SOVIET ECONOMIC IMPACT ON CZECHOSLOVAKIA AND ROMANIA IN THE EARLY POSTWAR PERIOD: 1944 - 1956

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This paper examines the conditions under which the so-called Soviet model of industrialization was introduced into East Central Europe. While it is difficult to define direct Soviet economic policy, one can discern the Soviet interest and its direct economic impact by analyzing Czechoslovakia and Romania in terms of both their internal development and their relations with the Soviet Union. No doubt, the primacy of politics is the main component of the Soviet relationship to East Central Europe; this paper, however, will focus on the economic side of that relationship.

Although these countries followed the Soviet development strategy of the 1930s -- rapid extensive growth of heavy industry through central planning -- it is important to recognize the distinctive features of each country's pattern. Though it is widely accepted that significant national differences exist in the 1980s, their emergence from the 1940s and 1950s is much less well-known, let alone the fact that these differences were strengthened by various Soviet policies.

Let us turn to the cases of Czechoslovakia and Romania. In the interwar period there were already important social and economic dissimiliarities between the two countries. The question then is: Could the Stalinist "melting pot" actually eliminate these distinctive features?

To begin with, Romania's population was overwhelmingly rural and its level of development was closer to the USSR's than was Czechoslovakia's.[1] Almost two thirds of Romania's agricultural properties remained smaller than the viable size of three hectares, despite an extensive land reform completed after World War I.

At this time, Romania's ruling economic ideology was divided between two main currents. One was the Liberal Party's explicit rejection of the international division of labor. The Liberals insisted on balanced industrialization based on import-substitution, and supported the creation of a series of overprotected, overbureaucratized large enterprises. They favored such capital-intensive sectors as metallurgy, armaments, and petrochemicals which were sustained through high artificial prices and tariffs. The big industrial owners and the Royal Palace acted closely and interdependently, having defended their interests against the medium-sized and small firms.

The other economic ideology belonged to the National Peasant Party. It attacked the Liberals' notion of economic self-sufficiency, and emphasized agriculture over industry. In the end, it was the Liberal Party's economic philosophy that served as a basis for the postwar transition period.

During World War II, Romania fell under German economic hegemony, which encouraged industrial branches based on local resources and, through mixed companies, used up Romania's natural resources for German war needs. The Germans seized certain heavy industries (e.g. oil and metallurgy) and centralized their control.2 During the war, state interference grew stronger but was limited to a few important industries and big enterprises.

In contrast to Romania's agricultural economy, Czechoslovakia was a relatively developed state. Following the German occupation in 1939, Czechoslovakia developed a war economy to satisfy German military needs, and created a central administrative system to control this industry.3 Even earlier, from the mid-1930s on, consumer industries suffered while armament industries and metallurgy enjoyed top priority.4 After 1939, the Czech lands rapidly and efficiently adapted to the German war economy. This approach was secondary however in "independent" Slovakia where agriculture played the dominant role.5

From August 1944 on, one can find a strong, comprehensive Soviet military and administrative presence in Romania. (While this paper will not deal with the Churchill-Stalin percentages agreement which favored Soviet influence in Romania, it is important to note that the Soviets achieved a dominant position in the Allied Control Commission for Romania.) The first period of the Romanian-Soviet economic relationship, characterized by the dismantling of factories and requisitions by Soviet troops, lasted until the Groza government came to power. The second period, beginning in mid-1945, centered on fulfilling the obligations arising out of the Armistice Convention. We can distinguish three kinds of obligations: first, reparations, where deliveries were priced at the prewar world level, which excluded wartime inflation; second, the restitution of all goods and materials taken by Romanian troops from Soviet territory; and third, the feeding and clothing of the Red Army. All three were vaguely defined concerning the prices and structure of goods and services. To fulfill these obligations of the Armistice Convention, the Romanian government had to allocate between 31 and 52 percent of its budget expenditures in 1944-47, 10 percent higher than the corresponding Hungarian figures.6

In addition, the composition of reparations deliveries, mainly oil, oil products, ships, and freight railway cars, affected the long-term structural development of Romanian industry. Through 1951, the USSR was a net oil importer, and remained a net importer of oil products through 1954, facts which underline the importance of Romanian oil deliveries.7 These reparation deliveries strongly limited Romania's Western export capacity. Moreover, as a former enemy, Romania did not receive free imports from the United Nations Relief and Rehabilitation Administration (UNRRA).

The Armistice Convention was but one side of Soviet policy. Another basic element was the creation of joint companies, the so-called Sovroms.8 Between 1945 and 1952, in three successive waves, a total of sixteen Sovroms were established in oil exploitation, transportation, banking, coal mining, shipbuilding tractor manufacturing, uranium mining, etc. The Soviet contribution consisted of former German assets, where German wartime property had been widely integrated with prewar Allied property.

In the case of the biggest and most influential joint company, Sovrompetrol, the Soviet contribution was made up of former German oil shares and some British and French equipment. Sovrompetrol, whose creation was made easier by the high level of state control over Romania's wartime oil industry, was intended to diminish the still decisive Western share in the oil industry. Its requirement that even foreign companies deliver oil for reparations caused an international problem, because the Potsdam agreement had already exempted UN members from such an obligation. These political problems in the oil industry had an adverse impact on East-West relations.

The joint companies gradually penetrated every essential area of economic activity.9 They enjoyed extra-territoriality, being free of legal restrictions otherwise mandatory for foreign companies. They were totally tax-exempt and had great latitude in using their foreign-currency earnings, while the lack of foreign currency prevented other companies, both national and foreign, from restoring their depleted resources. Joint enterprises developed faster than Romanian private or state-owned enterprises. For instance, Sovrompetrol's share of Romanian oil production exceeded 30 percent in 1948; two years later, that one company directed the entire industry.

The first wave of joint companies aimed mainly at extensive exploitation of Romanian natural resources. The next wave, however, reveals Soviet intentions to support the Romanian industrializaton process. Between 1949 and 1950 a growing share of heavy industry was controlled by joint companies. The Soviet attitude toward investment of capital by these joint companies depended to a great extent on the state of Soviet economic recovery. Although the Soviet economy reached its prewar production level in 1948, it could only partly replace Germany as a supplier of machinery and heavy equipment in East Central Europe, and thus remained a net machinery importer through the entire postwar period. However, starting in 1949, we see an acceleration of Soviet deliveries to Romania.

From 1944 to 1949, the Soviet Union exerted a direct influence on the Romanian economy, which meant massive capital transfer and a reorientation of convertible export goods to the Soviet market. Romanian economic recovery, which was the slowest in the region, began to accelerate by 1949-1950. This acceleration was in part related to the easing of the burden of reparations and certain changes in the Soviet role in joint companies.10

In the case of Czechoslovakia, requisitions of industrial equipment and stocks of commodities were also listed as German assets. The removal of capital goods was terminated in mid-1946 however, and only one joint enterprise was established, namely Jachimovka in the uranium industry. Thus, between 1945 and 1948, direct Soviet control was marginal, although it determined indirectly the orientation of political change and accelerated the leftist transformation of society.

Through the mid-1940s, while increasing its trade with the West, Czechoslovakia greatly benefited from UNRRA aid. The Western orientation of its foreign trade gradually gave way however to the growing role of the Soviet Union and of other East Central European countries. A long-term trade agreement concluded with the USSR served as a framework for this change. Between 1946 and 1948, Czechoslovak exports to the USSR consisted mainly of metallurgical products, food- and energy-industry equipment, electric locomotives, trucks, and, last but not least, sugar and leather shoes. In turn, Czechoslovak imports consisted mainly of grain, cotton, and iron ore. It is evident from this pattern of trade that the Czechoslovak and Soviet economies operated at different levels and complemented one another.

Some Problems of Political Reorientation

As early as March 1945 a governmental change to the left occurred in Romania through direct Soviet intervention, ending the short coalition period. Political instability was partly caused by still unresolved territorial problems, although at the Paris Peace Conference Romania received confirmation of the return of the whole territory of northern Transylvania. This was undoubtedly the single positive result of the August 1944 takeover.11

In Czechoslovakia, between 1945 and early 1948 an inter-party coalition worked relatively successfully. Meanwhile the political system was becoming increasingly different from its neighbors' model, as could be seen from the critique raised at the Communist Information Bureau, set up in September 1947. The theory of the "Czechoslovak road to socialism" emphasized that the country's adoption of the Soviet model was slower and more gradual than the remaining countries in the region. Although the Czechoslovak government was the first in East Central Europe to announce nationalization along very broad lines, this belief holds that democratization and public ownership were closely interrelated. The Communist Party of Czechoslovakia shared the leading role with the trade unions and with a consensus of non-communist parties. This mass base was greatly expanded by the liberation of the country and the restoration of national integrity.12

In both countries the minority question proved to be a very important and sensitive domestic issue. In Romania, the German and Hungarian minorities belonged to the economically more developed social strata. During the interwar period, these minorities had played a decisive role in leftist movements, and in the postwar period exerted a strong influence on the communist party and the state apparatus. The question of Hungarian resettlement was raised, but no policy of expulsion was implemented.

In Czechoslovakia, however, serious anti-German and anti-Hungarian measures were taken. The expulsion and resettlement of more than two-and-a-half million German nationals had an adverse effect on the economy, causing serious losses in the numbers and skills of workers, entrepreneurs, and technicians. It also weakened the traditional export branches such as glass, porcelain, and textile industries. The anti-German nationalization and resettlement measures also greatly affected foreign policy, making for closer relations with the USSR.13

<u>Industrialization Policy</u>

At the October 1945 party conference, Gheorghe Gheorghiu-Dej, General Secretary of the Romanian Communist Party, declared the development of heavy industry a cornerstone of Romania's industrial policy. According to Dej, ferrous metallurgy and machine-building were to be favored. Romanian economic literature then began to draw a close relationship between the level of civilization and per capita production of iron. Later, in 1948, Dej identified the expansion of ferrous metallurgy and oil industry as equally important. Actual plan figures showed however that the oil industry had priority in resource distribution.14 This reflects an important distinguishing feature of Romanian industrialization: unlike its neighbors, whose capacity for heavy industry was based primarily on <u>imports</u>

of Soviet raw materials, Romania's industrialization was based on exploitation and export of raw materials (oil, non-ferrous metals, wood, etc.) according to Soviet needs. This was the case during the First Two-Year Plan (1949-1950) and the First Five-Year Plan (1951-1955).

Although the Romanian planners originally intended to expand metallurgy and imitate classical Stalinist industrial policy-- the slogan was "More steel means more bread" -- this kind of industrial policy did not fully accomodate the interests of the Soviets. Therefore, between 1951 and 1953, investment resources were allocated mainly to the fuel industries, as well as to metallurgy and machine-building.

A certain pragmatism prevailed in the regional development of industry, with more resources being distributed to the traditionally advanced regions. Brasov, the industrial center of southern Transylvania, was given the new name Orasul Stalin (Stalintown), and was treated preferentially. This policy, which gave priority to further expansion of the more highly developed southern Transylvania, was due to a great extent to the presence of the Sovroms. We should emphasize that the Liberals' policy of highly protected, noncompetitive, capital-intensive big enterprises had created a good foundation for the establishment of these Sovroms.

The Romanian-Soviet economic relationship, after having decreased substantially the burdens originating from the Paris Peace Treaty, was based primarily on the activity of Sovroms. Contrary to the experience of other ex-enemy countries, there was a second and even a third wave of Sovrom establishments. Their functions were several: first, marketing raw materials for Soviet needs; second, implementing a policy of import substitution which aimed to develop economic autarky and to disengage Romania from the world market; and third, at the same time initiating the production of new types of goods. Equally important was their role in establishing the Soviet-type management system on the enterprise level. 15

In the plan reports, the joint companies were the ones that constantly overfulfilled targets, and won socialist competitions -- in short served as models for the future. They also carried out a more pragmatic personnel policy than average Romanian firms: for a time they defended their skilled professionals from political purges.

Sovrompetrol controlled Romania's whole oil industry from 1950 on, as Romania's share of Soviet oil imports increased to 90 percent. Its importance came not only from the volume of trade, but also from the country's proximity to the USSR. During the Cold War, the value of Romanian raw materials increased further. Beginning in mid-1951, strategic locations in Romania such as oil fields and harbors came under direct Soviet military control.

The introduction of a central planning system did not however go ahead as easily.16 The interference of the political apparatus was great enough to constitute a "negative economic policy," that is one which destroyed the strength of the former ruling class and financially destabilized existing enterprises. Although it was an important aim of Romanian nationalization to end the prevailing economic disorder, the organization of state-owned industry proved difficult. The central economic organs lacked basic information about the enterprises they now controlled and faced serious problems in ensuring that their commands were implemented. Romania's official rhetoric was further from reality than Czechoslovakia's, leaving remarkable gaps. For example, Romania initially proclaimed the forced collectivization drive of 1949 a success, only to admit at a 1951 Central Committee meeting that the newly created agricultural cooperatives existed only on paper.

As for Czechoslovakia, the First Two-Year Plan (1947-1948) was elaborated in coalition-like professional committees. Czechoslovak economic literature notes that planners had studied the earlier Soviet Five-Year Plans and the current Polish Three-Year Plan. They were aware, however, of the fact, that domestic conditions were essentially different. The existing level of industrialization was higher and the extent of war damage lower in Czechoslovakia than in the two other countries.

The Czechoslovak plan concentrated on the distribution of raw materials, fuels, labor, and credit. Quantitative targets determined only one third of industrial production, that for the most important materials and projects. Until the power struggle turned toward the Communists in February 1948, trends in the economic management system worked to strengthen market elements and eliminate those of the war economy.17

The first sign of direct Soviet intervention in the Czechoslovak economy came with the instruction to refuse aid through the Marshall Plan. When the capital needs of economic recovery could not be covered by domestic resources, Soviet credit became available, partly in convertible currency.

The initial version of the First Five-Year Plan (1949-1953) sought to take into consideration national characteristics and comparative advantages such as (1) high dependence on foreign trade and limited size of the domestic market, and (2) the need to modernize rather than industrialize, based on skilled labor.18

In per capita terms as well as in volume, Czechoslovakia's Western trade recorded the highest levels for Eastern Europe in 1948. The plan attempted to cover the need for raw materials mainly through imports; modern technology was also to be imported, primarily in the form of Western equipment. However, it remained only a plan. Starting in 1949, a shift occured in the attitudes of its Western partners, not only reflecting the worsening relations between the superpowers, but also responding to the nationalization without compensation of foreign capital goods.

Two isolated, parallel world markets came into being. Henceforth, the radical reduction of relations with capitalist countries was proclaimed as a means of achieving economic independence. Czechoslovakia's heavy reliance on foreign trade made it necessary to look for other sources of intensive trade relations. Czechoslovak representatives to the Council for Mutual Economic Assistance (CMEA) proposed plan coordination and a higher level of division of labor. At CMEA's statutory meeting, Rudolf Slânsky, General Secretary of the Communist Party of Czechoslovakia, proposed that all members' investment plans be combined in order to identify and eliminate duplication. Despite Czechoslovak intentions, CMEA activity was restricted. The limited personal consumption of its neighbors could not provide a suitable market for the products of the Czechoslovak light and light-machine industries. 19

In November 1949, the Cominform declared that overt war preparations were under way in the highest Western circles. The professed danger of an impending world war had a radical impact on the original version of the Czechoslovak plan, paralyzing raw material imports from the West and requiring an accelerated exploitation of domestic raw material reserves. Stalin's view that Czechoslovakia possessed considerable raw material deposits was finally accepted. Following Soviet criticism at the third CMEA meeting in November 1950, large investments were assigned to low-grade iron (and other) ores. 20

The forced reorientation of foreign trade did not go smoothly. At the same CMEA meeting, other members sharply criticized the still high proportion of Czechoslovakia's Western trade, and its low level of trade with other CMEA countries. They demanded priority in purchasing Czechoslovak goods regardless of whether they, in turn, would be able to deliver goods to meet Czechoslovak needs.

Pressure to achieve autarky was applied not only to mining but also and particularly to the machine-building industry. It should now produce all feasible capital goods. The Czechoslovak heavy-machine industry was assigned an important role in the industrialization of CMEA members. New engineering branches were established to meet Soviet needs. A wide-ranging armaments industry connected with the Korean War was also developed, and in the end achieved the highest growth rate of the plan during the period. About 47 percent of all investments were related to military and internal purposes. 21

Czechoslovakia could not, however, take Germany's place as the main supplier of machinery and equipment and could not become the clear-cut "machine-factory" of CMEA. The country still exported as much in terms of raw materials and semi-finished products as in engineering. The former accounted for an even greater share in 1951-52.22

The commodity pattern of Czechoslovakia's Soviet trade merits special attention. While Czechoslovakia became a leading user of Soviet ferrous and non-ferrous metal exports (iron ore, copper, lead, aluminum), various Czechoslovak products such as rolled iron, pipes, cables, light industrial machines, and energy equipment came to play a major role in the Soviet economy. Despite being poorly endowed with raw materials, Czechoslovakia exported metallurgical products in proportions which exceeded not only its machine exports, but also, in 1953, its raw material imports from the Soviet Union.

In sum, Czechoslovak industry manufactured both domestic and imported raw materials into semi-finished goods for Soviet industrial needs. This energy- and capital-intensive export structure required large investments with belated returns. Meanwhile, the country's share in world trade decreased 1.1 percent in 1950, having peaked at 1.7 percent in 1929. Small capitalist countries of similar economic potential have recorded better results taking place in the postwar period.

The strictly centralized planning of the economy which resulted from the February 1948 seizure of power reached its fullest extent in 1951-52. The management system more and more resembled that of a war economy.

From 1951 on, the burden of such balanced growth became manifest throughout the economy, especially in the consumer market. This disequilibrium was partly due to the rapid deterioration of agriculture. The share of agricultural investments was extremely low, dropping from 8.8 percent to 2.2 percent of all investment. The socialist sector in agriculture had been established on the basis of small holders, because of the lack of industrial resources available to create large-scale technology there. Despite this, it was in Czechoslovakia that collectivized agriculture was launched most quickly (after Bulgaria) in Eastern Europe.

Post-Stalin Period 1953 - 1956

The post-Stalin period could be considered a period of recovery that attempted to decrease the accumulated disequilibriums and tensions. Soviet foreign policy toward Eastern Europe gave way to more autonomous domestic development. Interestingly, the leaders of Czechoslovakia and Romania preferred to pursue their former domestic policies, with Romania turning toward a more nationalist line. In economic policy, substantial changes were enacted regarding the allocation of resources, the ratio of investment in heavy industry versus light industry, and the ratio of investment in industry versus agriculture. More relaxed international relations also slowed the military-oriented drive toward heavy industrialization.23

The change in the Romanian-Soviet relationship was more radical than in the Czechoslovak-Soviet one. After the summer of 1953, Soviet interest in Romania's heavy industrialization decreased significantly, which meant that the USSR stopped the capital transfer to the joint companies and greatly reduced machinery equipment and raw material deliveries. This kind of policy eventually led to the liquidation and sale of Soviet stocks in the joint companies. When it came, the Soviet economic withdrawal caused temporary chaos and increased Romanian expenditures.

Soviet de-Stalinization in this period even contained some elements of self-criticism related to the Soviet role in Eastern Europe. At the Twentieth Party Congress, for example, Anastas Mikoyan spoke about the liquidation of joint companies, emphasizing the need to respect other countries' sovereignty. In October 1956, a Soviet government memorandum which dealt with the issue of cooperation between the Soviet Union and small states stated that failures and offenses had been committed which had hurt the notions of equality and mutual economic benefits. Following this declaration, some concessions were made in order to strengthen ties. By this time, it was clear that such extensive economic integration on a bilateral level had established the framework for a long-term, close relationship.

In the postwar decade, Moscow's approach primarily reflected pragmatism, which meant adjustment of its demands to each country's level of development and natural resources. To introduce an economic structure similar to the Soviets' was of secondary importance. Romania and Czechoslovakia suffered radical transformations of their societies and economies during this period. While Romania had had to transfer extensive capital goods, Czechoslovakia actually suffered more adverse effects from the forced transformation, as well as from more direct Soviet interference. The aim of economic policy in Czechoslovakia had been to mobilize all accumulated reserves despite external and internal constraints. The resources available for a relatively developed economy, such as skilled labor, infrastructure, and living standards, had been to a great extent exhausted by this forced growth. Adverse effects of the plan period were a decline in the standard of living, a loss of position in external markets, and extensive, inefficient use of the factors of production. All of this reflects poorly on such an economic policy and management system.

As a result of the industrialization drive, huge production capacities were created in both states. Having imported Soviet technology, both industrial sectors continued to be highly specialized for the Soviet market for a long time. Even in the mid-1980s, Romania uses Soviet technology to supply the USSR with steel pipes, oil-drilling equipment, freight railway cars, chemical products, etc.

Conclusions

The transplant of Leninism-Stalinism as a social and economic model to the small East European countries has been achieved not only through political means, but also through economic relations. The economic relationship can be interpreted as an intermediary mechanism with dual aims: to employ economic resources in the interest of the USSR pragmatically, and to introduce Soviet-type development. In cases where these aims conflicted, Soviet economic interests took priority.

Since the mid-1950s, a pattern of cooperation has emerged whereby cheap and abundant Soviet raw material deliveries support a qualitative growth in the small states' economies, with the Soviet Union serving as an insatiable market for their manufactured goods. This kind of cooperation has experienced difficulty since the end of the 1970s.

Prior to this, up until the mid-1950s, the model of cooperation was less clear-cut. Moreover, it differed from country to country. In the Czechoslovak case, it was only partly able to utilize the higher technical level of its economy, forcing the export of capital- and energy-intensive semi-finished goods. In the Romanian case, extensive exploitation of raw materials was favored and industrialization suffered.

Many dissimilarities could be found between East European Leninism-Stalinism and its prototype.24 To begin with, it has existed for a much shorter time in Eastern Europe. In addition, centralization of the economy could not be very thorough without complete collectivization of agriculture and full elimination of small private industries, not to mention the pre-war traditions of production which still existed. Finally, the fact that these small states have been more dependent on foreign trade, making them more vulnerable to outside influence, should not be disregarded. These deviations from the orthodox model did not, however, prevent the emergence of serious political and economic problems with the Soviet model in Romania and Czechoslovakia by the mid-1950s.

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