1968 a sudden rise of educated and privileged people as a proportion of the nomenklatura can be observed, and in general these new recruits were more open to the reform agenda (Eyal and Townsley, 1995). At first, the requirements of national nomenklatura's were still given by Cominform, and in this way the reproduction of the Soviet-originated system of appointment elsewhere was one of the key ways the Soviet political-economic model was spread. The conflicts of interest which developed between traditional and reform-minded elements of the nomenklatura will be returned to periodically as one way to highlight what was specific to dependent development in Hungary.

The high rate of investment over the first plan-period yielded a larger surplus available to planners than would have been available otherwise and facilitated the rapid development of a series of heavy industrial branches, all of which were highly dependent on imported materials and energy. Enyedi (1976) has established that 32% of the raw materials needed for all national production were imported. In the new industrial sectors this figure was even higher; in chemicals it was 52% and 50% in iron and steel production. This propagated a configuration of imports and exports which necessitated a substantial bilateral relation with the USSR via CMEA. Summarising tables 12 and 13, we can see that fuels, energy, raw materials, and semi-manufactures constitute well over half of all Hungarian imports, (the percentage share averaging 64.3 between 1950-80), and that this was paid for by the export of machinery, consumer goods, and foodstuffs, many of which were produced by industries consuming the aforementioned imports as inputs. This is by now a familiar story in which Eastern Europe saw the development of a particular type of productive economy which could only exist, let alone grow, on the basis of a politically-motivated trade regime with the Soviet Union.

3. Revolution and Intervention, 1956

This system of international trade was only just beginning to emerge at the time of the most serious threat to Soviet hegemony in Eastern Europe, and it is in this light that

the events of 1956 will be discussed. The Hungarian uprising demonstrated both the level of popular discontent with Soviet involvement in Eastern Europe, as well as the Soviet leaderships willingness to use force if deemed necessary to maintain the bloc. In this way, it provided a graphic example of the contested nature of the centre/periphery relation in the bloc, and the crisis of Soviet authority which followed the death of Stalin. The Warsaw Pact, signed into effect in 1955, was at the centre of such concerns as Hungary had intimated it might withdraw and attain neutral status as next-door Austria had. From the Kremlin's point of view, this would have represented a massive geopolitical set-back at a time when the unity of the bloc seemed to be seriously in question.

However, archival work conducted after the Cold War has conclusively proved that, far from acting unilaterally as was assumed in the West at the time, the Soviet leadership was to some extent responding to pressure from other parties when the decision to invade was taken. Other East European leaders feared the break-up of the WTO, which essentially guaranteed both their domestic supremacy and external security, and pressed the USSR to take action (Granville, 1998). This is another instance where East European agency must be taken into account alongside Soviet decisions if relations within the bloc are to be explained. Thinking about how 1956 related to the broader dynamics of East-West antagonism, it also needs to be mentioned that at the time of the Hungarian uprising the Western camp was split over Britain and France's invasion of Suez against American wishes. As such, Western intervention in support of Hungarian sovereignty was always unlikely, and this possible gave the Soviet Union confidence to use force within the bloc (Rosser, 1969, p.303).

The significance of this for a reformulated DT is that it highlights the complex interrelation of domestic and international factors implied by the centre/periphery system, which served the interests of the local parties by helping to secure their domestic ascendance and legitimacy, if not yet at this stage the economic growth which further assisted these aims. Rákosi had always been the most ardent Stalinist of the East European autocrats, and this culminated in his forcing through the disastrous policy of full collectivisation of agriculture in spite of the lack of enthusiasm or preparation in the countryside. This provides a good example of an East European country re-structuring its production away from an area it had a pre-existing comparative advantage in and towards the Soviet model. Accordingly, Stalin's death posed a severe threat to Rákosi

and others who based their legitimacy squarely on their obeisance to Stalin. Mirroring the struggle that gradually began to unfold in the Kremlin between would-be reformers and men loyal to Stalin's conception of socialism, Imre Nagy, a popular and reform-minded leader, soon emerged as Rákosi's main rival.

As potential leaders of a periphery ruling party, neither Rákosi nor Nagy could hope to gain and hold onto power in Hungary without the support of Moscow, and the meandering implementation of the 'New Course' over the next three years to some extent reflected the struggle going on in the Kremlin (Fejtő, 1971; Brown, 2009). As Malenkov and Khrushchev emerged as the main contenders to take-over after Stalin, their own alternative prescriptions for the Soviet Union bore a growing relevance for Hungary. As the most in favour of fundamental economic reform and an advocate of reorienting the economy towards consumption, Malenkov's fate inevitably linked with that of Nagy. Khrushchev's victory thus sent out a mixed message to the bloc. On the one hand he did not share Malenkov's opinion on the importance of raising the level of consumption currently enjoyed by socialist citizens, the prime opinion signalling an interest in economic reform at that time, but he was equally distant from the group centred round Molotov who wanted to continue as Stalin had left off. However, any doubts about Khrushchev's resolve when he felt the integrity of the bloc was threatened were dispelled when the Red Army intervened on the 4th of November in support of the Hungarian police.

Whilst the ferocity with which the 17 Soviet divisions demolished central Budapest before moving on to pacify other major cities shocked the world, the military-strategic aspect of the Soviet response is of secondary importance for this discussion in comparison to the string of major financial concessions granted to Hungary by the USSR in the wake of the invasion. This was in response to the centrality of perceived economic injustices in the demands of the protesters, and is significant because post-Stalin leaderships tried—although ultimately failed—to reduce the need to enforce communist power in Eastern Europe by military means. International economic concerns, and especially of relations with the Soviet Union, took prominent places in the first demands of the Writer's Union submitted on 22nd October, 1956:

We want an independent national policy based on the principles of Socialism. Our relations with all countries, and with the USSR and the People's Democracies in the first place, should be regulated on the basis of the principle of equality. We

want a review of inter-State and economic agreements in the spirit of the equality of national rights (quoted in Harman, 1988, p.125).

In an example of Soviet economic surplus being used to secure bloc stability, in 1957 the USSR gave \$190 million to Hungary, of which 50 million was in highly prized free exchange. This extraordinary amount signals just how highly the geopolitical imperative of preserving the bloc was valued. In addition, the Soviets cancelled the remainder of the debt the Hungarian state incurred in buying back the mixed companies and declared a moratorium on debt service (Kaser, 1965, p.70).

An interesting international dimension to the intervention which is of relevance under a theoretical frame that attempts to be sensitive to the qualitative characteristics of agents, was that it clarified the understanding of society and social relations that the Hungarian communist party implicitly adhered to. One feature of the rebellion had been the spontaneous creation of worker's councils, on the same model as the original Soviets of 1917, which succeeded for a short while in coordinating economic activity independently of the party or central institutions. Interpretations of the councils differ widely but are worth mentioning since they go some way towards untangling the agency at work. One perspective sees such institutions as rivals to traditional forms of social organisation, harbingers of a future society in which central authorities of any political persuasion will be negated. Thus according to Harman (1988) the workers support for the revolution manifested in the form of workers councils, 'gave Kádár a fright he never dared to forget' (p.125), and the pro-consumption policy he advocated was therefore just a strategic concession made by a leader encased in an elite party which feared the demonstrated viability of greater degrees of autonomy for the subaltern masses it managed.

Another assessment of the significance of the councils runs this way:

The conflict between the two systems, the parties and the councils, came to the fore in all twentieth century revolutions. The issue at stake was representation versus action and participation... For the parties, the need for action itself was transitory, and they had no doubt that after the victory of the revolution further action would simply prove unnecessary or subversive. Bad faith and the drive for power were not the decisive factor [behind the reassertion of party authority]... [The East European communist parties] agreed that the end of government was the welfare of the people, and that the substance of politics was not action but administration (Arendt, 1990, p.273).

These diverging conceptions determine how the reintegration and subordination of the revolutionary councils within the party structure should be interpreted. Arendt's analysis is more consonant with the approach developed in previous chapters in that it points to the inherently international character of the relevant social forces, which cannot be comprehended independently of the centre/periphery system—not only was the Hungarian communist party only in power on the back of the Soviet military presence since 1945, but the very conception that the party held of its role and relations to other social elements was Bolshevik in origin. This conception set the Hungarian party apart from the Yugoslavian party to be discussed in the next chapter. However, if the party and its administrative conception of socialism had won out, and the blatant imbalances of the first decade of Stalinist policy towards Eastern Europe were being reversed, the issue of how to proceed with some sort of economic reform could not be avoided for long.

A significant component of the Kádár regime's program to stabilise Hungarian society was to move towards a compromise with the intellectual and technocratic elements within society who had joined the rebellion. These groups resented their structural exclusion from the *nomenklatura*, which was consequently opened to the offspring of intellectuals on the tacit condition that they restricted themselves to piecemeal reforms (Eyal and Townsley, 1995). The regimes reconciliation with the intellectuals had begun as early as the show-trial of László Rajk, who had publically opposed the subordination of the Hungarian party to the CPSU, in 1949, when a tacit agreement between the party and intellectuals emerged which suggested their loyalty to the system would be rewarded with a certain degree of independence (Huszar, 2005, p.23). This tendency for the party to prefer to coopt, rather than directly suppress, the intellectual strata of Hungarian society gathered pace with the relaxing of the social conditions necessary for entry into the *nomenklatura* in the 1960s. From this point onwards, the Hungarian *nomenklatura* was relatively unusual in that intellectuals and technocrats, normally opposed to the arbitrary and inefficient nature of *nomenklatura* management, were given increasing opportunities within the system, sometimes by actually joining the *nomenklatura* themselves and sometimes in extensive consultation roles and participation in relevant committees.

The inclusion of the technical strata into the Hungarian *nomenklatura* to a far greater degree than was the case in the USSR and elsewhere in the bloc was thus an

unusual feature (Szelenyi and Szelenyi, 1995) and needs to be taken into account in discussing the Hungarian reforms. However, this compromising move did not mitigate the essential conflict between the older, traditional nomenklatura and the new technical entrants, since these two groups tended to have divergent opinions on reform, but actually heightened it in the sense that both agendas were increasingly articulated from within the ruling structure (Lengyel, 1996, p.50).

4. The New Economic Mechanism, 1968

The various reform processes across the bloc in the 1960s were earlier claimed to be relevant for this study for three reasons: they illustrate intra-socialist diversity; underline the fundamental nature of the economic problems facing the planned economies; and they show the increasingly evident contradiction between the orientations towards either CMEA or the world economy. As the most radically reformed economy in the bloc, Hungary is an excellent case-study to look into the interrelation between reform and CMEA. I argue that the manner in which the reforms played-out was fundamentally conditioned by the social relations of the Hungarian economy, and these were in turn influenced to a significant extent by the bilateral relation with the USSR. Hungary stands out as the first CMEA member to make substantial decentralising reforms, and the Hungarian reforms were also exceptional in that there was initially a broad consensus there that change was both possible and necessary. The three most influential collective actors, the party, state bureaucracy, and the large enterprises, all initially saw a common interest in the pursuit of reform, and the path the reform process took can be explained by reference to the changing relations between these actors and the international pressures that acted upon them from both within the bloc and outside.

This broad agreement is evinced by the fact that such a radical set of reforms was prepared for by almost two years of minor changes to ease the transition, and care was taken not to drastically alter output and trade patterns overnight. The most important change ushered in by the reform was the massive restriction of direct administrative control. NEM put an end to both annual and quarterly instructions and went on to make a number of other fundamental changes to the production process. These included changed production prices; the introduction of a charge on capital of 5%; the decentralization of some investment decisions; the granting of licenses to some

enterprises allowing them to trade abroad independently; and the wage structure was made more flexible. These changes to the structure of the Hungarian economy will be discussed below in terms of how they related to the agency of party, bureaucracy and large enterprises and the structures of trade characteristic of CMEA.

5. *Market Socialism within CMEA*

This section draws together the material of the preceding sections and evaluates the impact of the bilateral relation with the USSR within CMEA. Three particular topics have been singled out through which the possibilities and problems with establishing market socialism within CMEA can be discussed within a DT frame: the results of the reforms; the relation between trade and energy-use; and the nature of specialisation within the Eastern bloc. In order to make it clear that the Eastern bloc was not a self-contained and singular entity, a discussion of Hungarian credit dependency and technological backwardness which highlights how the dynamic of development within CMEA handicapped Hungary in terms of the potential to diversify international economic relations is also included.

5.1 *The Reform Process in Retreat*

The interrelation between the Hungarian reform process and CMEA was complex and multifaceted. As mentioned above, the diverse solutions proposed for the problems of the planning system fostered a decade of divergence as Eastern bloc economies moved into various positions between the two ideals of free markets and command planning. By the mid-1970s, however, all Eastern bloc economies re-converged towards the traditional model with its extreme centralisation of decision-making. In Hungary this process happened slowly but steadily. The first sign came in 1969 as the newly introduced management bonus structure was changed to allow workers' wages to rise in line with managers. Similar piecemeal reversals followed until in 1974 central control over investment was dramatically increased and Rezső Nyers (1986), a key reformer, was removed from office. This signalled the changing of opinion at the top, and the reform path was not re-entered upon until 1980.

Several factors contributed to this reversal. Part of the explanation is that more traditional elements of the nomenklatura saw a link between economic, market-oriented

reform and an inevitable push for political liberalization (Eyal and Townsley, 1995). In this light it is notable that the phrase 'economic mechanism' itself implied that the reforms would not go beyond the technical sphere of resource allocation; i.e. and therefore would not imply any change to the system of single party rule. This is partly true, but organisational conservatism alone is not enough to explain the inability of the reforms to substantially alter the performance of the Hungarian economy—the agency of the large, autonomous enterprises must also be integrated and set in relation to the centre/periphery relation within the bloc. In the early 1960s, in order to prepare for the reforms, 1,300 state enterprises were amalgamated into 850, and this meant the devolved autonomy came down to large, powerful units (Brus, 1979). From this point on the Hungarian economy was characterised by an unusual degree of concentration, so much so that in 1971 73% of Hungarian workers were employed in enterprises with over 1,000 employees, while in the West only Netherlands had a figure over 40% (Radice, 1981). The concentration of productive capacity was so great that almost 75% of output was produced by large companies. Due to their size and the decentralizing nature of the reforms, these enterprises exercised a large amount of power in relation to other parts of the nomenklatura in the party-state apparatus.

The contest internal to the party between reform-minded and traditional factions could also be found in the state bureaucracies. In order to understand the role of the bureaucracy in the reform process it is necessary to decompose it into two distinct groups with divergent interests: the branch ministries responsible for individual sectors and generally representing the interests of the large enterprises on the one hand, and the central planning and financial institutions on the other. The tradition/reform cleavage was thus significantly more pronounced in Hungary than elsewhere in the bloc, in that after 1968 the social basis of the nomenklatura moved towards the inclusion of more and more people from educated and privileged backgrounds who were more likely to be invested in the reform project. Szalai (1982, 1991) has argued that the relations between these two sections of the bureaucracy and the party and the large enterprises is the key to understanding the path the reform process took. However, she fundamentally underestimates the international influences acting upon and through these actors. This is peculiar as Szalai at one point explicitly recognises the significance of CMEA membership as a factor counting against reform (1991, p.296), but does not go on to relate

this to her analysis of the interactions of party, state and enterprises. The result is local developments are viewed in isolation from the international context which brought them forth and significant components of the interests and material basis of these groups in terms of their access to and control over surplus relating to CMEA linkages are downplayed.

The point is that whilst the party and upper-level bureaucracy needed stability and growth to legitimize their rule, the large enterprises wanted to secure their economically privileged position and ensure the redistribution of surplus from other sectors to their own. In particular, resources were channelled away from small firms who did not enjoy the protection of the branch ministries. One important way the large enterprises managed to do this was by monopolizing CMEA deals where profit margins were high and consumer demands low. In this way the coalition of lower-level bureaucracy and large enterprises acted to bolster their position at the expense of small and medium sized enterprises.

From the enterprises' point of view, this mix of vertical (administrative) and horizontal (market) regulation represented the structural context within which they operated. Kornai (1986) writes,

The firm's manager watches the customer and the supplier with one eye and his superiors in the bureaucracy with the other eye. Practice teaches him that it is more important to keep the second eye wide open: managerial career, the firm's life and death, taxes, subsidies and credit, all financial "regulators" affecting the firm's prosperity, depend more on the higher authorities than on market performance (p.1700).

This seems to be a good example of the way the nomenklatura system itself, even regardless of what type of people entered it, could incentivise behaviour contrary to the aims of the reforms. Szalai (1991) agrees with Kornai's characterisation but disagrees on the question of the distribution of power between these groups. For Szalai, Hungary in the 1970s and 1980s was instead an economy with a weak centre (i.e. party and state bureaucracy), where enterprises were sufficiently powerful to suppress moves towards genuine market competition and 'to blackmail the hierarchy of the party and the state' (p.289). This conflict of interest was more pronounced in Hungary than elsewhere due to the decentralising nature of the reforms and the increasingly inclusive nature of the nomenklatura over the period in question. Given that it was the central bureaucracy and upper party echelons who pushed most consistently for reforms, Szalai's conception

seems more accurate when the significant reversals of the reforms in the interest of the large enterprises are taken into account. A reformulated DT can be sensitive to these nuances of agency in the periphery and how they related to the over-all centre/periphery relationship because it begins from an ideal-type which doesn't presuppose any particular interrelation of domestic and international factors.

The contradictory nature of dependent development in Hungary can be read through the shifting conflicts of interest between these different factions of the nomenklatura. On the issue of how far the reforms should go towards creating true market relations, the party and top bureaucracy thus had diametrically opposed interests to the large enterprises and the branch ministries. The conflict between these two agendas took place on a rather uneven footing:

Due to the fact that the large companies represent significant economic and political power, they are able to impede the assertion of central management's goals of creating free market relations and eliminating individual regulation [i.e. patronage networks encompassing branch ministries and enterprises] (Szalai, 1991, p.293).

In its quest for growth and stability, the party made itself too reliant on the oligopolies without which they could achieve neither. Halpern and Molnár (1989) and Colobatto (1983) have both argued that the structure of prices and accumulation in the Hungarian economy were not significantly changed by the reforms, thereby preventing the desired transformation of the economy. I agree with this structural diagnosis and argue that a significant portion of the blame for this can be laid at the door of the large enterprises. In this way the changing structures of the Hungarian economy can be conceptualized as the outcome of social struggle, with CMEA giving the broad context within which these developments need to be situated since it was soft CMEA contracts that provided a large part of the autonomous firms' power.

One of the international manifestations of this clash was the debt problem that emerged in the 1970s as decentralized decision-making allowed Western imports to rise quickly. By 1978 it had become apparent that the large enterprises were failing to export enough back to the West to raise the hard currency needed to keep the external debt in check. This spurred reform-minded elements of the party and bureaucracy to launch a series of measures intended to limit the power of the large enterprises. These included in 1979 a restriction on imports, consumption, and investment activities, and in 1980 the

branch ministries were amalgamated into a single Ministry of Industry in an attempt to minimize the influence exerted by large firms. At the same time Generalimpex was created to manage the import and export of many commodities through a single department to curb import orders by large firms.

Szelenyi and Szelenyi (1995) argue convincingly that importance needs to be attached to the fact that, just as had happened after 1968, a further influx of technically-educated people into the *nomenklatura* occurred in the early 1980s, and this reinforced sections of the party and central bureaucracies who wanted to reinvigorate the reform process and the 'rationalisation' of socialism against the interests of the large enterprises. This exacerbated the ongoing struggle between the old *nomenklatura* and the reform-minded elements who were generally younger, better educated and more technically-oriented. In this way, in the early 1980s the old *nomenklatura*'s agenda of stability and continuity ran-up against a renewed determination to revive and renew the institutions of socialism through reform (Kulcsar and Domokos, 2005). Importantly, this new round of reforms stressed the vital importance of forging successful links outside CMEA as a necessary condition of Hungary's further development. This agenda was central to the sixth 5 year plan (1981-85), which was framed in a very energy/export-centric way. The expanding influence of technocratic and reformist elements at the time can be seen in the fact that this plan explicitly emphasised integration to world markets alongside CMEA and stressed the need to improve services like marketing needed to do so successfully.

However, reformers within the central authorities were restrained in their tussle with the large enterprises by the ongoing necessity of meeting CMEA export requirements, for which the capacity of the large enterprises was essential. The large enterprises saw their interests as aligned with CMEA rather than with further exposure to competitive Western markets (Richter, 1989). In this way the relative power of the large enterprises is essential to explain why NEM ultimately stopped short of questioning the general policy of extensive development, large-scale production, and long-term contracts within CMEA (Csaba, 1988). A less CMEA-centred growth path would have meant lessening dependence on the USSR, but this was not in the immediate interests of the large enterprises for whom dependent development meant security and stability.

The 1970s wmp rises for oil and the ensuing Western recession led to balance of payment problems for most Eastern bloc countries as exports to the West receded but

imports remained unchanged. This applied especially to post-reform Hungary where central planners had ceded much to the large enterprises. Comisso and Marer (1986) have argued that CMEA membership was a major constraint on the reforms from 1979 onwards given the changed conditions on the world market. These developments exposed a contradiction between international obligations to CMEA and the requirements of domestic economic reform made apparent by the increased interaction with the West. The fact that the Bucharest principle used in setting CMEA ftps allowed for a substantial lag between wmp rises and the time when they filtered through to CMEA effectively sheltered Hungarian producers and consumers from the need to adjust, and therefore represented a major short-term benefit conferred by the USSR on her partners. The prices facing Hungarian oil-users in the late 1970s, (i.e. after the switch to the Moscow principle of price formation), can be seen in table 14 below showing crude oil prices in dollars per barrel (Csikós-Nagy, 1984, p.249).

Table 14

	Domestic production	CMEA import	Saudi oil	Wmp average
1976	3.62	7.25	11.6	12.5
1978	3.98	11.9	12.9	13.8
1980	5.15	15.2	28.2	30.4

This feature of CMEA pricing had the effect of bolstering those groups who wanted to limit the implementation of reforms, since the rewards of trading bilaterally with the USSR, and therefore of maintaining existing structures of production, were so abundantly evident. The international political consequences of this fed back into both the domestic struggle between the groups discussed above and into the international debate over specialization within the bloc (Radice, 1981, pp.140-1). Hungary advocated changes to CMEA relating to increasing the role of markets in matching supply to demand within CMEA, proposals for the multilateralisation of bloc trade agreements, and calls for the convertibility of the rouble. This was a long-standing theme in Hungarian reform debates. Already in the mid-1960s, Vajda (1966) was arguing that non-convertibility, and thus the absence of active money, was a serious fetter on the development of trade and growth within CMEA. Given the position of strength from which the large enterprises confronted the party and central bureaucracy who were more open to such international

reforms, to say nothing of Soviet disapproval, such proposals were unlikely to ever get very far.

5.2 Trade and Energy Use

Having analysed the particular nature of the Hungarian nomenklatura and how conflicts of interest between different section of it conditioned the reform process, the theme of contradictions within the dependent development of Hungary will now be further drawn out. Here the argument that the politically-motivated exchange of (undervalued) Soviet energy and raw materials against (overvalued) Hungarian manufactures had a number of negative side-effects only partially compensated for by gains from terms of trade will be developed. Most obviously, the maintenance of energy-inefficient, uncompetitive industries was encouraged which could potentially have been modernised, and this limited both the economy's ability to generate surplus and the type of uses it was put towards.

Despite the de-centralisation begun in 1968, energy usage remained a concern of the state. In terms of national perspective planning, there were two key decisions taken on energy-use: in 1964 hydrocarbons were preferred over coal, until 1979 when coal and atomic fuel replaced hydrocarbons as preferred energy sources. The first decision to import more hydrocarbons was accompanied by policy initiatives to develop less energy-intensive sectors. This is an instance where the interests of the Soviet leadership who wanted to keep the subsidy in manageable proportions, and the leadership of an East European party who wanted to modernise and diversify the economy, ran in the same direction. The 1979 decision reflected the belated recognition that Hungarian producers needed to respond to the changed wmps. This action came in the wake of the inability of more moderate reforms to prompt re-adjustment, measures including the introduction of speed limits, restrictions being put on shop window and advertising energy usage, and heating limits for firms and households.

By the early 1980s, the slow growth in factor productivity and general inefficiency were acknowledged as serious structural problems (Román, 1985). The long-standing issue was that the industrial base established in the first plan periods was both extremely energy-thirsty and energy-inefficient. In 1950s, for instance, to achieve 1% growth in national income the extra energy required was 1.23%, whereas in the West this coefficient

was far lower, between 0.3 and 0.7% (Csikós-Nagy, 1984, p.244). This energy inefficiency was a major source of Hungarian non-competitiveness on the world market, and thus reinforced the need to export to CMEA which in turn reinforced the pattern of dependent development. The lack of competitiveness of the Hungarian automobile industry on the world market can be seen from the greatly differing levels of success these firms achieved in the Soviet market as compared to OECD markets (see table 16).

With growth dependent on CMEA trade, it is important that the DT frame draws attention to how participation in CMEA encouraged maintaining traditional planning because the transferable roubles obtained could only be spent within CMEA, and trading within the bloc encouraged the continuance of existing structures of production. The delayed registering of the oil price rises further reinforced this trend (Köves, 1981, p.56). Importantly, the fact that numerous attempts were made to alter this structure but failed to do so is understood to be testament to the organisational power of agents who supported the reproduction of this structure; in the case of Hungary these were the large enterprises and sectorial elements of the bureaucracy.

5.3 Socialist Economic Integration and Hungarian Specialisation

The question of how to interpret the impact CMEA specialisation had on Hungarian development will be opened-up by returning to the distinction between complementary and competitive development paths given in chapter 3. It is important that complementary rather than competitive specialization tended to characterize integration processes within CMEA. In order to make direct comparisons possible, the related distinction between intra-industry and inter-industry trade which clarifies these notions can also be used. It is generally accepted that intra-industry trade is an indicator of higher levels of technological development and signifies more sophisticated and diverse production capabilities (Drabek and Greenaway, 1984, p.448). This raises the question as to whether CMEA trade was conducted on a primarily intra- or inter-industry basis; given the peculiarities of CMEA it could be expected that Hungarian trade within CMEA would be characterized first of all by inter-industry specialization on account of the complementary patterns of development fostered by CMEA cooperation.

However, the story told by the data is not so simple, as can be seen from table 15 comparing Hungary and Czechoslovakia in 1964 and 1977 in terms of the percentage of

their CMEA trade conducted on the basis of inter- or intra-industrial specialization. This is surprising given that the pre-eminence of Czechoslovakian industry would have suggested that Czechoslovakia would display more intra-industrial specialization. Moreover, in each category the Hungarian figure improved over the period in question, sometimes quite dramatically, while this was not always the case with Czechoslovakia. In fact Hungary's 1977 intra-industry specialization figures were higher than some EEC countries (Balassa, 1986).

Several case-specific factors are needed to explain this notable instance where the Hungarian case varies from the rest of the bloc. Firstly, the decentralization of decision-making over what to produce and how to do so granted Hungarian firms room to manoeuvre which was not available to their counterparts elsewhere in the bloc. Secondly, the fact that Hungary had over 500 firms engaged in East-West industrial cooperation, mostly doing light engineering with West German firms, suggests that Hungary had a comparative advantage in light industry, a sector well-suited to intra-industry specialization. This exposure to cooperation with firms from DMEs was higher than levels of cooperation achieved by the rest of the bloc, and has to be related to the reformed and relatively decentralised nature of the Hungarian economy which made economic relations outside CMEA significantly easier to achieve. Finally, the Standard International Trade Classification (SITC) category which reached the highest proportion of intra-industry specialization, SITC 7, includes transportation equipment. As will be argued later, the production of such equipment in Hungary owed a great deal to CMEA, the sector being, in fact, an outstanding example of the possibilities and limitations of dependent development as it happened in the Eastern bloc. Accordingly, part of the Hungarian success in fostering intra-industrial specialization in this sector can be accounted for by the interaction of international processes socialist economic integration (specifically the Soviet desire to develop a region-wide division of labour and the concomitant willingness of the USSR to delegate almost exclusive rights to produce particular products to individual CMEA members), and the domestic process of reform which created over-sized companies dependent on large, stable contracts within CMEA.

Summarizing their findings, Drabek and Greenaway state that USSR-CMEA trade is characterized by inter- rather than intra-industry specialization, and so was complementary rather than competitive. Hungary was a relatively intra-industrially

specialized exception, and this stands for a major difference between Hungary and the rest of the bloc, one which can be explained in terms of the different structures of the Hungarian political economy and the conflicts of interest that arose within it. Explaining this specific feature of Hungarian development would have been problematic if the ideal-type had specified how development in the periphery was likely to proceed; instead the open-ended approach suggested by the ideal-type can be used to explain this particular and unexpected outcome.

5.4 Debt and Technological Backwardness

Following the argument that the system of subsidised trade within CMEA led to a particular type of development for the economies of the Eastern bloc, this section further develops the theme of how the changing relation of Hungary to the world economy exposed contradictions in the dependent development internal to the bloc. By the 1980s, the inability of the mechanisms of intra-socialist economic relations to keep pace with both DMEs and the NICs was evident. The two most significant features of the dependent development of Hungary which need to be set in the context of uneven global capitalist development are the debt crisis of the 1980s and the lack of technological innovation that characterised the Hungarian large enterprises. The origin of both these issues in terms of the socially-contested reform process and the conflicts of interest between different sections of the nomenklatura have already been discussed—here they are set in the broader international context which reveals their full implications as signifiers of the limits to dependent development.

It has already been demonstrated how CMEA processes of trade and integration tended to discourage technological dynamism in favour of the maintenance of existing structures of production. Gács (1989) has shown that there was a wide divergence between rates of structural change (which would suggest technological innovation was taking place) in industries producing rouble exports versus non-rouble exports, with rouble exporting industries having significant slower rates of change. I agree with his verdict that the ‘slowness of transformation is assumed to be only partly rooted in the tardy and lagging assertion of price changes in this given relation and to a greater extent in the institutional system of CMEA trade that makes trade structure highly rigid’ (p.83). The increased exposure to world market trade from détente onwards thus served to reveal

the fundamental inadequacy of the Hungarian large enterprises when exporting outside the CMEA area.

Simultaneously, these export difficulties were exacerbated by the fact that decentralisation and access to Western credit allowed for imports to rise faster than exports, and this left the country with a serious hard currency debt problem. Part of the global context to this was the fact that recession in the West brought on by the oil price rises meant Western nations were cutting back imports in general at this time, and so were purchasing less from the Eastern bloc than they had done previously. This imbalance developed through the 1970s, and became extremely acute in the early 1980s. From this time onwards, the necessity to stabilise the external account often came at the expense of pushing through reforms, and the avoidance of debt rescheduling, and thus the maintenance of international credit-worthiness, became central to Hungarian economic policy in the 1980s (Young, 1989). Again, as was argued to have been the case with Poland, this requirement was at least as important to the health of the Hungarian economy by now as CMEA was. The fact that the East European economy most in debt, Poland, had to reschedule and accept the consequent economic turbulence was part of the motivation for this prioritisation of managing the external debt. Interestingly, it was membership of the IMF and the World Bank gained in 1982—i.e. re-entry into the international financial institutions which the socialist states had long been separate from—that vitally assisted Hungary in avoiding debt rescheduling.

However, Köves and Oblath (1991) have commented on how the consensus that Hungary must service the external debt still left considerable room for divergence of opinion between different sections of the party, state, and industrial managers on how this should be done, and thus for further conflicts between these agents alongside those already covered. Specifically, the emphasis placed upon stabilising the external account was a policy success for the technocrats who saw that the future development of Hungary had to be increasingly linked to world markets, but paradoxically this situation also strengthened the hand of sections of the *nomenklatura* who were in favour of maintaining and expanding links to CMEA, who could argue this was the only stable and secure strategy available. In this way, the large debt burden came to be seen as both an obstacle to reform and a signifier of its necessity. Once again, the fact that different social groups saw the same phenomenon in diametrically opposed ways has to be seen as key to exposing the contradictions entailed by Hungary's development process.

Following some success in dealing with the debt crisis of the early 1980s with support from the IMF, a second wave of severe debt financing payment hit the economy in the late 1980s. As Lavigne (1991) points out, the initial Hungarian borrowing to finance the import of capital goods necessitated further borrowing to allow the import of the wide range of intermediate goods required to ensure the proper functioning of the technologies received. The key issue was that the imports financed by this borrowing were often not used efficiently by the large enterprises, who faced little competitive pressures either domestically or in CMEA, and the export capacity of Hungarian industry ultimately did not increase enough to cover these costs (Medgyessy, 1984). By 1990 the net debt in convertible currencies was equivalent to about half of gross domestic product (Hare, 1991).

Ironically, it was the relative credit worthiness of Hungary in comparison to the numerous Latin American countries then getting into serious liquidity problems that made Western banks continue to lend to Hungary. In 1982 the Reagan administration actually attempted, and partly succeeded, in persuading European banks not to lend to the East for political reasons. The fact that this measure was only partly successful, and the Eastern debt continued to rise, was symptomatic of the decline of US power relative to the rest of the capitalist world since the 1970s. In this way, the existence of the Eastern bloc's debt problem was in itself emblematic of shifts in the structure of the international context outside CMEA. Moreover, as Saul (2007, p.172) has pointed out, this altered East-West economic relation actually impacted on the potential for purely political competition between the blocs and political unity within the East, since the exposure of Eastern bloc countries to Western debt meant they actually had an increasing stake in the political and economic stability and success of the West, as this made both manageable rates of interest payment more likely and kept the possibility of more credit open. In this way, the growing dependence on Western credit particularly visible in Hungary and Poland dealt a crucial blow to the economic priority of the relation to the USSR via CMEA for the European socialist states.

These two limitations of Hungarian dependent development (debt and technological backwardness) were thus linked, since it was principally the relative technological backwardness of Hungarian industry that led to poor export performance, and this poor export performance in turn exacerbated the debt problem since exports could seldom raise enough free exchange to cover imports. These issues highlight the fact that

by the 1980s, the dependent development process was reaching its limits as the structural characteristics it generated made it increasingly difficult for the economies involved to diversify their international economic relations, whilst there was a growing consensus that this was a necessary component of maintaining growth.

5.5 The Ikarus Bus Production Company

A case-study of a company is included to provide a specific illustration of several propositions about the generation of surplus by Hungarian market socialism within CMEA which have emerged from the application of DT. I claim that the reformulation of DT involving concepts like complementary/competitive development and inter-/intra-industry trade allows industrial ‘successes’ like Ikarus to be theorized in the context of CMEA and their development related to broader patterns. Importantly, Ikarus can be shown to have been a success within CMEA and a failure outside, thus highlighting the contradictory nature of Hungary’s development.

Located in Budapest, Ikarus was an important employer in socialist Hungary and something of a national icon. The foundations of the company were laid in 1949 when the license for the production of Steyr-Daimler-Puch trucks was purchased, and from here the plant grew quickly and secured a share of the CMEA market for buses. The sheer scale of production needs to be emphasized with annual production peaking in 1979 at 14,230 busses. Importantly, Ikarus was a high-profile beneficiary of the complementary development pursued within CMEA; in 1973 similar production was actually stopped in the GDR as Hungary was selected to specialize uniquely in this field. In an example of intra-industry trade encouraged by CMEA, firms in the GDR which had previously been producing finished buses were relegated to the production of chassis which were then delivered to Hungary (Sobell, 1984).

This result of CMEA cooperation can be seen to have reinforced the trend already underway in Hungary for the formation of oligopolistic producers enjoying considerable ability to determine their situation against a weakened centre. Ikarus can be seen as an example of this phenomenon specific to Hungarian market socialism in which the interests of the large enterprises diverged from those of the party and the autonomy granted by the reforms gave them the power to articulate this. Swain (1992) has observed that,

Even if an enterprise, the bus manufacturer Ikarus for example, were run wholly democratically, it would be as much in the workers' short- to medium-term interest as it was in the managers' to produce huge runs of identical buses for the Soviet market rather than meet the changing and more demanding requirements of the West (p.227).

The potential schism between workers and managers interests within a given enterprise got significantly wider over the final decade. The second round of decentralising reforms in the 1980s fundamentally strengthened the hand of managers in relation to workers. By 1988, the Hungarian nomenklatura was overwhelmingly male, middle-aged, well-educated, and a member of the Party. Whilst this trend can also be observed elsewhere in the bloc, the Hungarian nomenklatura had unique rights to economic power.

As such, industrial managers in Hungary gained from the decentralising reforms, and workers' power within the work-place declined, but the availability of strategies of individual response to economic hardship by engaging with the expanded opportunities of the private sector meant the collective strategies that emerged in Poland did not happen in Hungary. Hungarian workers had no independent trade union representation, unlike in Poland where Solidarity was then becoming so active. In 1981, laws were further relaxed allowing Hungarians to participate in the private sector, and this meant dissatisfaction with communist rule did not lead to wide-spread political dissent as it did in Poland. Some estimates put 36% of the Hungarian work-force engaging in some sort of legal private activity (Hanley, 1999, p.151). This gave conflicts between workers and managers in Hungary a less confrontational style, and thus companies like Ikarus achieved a high level of stability, partly due to the soft nature of CMEA contracts, and partly due to the specificities of Hungarian social relations after the reforms.

Ikarus stands as an excellent illustration of the contradictory developmental tendencies encouraged by CMEA in that Ikarus grew and production rapidly expanded, but this development was of type entirely conditional on the price and commodity structure of Eastern bloc trade. This is confirmed by the fact that Ikarus was hit so hard by the collapse of CMEA trade (Blahó and Halpern, 1995), so much so that the company was declared bankrupt in 1993, although it was subsequently maintained on state subsidies at much reduced size. This was part of a general trend in which Ikarus' fate mirrored that of the economy as a whole. In 1990-91, Hungarian exports to CMEA fell by an astonishing 66% (Sadler and Swain, 1994, p.391). This was equivalent to 0.5

million jobs in a country with a population of only around 10.5 million in 1989. Although Hungary led the other transition economies in the 1990s in terms of attracting foreign direct investment, and much of this went into either the automotive or pharmaceutical sectors, none-the-less many firms experienced difficulties in maintaining export performance and underwent extensive restructuring in order to meet the needs of new markets outside the old CMEA area.

In addition to Ikarus being a bellwether of how the country was faring in international trade, an extensive domestic supply network had existed which was also badly hit. These included large companies such as Raba, which produced axles and engines for Ikarus, and Csepel which made gearboxes and steering mechanisms also for Ikarus. In total the auto industry employed over 100,000 in 1980s. More than 90% of output went to Soviet Union leaving little doubt as to the significance of these long-term contracts for Hungarian economic wellbeing. In fact, Rodrik (1992) has concluded that the decline in real GDP experienced by the Hungarian economy since 1990 can be *entirely* accounted for by the demise of CMEA and the changed trade relation with the USSR/Russia that replaced it. In official figures this decline amounted to 11%.

6. Conclusion

Referring back to the three main theses advanced in the introduction the following can be said:

- 1) Given the organisation of production in Hungary where a series of almost monopolistic companies were created before the reforms, the failure of NEM to transform the economy can in part be ascribed to the ability of this group to thwart moves by the party and state bureaucracy which would have limited their autonomy or threatened their privileged position and access to economic surplus. This meant that the large enterprises were insulated from competition and this key element of the reforms never got off the ground with serious consequences for Hungarian industry.

- 2) A case can be made that CMEA membership also played a big role in preventing the reforms succeeding. In particular the period after the oil shock was crucial, when the benefits of trade within the bloc became even more substantial.
- 3) Without claiming Hungarian development was entirely determined by external relations, it seems to be possible to recognise the significance of international influences which acted upon the party, bureaucracy, and large enterprises and to consider this as an instance of dependent development as defined previously.

The theoretical significance of this chapter is that it has shown how an analytical narrative of national development can be constructed which takes account of international, most significantly but not exclusively regional, dynamics without resorting to the kind of structural determinism which would have squeezed agency out of the picture. By discussing the conflicts of interest between elements of the party, bureaucracy and large enterprises in terms of the interrelation between them and national and international structures, both can be integrated into accounts without over-privileging either.

Yugoslavia: Market Socialism outside CMEA

1. Introduction

This chapter provides an account of Yugoslavian market socialism which can be compared with the Hungarian historical experience, with the theoretically significant difference that Yugoslavia's foreign economic relations and geopolitical situation differed fundamentally from that of Hungary in that Yugoslavia was a European socialist country outside the system described in chapter 4. This will allow comparisons between the development problems faced by the two and highlights the effects of the centre/periphery system within CMEA on the production and use of economic surplus in Hungary and Yugoslavia. As a non-aligned country with only observer status in CMEA, Yugoslavia related to both the Eastern bloc and DMEs in a way that was impossible for Hungary. The core argument of this chapter is that this provided the Yugoslavian leadership with a different set of international possibilities and constraints which can in part be seen to have circumscribed the course of Yugoslavian development and helps to explain some key divergences between the two. In this way the importance of CMEA for the development of the six is underlined. The most important differences in international context will be introduced here.

1. Access to Western credit from the 1950s onwards allowed for the import of advanced capital and technology goods and set Yugoslav industry on a relatively better footing than elsewhere in Eastern Europe.
2. This benefit was counterbalanced, however, by the foreign debt burden which resulted from the failure to export sufficient quantities back to the West. This left the Yugoslav federal government fiscally fragile as a large part of the economic surplus had to be used to finance this debt. Although this problem also emerged in Hungary and Poland in the 1980s, it affected Yugoslav development earlier and in a different manner due to Yugoslavia's position outside CMEA.
3. By trading with the CMEA countries in convertible currencies, and often to obtain essential raw material and energy inputs, less favourable terms of trade

were achieved than those common in the bilateral barter arrangements prevalent within the bloc. This meant that Yugoslavia did not benefit from the transfers of surplus taking place within CMEA.

The argument is not that these international factors determined the course of Yugoslav development, but that they are essential to explaining differences between Hungarian and Yugoslav reformed socialism and thus serve to further develop the analytical narrative of development within the Eastern bloc by providing a case against which individualising comparisons can be made. Thus the theoretical significance of this chapter is that it demonstrates how the reformulation of DT makes comparisons possible between economies characterised by some notable similarities (market socialism, East European, small, decentralising reforms, similar levels of development), but distinguished by being inside or outside CMEA.

2. Comparison with the Hungarian Reforms

In pointing out similarities between Yugoslav and Hungarian development it should be possible to isolate in what ways the different international contexts faced by the two countries influenced their attempts to reform the Soviet model of socialist economy. The aim of the following sections is to highlight how separation from the centre/periphery system described in chapter 4 in terms of the idealisation of dependent development given in chapter 3 put Yugoslavia in a different position to Hungary. This is useful to emphasise why, in spite of the similarities detailed here, the two market socialist reform processes diverged considerably.

First it is necessary to consider just how distinct Yugoslavia was in relation to the rest of the region. There is a surprising range of opinions on this matter; Bennett (1998) even goes as far as to argue that, 'despite the rhetoric, Yugoslavia's economic system differed little from that of the rest of the Eastern bloc' (p.68); but in general there was a consensus that Yugoslavia's political economy differed substantially from the traditional model, with debate focusing more on the question of how other reform projects could be compared. Bleaney (1988) has claimed Yugoslavia as the only European country to significantly deviate from Soviet model, but in the light of the description of the Hungarian reforms given in the previous chapter this statement should be questioned.

Instead Batt's (1988) suggestion that the Hungarian uprising and the Yugoslav reforms be seen as twin developments signifying both the possibility of and enthusiasm for an alternative to the traditional model seems more apt. It seems logical to make this connection given the explicit role the theme of decentralisation played in the Hungarian NEM, and therefore it seems permissible to consider the two market socialisms as reform processes tending in the same general direction but moving at different paces and in fundamentally different international contexts.

The three most developed areas, Croatia, Slovenia, and Vojvodina, had all been part of the Austro-Hungarian Empire and shared the pre-war experience of involvement in the central European economy that Hungarians also remembered. This led to a sense of resentment on the part of some sections of Hungarian society towards the perceived 'backwardness' of the Soviet bloc into which their country was forcefully integrated after the war. As such, the fact that Yugoslavia avoided integration into the twin structures of CMEA and the WTO may well have been heralded as a success by economic actors in the more developed north. The awareness that another development path had until recently been open may also have played a part in giving the leadership the confidence to break with Moscow. Likewise, both countries exhibited an open and early acceptance of weaknesses of planning which took longer to emerge elsewhere, and this may be down in part to the shared pre-war history of relative openness and affluence.

Reform processes in the two countries both ultimately held true to certain conceptualisations appropriate to the traditional model of planning. It can be revealing to view large-scale reform processes both from the perspective of what they alter, as well as from the perspective of what they leave unchanged. This second approach helps to identify the unofficial parameters in which agents operated, and from here it can be seen that both reforms left notable aspects of the pre-dominant understanding of production and economic growth inherited from the Stalinist period of command planning untouched. For instance Kabala (1988) has stressed how economic growth based on increased usage of fuels and other productive resources remained the goal of Yugoslav planners. This continuity also characterised the Hungarian reforms, which refrained from questioning the utility of continuously expanding industrial production without technological innovation and did not fully consider other potential uses of economic surplus.

The successful integration of elements of market competition can be seen to have played a part in shaping the unusual pattern of industrial successes in both economies. Hungary and Yugoslavia both had successful firms in areas non-typical for socialist economies—primarily but not exclusively food production and pharmaceuticals in Hungary and electronics in Yugoslavia. Similarly, both faced a common external constraint to export expansion in the form of the EEC's Common Agricultural Policy, which stood as a perennial obstacle to the development of potentially profitable beef and vegetable exports. By using ideal-typical methodology, the reformulated version of DT is compatible with the idea of plan and market as combinable and directs attention towards the specific way the two were blended together in Yugoslavia and Hungary and how these processes related to involvement in CMEA or world markets.

Given the emphasis placed on the bus manufacturer Ikarus in the previous chapter and the evidence presented that Hungary engaged in its highest proportion of intra-industry trade in SITC category 7, the automobile sector might be expected to be on this list of industrial successes. However, I argue that the success of Ikarus can be exclusively attributed to the nature of CMEA trade and integration and so should not be considered 'non-typical' as it was dependent on Soviet largesse. These other successes link to the decentralising nature of the reforms, since these firms were more able to respond to consumer demand in large part because their supply networks differed to those in the rest of the socialist world in that more autonomy was allowed for low-level units which were not so inflexibly integrated into large hierarchies characterised by top-down command structures.

Despite these similarities, the specificity of Yugoslav development needs to be emphasised when compared to the other European socialist economies. For this reason a reasonably detailed account of Yugoslav development is needed in order that the reformulated DT not lapse back into ahistorical generalisations about economies with some similarities. The rest of this chapter highlights the significance of Yugoslavia exclusion from CMEA as a key factor in explaining these differences. This initial separation was the product of the politics of subordination under Stalin, and the fact that Yugoslavia never gained full membership of CMEA can be seen as evidence of the fact that political concerns as they related to socialist trade changed after Stalin but did not disappear.

3. Yugoslav Economy and Society, 1945-50

Characterisation of the Yugoslav political economy was problematic owing to its unique combination of plan and market, where the production and allocation of surplus was regulated not by a competitive price mechanism or a central bureaucracy but by processes of consultation and negotiation between autonomous units coordinating within a multi-layered institutional structure. Yugoslavia was also a contrast of rich, industrial north (Croatia and Slovenia) and poor south, as well as of a social sector and small-hold private agriculture and craft-industries. Table 17 describes the scale of regional differences in 1986. This made Yugoslavia similar to the USSR, in that federal administration co-existed and interacted with lower levels of administration based around the six constituent republics (Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia, and Slovenia), the two autonomous provinces (Vojvodina and Kosovo, both within Serbia), and finally the communes.

In 1945 the Balkans were overwhelmingly rural even in comparison with rest of Eastern Europe, meaning there was little pre-existing industrial capacity to be relied upon. In addition to the initial shortage of capital and the low productivity of existing capital stock, Yugoslavia like the rest of Eastern Europe did not possess the energy resources for self-contained development and so would always have to rely on international trade for certain key resources. Uniquely for territories liberated from Nazi control, Yugoslavia had a large, well organised and ultimately successful resistance movement, and this placed post-war Yugoslavian leaders in a fundamentally different position *vis-à-vis* Moscow than their counterparts elsewhere in that the domestic support-base of the party gave it more autonomy and therefore more options. However, until the relationship began to sour in 1948, Tito and the party leadership were not prone to questioning either the dominant position of the USSR or the need to work closely together to achieve security and development.

It was in this context that the new constitution of 1946 was passed which nationalised all industry and gave the state a monopoly on foreign trade in the Soviet-approved style. Whilst the first half of the first 5-year plan was a notable success, the split with Moscow in 1949, finalised by the second Cominform resolution of November, 29th, which expelled the Yugoslavian party from the assembly, had major consequences as the Soviet's launched an economic blockade at the time when strategic imports of

capital goods and fuels were so crucial. Whilst the rest of Eastern Europe was receiving the goods they needed from the USSR at unilaterally imposed and unfavourable prices under Stalin, Yugoslavia received nothing at all from the USSR and this exclusion was much more economically injurious. DT can be sensitive to instances like this where development is negatively impacted by an international relation, but such instances fall outside the ideal-type used here which is concerned with trade within recognisable centre/periphery systems. The effects of this were compounded by droughts in 1950 and 1952 which pushed down agricultural yields, and meanwhile the perceived need to divert funds towards military expansion hindered capital formation in other sectors.

However, even before the blockade and the unfavourable weather conditions, the ending of UN aid in 1947, which had until then maintained the liquidity of the federal government and allowed for essential imports from the West, meant that for the next two years the pressure of producing for export and restricting domestic consumption prevented the leadership from affecting the balance in the economy between industry and agriculture. The availability of Western credit arrangements thus stood for a key structural limit to how quickly the Yugoslav economy could expand, and this early awareness that development for a small, agricultural economy would inevitably be dependent on the international context was firmly imprinted on the collective memory of the party at this time. Estrin (1991, p.191) argues that Yugoslav growth was dependent on borrowing to the point that it effectively ended after it became harder to borrow in 1979, and this implies that the Yugoslav economy's ability to generate the surplus outside CMEA needed for development was heavily dependent on international finance long before this became true for the other European socialist states within CMEA.

Given these structural constraints and the uniquely independent basis of the Yugoslavia communist party, it is understandable that Yugoslavia decided to take a different path, one which involved realigning both her international relations and transforming domestic social relations. Although many of these same economic constraints also affected other East European socialist countries at this time, the dominance of Stalinist elements within their parties and membership of CMEA and WTO gave them a discretely different agency to Tito's party. Accordingly the reform tendency did not appear elsewhere until later, and in generally less radical forms, and this seems to support the previous argument that CMEA membership tended to act as a check on how far reformers could go whilst remaining within CMEA.

The change of direction was described by Yugoslav theorists in terms of a distinction between direct and indirect socialism, with direct standing for enterprise self-management and democratic decision-making rather than the Soviet administrative conception where a mass-membership party and state bureaucracy govern on behalf of and (supposedly) in the interests of the working class (Singleton and Carter, 1982, p.120). As was discussed in the context of the aftermath of the Hungarian uprising, it was the party's indirect form of socialism that won-out and guided the subsequent Hungarian reform process. As such, the central role of self-management in the Yugoslav reforms fundamentally separates them from those in Hungary and elsewhere. Linking with the previous analysis of how CMEA related to the Hungarian reforms, I would argue that self-management would have been incompatible with processes of production and exchange encouraged within CMEA which needed the stability best provided by traditional planning and thus imposed limits on how far decentralisation could go.

The significance of Western aid from this time onwards is apparent from a DT perspective which has already argued the development of the other European socialist economies was dependent on the massive transfers of surplus within CMEA. This Western support manifested itself in the 1950s in aid which effectively financed the trade deficits of the period as Yugoslavia returned to the policy of the first years of planning whereby imports were prioritised and a substantial current account deficit was deemed an acceptable price to pay for the productivity gains capital imports could generate (Weisskopf, 1976, p.38). The fluctuating but generally favourable access to Western markets from the 1950s onwards facilitated by Yugoslavia's geopolitical independence from Moscow stands for a major structural difference between the international context of Yugoslavian development in relation to the other socialist economies. In this way, Yugoslavia's development has to be situated in the context of Cold War East-West antagonism, just as Hungary's was, for it was the split with Moscow that paved the way for the development of a dependent relation with Western finance for Yugoslavia significantly earlier than was the case for CMEA members.

4. Market Socialism outside CMEA

By 1950 Yugoslavia stood-out from the rest of Eastern Europe as a country facing significantly different development possibilities and constraints as a result of the split with

Moscow and the lack of involvement in the CMEA centre/periphery system. The next sections trace how development proceeded from here and shows how the problems that developed can be related back to the structures and agents relevant to Yugoslavia's political economy, and how the difference between these and those in Hungary need to be related to international context. Having taken the first steps towards a new system of socialist economy, I suggest that until the mid-1980s a form of development similar to that which took place in Hungary occurred, with the difference that Yugoslavia stood in fundamentally different relations to the world market and CMEA. Chossudovsky (1996) and Estrin (1991) have both drawn attention to the success of the Yugoslav economy, with growth averaging 6% up to the late 1970s.

4.1 Development until 1985

First, it is necessary to set-out the institutional structure that began to emerge in the 1950s and set the control mechanisms of the Yugoslavia apart from other socialist economies. Two key legislative acts, both passed in 1950, were the *Act on Planned Management of the National Economy*, which replaced command with indicative planning, and the *Basic Law on the Management of State Economic Enterprises*, which made self-management the guiding principle of the economy. These changes were followed in 1953 by a new constitution and the creation of the League of Communists, a new entity with only regulatory influence over economic affairs. Investment decisions were still controlled centrally until the 1965 reforms which strengthened the principle of competition between firms and limited federal intervention. Bleaney (1988) sees 1965 as the year after which the decentralising process ended as firms acquired significant power over the use of economic surplus. Although the mid-1960s were a period of reform in the Soviet bloc as well, on the decentralisation of investment the Yugoslavs went considerably further. This was accompanied by the decentralisation of administration as self-management empowered the communes over the republics in many policy areas. Elected workers councils became the highest authority within each firm and were charged with the appointment of directors from a short-list chosen by a selection committee, one third of which had been nominated previously by the workers council, with the League also having a substantial say in the matter.

These structural changes meant that Yugoslav agents faced discretely different possibilities to those in Hungary. Although federal plans were still formulated, the autonomy of the self-managed firms meant that these macro-plans were purely indicative; although they signalled the broad outline of how the state wanted development to progress, communes and enterprises were free to decide how much they would commit to the realisation of these plans. In Hungary, a fairly clear distinction between the interests of the large enterprises and the interests of the party leadership was identified; in Yugoslavia the more thorough decentralising process meant numerous economic interests, large and small, could articulate themselves against the centre.

Like in Hungary where close links between the large enterprises and CMEA markets were identified and related to the reform process, economic agents in Yugoslavia can also be seen to have been interrelated to the reforms and the international context. In terms of variable responses to the reforms from the north and south, it is notable that richer regions consistently wanted more liberalisation and firm autonomy, not only because most of the firms who could succeed in a competitive environment were located in the north, but also as this meant less federally-enforced wealth redistribution. This structure of regionally uneven development came to be represented within the structure of the party; Woodward (1986, p.514) comments that organisationally conservative politicians tended to come from southern, poorer regions which relied on protectionist measures, while economic liberals were usually based in outward-oriented, northern cities.

In terms of aspirations for engaging in trade, there was a significant difference between firms located in the northern republics, which showed considerably more enthusiasm for international trade with the West rather than internal exchange with the 'backwards' southern republics, who in turn wanted closer links with the East. While Serbia was keen to export to the USSR and expand links with the CMEA area, Slovenia and Croatia wanted to produce at a higher quality and export to West. These two orientations were also influenced by the nature of particular firms; Yugoslav importers preferred to import from the West due to considerations of quality, while many exporters wanted to export to the East where prices were higher and markets less demanding (Prout, 1985). Thus the pre-existing uneven development characteristic of Yugoslavia was

reinforced by the dual nature of Yugoslavia international orientation towards both East and West, the requirements of success in each context being contradictory to one another.

The decentralisation of investment decisions after 1965 was a turning point in the regional distribution of surplus since after this investment tended to be concentrated in the north where its marginal productivity was highest, and Flaherty (1988) has presented evidence that regional differences actually widened in Yugoslavia. As such the investment reforms exposed a contradiction between the socialist goal of equalising levels of development and the economic imperative that resources be used efficiently. Although this contradiction affected all socialist countries, it was especially significant for market socialist systems in which decentralisation had handed some decision-making power over to economic agents with substantial autonomy to maximise their own welfare instead of following the plan.

The 1960s saw the emergence of a series of problems specific to Yugoslavia which need to be related to Yugoslavia's position outside the centre/periphery relation discussed earlier. Foremost of these problems was that growth slowed noticeably in the early 1960s after the trade deficit expanded in 1959. This exposure to world trade was in contrast to the high growth and stability enjoyed at the time by Hungary within CMEA. This culminated in a minor crisis as the value of exports as a percentage of imports continued to decline. Simultaneously, another persistent problem was emerging which set Yugoslavia apart, inflation. This hit a devastating peak in 1989 when the consumer price index increased by a staggering 2,700%. Whilst inflationary pressures were hidden elsewhere in Eastern Europe by price controls, meaning inflation was expressed instead as shortages, Yugoslavia's different control mechanisms contributed to inflation becoming unmanageable. Significantly, the dinar was allowed to float within parameters set by the central bank, and this allowed some linkage between price changes on world markets and domestic prices (Tyson and Neuberger, 1980, p.215). Compared to other NICs, and certainly to the rest of Eastern Europe, Yugoslavia was highly open to the transmission of wmp changes to the domestic economy meaning economic agents were not sheltered from the pressure to produce competitively as much as they were in Hungary.

In the 1960s unemployment also appeared as a large-scale phenomenon. The early 1950s had seen the official recognition of the party that unemployment could exist under

socialism. From this time onwards the number of people seeking unemployment benefits in Yugoslavia made it stand out from the rest of the socialist world where full employment (albeit with a large proportion of people being underemployed) was the norm. This ailment was also affected by structural dichotomies peculiar to Yugoslavia: social/private, north/south. The contradiction arose from the fact that those outside the social sector usually had less job security, and since the social sector in the south was less developed than in the north this too came to be seen as an example of uneven development in that the use of the surplus to alleviate this social problem was generally supported in the south and opposed in the north.

Finally, several problems can be attributed explicitly to the weakness of central institutions which could not provide for sufficient policy coordination between the republics. This weakness of the federal state in relation to lower-levels of administration was a key difference between Yugoslavia and Hungary. For example, the growth of power generating facilities did not keep pace with industrial requirements and was inappropriately distributed between the republics. Serbia had surplus power-generating capacity but could not transfer electricity to other republics due to insufficient inter-republic grid infrastructure. This meant that high energy consuming republics like Slovenia and Croatia had to import energy from Italy and Austria at peak times. Partly because of this, the Krško Nuclear Power Plant in Slovenia was constructed to provide power where it was needed. The plant went into commercial operation in 1983 after the American company, Westinghouse, had been brought in to oversee its construction. This nuclear collaboration with a US company would have been unthinkable had Yugoslavia not been non-aligned.

4.2 Foreign Debt

In addition to the issues above, foreign debt needs to be given special significance because it originated explicitly from the altered set of international relations Yugoslavia created after the split outside the structures of CMEA. Whilst in the 1950s and 1960s this was generally positive enabling imports of Western capital goods, after the oil shocks and the Western recession, repayment schemes became stricter and the debt burden grew dramatically. According to Brown (1993), debt to foreign lenders was around \$20 billion in the 1980s; 'in most of that decade this was the equivalent of over a quarter of the

national income, and debt servicing took up some 20% of all Yugoslavia's annual exports of goods and services' (p.148). This amounted to a major drain on economic surplus faced by Yugoslavia. Table 18 describes the commodity composition of Yugoslavia's foreign trade, averaged from 1980-84 values, from which the high proportion of raw materials and petroleum in Yugoslav imports can be seen. Together petroleum and raw materials accounted for almost 40% of imports, and accordingly it is easy to see why Yugoslavia's foreign debt grew very quickly in the 1970s. Tyson and Neuberger (1980, p.213) calculate that wmp changes in the 1970s meant a net deterioration of 10.5% in Yugoslavia's terms of trade. Had Yugoslavia been a full member of CMEA, the price formulas described in previous chapters would have acted to cushion the impact of these rises, although as has been pointed out, other East European socialist economies also got into serious debt problems due to their import of Western capital goods and use of credit to finance the maintenance or rise of living-standards.

Accordingly the policy choices open to Yugoslavia varied from those open to Hungary. Several policy responses practiced by Hungary as well as other net oil importers were not open to Yugoslavia as a result of the reforms. For instance, Hungary responded to the price rises by instituting central controls over foreign resources and moving to limit the power of the large enterprises, while the Yugoslav government was too weak to impose centrally-directed use of foreign resources. Initially the commodity price rises were dealt with by allowing the current account to go into deficit; in the 1980s a more active approach was taken and Yugoslavia tried to change its trade structure by reducing non-essential imports and boosting exports. Just as this generated pressure for the six to remain close to the USSR and so reinforced the centre/periphery relation, even as the limits to the dependent development it signified were so apparent, there was an attempt to raise the proportion of Yugoslav exports going to CMEA in order to procure more oil at slightly below wmps from the Soviet Union in return (Tyson, 1980, p.91).

If the process of dependent development within CMEA reached its limit in the 1980s, for Yugoslavia foreign debt was arguably the core economic problem which the federal government failed to solve, and this undermined the successful development processes of the previous decades. Failure to deal with the debt sapped the authority of the federal government and simultaneously limited the range of policies that could be pursued (Woodward, 1995, p.238). It became a federal article of faith that foreign loans

could not be defaulted on as development for a non-aligned socialist economy depended on maintaining international credit worthiness. In previous chapters it has been commented on that in the absence of popular elections, the communist parties of Eastern Europe came to see development, broadly construed, as one of the key legitimating discourses of their power. As such, this inability of the federal institutions to legitimise themselves by adjusting to the changed international conditions—and thus allowing the development process to stall—irreparably damaged their standing domestically in relation to lower levels of administration.

4.3 Self-management in Theory and Practice

As the central principle of the Yugoslav reforms, and the key motif which distinguishes them from those in Hungary, it is necessary to discuss self-management in theory and practice. In the development of self-management, a pragmatic and evolutionary approach characterised the process of change, and to justify the new policy the Yugoslavs developed a theory which questioned assumptions about the transition to socialism and took a critical stance towards Soviet Marxism. The original theoretical literature on Yugoslav market socialism is well summarised by Milenkovitch (1971). Central was an implicit acceptance of plan and market as ideal-types, so questions of various combinations and transitory stages were considered.

However, the Yugoslav theory did not adequately take account of conflicts of interest that arose from this process. As Lydall (1989) has pointed out, ‘What is missing from this utopian view is a recognition not only of conflicts of interest between the workers in an enterprise and ‘society’, but also of conflicts of interest between different groups of workers within an enterprise’ (p.104). An example of this in the case of a prominent Yugoslav firm will be discussed later, and to the list of conflicts of interests arising from the mix of plan and market in Yugoslavia can be added that between party leadership and local administrators. Doder (1979) offers an example of this:

The self-managers of Titograd’s customs office voted to give their deputy chief an \$18,000 loan at 2 percent annually [a highly favourable rate]. Three years later, in 1975, when the party reasserted its controls, criminal charges were brought against the men involved in the [case]... six employees of the Titograd customs who had voted the loan to their deputy chief were given prison terms from six to twelve months (p.103).

This illustrates the conflict of interests between top federal and party officials concerned with the technocratic administration of the economy, and other workers or groups of workers who saw in the decentralisation of economic rights chances for increased access to economic surplus.

In this way the practical realities of self-management can be seen to have generated a series of conflicts of interest between different groups within the Yugoslav political economy different from the conflicts of interest discussed in the previous chapter. The different forms of agency in the two market socialist economies need to be located in terms of the different structures (both national and international) which defined the parameters within which agents operated. From a DT perspective, the most significant structural difference was that one was within CMEA and the other outside.

4.4 Tito, Yugoslavia, and the Non-aligned Movement

The non-aligned movement is significant in this regard as an emblem of the unique geopolitical position of Yugoslavia. Yugoslavia played a leading role in the movement from its inauguration in 1961 as a loose collection of developing nations who wanted to avoid the security consequences of association with either of the Cold War superpowers. As a founder and key spokes-person, Tito's personal involvement cannot be separated out from Yugoslav involvement in the movement. Participation in the non-aligned movement was perhaps the most symbolic way Yugoslavia distinguished itself from the rest of socialist Europe to the international community. This significance has not always been appreciated. For instance, Lendvai and Parcell (1991) ask, 'who could have predicted that Yugoslavia would undergo the worst crisis of its post-war history just at the point [early 1990s] when the East-West divide was being overcome and against the background of the almost total disappearance of an external threat to its existence?' (p.251). This can be answered by pointing-out that Yugoslav development benefited considerably from this divide and in some sense cannot be explained independently from the fractured global context of the Cold War period.

Non-alignment allowed partial access to Western markets on account of Yugoslavia's separation from the Eastern bloc centre/periphery system, as well as the existence of some valuable trade and cooperation agreements within the non-aligned bloc which might otherwise not have existed. There was a viable joint economic venture

between Iskra (to be discussed later) and the Asian Electronics Company of Bombay, although as Wilson (1980, p.183n) has emphasised there were relatively few economically beneficial arrangements of this type. This became a sort of comparative advantage internationally and boosted Yugoslavia's diplomatic profile—a fact Tito himself understood and pursued consistently. Yugoslavia was hit by end of Cold War as this exogenous development terminated her special status and the non-aligned movement lost much of its significance after this point. Accordingly I suggest that Yugoslavia's non-aligned status possessed symbolic significance as an expression of independence from Moscow, and this guaranteed a freer hand in international markets than any other European socialist country could achieve from within CMEA.

4.5 Yugoslavia, USSR and CMEA

Throughout the account given above, little reference has been made to the Soviet Union or CMEA; this raises the question as to how significant the Eastern bloc was for the development of Yugoslavia? Chapter 4 argued that CMEA constituted a system of regional trade and development within the world economy, and since Yugoslavia was outside this arrangement but shared some notable similarities with the rest of Eastern Europe, it is useful to consider relations to the Eastern bloc to draw more focus onto the comparison with Hungary. Linking with the periodisation of CMEA trade given in chapter 4, it is significant that it was Khrushchev who sought to mend relations by visiting Belgrade in 1955 in the face of bitter opposition from Molotov. In fact, during the process of destalinization begun by Khrushchev, only two parts of Stalin's foreign policy were criticized: military unpreparedness on the eve of WWII, and the unduly harsh and counterproductive treatment of Yugoslavia (and by extension the rest of Eastern Europe) (Gati, 1980). The re-opening of diplomatic relations and the gradual increase in economic relations can be interpreted as one more plank of Khrushchev's strategic choice of scaling-down military posturing and returning to normalized international relations, although this did not involve granting the same economic concessions which CMEA members received, which was effectively forbidden by Yugoslavia's commitment to non-aligned status.

The relative significance of East and West to Yugoslavia can be gauged from table 19. While the importance of the two blocs as locations for Yugoslav exports fluctuated, imports from the West consistently outstripped those from the East as a percentage of the

total. This confirms that Yugoslav development cannot be considered to have been dependent in the sense that it was for the six. Although Yugoslavia was granted the special status of associate member of CMEA in 1964, it is notable that Yugoslavia tended to trade with CMEA countries in convertible currencies and at wmps and as such did not receive the transfers of surplus the rest of the region did. The commodity composition of this trade should also be taken into account. The Soviet share of Yugoslavian imports by SITC categories can be seen in table 20. Bearing in mind that SITC 2 and 3, which form such a large share of Soviet goods imported by Yugoslavia, are energy and raw material categories, the fact that Yugoslavia paid higher prices for these goods than could have been achieved within CMEA is important. Given the descriptions of the systematic deviations observed from wmps in Soviet trade with the rest of Eastern Europe, this is a major difference in terms of the external conditions faced by Yugoslavia and Hungary, one which can be seen as a consequences of Tito's assertion of Yugoslavia's geopolitical independence.

4.6 Iskra, Electronics Manufacturer

As in the previous chapter, a case-study of a company is included to illustrate some of the themes raised above. The market socialist dream of an industrially-advanced economy with small enterprises owned and operated by their employees existing in a macroeconomic climate characterised by low unemployment, efficient administration, and successful international trade links, was realised to some degree in the northern republics, and especially in Slovenia. Based in Slovenia, Iskra is an example of the relatively successful northern economy which managed to produce high-quality, mass-market electronic goods, some of which were competitive on Western markets (Vukic, 2010). Several interesting things about Yugoslavia's political economy can be highlight by looking at Iskra.

The self-management motif to the Yugoslav reforms distinguished them from those in Hungary, and arguably this conception was unlikely to have been put into practice within CMEA due to the volume of trade within the bloc and its tendency to reinforce traditional planning methods. The reality of conflicts of interest under self-management and the actual limitations to worker control can be seen from the following incident. In 1967-8 Iskra was manufacturing automatic telephone exchanges for the German

company, Siemens. The Novo Mesto branch supplied resistors to the parent company in Kranj, but at some point realised it was more profitable to sell directly to the Germans and so tried to secede in 1967. The decision went through all necessary resolutions of workers councils and to a general vote of the whole workforce before the director stepped in and suspended the workers council in Novo Mesto and instituted direct management for one year, after which the secessionists lost the crucial vote (Singleton and Carter, 1982). So when self-management would have meant the dismembering of a nationally-significant firm, central management ultimately proved capable of over-ruling worker councils in the interests of preserving the company as a single entity.

Doder (1979) has reported a manager at an unnamed electronics firm (which may or may not have been Iskra but can be assumed to have been a similar company if not) as saying, 'Self-management... is helpful for smoothing industrial relations. But what is really important is that his firm was making solid profits and that the workers were making good wages' (p.102). This provides a good example of how when these two imperatives came into conflict, more often than not the profits of the entire combined enterprise were prioritised over the profits of the constituent production units like the plant at Novo Mesto. Arguably this is because the secession of a small branch enjoying a relatively high profit rate could have opened the door to the possibility of workers more easily raising wages than they could have within a large enterprise where various institutional bodies would have had to be involved in any such decision.

Looking at how the two case-study companies fared after the end of socialism is also revealing. To give a quick reminder, Ikarus struggled after the collapse of CMEA trade, but was eventually preserved after state intervention and a series of painful mergers and restructurings. In contrast, Iskra quickly split into a number of smaller companies concentrating on areas the previous combine had had genuine comparative advantages in. These daughter companies succeeded in foreign markets after the Cold War as suppliers of components to final manufacturers (Dyker et al, 2003). This implies that Ikarus could only survive within CMEA, while Iskra was more efficient in the first place and so parts of it survived. I argue that this was partly due to the fact that Yugoslavia had been outside CMEA, and so had not experienced a development process—unlike Hungary and the rest of the six—that tended to generate structures of production which could only export within CMEA and faced extreme difficulty in other markets.

5. *Conclusion*

Despite the substantial similarities to be found between Hungary and Yugoslavia, market socialism outside the structural context provided by CMEA trade and integration patterns and the transfers of surplus they entailed must be considered as fundamentally different from market socialism within CMEA. That the root cause of Yugoslavia's absence from CMEA was Tito's decision to assert Yugoslav independence from Moscow further reinforces the general argument that the Soviet geopolitical project of maintaining communist power in Eastern Europe under Soviet leadership is essential to understanding CMEA trade. Thus the problems that came with the development process in Yugoslavia (unemployment, inflation, foreign debt, etc.) were specific to the political economy of Yugoslavia as it developed since the 1949 split with Stalin and the USSR, and this cannot be understood in isolation from the international context that set Yugoslavia apart from the other socialist countries of Europe. This supports the contention that dependent development provides a useful frame for the analysis of trade and development in the Eastern bloc by showing how a country outside this system experienced a significantly different development process in spite of numerous similarities. As will be returned to in the concluding chapter, the fact that this account drew on ideas from the reformulation of DT to show the interrelation between international and domestic factors in the case of a country outside the centre/periphery system earlier focused on, this perhaps points the way to one approach to the question of the transferability of the ideal-type which will be discussed further later—namely, the potential separation of the theoretical concept of dependent development from the centre/periphery paradigm.

Conclusion: What Did Dependency Theory Add? What Has Been Added to
Dependency Theory?

Two questions will be focused on in summarising this study: What does this tell us about DT? And what has DT told us about Eastern bloc trade?

1. Research Questions

This thesis has attempted to answer certain questions about the nature of international economic relations within the Eastern bloc and their implications for development, and in so doing to demonstrate the continued relevance of a form of dependency analysis. Considering the two primary questions, the following can be said.

1. What were the intentions and effects of Soviet trade policy with Eastern Europe between 1945-89?

By arguing that the USSR aimed to secure Eastern Europe within the Soviet bloc partly through a policy of trade and integration which effectively subsidised the East European economies at Soviet expense, a coherent account of the reform of CMEA ftps in the 1950s can be generated. The high value attached to this geopolitical objective can be inferred from the continuance of the system of subsidised trade right until the end of the Cold War. However, from the 1960s onwards, the USSR was increasingly aware of the relatively poor quality of the goods Eastern Europe exported back in return, and repeatedly attempted to get a better deal, especially after 1973. From this time, two conflicting intentions were at work, one technocratic, one geopolitical. Gorbachev was the first Soviet leader to take the technocratic position as seriously as the geopolitical one, although by this time the geopolitical dynamics of trade within CMEA were extremely well established. The fact that powerful interests in Eastern Europe wanted subsidised trade to continue (large enterprises who liked the soft contracts, as well as party leaders who saw their countries as net beneficiaries), reinforced this tendency and made substantive change to CMEA practices highly improbable before the ending of East-West antagonism.

The effects were that economic development in Eastern Europe became dependent on trade with the USSR at skewed prices through which they obtained essential energy and raw material inputs. The only way to procure these goods was to engage in barter trade with the USSR via CMEA, since the structural intertwining of East European industry with Soviet supply networks and final markets made these industrial economies ill-adapted to export elsewhere. Therefore production could expand only so long as this trade system was maintained and the quantity of goods moving within it increased. For the USSR, the results were the maintenance of the bloc until 1989, and the exacerbation of tendencies already at work in the Soviet economy relating to the consumption/investment debate, the allocation of investment resources (especially towards energy and defence production), and the predisposition of industrial managers to scale over quality. The fundamental difference between this account and others reviewed in chapter 2 is that it places the idea of dependent development at the centre of the narrative, in contradistinction to the general usage of similar terms without giving clear definitions. This account distinguishes itself from prior DT work on CMEA by its explicit reformulation of DT in a new direction, rather than by simply applying the models developed by Frank, Cardoso, and others. By using the concept of dependent development as defined in chapter 3, the motivation behind the Soviet decision to subsidise Eastern Europe can be understood, as can the effects the subsidies had on the smaller socialist economies and on the USSR itself.

2. Can DT be developed through a consideration of this historical case?

This thesis argued throughout that DT can be revised and developed in a significant manner through its deployment in relation to the specific case study of CMEA. This will be covered in more detail below, but the most essential point to be made is that the historical account given in this thesis is only possible once a concept of dependent development is used, but that this concept had to be (re)developed in relation to considering this historical material since classical DT makes claims which straightforwardly contradict the evidence available about Eastern bloc trade and development.

Referring back to the three secondary research questions presented in the introduction, the following answers may be given.

1. Taking into account the high volume of trade within the bloc, what were the dynamics of economic interaction between the Soviet Union and Eastern Europe?

Whilst under Stalin, the USSR acted much as many theories of imperialism would predict by extracting surplus from the subordinate countries and unilaterally dictating terms of trade, such a description is inaccurate from 1956 onwards. After this point, a historically-unique system of trade set the region on a path of development which cannot be comprehended within the confines of classical DT but which can usefully be characterised as dependent none-the-less.

2. How did the structure of trade in terms of prices, quantities, and commodity composition relate to development?

Once Khrushchev had replaced Stalin, a new dynamic can be observed in which the dominant USSR willingly subordinated its own economic interests to those of the smaller socialist states by instigating a system of subsidised trade with Eastern Europe. The expansion of production in Eastern Europe was rendered dependent on the continuance of the import/export relation to the USSR through CMEA whereby undervalued Soviet resources were exchanged against overvalued East European manufactures. I argue the USSR did this to make Eastern Europe dependent on the Soviet economy and in so doing to ensure the geopolitical goal of maintaining communist power in the region under Soviet leadership. DT is especially well-placed to discuss this in comparison to the other frames discussed in the literature review, all of which lacked a specific concept of dependence whilst tending to acknowledge its significance.

3. What were the implications of this system of international economic relations for structures of production in Hungary, Yugoslavia, and the Soviet Union itself during this period?

This system of exchange had a profound effect on structures of production across the bloc and must be integrated into any account seeking to explain the economic development of the region over the Cold War period. For the Soviet 'centre', this took the form of an increased demand for investment in fuel and materials extraction, processing and transportation facilities, the products of which were exported at a loss against East European industrial goods which could not be sold on the world market due to their low quality and high production cost. The version of DT used in this thesis helped to account for this by giving clearly defined structural concepts (for example, relative levels of intra-industry trade) which provided the context within which discussions of agency could be situated. Similarly, the version of DT developed here allowed for the analysis of nationally-specific development trajectories within this regional system by conceptualising development as a contested international process which needs to be related to factors both inside and outside of the bloc.

4. How did this regional system of trade and development relate to the wider context of the Cold War?

I argue that trade and development within the Eastern bloc cannot be fully comprehended without relating them to the dynamics of East-West antagonism and competition. Most centrally, the geopolitical antagonism of the Cold War is essential to understanding the extra-economic significance attached to intra-bloc trade by post-Stalin Soviet leaderships. The post-Stalin crisis of Soviet authority, both in the region and as the unquestioned vanguard of the international communist movement, as epitomised by the wide-spread social unrest in Eastern Europe after 1953, is the necessary background to understand why the introduction of vast economic incentives in the form of subsidised trade were introduced at this time. This system secured for the Soviet Union geopolitical status and security; the fact that armed intervention, most significantly in Czechoslovakia in 1968, was still needed shows the instability of this strategy in that ultimately military power was still the final enforcer of Soviet authority in the bloc. This and other contradictions in this Soviet strategy emerge most clearly once the bloc is set in the context of global political and economic development.

This primacy of geopolitics in international economic relations was argued to originate partly in the international context and manner in which industrialisation was carried out in the USSR under Stalin, and that one of the most significant legacies of this period was the prioritisation of heavy industry, and of defence production within this category. This gave the Soviet economy a particular character which influenced the foundation and evolution of CMEA in that it was symbolic of the tendency to prioritise geopolitical and security objectives over purely economic considerations. Related to this, the structural impact of uneven capitalist development outside of the bloc also has to be mentioned at this was argued to be vital for comparatively assessing the development pattern internal to CMEA. This was especially true from the 1970s onwards when developments external to the bloc (chiefly, the oil shocks; the increased East-West trade due to détente; the exposure of the Eastern bloc to Western debt; and the technology lag in relation to DMEs and some NICs) became of great significance in terms of highlighting the contradictory nature of development within the bloc.

The oil price rises of the 1970s were important for underlining both the growing severity of the costs the system of subsidised trade imposed on the USSR, and for the inefficient and anachronistic mode of industrial development this facilitated in Eastern Europe. The increase in East-West trade from détente onwards, and the fact that the Eastern bloc economies stood in relations of noticeable and growing technological inferiority to the West, further highlighted the contradictory nature of dependent development in the bloc. The emergence of a series of serious debt crises, notably in Poland and Hungary, in the 1980s emphasised this unhealthy asymmetrical relation, in which the East exported raw materials, semi-manufacturers and foodstuffs to the West in return for finished products and capital goods; ironically this resembled the classical description of external dependency.

In this way, the 1980s have to be conceptualised as the period in which the contradictions in the process of dependent development within the bloc became too acute, and fundamental change became a question of 'when' rather than 'if'. This was in contradistinction to earlier periods when the ideological proposition that state planning was a superior form of economic organisation and would eventually out-compete capitalism seemed plausible, and this was earlier argued to partly account for the failure to develop a genuinely socialist theory and practice of trade

2. Rethinking Dependency Theory

Turning to what has been learnt about DT, a core claim of this thesis is that the dependency perspective can still be a useful frame of analysis for asymmetrical international economic relations. However, changes need to be made from the classics of the dependency tradition. Accordingly, chapter 3 began by engaging with methodological issues which need to be considered if any reformulation is to go beyond the confines of classical DT. In terms of structure/agency, I followed Cardoso's approach in that the two elements of any explanation, agents and structures, could be conceived of in an either/or type sense where one is placed at the centre of analysis and the other to varying degrees excluded, or they could more usefully be thought of as fundamentally interrelated. This approach was put forward because a long-standing complaint with Frank's DT was that structural determinism pushed agency almost totally out of the picture. Thus the significance of this for the reformulation and subsequent application of DT was that this understanding fundamentally ran against the general emphasis on global structures considered to be stable over long time-periods and largely determining agency which is implicit in much of DT and WST.

Secondly, the ideal-typical method was argued to be a feasible way of forming coherent explanations by specifying what should be understood as generally valid and what as conditional on particular identifiable factors. In a methodological sense, the explicit use of an ideal-type is a break with the DT tradition, and the conception of dependent development developed here differs from Cardoso's. In terms of specific political-economic concepts, the DT used here returned to a more classical Marxian political economy than the neo-Marxism characteristic of Frank and Wallerstein. The key moderations will be recapped again:

1. It was proposed that the reconstruction of dependent development as an ideal-type was a way to get past the reification of centre/periphery. Rather than aiming to identify static and immutable structures, dependency analysis should focus on changing relations between centres and peripheries over time; the idealisation was offered to serve as the basic description of dependent development and to provide a general starting-point from which inquiry into centre/periphery systems can

proceed without presuming any particular dynamic of interaction. In this way the idealisation is not supposed to be an exhaustive definition but can serve as a starting-point for constructing specific historical narratives. I suggest that this is a methodologically secure way of avoiding the reification of centre/periphery into a static structure with an assumed dynamic of interaction expressed as positive statements. This meant that instead of the empirically problematic claim that interaction between centres and peripheries is a zero-sum game, open-ended questions of reciprocal influence can be addressed. In this way, the use of idealisation suggested itself as a methodological remedy appropriate for DT.

2. Whilst Cardoso's amendments to the dominant Frankian scheme were important, he did not move far enough away from Frank and did not offer enough in terms of specific theoretical constructs. However, I have largely followed Cardoso's outline of an approach which undogmatically looks to the interaction and mutual co-constitution of internal and external factors on the premise that this fits well with ideal-typical methodology. By recognizing that some structures are national (e.g. planning), some international (e.g. CMEA pricing), and agency is also understood to be relevant in both a national and transnational sense, the historical analysis tried to chart a middle course in this sense between the two extremes of internalism or globalism.
3. To make improvements to the sometimes vague use of concepts, economic surplus, and specific ideas derived from it (like competitive and complementary development, and intra- and inter- industry trade), were used. These appeared in the historical chapters in order to provide answers to the research questions. Once dependent development was defined in the abstract, economic surplus was used as a conceptual object towards which to orient empirical study. Remembering the significance of the methodological issues raised in chapter 3, structural notions of economic surplus were used in the sense of providing entry-points for the discussion of agency in relation to them, rather than being invoked as casual factors in their own right.

3. Dependent Development in the Eastern bloc

Chapter 4 described the relationship between the USSR and the six in terms of the changing pattern of international economic relations and how these related to the development of the bloc. It was argued that a coherent narrative of economic development can be arrived at via the application of the previously developed theory. The most important result of this was the identification that Soviet-subsidised trade created a historically-unique pattern of dependent development for the bloc, and it was suggested this was an intended effect of the CMEA price reforms of the 1950s. A novel periodization of the economic history of the region was proposed; specifically, the periodization of international economic relations within the bloc and how they related to development differs substantively from those positions critiqued in the literature review, all of which minimised the significance of the transition of the mid-1950s and the long-term development pattern this brought forth. It was shown how several significant structural features of the centrally planned economies (e.g. economic inefficiency, lack of technological dynamism, varying commitments to reform) interrelated to CMEA and the contradictions of Soviet strategy in this regard. Area studies scholars would most probably not disagree with this characterisation, although their own analysis is sometimes not based upon clearly stated theoretical ideas, and various other theoretical perspectives would disagree with the premises used here.

This macro-narrative of Eastern bloc development, although researched from secondary sources, can be argued to provide a distinct take on the economic history of the period. By centring the account round a theoretically-secured concept of dependent development it was possible to go beyond the confines of debating whether subsidisation or exploitation was the key dynamic; both were relevant in particular periods, and insights from both perspectives can be combined within a dependency-centred account. The role of CMEA trade as a link between the Soviet model of industrial development and energy inefficiency is an example where the attention directed to a crucial international dimension by DT leads to the reinterpretation of empirical information. Similarly, the international nature of the material basis and influences acting upon agents in the Eastern bloc is another angle highlighted by the theoretical frame. The uneven struggle within the Soviet party-state apparatus between technocrats who wanted to raise efficiency, and

the leadership who had to consider geopolitics, or the Hungarian large enterprises who wanted to monopolise soft CMEA contracts in opposition to the party who pushed for modernisation and trade with the West are examples of this.

The main claim to historical originality comes from the three case-studies, where the method and theory were applied to generate specific accounts of how the Soviet Union, Hungary and Yugoslavia developed in interaction with their particular international contexts. These showed how a coherent account of how trade related to development within the bloc can be achieved once the theoretical framework is applied consistently and challenged the suboptimal division of academic labour whereby economists attempted to quantify but not interpret the subsidies, while historically-minded social scientists focused mainly on description. Having claimed that the tendency to overemphasise external conditions as the most significant determinant of an economy's ability to develop is problematic in classical DT, these chapters attempted to show how internal and external factors can be seen to interacted and co-determine each other under the frame offered by the revised DT framework.

4. Paths for further research

4.1 Empirical

I believe the thesis points to several areas for future research. Firstly, the theory of dependent development used to explain Soviet trade with Eastern Europe could potentially be applied to other asymmetric international systems. There is significant scope to study regional development dynamics from this angle, particularly in reference to rising powers such as the BRICs (Brazil, Russia, India, China). These economies are increasingly important parts of the world economy, but are no-longer subordinate to the US or EU, with whom they stand instead in relations of complex interdependence. However, all these states stand in notably asymmetrical relations to their 'near abroad', and are often more influential pulls on regional development than the West. Whilst the use of an ideal-type was proposed to avoid the problematic claims which classical DT made, this emptying out of specific historical content from the theoretical starting-point could make the ideal-type general enough to provide a base for analysis of other cases. In the case of Russia, such issues are highly topical given the current trade disputes with

the EU and their debated impact and significance. This is not to claim that DT is the only theory capable of looking into these phenomena, but it could be used to good effect alongside other theoretical frames.

In general it would be interesting to extend the study to the post-Cold War period and look simultaneously at economic relations within the Former Soviet Union, and relations among the former members of CMEA. The legacies of socialism are still relevant today for all the transition economies, and the recent massive energy cooperation deal between Russia and China leaves little doubt as to the continuing importance of energy resources for the Russian economy and Russia's international policy. The re-integration of Eastern Europe and the Baltic republics into the world economy via the EU means an alternative development path which was negated during the Cold War is now taking place, and meaningful comparisons of the economic performance of the region before and after 1989 could potentially be made.

4.2 Theoretical

The reformulation offered here was intended to both serve the purposes of elucidating the relationship between trade and development in the Eastern bloc, and to potentially be applicable elsewhere. As such, a significant theoretical issue to be considered in terms of potential future research is the question of just how transferable the theoretical frame constructed in chapter 3 is. Remembering why the methodological form of the ideal-type was selected to form the basis of this reformulation, and that the propositions given were suggested to be the most essential features of the phenomena of dependent development within a centre/periphery system, it is necessary to consider the precise elements that would make the model applicable (or not) elsewhere.

A good way to open-up the issue of transferability is to focus in on elements that were included in the reformulation explicitly in order to make it suited to the Eastern bloc, since these elements may reduce the chances of the type being capable of useful application elsewhere. The most central thing that emerges once this line of investigation is taken is that the ideal-type here remains committed to some sort of conception of development as analysable within a centre/periphery system, although not in the rigid and necessarily global sense meant by classical DT. The centre/periphery analytical device

was given a place in the reformulation on the grounds that CMEA was argued to be well-suited to analysis from this perspective, in that it had a fairly obvious set of asymmetries which made considering the USSR as the centre seem appropriate. The fact that the economies of the bloc explicitly conceptualised themselves as distinct and different from capitalist socio-economic forms, and that this proposed difference can be backed-up by evidence making clear the peculiar nature of the domestic and international structures characteristic of the bloc, further encouraged the use of the centre/periphery model within the bloc. I argued that once the positive statements and determinisms which imbued Frank's centre/periphery paradigm were removed, the analytical device of separating a group into two parts in order to study their interaction was highly useful in this case, and I hope the historical analysis has made a case for this.

Accordingly, for the model to be applicable elsewhere, two distinctions need to be able to be made with relative clarity; both between a group as a whole and the rest of the world economy, and within the group between centre and periphery. However, such relatively discrete regional systems with a clear centre and periphery as the Eastern bloc can be argued to have constituted during the Cold War may not be easily identifiable elsewhere. Most importantly, rhetoric aside, there is no-longer a socialist group trading substantially between themselves and operating with a fundamentally different logic. On the other hand, certain dynamics of the post-Cold War international system could be said to actually enhance the applicability of a model which puts regional economic relations at the centre of analysis. In the polycentric world economy of the 21st century, perhaps the scope for such studies would be essentially expanded in that they would put regional dynamics alongside global factors, perhaps on an equal footing, in forming explanations of development.

However, the transferability of the framework is not dependent on whether or not the centre/periphery paradigm can be employed widely. Since the problematic of dependent development, rather than underdevelopment, was chosen for the reformulation, and because this was defined not as an exact concept to be understood in an either/or sense, but rather as a general pattern which could occur in various ways and affect different economies to varying degrees, this effectively means that the issue of asymmetrical international economic relations could potentially be theoretically separated from the assumption that such relations are best framed within a centre/periphery

paradigm. I suggest that the notion of dependent development, so long as it is understood in a non-dogmatic and ideal-typical way, could survive such a switch of emphasis away from the centre/periphery device. The Yugoslavia chapter has in part shown how this could be possible, in that Yugoslav development was shown to be fundamentally influenced by international conditions (both in relation to the world economy and CMEA), although this was not accomplished by characterising Yugoslavia as ‘peripheral’ in the sense meant by Frank or Wallerstein which would have excluded the significance of Yugoslavia’s unique domestic features.

The decision to focus on surplus production and use should mean studies of dependent development would be possible where the separations necessary for the centre/periphery paradigm to apply are harder to identify. I argue that in abstaining from making any determinist or essentialist declarations on how internal or external factors co-relate, but instead in following Cardoso’s approach of looking always to the articulation of how they are interrelated and co-constituted, space is left for the historical study of how the propositions of the type are realised in any number of varying ways. Once again, if the propositions of the type cannot be identified in a given situation, this simply means that the type is irrelevant to the case, and therefore not a useful point from which to begin the investigation.

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Appendix

Table 1 – Marrese and Vanous (1983) estimates in millions of 1983 dollars of the size and distribution of Soviet implicit trade subsidies to CMEA members, 1960-78 (p.43):

Year	Bulgaria	Czechoslovakia	East Germany	Hungary	Poland	Romania	CMEA Six Total
1960	-77.5	67.4	178.7	46.5	52.9	-24.7	243.4
1961	-72.7	48.8	171.5	64.6	16.2	-44.2	184.1
1962	-60.5	60.9	212.0	48.0	33.2	-58.5	235.2
1963	-112.8	37.3	158.1	40.5	28.8	-56.3	95.6
1964	-101.7	46.0	242.0	35.2	-1.9	-46.5	173.0
1965	-73.1	92.4	302.9	52.7	13.1	-19.2	368.7
1966	-96.0	108.9	321.9	56.3	70.5	-27.9	433.7
1967	-91.2	124.3	260.9	62.3	95.6	-25.4	426.5
1968	-89.2	162.5	288.1	98.5	110.2	-15.3	554.8
1969	-54.8	163.3	282.3	93.4	124.1	-23.4	584.9
1970	6.0	203.1	466.7	158.1	169.5	33.4	1036.7
1971	-14.7	157.7	426.1	142.1	164.7	36.6	912.5
1972	-32.6	109.1	329.6	112.6	131.0	11.9	661.7
1973	159.8	250.3	688.9	226.8	300.4	1.8	1628.2
1974	1081.3	1174.2	2022.6	876.9	1067.1	42.9	6264.9
1975	919.3	1096.9	1665.0	597.9	1027.3	19.1	5325.5
1976	876.8	1195.4	1786.4	671.1	1021.4	45.4	5596.3
1977	1014.8	1225.5	1896.0	644.6	1106.3	50.4	5937.6
1978	1087.1	1086.4	1913.9	660.6	897.0	109.1	5754.1

Table 2 Soviet fuel structure (Shabad, 1969, p.6):

	1945	1950	1955	1958	1960	1965
Petroleum	15.0	17.4	21.1	26.3	30.5	35.9
Natural gas	2.3	2.3	2.4	5.5	7.9	15.6
Coal	62.2	66.1	64.8	58.8	53.9	42.9
Peat	4.9	4.8	4.3	3.4	2.9	1.7
Oil shale	0.2	0.4	0.7	0.7	0.7	0.8
Firewood	15.4	9.0	6.7	5.3	4.1	3.1

Table 4 – Comparative production efficiency statistics between Eastern and Western Europe (Winiecki, 1988, p.7:)

Countries	Energy intensity in 1979 (in kg of coal equivalent consumption per 1000 US dollars of GDP)	Steel intensity in 1980 (in kg of steel consumption per 1000 US dollars of GDP)
Planned economies		
Bulgaria	1464	87
Czechoslovakia	1290	132
Hungary	1058	88
GDR	1356	88
Poland USSR	1515	135
Unweighted average	1362	135
West European market economies		111
Austria	603	39
Belgium	618	36
Denmark	502	30
Finland	767	40
France	502	42
FRG	565	52
Italy	655	79
Norway	1114	38
Sweden	713	44
Switzerland	371	26
UK	820	38
Unweighted average	660	42

Table 7 Soviet intra-industry trade with CMEA and the rest of the world (sourced from Drabek and Greenaway, 1984, p.461):

Year	USSR intra-industry trade with:	World	CMEA
58		41	26
59		40	24
60		40	26
61		37	29
62		35	26
63		40	25
64		39	25
65		39	24
66		36	27
67		33	27
68		34	26
69		34	26
70		37	27
71		38	30
72		37	31
73		34	29

Table 8 – Soviet and US growth statistics (reproduced from Lane, 1985, p.51):

Year	Population (millions)		GMP per capita (1975 dollars)		SovietUSA ratio (per cent)
	Russia/USSR	USA	Russia/USSR	USA	
1913	157.9	97.2	600	2,500	24
1928	151.1	120.5	629	2,931	21
1940	195.1	132.1	904	3,182	28
1950	180.1	152.3	1,213	4,315	28
1960	214.3	180.7	1,838	4,993	37
1965	230.9	194.3	2,182	5,882	37
1970	242.8	204.9	2,722	6,523	42
1975	254.5	213.6	3,088	6,972	44

Table 9 Soviet freight (sourced from Bater, 1989, p.234):

	1917	1928	1940	1960	1980	1986
Rail	63.0	93.4	420.7	1,504.3	3,439.9	3,834.5
Sea	7.7	9.3	24.9	131.5	848.2	969.7
Canal	15.0	15.9	36.1	99.6	244.9	255.6
Pipeline– oil	0.01	0.7	3.8	51.2	1,216.0	1,401.3
Pipeline– gas	-	-	-	12.6	596.0	1,240.0
Road	0.1	0.2	8.9	98.5	432.1	488.5
Air	-	-	0.02	0.6	3.1	3.4
Total	85.8	119.5	494.4	1,898.3	6,781.1	8,193.0

Table 12 – Hungarian imports (sourced from Berend and Ránki, 1985, p.278):

	1938	1950	1960	1970	1980
Fuels and energy	73.1	72.7	8.5	7.3	14.8
Raw materials and semi-manufactures			54.4	50.2	49.2
Machinery	10.6	22	21.7	21.6	19.3
Industrial consumer goods	8.8	1.5	5.7	9.8	8.3
Food	7.5	3.8	9.7	11.1	8.4

Table 13 – Hungarian exports (sourced from Bred and Ranki, 1985, p.278):

	1938	1950	1960	1970	1980
Fuels and energy	23.5	17.5	1.5	1	4.1
Raw materials and semi-manufactures			24.6	29	31.2
Machinery	9.3	23	33.6	26	26.2
Industrial consumer goods	10.2	20.3	18.2	21	16.1
Food	57	39.2	22.1	23	22.4

Table 15 – Hungarian and Czechoslovakian intra-industry trade by SITC category (sourced from Drabek and Greenway, 1984):

SITC group	Cz. 1964	Cz. 1977	H. 1964	H. 1977
5	58	52	42	56
6	51	50	63	66
7	64	72	73	87
8	51	61	39	77
5-8	55	56	51	70

This table describes trade in the following Standard International Trade Classification (SITC) commodity types: SITC 5 = chemicals, SITC 6 = manufactured goods, SITC 7 = machinery, SITC 8-9 = miscellaneous manufactures. The Hungarian data is only for European CMEA trade, while the Czechoslovakian data also includes non-European CMEA trade, although this was fairly insubstantial. A near 1 score means intra-specialization, while a near 0 score means inter-specialization was predominant.

Table 16 – Hungarian SITC 7 category exports to USSR and OECD countries (sourced from Richter, 1989, p.41):

Destination	Years	Hungarian SITC 7 exports
USSR	1971-75	40.4
	1976-80	44.7
	1981-85	41.6
	1986	46.0
OECD	1971-75	7.8
	1976-80	11.8
	1981-85	10.8
	1986	11.0

Table 17 – Productivity and population statistics for Yugoslavian Republics (sourced from Lydall, 1989, p.188):

Region	Resident population (000)	Real social product per capita	Output per worker in the public sector	Net personal income per worker in public sector:	
				Nominal	Real
Slovenia	1,871	179	145	145	124
Croatia	4,437	117	106	108	102
Vojvodina	1,977	133	103	92	101
Bosnia and Herzegovina	4,155	80	85	87	96
Serbia	5,574	94	93	93	93
Montenegro	604	80	90	81	84
Kosovo	1,760	36	69	73	89
Macedonia	1,954	75	75	70	80
Yugoslavia	22,334	100	100	100	100

Table 18 – Yugoslav exports and imports by category (sourced from Lydall, 1989, p.178):

	Exports	Imports
Food, drink and tobacco	10.8	5.2
Non-petroleum raw materials	5.3	11.7
Petroleum	2.5	26.5
Chemicals	10.9	13.0
Semi-proceeded products	22.4	15.4
Machinery and transport equipment	30.1	25.4
Other finished goods	17.6	2.7
Unclassified	0.4	0.1
Total	100	100

Table 19 – Yugoslavian exports and imports by region (sourced from Lydall, 1989, p.177):

	Exports			Imports		
	1979	1984	1987	1979	1984	1987
Developed market economies	46.0	36.5	50.1	66.3	47.5	57.4
Socialist economies	42.3	47.0	35.4	27.7	34.7	30.2
...of which USSR	21.6	27.3	19.4	13.9	17.4	15.3
Developing countries	16.3	16.4	14.5	15.0	24.0	12.4

Table 20 – Yugoslavian exports by SITC category (sourced from Richter, 1989, p.29):

	SITC 0,1,4	SITC 2	SITC 3	SITC 5,6,7,8
1971-75	2.6	18.2	33.4	5.6
1976-80	1.4	24.7	44.8	6.6
1981-85	2.8	25.3	40.3	8.4
1986	1.1	28.1	34.4	8.5